



Bachat ka Doosra Naam

**Annual Report
2013**



Aik Teer Sey Dou Shikar

PAKISTAN
CAPITAL MARKET
FUND

MCB-Arif Habib Savings and Investments Limited
(formerly: Arif Habib Investments Ltd.)

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Vision

To become synonymous with Savings.

Mission

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholder's value.

Core Values

The Company takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.

FUND'S INFORMATION

Management Company	MCB-Arif Habib Savings and Investments Limited (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive Officer (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Audit Committee	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib	Chairman Member Member
Human Resource Committee	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jehangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & Chief Operating Officer	Mr. Muhammad Saqib Saleem	
Chief Financial Officer	Mr. Umair Ahmed	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	Habib Metropolitan Bank Limited MCB Bank Limited Bank Al-Habib Limited Standard Chartered (Pakistan) Limited	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

The Board of Directors of MCB Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments Limited) the Management Company of Pakistan Capital Market Fund (PCMF), is pleased to present the Annual Report on the affairs of PCMF for the year ending June 30, 2013.

Economy & Money Market Overview and Outlook

Though economic optimism generally prevailed throughout the year, the actual economic news released remained a mixed bag. Despite pressure on fiscal side and reserve position, some of the key macroeconomic indicators have depicted positive trend during the period.

In essence, easing inflation, along with smooth political transition in the later part of the year, managed to dilute the impact of higher fiscal deficit, reserve depletion and rupee depreciation on the economy. Hammered by poor law and order situation and energy crisis, the real GDP growth clocked in around 3.6 % in FY13, less than the targeted 4.3 % and far below the growth recorded by other developing countries in the region.

Thanks to the lower global commodity prices and the base effect by virtue of which inflation eased down to around 7.4 percent in FY13, nearly 3.6 percentage points lower than the previous fiscal year. With economy in the throes of weak GDP growth, lower inflationary pressures and excessive liquidity created to do unwarranted government borrowing from Central Bank developed a case for monetary easing. Consequently, policy makers reduced discount rate by a total of 3 percentage points during the year to 9 % at the end of the fiscal year.

The external account remained manageable, aided by a narrower trade and services gap. The current account deficit amounted to \$2.29 billion in FY13 compared to \$4.7 billion in the last year.

Against the backdrop of lower import bill, trade deficit narrowed down to around \$15 billion in FY13 from \$15.7 billion in the last year. The country's import bill nudged down by 1.6% to \$39.8 billion while exports stayed constant at the last year's level of around \$24.7 billion. At the same time, inflows of around \$1.8 billion under Coalition Support Fund helped reduce services deficit to \$1.13 billion from \$3.2 billion. At the same time, remittances totaled to \$13.9 billion from \$ 13.2 billion reported in FY12.

Juxtaposed the country's financial account registered a deficit of \$80 million, as opposed to surplus of \$1.28 billion in the previous year. In the face of higher FDIs, the financial account swung into the negative territory. FDI proceeds amounted to \$ 1.4 billion in FY13, nearly \$626 million higher than the previous year.

The lower current account deficit along with meager deficit in financial account and surplus of \$238 million in capital account summed to overall deficit of \$2.4 billion in FY13 as opposed to \$3.3 billion.

Although, the overall balance of payment deficit improved, foreign reserves depleted by around \$4.2 billion during the year to around \$11 billion at the end of the year largely on the account of timely loan repayments to IMF. Consequently, rupee depleted by 5 % to 98.4 against dollar towards the end of the year.

In the absence of structural reforms, the country's performance on fiscal side remained abysmal. Fiscal indiscipline continued to remain a cause of concern leading to the gaping 8.8% budgetary deficit as percentage of GDP. During the first three quarters the country's fiscal deficit stood at 4.4 % of GDP. Part of the deficit can also be attributed to the current governments first move to settle circular debt largely through borrowing from Central Bank.

The previous government's attempts at reform were a day late and a dollar short. The tax revenue collection target of Rs 2.5 trillion remained elusive as the government is expected to collect at total of Rs1.9 trillion in FY13. The collection through non-tax sources was also off the mark as the government failed to roll out 3G licenses in FY13.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

With the country nursing with wider revenue expenditure shortfall, thin external flows tilted the borrowing pressure towards domestic sources. The net financing to the government increased by Rs 460 billion during FY13 to Rs 1.6 trillion at the year end. The scheduled banks continued to bear a large part of the burden since the borrowing from the banking sector alone increased by Rs 389 billion to Rs 1.025 trillion at the year end.

