

NAFA Funds

Monthly Report (July 2010)



NBP Fullerton
Asset Management Limited
(Formerly National Fullerton Asset Management Limited)

Managed by:

NBP Fullerton Asset Management Limited
(Formerly National Fullerton Asset Management Limited)

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Joint - Venture Partners

Since the stock market crash of 2008, investors seem to have lost interest in the Pakistani stock market. Average daily trading volumes have dropped sharply from around 212 million shares in FY 2007 to around 162 million shares in FY 2010. The Capital Gains Tax (CGT) on the stock market has further dampened the investors' sentiments. A key question is how and when the investors' confidence will be restored in the market.

The Pakistani stock market has been in existence for over six decades. Yet if we gauge the number of investors in the market by the number of Unique Identification Numbers' (UIN) in CDC, there are around 270,000 UINs of which more than half are inactive. If we compare this with around 30 million bank deposit holders in Pakistan, the Pakistani stock market has not been successful to attract a substantial investor base. One of the reasons is that the risk (standard deviation) of the Pakistani stock market at 25% is much higher relative to other stock markets in the region. Thus investors have found stock market investment very risky and have shied away from it. This has partially to do with the high economic, political and security risk factors in the country. However, excessive leveraging and the mind set of investors to take short-term speculative positions rather than long-term investment positions are other factors that have made our market more risky than others. Also, stock investing has been limited to a few large investors and has not spread among millions of small investors, as is the case in other emerging markets. This is the reason why our stock market has lacked the necessary depth and breadth, which is imperative for an efficient market.

Just about every stock market of the world has an option for investors to take leveraged positions in the market. These options provide the market the necessary liquidity, which is important for price discovery and unfettered entry/exit for investors. Margin financing and derivative products (options and futures) are the more common options used by the investors globally. In Pakistan, COT or 'badla' were more commonly used leveraged products, which evolved to CFS and later CFS MK-II. As this product evolved over time, its risk parameters have improved. CFS MK-II had the added advantages that it was market-driven, and had good price-discovery, documentation, standardization and transparency features. The stock market crash of 2008 put this product to test with both the Financees and Financiers ending up in court. However, almost all of CFS Financiers got their entire amount back without experiencing any material losses. Following this episode, CFS MK-II was discontinued pre-maturely without having any alternative financing product in place.

Since then, there have been significant discussions as to which leverage product suits our market the best. In my view, all leveraged products, which include margin financing, margin trading (an improved version of CFS MK-II), options and futures should be available to investors, so that they can choose the one that suits their needs. An option being considered by the KSE and SECP is a margin trading product in which the investor (borrower) will put 25% equity in the form of cash while the remaining 75% will be provided by the Financier (lender). In addition, both the mark-to-market losses and concentration margins will be collected in the form of cash. Thus, this product will provide better protection relative to CFS MK-II.

The Pakistani stock market declined by approx. 58% in CY2008. It rose by 60% in CY 2009 and has risen further by 12.1% in CY 2010 to-date. With the recovery already underway, it is just a matter of time before investors will start returning to the market. However, based on the high volatility of the Pakistani stock market we suggest investors to invest in equities via asset allocation or balanced funds.

Stock Market Review

The Stock market remained buoyant during the month of July 2010. The month started with KSE-30 Index at 9557 level and touched a low of 9415 levels on July 6, 2010 on abysmally low trading volumes. However, local investors cheered positive developments on leveraged product and foreign investors' activity. Further, release of healthy economic export numbers of US \$19.6 billion during FY 10, less than expected YOY CPI inflation at 11.7% and impressive 14% growth in remittances for FY 10 at US \$ 8.9 billion boosted the investor confidence. Furthermore, announcement by World Bank of US \$ 6 billion support over the next few years also improved the investors' confidence. Investors are expecting healthy corporate earnings in the result season that started towards the end of the month. As a result, KSE-30 Index gained by around 11.3% to 10483 levels from July 6 levels. Overall, KSE-30 Index increased by 9.7% during the month.

