

NAFA Funds

Monthly Report (March 2009)



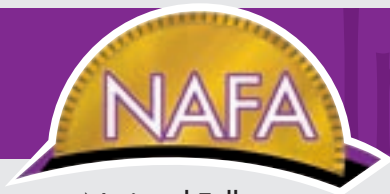
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Investment Outlook

Dr. Amjad Waheed, CFA
Chief Executive Officer

Capital Markets – Finally Recovering

In my “Investment Outlook” of December 2008, I had stated that I expect stock market performance in 2009 to be similar to that of 1999. In 1998, following the nuclear tests conducted by Pakistan, the Pakistani stock market dropped by 52.5% in a short span of 4 months. However, over the next 12 months, despite US economic sanctions, the stock market provided a 48% total return to investors. My prediction has been correct as the KSE 100 index has already risen 42% from its bottom on January 26, 2009.

I expect that the recovery in the stock market will continue in the coming months as well. My expectation is based on the following: (i) inflation and interest rates are already showing a declining trend, and it is expected that both of these indicators will show further significant reduction in the coming months; (ii) Pakistan’s current account position has improved from a US\$ 2.3 billion deficit in October 2008, to a US\$145 million surplus in February 2009; (iii) the budget deficit is expected to remain around the target of 4% of GDP for FY08-09; (iv) the liquidity position has improved considerably in the market; (v) the stock market is trading at attractive valuations – the price-to-earnings ratio of the stock market is around 5.7 times on FY09-10 earnings versus a historical average of 9 times (see Chart 1); (vi) global stock markets are also in a recovery phase. The law and order situation in the country is dismal, and worsening of it is a major risk to the stock market and the country. However, the present law and order situation, in my view, is already reflected in the low stock market valuation. Pakistani stock market price-to-earnings ratio of 5.7 times is about half of the Indian stock market ratio of around 10.1 times.

The cash / income funds in the market are also benefiting from improved liquidity and reduction in risk aversion of TFC investors. TFC prices have risen substantially over the last couple of months. As a result, the performance of cash / income funds has improved considerably. The annualized return in March 2009 on NAFA Cash Fund is 19.63%, and on NAFA Income Fund is 28.55%. TFC prices are, in general, still below par, and are expected to rise further as inflation and interest rates recede. Based on our estimates, inflation (Consumer Price Index) is expected to decline to around 10% by June 2009 (see Chart 2). This does not mean that the prices of consumer and commodity prices will decline. This only means that the prices of these items are expected to rise at a slower pace than was the case a year ago.

In the medium term (3-5 years), the major risk is that as the global economy recovers, international oil prices may touch US\$ 150/barrel once again. This will have severe repercussions on Pakistan’s current account deficit and foreign exchange reserves. Pakistan has one of the world’s largest coal reserves in the Thar region. It is imperative that we move quickly to utilize these reserves towards power generation to reduce our dependence on imported oil in the future.

Chart 1
Stock Market Valuation (Price-to-Earning Ratio)

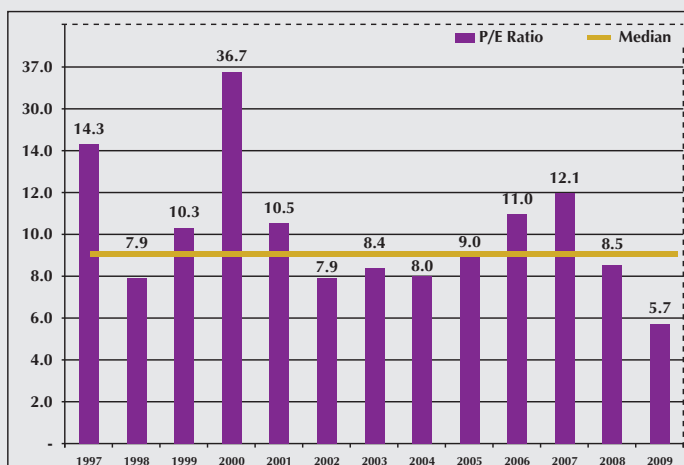
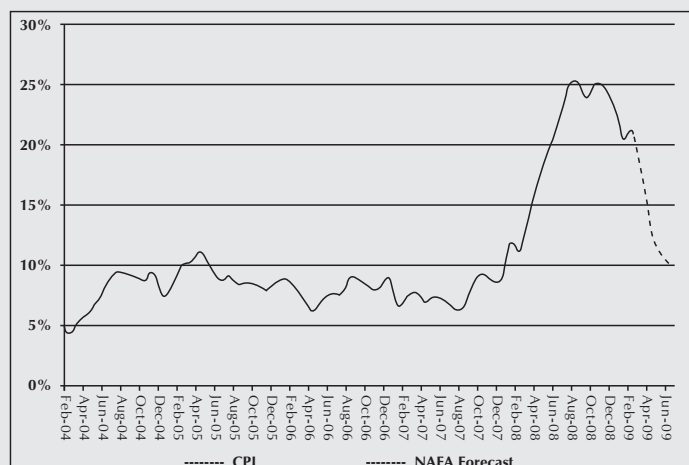