Banking on Net domestic assets (NDA), money supply (M2) posted a double digit growth of 17.08% during the year. This can be gauged from the fact that NDA increased by Rs 1.5 trillion (data as of 28th June, 2013) during FY13 as opposed to Rs 1.2 trillion in FY12. While, Net foreign assets(NFA) fell by Rs 184 billion as opposed to decline of Rs 248 billion during the previous year.

To a large extent, trade deficit outlook hinges on global commodity prices. Increase in GST and imposition of additional tax measures as announced in FY14 budget will set the stage for higher inflation level going forward. However, nod from IMF on loan restructuring at the onset of FY14 will reduce pressure on reserves position.

Equities Market Overview and Outlook

The local stock market recorded blistering growth with the KSE-100 index rose by a whopping 52% in FY13 as against an average annual growth of 25% during the past three fiscal years. This helped the local equity market shine as one of the best performing markets in the world.

Buoyed by stable macroeconomic environment and strengthening fundamentals, the stock market started the year on a strong note. The market touched an all-time high (intraday) of around 22,833.2 on 13th June, 2013.

The volume remained healthy with an average daily market turnover of around 200 million shares during the year. At this level, the index volume was nearly 1.5 times and 2 times higher than the average index volume in FY12 and FY11, respectively. Foreign investors also remained at the forefront given that the market closed its fiscal year recording net foreign inflows of around \$568.9 million as opposed to the net outflow of \$189 million in FY12.

A combination of lower commodity prices, monetary easing, CSF inflows, foreign portfolio inflows, rupee depreciation, smooth political transition, buyout of Unilever Pakistan Limited, along with expectation regarding resolution of circular debt, IMF loan extension and improved relationship with key strategic allies after the formation of new government, helped the stock market climb strongly during the year. In addition, monetary easing in developed countries also played a whip hand as they continued to grease the flow of funds towards the developing countries. However, the good part is that a slew of positive developments managed to play down the negative sentiments arising from poor law and order situation and energy crisis in the country.

The saving grace came in the shape of stable commodity prices, which reduced the pressure on fiscal and external account front. In light of tepid inflationary pressures, with average inflation stood around 7.4% in FY13, policy makers hauled down the discount rate to 9% towards the end of the fiscal year, marking a total cut of 3 percentage points during the year.

Although, the overall balance of payment deficit narrowed to \$ 2.4 billion in FY13 from around \$3.3 billion in FY12, foreign reserves depleted by around \$4.2 billion during the year to \$11 billion at the end of the year- mainly on the account of timely loan repayments to IMF.

Benefiting from inventory gains, in the presence of China's insatiable appetite for yarn, scripts of textile companies managed to lead the pack. While higher cement prices in the local market amid lower coal prices helped cement companies to stay on a roll. The decline in discount rate brought debt-laden companies to limelight, while rupee depreciation widen the margins of power and oil sector, chemical sector, textile sector and companies involved in exports business. In a nutshell, the broad-based rally also helped small and mid cap stocks to sizzle.

On the contrary, fertilizer and banking sector remained in the negative trajectory. In keeping with lower discount rate, investors shied away from stocks of banking sector. While gas curtailment issues kept investor at bay from fertilizer sector.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

MLCF, NCL, PAKT, MUREB and TRG managed to rank as the best five performing stock on KSE-100 index, as their share prices rose by 3.59 times, 2.78 times, 2.12 times, 1.96 times and 1.86 times, respectively, during the year.

A string of positive developments arising out since the formation of new government suggests positive outlook for the equity market. The government's commitment towards the resolution of circular debt, recovery of \$800 million from Etisalat, privatization of state owned companies, together with higher PSDP allocation for FY14 and rescheduling of IMF loan repayments, will continue to keep investors' confidence intact in the equity market.

Higher PSDP allocation will curry favor with stocks of companies involved in construction materials, while rupee depreciation will support textile, chemical and energy sector.

The country's likely comeback in fresh IMF program will pave the way for structural reform in the shape of higher discount rate and cut in power sector subsidy. An interest hike bodes well for banking sector, while decline in power sector subsidy will raise power tariff resulting in higher production cost in the country.

With the global commodity prices likely to remain in remission, the market doesn't expect significant pressure on trade balance in the near future. Also, in consideration of various tax measures imposed in FY14, targeted fiscal deficit level of 6.3% doesn't look like a tall order.

Fund's Performance

The investment objective of the fund is to maximize returns available from Pakistan's capital market by investing the fund in equity as well as debt instruments while diversifying the risk within the market. The fund is benchmarked against a composite based on 50% KSE-100 Index and 50% 1 year T-Bills.