In its recently announced Monetary Policy statement, SBP unexpectedly hiked Policy rate by 0.50% to 13% from 12.5% due to government's tight fiscal position.

Oil and Gas, Banks, Automobile and Parts and Chemicals sectors lagged the market during the month. While, Fixed Line Communication; Construction and Material; and Personal Goods sectors outperformed the market. The index heavy weight Oil and Gas Exploration sub sector underperformed the market due to selling by local investors despite positive developments in selective companies. Oil and Gas Marketing sub sector underperformed due to lingering inter corporate circular debt issue. Cement sub sector performed better than the market due to firm cement prices and approval of construction of Diamer Bhasha dam. Banking stocks underperformed due to concern over higher provisioning number due to expected rise in Non Performing Loan. Net Foreign Portfolio Investment (FPI) activity remained low during the month and was recorded at around US \$ 42 million. Trading activity remained abysmally low during the month at around 69 million shares versus around 100 million shares during the previous month.

Going forward, the key triggers for the market are: (i) inflation trend; (ii) progress on the financing product; (iii) foreign portfolio investment and (iv) the law and order situation.

Fixed Income Review

During July, most of the provisional economic numbers were released for FY10. GDP growth for FY10 bounced back to 4.1% from 1.2% in FY09. Current account deficit improved by 62%, CPI inflation for the year was 11.7% (20.8% in FY09), Forex reserves were higher by about 28% at USD 16 bn, PKR dropped by 4.9% in FY10 versus 18.1% in FY09. Fiscal deficit is expected to be around 6.2% of GDP in FY10 which is a major deviation from the target of 5.1%. On the whole, the latter half of the year witnessed significant foreign inflows in the shape of IMF loans, Coalition Support Fund, Developmental aid and loans. Low tax collection, High Government borrowing and low credit to private sector were key areas of concern.

The money market again remained fairly liquid during July as USD 710 million was received by SBP from ADB, USAID and World Bank. Inflation for June declined to 12.7% and is expected to ease further in July on the back of higher base effect and lower oil prices. General interest rate level in the market continued its upward trend due to consistently high Government borrowing.

In the TFC market, trading volumes were lackluster, however no sharp movement in prices was observed. A textile sector TFC and a fertilizer sector TFC that were classified as non-performing during June are in advance stage of restructuring as majority of the investors have agreed to the restructuring terms. We advise that income funds' investors should take a longer term view in order to take advantage of the attractive yields on debt issues. For investors with a shorter investment horizon, NAFA Government Securities Liquid Fund and NAFA Savings Plus Fund continue to post satisfactory returns in line with the market.

The SBP increased the Discount rate by 50 bps to 13.00% in its monetary policy announcement on 30th July 2010. In the T bills auctions in July, SBP accepted Rs. 229.9 billion (combined for both auctions) versus the target of Rs. 185 billion. The cut off yields for the last auction of the month were noted at 12.10%, 12.37% and 12.46% for the 3 months, 6 months and 12 months T Bills, respectively. These were marginally higher than the cutoffs observed during June owing to strong borrowing demand. Going forward, interest rates are not expected to ease as Government borrowing remains excessive and serious measures for fiscal discipline have not emerged.



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NAFA Fund's Performance Summary Sheet

"JULY 2010"