Chart 2
Inflation (CPI)





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NAFA Cash Fund (NCF)

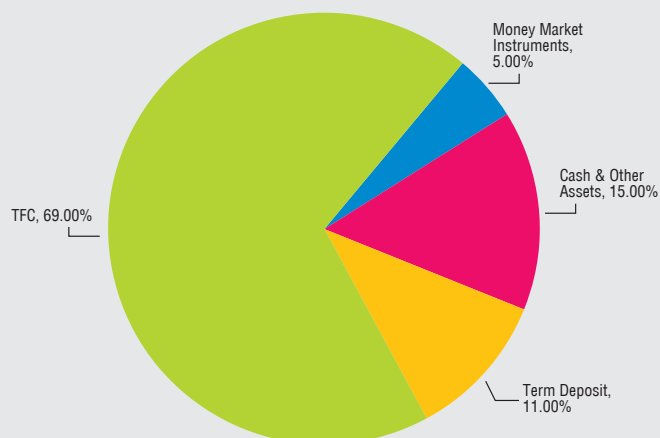
Unit Price (31/03/2009): Rs. 9.9809

March 2009

Investment Objective	Performance					
	Performance (%)*	Jan - Jun 2008*	Jul - Dec 2008**	Jan - Mar 2009*	Mar 2009*	Since Launch April 22, 2006**
To seek preservation of capital and earn a reasonable rate of return via investing in money market and debt securities with investment-grade rating, CFS and spread transactions.	NAFA Cash Fund	9.88%	(1.80)%	17.61%	19.63%	26.76%
	Benchmark	11.20%	7.17%	13.51%	12.83%	37.01%
	* Represents Annualized Return ** Represents cumulative Return (Returns are net of management fee & all other expenses)					

General Information	Fund Manager's Commentary
Launch Date: April 22, 2006 Fund Size: Rs. 8,304 million Type: Open-end – Fixed Income Fund Dealing: Daily - Monday to Friday Settlement: 2-3 business days Load: No entry or exit load Management Fee: 1.5% per annum	NAFA Cash Fund (NCF) earned an annualized return of 19.63% during the month of March. The return earned during the month is 116 basis points higher than the return earned during the last month and 680 basis points better than the benchmark return. Liquidity situation at the start of the month improved further from its levels in the month of February. However, the rates, after continuing the declining trend from the last month, corrected themselves in the later part of the current month. Three important reasons behind this behavior were; 1) increase in the T-Bills cutoffs by the State Bank of Pakistan in the range of 4 to 11 basis points during the last T-Bills auction for the month of March; 2) withdrawal of the advance tax money for the quarter from the Commercial Banks and; 3) withdrawal of the deposits by the Employees Old-Age Benefit Institution (EOBI) from the Commercial Banks to deposit the amount in the State Bank of Pakistan to reduce Governmental Borrowing from the Central Bank.
Listing: Lahore Stock Exchange Custodian & Trustee: Central Depository Company (CDC) Auditors: A. F. Ferguson & Co. Chartered Accountants Benchmark: 1-Month KIBOR Fund Manager: Ms. Rukhsana Narejo, CFA Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (on 31st March 2009)



Due to the above stated factors, 6-month KIBOR closed at 12.85% after touching a low of 12.43%. Rising trend was also witnessed in the 1-year Government paper, which after witnessing a low of 11.15% closed at 12.43% during the month.