Period under review is marked with numerous major events on international, political and macroeconomic fronts that not only affected market movements but also kept changing fundamentals of many sectors and companies. Fund kept a vigilant eye on such developments and kept adjusting sector, company and overall equity exposure of the fund accordingly. During the year fund not only kept strong positions in defensive sectors like Oil & Gas and Electricity but also took aggressive positions in Construction & Materials remained highest earning growth sector of the year while fund took a cautious stance towards fertilizer companies because of high degree of earnings uncertainty. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

On the fixed income side, the fund continued managing its Treasury Bills exposure according to market conditions and interest rate outlook. The fund increased exposure towards TFCs while reducing its exposure in preference shares and T-Bills during the year. The fund generated a return of 28.94% during the year as against its benchmark return of 29.2%, while since inception return of the fund stands at 249.8% as against its benchmark return of 240.8%.

The Fund yields for the period under review remained as follows:

Performance Information (%)	PCMF	Benchmark
Last twelve Months Return	28.94%	29.2%
Since Inception	249.8%	240.8%

During the year your fund earned net income of Rs 87.78 million. The Board in the meeting held on July 04, 2013 has declared final distribution amounting to Rs. 52.84 million (i.e. Rs. 1.2760 per unit).

During the period, units worth Rs. 1.99 million were issued and units with a value of Rs. 48.82 million were redeemed. As on 30 June 2013 the NAV of the Fund was Rs. 9.67 per unit.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

Update on Workers' Welfare Fund

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

However, as per our legal counsel the stay granted to Collective Investment Schemes (CIS) remains intact and the constitution petitions filed by the CIS to challenge the Workers Welfare Fund contribution have not been affected SHC judgment.

In view of the afore mentioned developments and uncertainties created by the recent decision by Honourable Sindh High Court, the Management Company as a matter of abundant precaution has charged provision for WWF in these financial statements.

Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Karachi Stock Exchange.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements.
Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.

- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 21.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2013:

1. Meeting of Human resource and remuneration committee (held on August 13, 2012 and April 04, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Syed Salaman Shah	Chairman	2	2	-
2.	Mr. Haroun Rashid	Member	2	1	1
3.	Mr. Nasim Beg	Member	2	2	-
4.	Mr. Ahmed Jehangir	Member	2	2	-
5.	Mr. Yasir Qadri	Member	2	2	-

2. Meeting of Audit Committee (held on August 13, 2012, October 24, 2012, February 1, 2013 and April 23, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	4	3	1
2.	Mr. Nasim Beg	Member – Executive Vice Chairman	4	4	-
3.	Mr. Samad A. Habib	Member	4	4	-
4.	Mr. Ali Munir*	Member	2	-	2

* Mr. Ali Munir ceased to be the member of Audit Committee w.e.f. October 25, 2012.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

- l. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.

- m. No trades in the Units of the Fund were carried out during the year by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children.


External Auditors

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2013. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2014.

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in MCB Arif Habib Savings and Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Karachi Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board



Yasir Qadri

Chief Executive

Karachi: August 05, 2013

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2013

Fund Type and Category

Pakistan Capital Market Fund (PCMF) is an Open-End Balanced Scheme

Fund Benchmark

The benchmark for Pakistan Capital Market Fund is 50% KSE 100 Index + 50% 1 Year T-Bill

Investment Objective

The objective of the Fund is to maximize returns available from Pakistan's capital market by investing the Fund Property in equity as well as debt instruments while diversifying the risk within the market.

Investment Strategy

Pakistan Capital Market Fund (PCM) is an open-end balanced fund that invests in a range of asset classes such as equity and debt in Pakistani market. The asset allocation to equities and debt is made on the basis of relative attractiveness of each asset class. The investment process is driven by fundamental research. For equities investment, fundamental outlook of sectors/companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stock selection. For debt investment, interest rate outlook is the key determining factor and allocation to this segment is increased when the yields are comparatively higher compared to the total returns on equities. Investment is made in corporate bonds (investment grade) and government bonds. Cash is kept in deposits with highly rated banks. PCM is a long only Fund and cannot undertake leveraged investments. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

Manager's Review

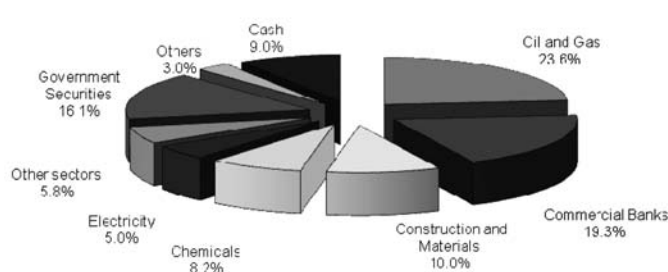
PCM delivered a return of 28.1% vis-à-vis benchmark (50% KSE100+50% 1 Yr T-Bill) return of 29.2% in FY13. Net assets of the fund which were Rs 0.361bn at the beginning of the period were increased by around 11% to Rs 0.401bn. Average equity allocation of the fund comes out to be around 54% for the year.