FUND NAME	FUND SIZE (Rs. in million)	FUND LAUNCH DATE	STABILITY RATING	JULY - 2010	LAST ONE YEAR	SINCE LAUNCH
NAFA Government Securities Liquid Fund *	7,447	16-May-09	AA+ (f)	10.59%	10.52%	10.67%
NAFA Savings Plus Fund *	574	21-Nov-09	AA- (f)	9.52%	n/a	10.00%
NAFA Cash Fund *	3,870	22-Apr-06	A+ (f)	8.09%	5.37%	8.06%
NAFA Income Fund *	537	29-Mar-08	A (f)	-4.47% **	2.31%	4.22%
NAFA Islamic Income Fund *	193	29-Oct-07	***	3.79%	-4.88%	-1.36%
NAFA Islamic Multi Asset Fund **	378	29-Oct-07	***	6.30%	14.45%	7.05%
NAFA Multi Asset Fund **	948	22-Jan-07	***	6.13%	12.86%	25.21%
NAFA Stock Fund **	1,018	22-Jan-07	***	7.86%	16.68%	-4.91%
Total AUM	14,965					
* Annualized return ** Cumulative return *** Not applicable/available						
Note: Detailed monthly reports on NAFA Funds are available on our website at www.nafafunds.com						

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NAFA Government Securities Liquid Fund (NGSLF)

**NBP Fullerton
Asset Management Limited**

(Formerly National Fullerton Asset Management Limited)

Unit Price (31/07/2010): Rs. 10.1102 *

July 2010

Performance

Performance % **	July 2010	Jan. - July, 2010	Since Launch May 16, 2009
NAFA Government Securities Liquid Fund	10.59%	10.53%	10.67%
Benchmark	10.84%	10.67%	10.85%

* Ex-Distribution Price

** Represent Annualized Return

(Returns are net of management fee & other expenses)

General Information

Launch Date: May 16, 2009
Fund Size: Rs. 7,446 million
Type: Open-end – Money Market Fund
Dealing Days: Daily – Monday to Friday
Dealing Time: 9:00 A.M to 4:30 P.M
Settlement: 2-3 business days
Pricing Mechanism: Forward Pricing
Load: No entry or exit load
Management Fee: 1.25% per annum
Risk Profile: Very Low
Fund Stability Rating: "AA+ (f)" by PACRA
Listing: Lahore Stock Exchange
Custodian & Trustee: Central Depository Company (CDC)
Auditors: A. F. Ferguson & Co.
Chartered Accountants
Benchmark: 70% 3-Month T-Bills & 30% average 3-Month deposit rates (AA & above rated banks)
Fund Manager: Ahmad Nouman, CFA
Minimum Subscription: Growth Unit: Rs. 10,000/-
Income Unit: Rs. 100,000/-
Asset Manager Rating: AM2- by PACRA

Investment Objective

To generate optimal return with minimum risk, to provide easy liquidity and reasonable income to its unit holders by investing primarily in short-term Government Securities

Fund Manager's Commentary

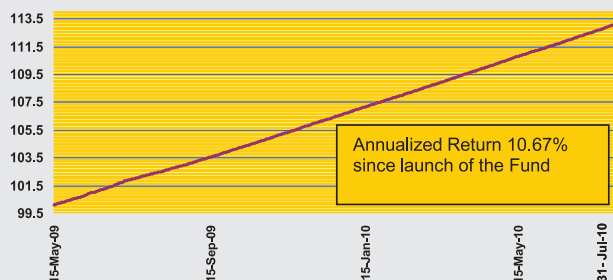
The Fund earned an annualized return of 10.59% during the month. This is better than previous month's return by 35 basis points on the back of higher T-Bills rates. Allocation to short-term Government Securities increased to 81% during the month. The internal risk management guideline of NGSLF is to buy T-Bills of maximum 3-months remaining maturity. The investment value of NGSLF has not declined on any day since the launch of Fund in May 2009.

Banks are required to hold a certain percentage of their deposits in liquid Government Securities, called Statutory Liquidity Requirement (SLR), which is currently 19%. As per latest available data on SBP website, banks are holding Rs 1.63 trillion in such assets as against the requirement of Rs 871.6 billion, thus an excess of approx 87%. This is due to Government's unending borrowing appetite for funding its fiscal operations, and also due to banks' risk aversion stance as reflected by poor private sector borrowing data. If this continues, T-Bill rates may not decline over coming months. The SBP has increased the Discount rate by 50 bps to 13.00% in its monetary policy announcement on 30th July 2010. This is expected to slightly improve the return of the Fund.