Going forward, the liquidity situation is expected to continue to improve due to low private sector credit expansion, expected development loans from Friends of Pakistan, US assistance for the war against terrorism, and development loans from multilateral agencies like the World Bank and Asian Development Bank. On the basis of above, rates are expected to continue the declining trend. We expect NAFA Cash Fund to continue to offer attractive returns due to the expected capital gains and attractive yield to maturities on its Term Finance Certificate portfolio, which accounts for 69.0% of the Fund Size.

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NAFA Multi Asset Fund (NMF)

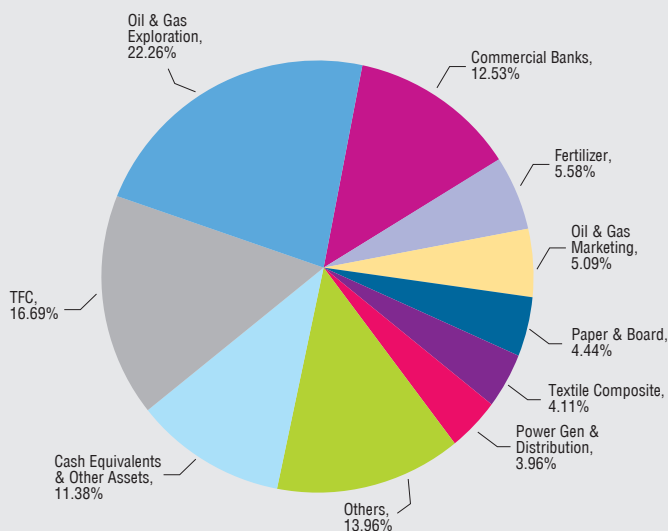
NAV Unit Price (31/03/2009): Rs. 8.8549

March 2009

Investment Objective	Performance					
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.	Performance (%)*	Jan - Dec 2007	Jan - Dec 2008	Jul - Mar 2008 - 09	Mar 2009	Since Launch January 22, 2007
	NAFA Multi Asset Fund	44.06%	(39.82)%	(20.28)%	19.65%	8.06%
	Benchmark (50% KSE-30 Index & 50% 1-month KIBOR)	17.50%	(38.22)%	(23.40)%	12.66%	(13.94)%
*Returns are net of management fee & all other expenses						

General Information	Fund Manager's Commentary
<p>Launch Date: January 22, 2007</p> <p>Fund Size: Rs. 1,872 million</p> <p>Type: Open-end – Balance Fund</p> <p>Dealing: Daily - Monday to Friday</p> <p>Settlement: 2-3 business days</p> <p>Load: Front end – 3%, Back end - 0%</p> <p>Management Fee: 2.5% per annum</p>	<p>During the month under review, NAFA Multi Asset Fund's (NMF) Net Asset Value (NAV) increased by 19.65% while the benchmark (50% KSE-30 index & 50% 1-month KIBOR) increased by 12.66%. Thus your Fund outperformed the benchmark by 6.99% during the month. Since inception on January 22, 2007 your Fund has increased by 8.06%, while the benchmark has declined by 13.94%. Thus, to date the out-performance of your Fund stands at 22%.</p>
<p>Listing: Lahore Stock Exchange</p> <p>Trustee: Central Depository Company</p> <p>Auditors: A. F. Ferguson & Co. Chartered Accountants</p> <p>Benchmark: 50% KSE-30 Index & 50% 1-month KIBOR</p> <p>Fund Manager: Khurram Shehzad, CFA</p> <p>Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p>	

Asset Allocation (on 31st March 2009)



Last month proved to be volatile in terms of domestic politics. However, the macro-economic indicators gradually improved over the month. The fixed income market improved also as the TFC prices moved closer to their par values. Government securities registered a significant price increase on the back of declining interest rates. The economic outlook registered improvement as external as well as internal deficits remained well within the targets. As expected, the Pakistani economy displayed a low correlation to the global recessionary trend.