Cut in the Discount Rate, growth in corporate earnings, General Elections and the return of foreigners in the market remained the positive highlighting factors during the year, which kept the market rolling. Unstable political conditions hitting in patches, deteriorating macro-factors, worsening law and order situation did not impact the equity market performance anytime of the year. The fund remained vigilant and tried to concentrate its exposure in those stocks and sectors that are largely immune fundamentally from deteriorating macroeconomic conditions. The fund changed overall equity allocation several times during the year in sync with various developing market scenarios.

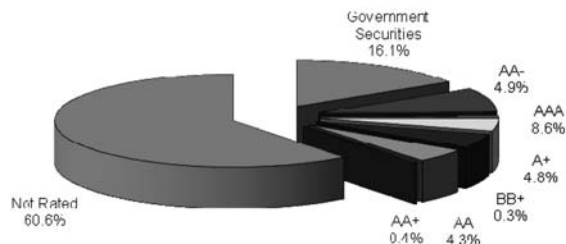
Equity allocation was increased from June 2012 of 41.9% to 57.6% in June 2013. Substantial portion of the portfolio remained concentrated in Oil & Gas, Banking and Electricity sectors during the year which performed reasonably well.

The fund, however, decreased allocation to TFCs from 14.8% to 14.3% by year end mainly increasing exposure to TFCs of the Banking sector. Cash exposure fluctuated from 4% to 10% during the year with a year end exposure of 9%.

Asset Allocation as on June 30, 2013 (% of total assets)



Asset Quality as on June 30, 2013(% of total assets)



Mr. Mohsin Pervaiz
Fund Manager

Karachi: August 05, 2013

TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



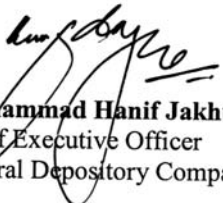
TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN CAPITAL MARKET FUND

Report of the Trustee pursuant to Regulation 41(h) and clause 9 of schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan Capital Market Fund (the Fund) are of the opinion that MCB – Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.


Muhammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: October 10, 2013



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), the Management Company of Pakistan Capital Market Fund ("the Fund") to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Lahore Stock Exchange, Karachi Stock Exchange and Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

Pakistan Capital Market Fund is an open end mutual fund and is listed at Lahore Stock Exchange, Karachi Stock Exchange and Islamabad Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), on behalf of the Fund, has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes

Category	Names
Independent Directors	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors	1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib

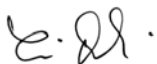
The independent directors meets the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy occurred on the board of the Management Company
5. The Management Company had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings,. The minutes of the meetings were appropriately recorded and circulated.
9. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. During the period the two of the directors' have attended Directors' Training Program conducted by the Institute of Chartered Accountants of Pakistan.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

10. The Board has approved the appointment of Chief Operating Officer and Company secretary, Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment.
11. The Directors' Report of the fund for the year ended June 30, 2013 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises of three members, of which two are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises five members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The Board has set up an effective internal audit function. The Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the fund and the Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Management Company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

For and on behalf of the board



Yasir Qadri

Chief Executive

Karachi: August 05, 2013

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

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Review report to the Unit holders of Pakistan Capital Market Fund “the Fund” on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (“Statement of Compliance”) prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) (“the Management Company”) of the Fund to comply with the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges Limited, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund’s compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company’s personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company’s corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulations 35 notified by the Karachi, Lahore and Islamabad Stock Exchanges Limited requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm’s length transactions and transactions which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors. We have not carried out any procedures to determine whether the related party transactions were under taken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2013.

Date: 5 August 2013

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



KPMG Taseer Hadi & Co.
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Sheikh Sultan Trust Building No. 2
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Karachi, 75530 Pakistan

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Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **Pakistan Capital Market Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2013, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2013, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2013, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

**INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2013**



KPMG Taseer Hadi & Co.