The average maturity of your Fund is 44 days.

Asset Allocation %	July-10	June-10
T-Bills (Includes Reverse Repo via Master Repurchase Agreement)	81.03%	76.87%
TDR	14.77%	18.95%
Cash Equivalents & Other Assets	4.20%	4.18%
Total	100.00%	100.00%
Leverage	Nil	Nil

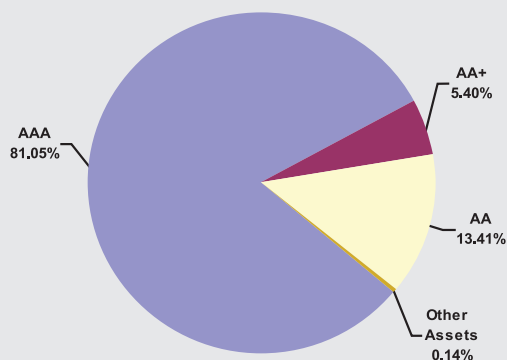
Value of Rs. 100 invested in NAFA Government Securities Liquid Fund at launch (May 16, 2009)



Name of the Members of Investment Committee

Dr. Amjad Waheed, CFA
Irfan Malik, CFA
Ahmad Nouman, CFA
Sajjad Anwar, CFA
Tanvir Abid, CFA

Credit Quality of the Portfolio (% of Net Assets)



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NAFA Multi Asset Fund (NMF)

**NBP Fullerton
Asset Management Limited**
(Formerly National Fullerton Asset Management Limited)

Unit Price (31/07/2010): Rs. 9.5500 *

July 2010

Performance

Performance % **	July 2010	CYTD Jan. - July, 2010	Since Launch January 22, 2007
NAFA Multi Asset Fund	6.13%	8.83%	25.21%
Benchmark	5.28%	6.95%	11.37%

* Ex. Distribution Price

** Cumulative returns are net of management fee & all other expenses

General Information

Launch Date:	January 22, 2007
Fund Size:	Rs. 948 million
Type:	Open-end – Balanced Fund
Dealing Days:	Daily – Monday to Friday
Dealing Time:	9:00 A.M to 4:30 P.M
Settlement:	2-3 business days
Pricing Mechanism:	Forward Pricing
Load:	Front end – 3%, Back end - 0%
Management Fee:	2.5% per annum
Risk Profile:	Moderate
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company (CDC)
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	50% KSE-30 Index & 50% 1-month KIBOR
Fund Manager:	Sajjad Anwar, CFA
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-
Asset Manager Rating:	AM2- by PACRA

Investment Objective

To provide investors with a combination of capital growth and income. NMF aims to achieve attractive returns at moderate levels of risk by investing in a variety of asset classes such as stocks, bonds, money market instruments, CFS etc.

Fund Manager's Commentary

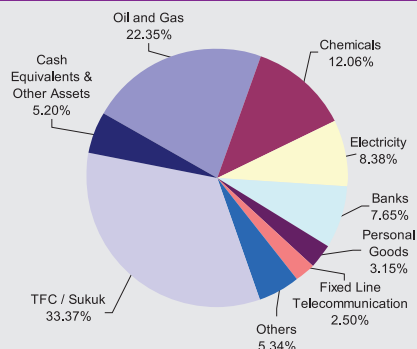
During the month under review, NAFA Multi Asset Fund's (NMF) Net Asset Value (NAV) increased by 6.13% while the benchmark (50% KSE-30 Index & 50% 1-month KIBOR) increased by 5.28%. Thus your Fund out-performed the benchmark by 0.85% during the month. Since inception on January 22, 2007 your Fund has increased by 25.21%, while the benchmark has increased by 11.37%. Thus, to-date the out-performance of your Fund stands at 13.84%. This out performance is net of management fee and all other expenses.