Leverage i.e. Continuous Funding System MK-II (CFS MK-II) was 0.04% of the market capitalization at the beginning of the month and was 0.09% at the end of month. Thus, the average for the month stood at 0.06%. Despite this low leverage, the KSE-30 Index registered a 25.15% jump during the month. In this 25.15% upsurge, sectors offering higher dividend yields performed better than the rest of the market. However, as the price levels increase, the focus is expected to shift from dividend plays to growth plays.

NMF remained invested in equities at around 69% throughout the month, which helped us generate significant out-performance. Based on our positive view of the stock market, we intend to maintain an overweight stance in equities till the valuations remain attractive. We expect NMF to perform well during calendar year 2009 on the back of overall improvement in capital markets.

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NAFA Stock Fund (NSF)

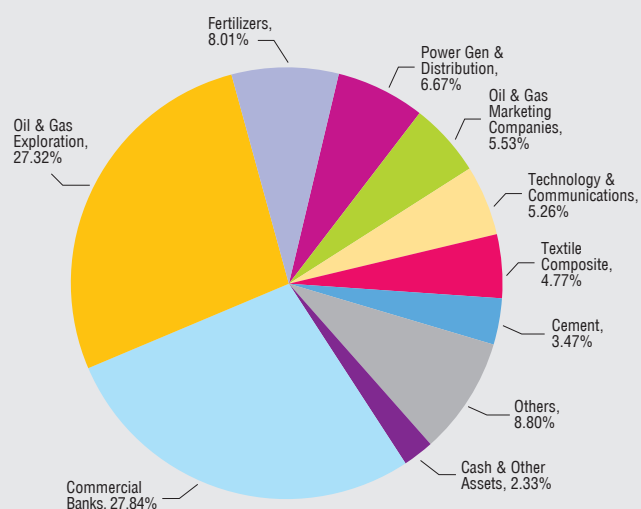
NAV Unit Price (31/03/2009): Rs. 6.3551

March 2009

Investment Objective	Performance					
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.	Performance (%)*	Jan - Dec 2007	Jan - Dec 2008	Jul - Mar 2008 - 09	Mar 2009	Since Launch January 22, 2007
	NAFA Stock Fund	61.59%	(60.21)%	(43.07)%	25.68%	(20.91)%
	Benchmark	24.82%	(67.19)%	(48.49)%	25.15%	(44.90)%
* Returns are net of management fee & all other expenses						

General Information	Fund Manager's Commentary
<p>Launch Date: January 22, 2007</p> <p>Fund Size: Rs. 1,303 million</p> <p>Type: Open-end - Equity Fund</p> <p>Dealing: Daily - Monday to Friday</p> <p>Settlement: 2-3 business days</p> <p>Load: Front end - 3%, Back end - 0%</p> <p>Management Fee: 3% per annum</p>	<p>During the month under review, KSE-30 Index increased by 25.15%, whereas NAFA Stock Fund's (NSF) Net Asset Value (NAV) increased by 25.68%, thus an out-performance of 0.53% was recorded. Since inception on Jan. 22, 2007, the NAV of NSF has declined by 20.91% and the benchmark has declined by 44.90%, thus to date, out-performance is 23.99%. Relative to the peer group, we are the best performing fund during the month.</p>
<p>Listing: Lahore Stock Exchange</p> <p>Custodian & Trustee: Central Depository Company</p> <p>Auditors: A. F. Ferguson & Co. Chartered Accountants</p> <p>Benchmark: KSE-30 Index</p> <p>Fund Manager: Khurram Shehzad, CFA</p> <p>Min. Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p>	

Asset Allocation (on 31st March 2009)



The market volumes averaged around 166 million shares for the month of March 2009 as compared to 161 million during February 2009. However, the daily average traded value registered an increase of 16% as compared to February 2009 mainly because of the 25.15% increase in KSE-30 Index.