Other matters

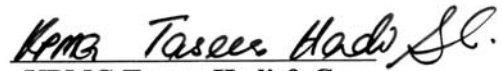
The financial statements of the Fund for the year ended 30 June 2012 were audited by another firm of auditors whose report dated 17 September 2012, expressed an unqualified opinion thereon.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 5 August 2013

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

FINANCIAL STATEMENTS

**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2013**

	<i>Note</i>	2013	2012
		(Rupees in '000)	
Assets			
Balance with banks	4	37,294	26,595
Dividend and profit receivable	5	4,093	4,360
Investments	6	362,589	327,659
Advances, deposits and other receivable	7	4,146	3,743
Receivable against sale of investment		3,997	-
Total assets		412,119	362,357
Liabilities			
Payable to Management Company	8	856	673
Payable to Central Depository Company of Pakistan Limited - Trustee	9	89	60
Payable to Securities and Exchange Commission of Pakistan	10	322	305
Payable against redemption of units		-	1
Payable against purchase of investments		-	2,798
Accrued and other liabilities	11	7,533	1,669
Dividend payable		2,783	2,798
Total liabilities		11,583	8,304
Net assets		400,536	354,053
Unit holders' fund		400,536	354,053
Contingencies and commitments	13		
		(Number of units)	
Number of units in issue (face value of units is Rs. 10 each)		41,414,596	46,884,712
		(Rupees)	
Net asset value per unit	3.10	9.67	7.55

The annexed notes from 1 to 23 form an integral part of these financial statements.



Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited
(formerly: Arif Habib Investments Limited)
(Management Company)



Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
Income			
Capital gain on sale of investments - net		46,220	7,798
Dividend income		18,828	17,205
Income from government securities		8,030	6,616
Income from term finance certificate		7,800	7,552
Profit on bank deposits		2,578	3,835
Income on preference shares		22	1,321
Other income		87	58
		83,565	44,385
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'		32,154	2,389
Total income		115,719	46,774
Expenses			
Remuneration of Management Company	8.1	8,851	8,327
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	757	720
Annual fee to Securities and Exchange Commission of Pakistan	10	322	305
Securities transaction cost		2,684	2,596
Provision for workers' welfare fund	12	6,197	-
Legal and professional charges		48	83
Auditor's remuneration	14	535	555
Provision against term finance certificate		2,520	-
Other expenses		483	1,092
Total operating expenses		22,397	13,678
Net operating income for the year		93,322	33,096
Net element of (loss) and capital (losses) included in prices of units issued less those in units redeemed		(5,540)	(782)
Net income for the year before taxation		87,782	32,314
Taxation	15	-	-
Net income for the year after taxation		87,782	32,314
OTHER COMPREHENSIVE INCOME			
Net unrealised (diminution) / appreciation in fair value / reclassification adjustment for net gains realised on disposal of investments classified as 'available for sale'		-	(1,453)
Total comprehensive income for the year		87,782	30,861
Earning per unit	16		

The annexed notes from 1 to 23 form an integral part of these financial statements.


 Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited
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 (Management Company)


 Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	(Rupees in '000)	
Accumulated loss brought forward		
- Realised (loss)	(120,301)	(108,914)
- Unrealised income	2,389	10,275
	<u>(117,912)</u>	<u>(98,639)</u>
Net income for the year	87,782	32,314
Net element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealised appreciation	16,463	3,876
Distributions to the unit holders of the Fund:		
Final distribution at the rate Rs. nil (30 June 2011: Rs. 0.5966) per unit for the year ended 30 June 2012		
- Bonus units	-	(28,893)
Final distribution for the year ended 30 June 2013: Rs nil per unit (2012: Rs 0.6078 per unit)		
- Bonus units	-	(26,570)
	-	(55,463)
Accumulated loss carried forward	<u>(13,667)</u>	<u>(117,912)</u>
Accumulated loss comprising of:		
- Realised (loss)	(48,099)	(120,301)
- Unrealised (loss)	34,432	2,389
	<u>(13,667)</u>	<u>(117,912)</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.



Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited
(formerly: Arif Habib Investments Limited)
(Management Company)



Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	2013 (Rupees in '000)	2012
Net assets at beginning of the year	354,053	390,218
Issue of 216,775 units (2012: 88,418 units)	1,985	654
Issue of nil bonus units (2012: 7,409,945 units)	-	55,463
Redemption of 5,686,891 units (2012: 9,043,176 units)	(48,824)	(68,462)
	(46,839)	(12,345)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:		
- amount representing loss and capital losses - transferred to income statement	5,540	782
- amount representing (income) and capital gains that forms part of unit holders' fund transferred to Distribution Statement	(16,463)	(3,876)
	(10,923)	(3,094)
Net element of income and capital gains included in prices of units issued less those in units redeemed - transferred to distribution statement	16,463	3,876
Net unrealised (diminution) / appreciation in fair value / reclassification adjustment for net gains realised on disposal of investments classified as 'available for sale'	-	(1,453)
Net income for the year (excluding net unrealised appreciation on remeasurement of investments classified as 'at fair value through profit or loss' and capital gains on sale of investments - net)	9,408	22,127
Capital gain on sale of investments - net	46,220	7,798
Net unrealised appreciation on remeasurement of investments classified as 'at fair value through profit or loss'	32,154	2,389
Total comprehensive income for the year	87,782	32,314
Distributions to the unit holders of the Fund:		
Final distribution at the rate Rs. nil (30 June 2011: Rs. 0.5966) per unit for the year ended 30 June 2012 - Bonus units	-	(28,893)
Final distribution at the rate Rs. nil (30 June 2012: Rs. 0.6078) per unit for the year ended 30 June 2013 - Bonus units	-	(26,570)
	-	(55,463)
Net assets at the end of the year	400,536	354,053
	(Rupees in '000)	
Net assets value per unit at the beginning of the year	7.55	8.06
Net assets value per unit at the end of the year	9.67	7.55