NMF is a Balanced Fund and market weight implies 50% weight in equities and 50% in fixed income asset class. Anticipating an upward trend in the market, at the start of the month NMF was invested in equities at around 58%. During the month the weightage of equities was further increased. We were over weight in the Power subsector due to its attractive dividend yields, which contributed to the out-performance of the Fund. We remained underweight in Banking sector which underperformed the market that benefited the Fund. Our holding in the selected Jute subsectors performed better than the market. We maintained over weight in the Chemicals and Oil and Gas sectors during the month. We are vigilantly monitoring the capital market conditions and will rebalance the portfolio accordingly.

NMF is invested in high dividend yielding stocks with stable earnings stream and attractive valuations.

Asset Allocation %	July-10	June-10
Equities / Stock	61.43%	57.75%
TFC / Sukuk	33.37%	35.16%
Cash Equivalents	8.18%	6.06%
Other Net Assets / (Liabilities)	-2.98%	1.03%
Leverage	Nil	Nil

Asset Allocation (as on 31st July 2010)



Name of the Members of Investment Committee

Dr. Amjad Waheed, CFA
Sajjad Anwar, CFA
Tanvir Abid, CFA
Irfan Malik, CFA

Top Ten Holdings

FFC	Equity	8.82%	Orix Leasing	PPTFC	5.13%
HUBC	Equity	8.38%	POL	Equity	4.67%
OGDC	Equity	7.52%	MCB	Equity	4.62%
PPL	Equity	7.39%	Pakistan Mobile	PPTFC	3.91%
Maple Leaf Cement	Sukuk	6.53%	NBP	Equity	2.99%

Details of Non-Complaint Investments

Name of Non Complaint Investment	Type of Investment	Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	Yield to Maturity per Annum
Maple Leaf Cement Sukuk 1	Sukuk	88,402,413	26,494,413	61,908,000	6.53%	23.00%
Saudi Pak Leasing	TFC	37,485,000	10,202,405	** 27,282,595	2.88%	45.04%
Eden Housing Sukuk 2	Sukuk	37,500,000	10,696,987	** 26,803,013	2.83%	47.12%
Maple Leaf Cement Sukuk 2	Sukuk	3,316,500	994,950	2,321,550	0.24%	38.51%
Total		166,703,913	48,388,755	118,315,158	12.48%	

** Book Value, performing but below investment grade

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NAFA Islamic Multi Asset Fund (NIMF)

**NBP Fullerton
Asset Management Limited**
(Formerly National Fullerton Asset Management Limited)

Unit Price (31/07/2010): Rs. 9.4061 *

July 2010

Performance

Performance % **	July 2010	CYTD Jan. - July, 2010	Since Launch October 29, 2007
NAFA Islamic Multi Asset Fund	6.30%	14.80%	7.05%

* Ex. Distribution Price

** Cumulative returns are net of management fee & all other expenses

General Information

Launch Date:	October 29, 2007
Fund Size:	Rs. 378 million
Type:	Shariah Compliant - Open-end – Balanced Fund
Dealing Days:	Daily – Monday to Friday
Dealing Time:	9:00 A.M to 4:30 P.M
Settlement:	2-3 business days
Pricing Mechanism	Forward Pricing
Load:	Front end – 3%, Back end - 0%
Management Fee:	3% per annum
Risk Profile	Moderate
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company (CDC)
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	50% KMI - 30 Index & 50% average 1-month profit rate of Islamic banks.
Fund Manager:	Sajjad Anwar, CFA
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-
Asset Manager Rating:	AM2- by PACRA

Investment Objective

To provide investors with a combination of capital growth and income by investing in Shariah compliant investments. NIMF aims to achieve attractive returns at moderate levels of risk by investing in a variety of Shariah compliant securities, instruments and avenues such as Equities, Musharakah, Murabahah, Ijarah etc.