We remained completely invested throughout the month and maintained a mix of key index stocks along with some growth stocks. This strategy helped us outperform the market. Almost 55% of the portfolio was invested in Oil & Gas Exploration and the Banking sectors. These two sectors have led the market upsurge and outperformed the market. Oil & Gas Exploration and banking are 27% and 31% of the Index and thus cannot be over-weighted. However, through our stock mix within these sectors, we managed to outperform these sectors.

Resolution of political disputes, declining interest rates & Current Account Deficit, inflow of foreign aid / loans, and the undervalued status of the market were the main factors behind this recent upsurge. Going forward, the inflation expectations are significantly downward and that is likely to further bring down the interest rates. Thus, further upside in the stock market is likely. We expect that as the first tier stocks achieve decent valuation levels, the focus shall be diverted to second tier stocks.

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NAFA Income Fund (NIF)

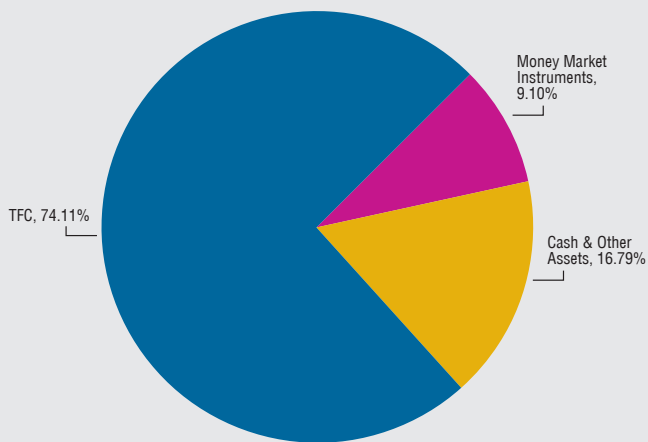
Unit Price (31/03/2009): Rs. 9.7230

March 2009

Investment Objective	Performance					
	Performance (%)	Apr - Jun 2008*	Jul - Dec 2008**	Jan - Mar 2009*	Mar 2009*	Since Launch March 29, 2008**
To earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.	NAFA Income Fund	8.50%	(3.59)%	15.01%	28.55%	1.90%
	Benchmark	10.89%	6.54%	13.30%	12.03%	12.83%
	* Represents Annualized Return ** Represents cumulative Return (Returns are net of management fee & all other expenses)					

General Information		Fund Manager's Commentary
Launch Date:	March 29, 2008	NAFA Income Fund (NIF), during the month has earned an annualized return of 28.55% which is 16.52% higher than the benchmark return.
Fund Size:	Rs. 1,098 million	
Type:	Open-end – Fixed Income Fund	<p>Improved liquidity situation in the money market observed during the last week of February maintained its trend during most of March. However, we witnessed some upward revision in 6-Months KIBOR and money market rates during the last week of March. Last 3 month T-Bill auction (March 25, 2009) cutoff rate was 11.74% as compared to 12.61% in February 25, 2009 auction and 11.69% in March 11, 2009 auction. Going forward, financial inflows from abroad like development loans from Friends of Pakistan, US assistance for help in war against terror, developmental loans from multilateral agencies like World Bank and ADB will further add liquidity in the domestic banking system. This shall be a positive to your Fund via higher expected TFC prices. In addition, any capital inflows in the form of Foreign Direct Investment can provide further impetus to the improving liquidity in domestic market.</p> <p>Secondary market trading activity in the TFCs has shown an overall upward price trend in the month of March. Some of the factors contributing to this positive development include i) daily average of 6-Months KIBOR in March was 12.55% as against 14.26% in February and 15.49% in January ii) improved liquidity situation as compared to January and February iii) improved investor confidence in capital markets and iv) improvement in current account deficit. We expect this trend to continue and the Fund to continue to perform well in the coming months.</p> <p>The 6-Month KIBOR closed at 12.85% in March, approximately 16 basis points down from its closing in February. Decline in KIBOR is a direct result of market liquidity.</p> <p>As at 31st March 2009, NAFA Income Fund is approximately 74% invested in Term Finance Certificates, which is going to be a major contributor to the returns in the coming months because of expected capital gains.</p>
Dealing:	Daily - Monday to Friday	
Settlement:	2-3 business days	
Load:	Front end: 1.0%	
Management Fee:	1.5% per annum	
Listing:	Lahore Stock Exchange	
Custodian & Trustee:	Central Depository Company (CDC)	
Auditors:	A. F. Ferguson & Co. Chartered Accountants	
Benchmark:	3-Month T-Bills	
Fund Manager:	Ahmad Nouman	
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (on 31st March 2009)