The annexed notes from 1 to 23 form an integral part of these financial statements.



Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited
(formerly: Arif Habib Investments Limited)
(Management Company)



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	87,782	32,314
Adjustments for non-cash and other items:		
Net unrealised (appreciation) on re-measurement of investments classified as 'at fair value through profit or loss'	(32,154)	(2,389)
Net element of loss and capital losses included in prices of units issued less those in units redeemed	5,540	782
Dividend income	(18,828)	(17,205)
Provision against non performing debt securities	2,520	-
	(42,922)	(18,812)
	44,860	13,502
(Increase) / decrease in assets		
Dividend and profit receivable	267	112
Investments	(5,296)	50,898
Advances, deposits and other receivable	(403)	(476)
Receivable against sale of investment	(3,997)	-
	(9,429)	50,534
(Decrease) / increase in liabilities		
Payable to Management Company	183	21
Payable to Central Depository Company of Pakistan Limited - Trustee	29	(7)
Payable to Securities and Exchange Commission of Pakistan	17	(61)
Payable against redemption of units	(1)	1
Payable against purchase of investments	(2,798)	2,798
Accrued and other liabilities	5,864	737
Dividend payable	(15)	-
	3,279	3,489
Dividend received	18,828	17,606
Net cash generated from operating activities	57,538	85,131
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments against redemption of units	(48,824)	(68,462)
Payments received against issuance of units	1,985	654
Net cash (used in) from financing activities	(46,839)	(67,808)
Net increase in cash and cash equivalents	10,699	17,323
Cash and cash equivalents at the beginning of the year	26,595	9,272
Cash and cash equivalents at the end of the year	37,294	26,595

The annexed notes from 1 to 23 form an integral part of these financial statements.


 Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited
 (formerly: Arif Habib Investments Limited)
 (Management Company)


 Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Market Fund (PCMF) was established under a trust deed executed between Arif Habib Investments Limited (AHIL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee on 27 October 2003. The Investment Adviser of PCMF obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake investment advisory services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Formation of PCMF as a closed-end scheme was authorized by SECP on 5 November 2003.

During the year 2005, the Fund was converted from a closed-end scheme to an open-end scheme. The Fund is listed on all three stock exchanges in Pakistan. The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

The Board of Directors have approved that the Fund should be categorised as "Balanced Scheme" as per the Securities and Exchange Commission of Pakistan Circular 7 of 2009 dated 6 March 2009.

Based on shareholders' resolutions of MCB-Asset Management Company (MCB-AMC) and Arif Habib Investments Limited (AHIL), the two companies have merged as of 27 June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated 10 June 2011). AHIL being a listed company is the surviving entity and in compliance of State Bank of Pakistan (SBP's) approval approval, it is a subsidiary of MCB Bank Limited. Subsequent to the completion of merger on 27 June 2011 the SECP extended the effective date of merger to 30 July 2011 through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011 under section 484(2) of the Companies Ordinance 1984. However, during the period, on request of Management Company the SECP reviewed its aforementioned order and through a letter no. SCD/AMCW/Mis/540/2013 dated 17 May 2013 issued revised order under section 484(2) of the Companies Ordinance 1984 to affirm the effective date of merger of MCB-AMC with AHIL as 27 June 2011. The latest order also endorsed the steps/actions taken by Management Company from 27 June 2011 to date. Pursuant of approval of Merger the name of the Company have been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

During the year ended 30 June 2013, the Management Company has changed its name to MCB-Arif Habib Savings and Investments Limited which approved by SECP on 23 May 2013.

The Fund primarily invests in a mix of listed equity and debt securities, unlisted government securities and secured debt securities, money market transactions and reverse repurchase transactions.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned long-term entity-rating of MCB-Arif Habib Savings and Investments Limited, the Asset Management Company, "A+" (Single A Plus) while stability rating of "3 Star" to the Fund.