Fund Manager's Commentary

During the month of July 2010, Net Asset Value (NAV) of NAFA Islamic Multi Asset Fund (NIMF) increased by 6.30%, whereas the benchmark increased by 4.99%, thus your Fund out-performed the benchmark by 1.31%.

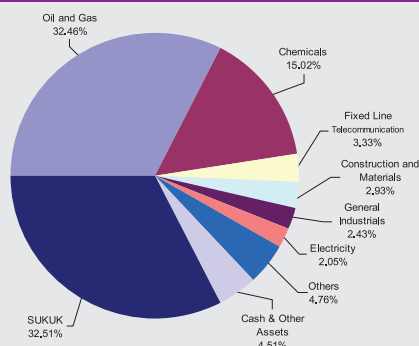
NIMF is a Balanced Fund and market weight implies 50% weight in equities and 50% in fixed income asset class. The month started with around 58% weight in equities due to attractive valuations. This overweight strategy contributed to the out-performance of the Fund. We remained overweight in high dividend yielding stocks of Fertilizer subsector which out performed the market. Some of our holdings in the Jute and Oil and Gas Exploration subsectors also contributed to the out-performance of the Fund. We maintained overweight in Chemicals and Oil and Gas sectors during the month. Towards the end of the month NIMF was around 63% invested in the equities. We are monitoring the capital market conditions and will rebalance the portfolio accordingly.

Going forward, we are expecting the Fund to perform well as we are invested in high dividend yielding stocks with stable earnings stream and attractive valuations.

Asset Allocation % July-10 June-10

Equities / Stock	62.98%	57.84%
TFC / Sukuk	32.51%	32.02%
Cash Equivalents	2.55%	11.98%
Other Net Assets / (Liabilities)	1.96%	-1.84%
Leverage	Nil	Nil

Asset Allocation (as on 31st July 2010)



Name of the Members of Investment Committee

Dr. Amjad Waheed, CFA
Sajjad Anwar, CFA
Tanvir Abid, CFA
Irfan Malik, CFA

Top Ten Holdings

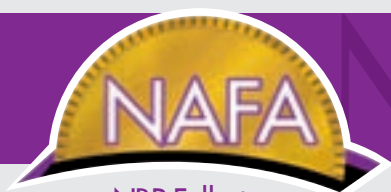
FFC	Equity	10.63%	Pak Elektron	Sukuk	8.24%
PPL	Equity	9.70%	OGDC	Equity	6.54%
POL	Equity	9.65%	FFBL	Equity	4.38%
Kohat Cement	Sukuk	9.58%	PSO	Equity	4.36%
Maple Leaf Cement	Sukuk	9.25%	Eden Housing	Sukuk	3.54%

Details of Non-Complaint Investments

Name of Non Complaint Investment	Type of Investment	Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	Yield to Maturity per Annum
Kohat Cement Limited Sukuk	Sukuk	48,300,000	12,075,000	** 36,225,000	9.58%	24.24%
Maple Leaf Cement Sukuk 1	Sukuk	49,978,750	14,978,750	35,000,000	9.26%	23.00%
Eden Housing Limited Sukuk 2	Sukuk	18,750,000	5,348,494	** 13,401,506	3.55%	47.12%
Maple Leaf Cement Sukuk 2	Sukuk	1,875,000	562,500	1,312,500	0.35%	38.51%
Total		118,903,750	32,964,744	85,939,006	22.74%	

** Book Value, performing but below investment grade

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NAFA Stock Fund (NSF)

Unit Price (31/07/2010): Rs. 6.6527 *

July 2010

Performance

Performance % **	July 2010	CYTD Jan. - July, 2010	Since Launch January 22, 2007
NAFA Stock Fund	7.86%	6.01%	(4.91%)
Benchmark	9.70%	6.43%	(21.72%)