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NAFA Islamic Income Fund (NIIF)

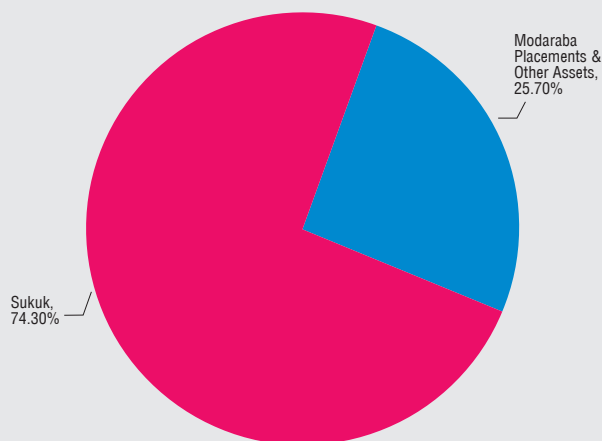
Unit Price (31/03/2009): Rs. 9.1886

March 2009

Investment Objective	Performance					
	Performance (%)	Jan - Jun 2008*	Jul - Dec 2008**	Jan - Mar 2009*	Mar 2009*	Since Launch October 29, 2007**
To seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in Shariah Compliant money market & debt securities having good credit rating and liquidity.	NAFA Islamic Income Fund	8.62%	(11.62)%	24.98%	16.59%	(1.00)%
	Benchmark	5.31%	2.90%	7.75%	7.76%	5.91%
	* Represents Annualized Return ** Represents cumulative Return (Returns are net of management fee & all other expenses)					

General Information		Fund Manager's Commentary
Launch Date: Fund Size: Type: Dealing: Settlement: Load: Management Fee:	October 29, 2007 Rs. 606 million Open-end – Fixed Income Fund Daily - Monday to Friday 2-3 business days Front end: 1.0% 1.5% per annum	<p>NAFA Islamic Income Fund (NIIF) generated an annualized return of 16.59% during the month of March 2009. Annualized return of 16.59% offered by NIIF is 8.83% better than average annualized rate of return of 7.76% offered by the Islamic banks during March 2009. Moreover, your Fund has generated around 4.04% higher return than the average 6-month KIBOR of 12.55% for the month of March 2009.</p> <p>The attached chart shows the asset allocation of the Fund. As on March 31, 2009, sukuk portfolio comprises around 74.3% of the Fund size. Weighted average coupon rate on our sukuk portfolio is around 16.04% per annum. Mudaraba placements & others comprise around 25.7% of the Fund size. We are maintaining our overweight in sukuk to benefit from the attractive coupon rate and further upside potential in their prices.</p>
Listing: Custodian & Trustee: Auditors: Benchmark: Fund Manager: Min. Subscription:	Lahore Stock Exchange Central Depository Company (CDC) A. F. Ferguson & Co. Chartered Accountants Average 1-month deposit rate of Islamic Banks Sajjad Anwar, CFA Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (on 31st March 2009)



We have witnessed improvement in the trading activity in sukuk during the month of March 2009 as a result of improvement of liquidity conditions in the market and decrease in the interest rates. For instance, 6-month KIBOR decreased by 16 basis points during the month of March 2009 and closed the month at 12.85% as against 13.01% during the previous month. Furthermore, we have also seen a sharp decline in PKRV rates. We expect this declining trend in interest rates to continue due to the easing of inflationary pressure in the coming months. As mentioned in our last monthly report, sukuk prices are also gradually recovering to their par values.