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The Directors of the asset management company declare that these financial statements give a true and fair view of the Fund.

2.2 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except that financial assets are maintained at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value and derivative financial instruments

The management company has determined fair value of certain investments by using quotations from active market valuation done by Mutual Fund Association of Pakistan. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, cannot be determined with precision.

Other assets

Judgement is also involved in assessing the realisability of the assets balances.

2.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

A number of new Standards, amendments to Standards and interpretations are effective for annual periods beginning on or after 1 July 2013. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014).
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013).
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

2.6 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective. However, the amendments or interpretation did not have any material effect on the financial statements of the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in preparation of these financial statement. These accounting policies have been applied consistently to all years presented.

3.1 Financial assets

Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments as 'at fair value through profit or loss'

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative. Financial instruments as 'at fair value through profit or loss' are measured at fair value and changes therein are recognised in the Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

c) 'Available-for-sale'

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

d) Financial liabilities

Financial liabilities, other than those as 'at fair value through profit or loss', are measured at amortised cost using the effective yield method.

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the financial assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not as 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instruments 'at fair value through profit or loss' are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortised cost less provision for impairment, if any.

Fair value measurement principles

Investment in debt securities are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009, Circular 33 of 2012 and Circular 35 of 2012. The Circulars also specify criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity up to six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009 issued by the SECP.

Basis of valuation of government securities and GoP Ijara sukuk certificates

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

The fair value of the investments in GoP Ijara sukuk certificates is determined by using the market rates from Reuters page.

Basis of valuation of quoted equity securities

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

Impairment

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of asset and that loss events had an impact on the future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non-performing investments in compliance with Circular 13 of 2009 issued by SECP.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the right to receive the contractual cashflows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred on in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial assets.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.2 Securities under repurchase/ resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government securities, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement. All reverse repo transactions are accounted for on the settlement date.

3.3 Unit holders' Fund

Unit holders' funds representing the units issued by the Fund, is carried at the net asset value representing the investors' right to a residual interest in the Fund assets.

3.4 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption requests during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.5 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unit holder's funds in a separate

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the income statement.

3.6 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.7 Net asset value per unit

The net asset value (NAV) per unit, as disclosed on the statement of assets and liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

3.8 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund has previously availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no current tax and deferred tax has been recognized in these financial statements.

3.9 Revenue recognition

- Profit on investments is recognised on an accrual basis. (In case of financial assets classified as non-performing, income is recognised on receipt basis).
- Profit on bank deposits is recognised on an accrual basis.
- Gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised capital gains / (losses) arising on valuation of investments classified as financial assets financial assets at fair value through profit or loss' and derivatives are included in the income statement in the period in which they arise.
- Dividend income is recognised when the right to receive dividend is established.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is recognised when the units are issued and redeemed at the transaction date.
- Discount on purchase of market treasury bills is amortised to income statement using the straight line method.

3.10 Expenses

All expenses including management fee, trustee fee and Securities Exchange Commission of Pakistan fee are recognised in the income statement on an accrual basis.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.12 Other assets

Other assets are stated at cost less impairment losses, if any.

3.13 Dividend distributions and appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

4. BALANCE WITH BANKS

		2013	2012
		(Rupees in '000)	
Saving accounts	4.1	34,512	22,433
Current account		2,782	4,162
		37,294	26,595

4.1 These carry mark-up at rates ranging between 6% to 11% per annum (30 June 2012: 6.5% to 11% per annum).

5. DIVIDEND AND PROFIT RECEIVABLE

		2013	2012
		(Rupees in '000)	
Dividend receivable		148	115
Profit receivable on bank deposits		105	211
Profit receivable on term finance certificates		2,069	2,093
Profit receivable on preference shares		-	1,321
Profit receivable on government securities		1,771	620
		4,093	4,360

6. INVESTMENTS

'At fair value through profit or loss'

- Quoted equity securities	6.1	237,521	151,963
- Quoted preference shares	6.2	-	8,333
- Term finance and sukuk certificates	6.3	59,046	53,569
- Government securities	6.4	66,022	113,794
		362,589	327,659