* Ex. Distribution Price

** Cumulative returns are net of management fee & all other expenses

General Information

Launch Date:	January 22, 2007
Fund Size:	Rs. 1,018 million
Type:	Open-end – Equity Fund
Dealing Days:	Daily – Monday to Friday
Dealing Time:	9:00 A.M to 4:30 P.M
Settlement:	2-3 business days
Pricing Mechanism	Forward Pricing
Load:	Front end – 3%, Back end - 0%
Management Fee:	3% per annum
Risk Profile	Moderate-to-High
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company (CDC)
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	KSE-30 Index
Fund Manager:	Sajjad Anwar, CFA
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-
Asset Manager Rating:	AM2- by PACRA

Investment Objective

To provide investors with long term capital growth from an actively managed portfolio invested primarily in listed companies in Pakistan. The risk profile of the Fund will be moderate to high.

Fund Manager's Commentary

During the month under review, KSE-30 Index increased by 9.70%, whereas NAFA Stock Fund's (NSF) Net Asset Value (NAV) increased by 7.86%. Since inception on January 22, 2007, the NAV of NSF has declined by 4.91% while that of the benchmark (KSE-30 Index) has declined by 21.72%, thus to date out-performance is 16.81%.

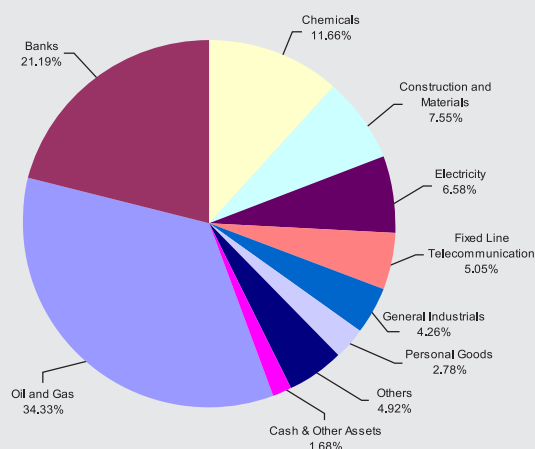
NSF underperformed during the month. This is attributable to under performance of some holdings mainly in the Textile sub sector as well as Media, Fixed Line Telecommunication and Banking sectors. We expect some of these stocks to do well in the coming months.

At the start of the month NSF was 97.51% invested in equities. During the month the stock market maintained a rising trend. Therefore, NSF remained fully invested and at the end of the month was 98.32% invested in equities. The market remained positive on clarification of Capital Gains Tax modalities, good corporate earnings expectations and forthcoming launch of the new leverage product i.e. Margin Trading System. We made no significant adjustments in the sector and stock allocations of NSF during the month. However, we further enhanced the weightage of the Cement sub sector as cement prices further firmed up and profitability prospects improved. On the other hand, we marginally reduced the weightage of the Oil and Gas sector. The investment of NSF in stocks in the General Industrials, Oil and Gas and Power sectors performed better than the market.

Valuations of the market remain attractive with the results season likely to maintain investor interest. Going forward, NSF will make proactive adjustments to the portfolio in light of the changing market conditions.

Asset Allocation %	July-10	June-10
Equities / Stock	98.32%	97.51%
Cash Equivalents	4.34%	2.36%
Other Net Assets / (Liabilities)	-2.66%	0.13%
Leverage	Nil	Nil

Asset Allocation (as on 31st July 2010)



Top Ten Holdings

MCB	Equity	10.38%	ENGRO	Equity	6.03%
OGDC	Equity	9.97%	FFC	Equity	5.60%
PPL	Equity	9.86%	NBP	Equity	4.31%
POL	Equity	6.64%	THALL	Equity	4.26%
HUBC	Equity	6.58%	PTC	Equity	4.18%

Name of the Members of Investment Committee

Dr. Amjad Waheed, CFA
Sajjad Anwar, CFA
Tanvir Abid, CFA

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