Going forward, we expect the return on our Fund to remain healthy due to: (i) further improvement in the prices of sukuk portfolio; (ii) attractive coupon rates offered by the sukuk; and (iii) attractive profit rates on our mudaraba placements.

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NAFA Islamic Multi Asset Fund (NIMF)

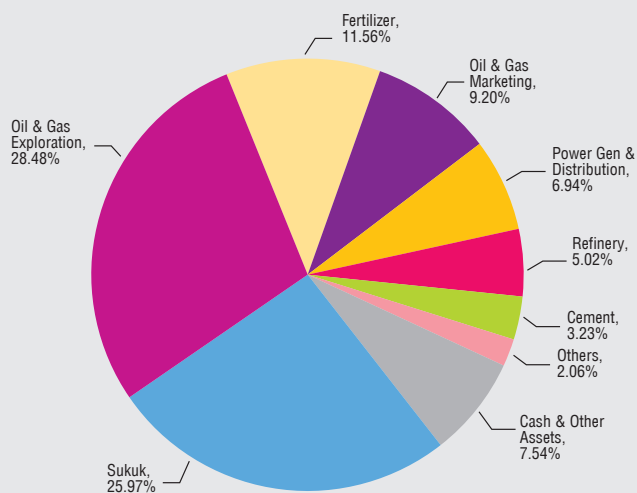
NAV Unit Price (31/03/2009): Rs. 8.3504

March 2009

Investment Objective	Performance					
	Performance (%)*	Nov - Dec 2007	Jan - Dec 2008	Jul - Mar 2008 - 09	Mar 2009	Since Launch October 29, 2007**
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.	NAFA Islamic Multi Asset Fund	(2.42)%	(35.94)%	(12.43)%	18.94%	(16.50)%
	Benchmark**	-	-	-	12.60%	-
	*Returns are net of management fee & all other expenses ** KMI - 30 Index was launched on 1st Sep, 2008					

General Information		Fund Manager's Commentary
Launch Date:	October 29, 2007	During the month of March 2009, Net Asset Value (NAV) of NAFA Islamic Multi Asset Fund (NIMF) increased by 18.94%, whereas the benchmark increased by 12.60%, thus an out-performance of 6.34% was recorded. During the month under review, the Fund also out performed the peer group by 4.48%.
Fund Size:	Rs. 523 million	
Type:	Shariah Compliant - Open-end Balanced Fund	
Dealing:	Daily - Monday to Friday	
Settlement:	2-3 business days	
Load:	Front end - 3%, Back end - 0%	In line with our expectations, the recovery continued in the stock market during the month. Restoration of the deposed judges and positive developments on the political front provided much needed impetus to the market. Trading volumes also remained very healthy during the month showing further buying interest among domestic investors.
Management Fee:	3% per annum	
Listing:	Lahore Stock Exchange	
Trustee:	Central Depository Company	
Auditors:	A. F. Ferguson & Co. Chartered Accountants	
Benchmark:	50% KMI - 30 Index & 50% average 1-month profit rate of Islamic banks	Macroeconomic indicators are showing further improvement. For the month of February 2009, the current account posted a surplus on account of decrease in trade deficit and healthy home remittances. Interest rates also showed decline due to improvement in the liquidity conditions in the market. The 6-month KIBOR declined by 16 basis points to close the month at 12.85%. The US president has proposed to the Congress to pass the bill for US \$ 1.5 billion per annum non-military aid to Pakistan for the next five years. This will help the external account of the country.
Fund Manager:	Sajjad Anwar, CFA	
Min. Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (on 31st March 2009)



NIMF is a balanced fund and market weight implies a 50% weight in equity and 50% weight in fixed income. However, during the month, we remained overweight in equity and underweight in fixed income asset classes. This strategy of overweight to equity, along with better stock selection contributed to the outperformance of the Fund against the benchmark and the peer group during the outgoing month.

The attached chart shows the asset allocation of the Fund. Focus of our strategy is to remain overweight in equity in the near future considering the attractive stock prices in defensive sectors. Going forward, we expect the healthy performance of our Fund to continue as we expect further upside in the stock market.

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