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

6.1 Quoted equity securities

Name of the investee company	As at 1 July 2012		Number of shares		As at 30 June 2013		Balance as at 30 June 2013		Market Value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2013	Carrying value	Market value	Appreciation / (diminution)	As percentage of net assets	As percentage of total investments		
(Rupees in '000)											
OIL AND GAS											
Attock Petroleum Limited	56,117	31,400	(64,100)	23,417	11,663	13,140	1,477	3.28	3.62	0.03	
Attock Refinery Limited	-	12,500	(12,500)	-	-	-	-	0.00	0.00	0.00	
National Refinery Limited	-	15,000	(15,000)	-	-	-	-	0.00	0.00	0.00	
Oil & Gas Development Company Limited	23,000	202,000	(140,300)	84,700	17,061	19,375	2,314	4.84	5.34	0.00	
Pakistan Oilfields Limited	24,080	47,101	(28,500)	42,681	17,280	21,228	3,948	5.30	5.85	0.02	
Pakistan Petroleum Limited	162,720	110,000	(145,100)	154,525	26,222	32,694	6,472	8.16	9.02	0.01	
Pakistan State Oil Company Limited	22	103,000	(69,800)	33,331	6,975	10,679	3,704	2.67	2.95	0.01	
Shell Pakistan Limited	-	6,100	(6,100)	-	-	-	-	0.00	0.00	0.00	
					79,201	97,116	17,915				
CHEMICALS											
Chianat Pakistan Limited	-	18,000	(18,000)	-	-	-	-	0.00	0.00	0.00	
Dawood Hercules Corporation Limited	-	25,000	(25,000)	-	-	-	-	0.00	0.00	0.00	
Engro Corporation Limited	-	337,500	(337,500)	-	-	-	-	0.00	0.00	0.00	
Fatima Fertilizer Company Limited	417,538	1,099,000	(567,538)	949,000	23,777	23,564	(213)	5.88	6.50	0.05	
Fauji Fertilizer Bin Qasim Limited	-	321,000	(50,000)	271,000	11,127	10,173	(954)	2.54	2.81	0.03	
Fauji Fertilizer Company Limited	60,000	473,000	(533,000)	-	-	-	-	0.00	0.00	0.00	
I.C.I. Pakistan Limited	-	44,000	(44,000)	-	-	-	-	0.00	0.00	0.00	
Lote Pakistan PTA Limited	-	125,000	(125,000)	-	-	-	-	0.00	0.00	0.00	
					34,904	33,737	(1,167)				
CONSTRUCTION AND MATERIAL											
Cherat Cement Company Limited	31,000	416,000	(166,000)	281,000	13,334	16,351	3,017	4.08	4.51	0.29	
D. G. Khan Cement Company Limited	-	207,000	(189,500)	17,500	1,027	1,465	438	0.37	0.40	0.00	
Fauji Cement Company Limited	-	1,085,000	(1,085,000)	-	-	-	-	0.00	0.00	0.00	
Kohat Cement Company Limited	-	422,000	(281,000)	141,000	11,785	12,102	317	3.02	3.34	0.11	
Lafarge Pakistan Cement Limited	-	215,000	(215,000)	-	-	-	-	0.00	0.00	0.00	
Lucky Cement Limited	89,215	166,000	(207,000)	48,215	6,178	10,112	3,934	2.52	2.79	0.01	
					32,324	40,030	7,706				
ENGINEERING											
Millat Tractors Limited	14,500	13,100	(27,600)	-	-	-	-	0.00	0.00	0.00	
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	-	38,500	-	38,500	4,521	5,726	1,205	1.43	1.58	0.05	
					4,521	5,726	1,205				
FOOD PRODUCTS											
Unilever Pakistan Limited *	-	400	(400)	-	-	-	-	0.00	0.00	0.00	
TEXTILE											
Blessed Textile Limited	-	10,000	(10,000)	-	-	-	-	0.00	0.00	0.00	
Nishat Chunian Limited	-	427,500	(427,500)	-	-	-	-	0.00	0.00	0.00	
Nishat Mills Limited	-	218,500	(154,000)	64,500	4,659	6,077	1,418	1.52	1.68	0.02	
					4,659	6,077	1,418				

Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Name of the investee company	Number of shares			Balance as at 30 June 2013		Market Value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at 1 July 2012	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2013	Carrying value	Market value	
Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.								
PHARMACEUTICAL AND BIO TECHNOLOGY								
Abbot Laboratory (Pakistan) Limited	61,196	-	-	(61,196)	-	-	0.00	0.00
GlaxoSmithKline Limited	57,000	-	-	(57,000)	-	-	0.00	0.00
TELECOMMUNICATION								
Wateen Telecom Limited	-	800,000	-	(800,000)	-	-	0.00	0.00
ELECTRICITY								
Kot Addu Power Company Limited	-	629,000	-	(629,000)	-	-	0.00	0.00
Nishat Chuntian Power Limited	551,648	1,658,000	-	(2,209,648)	-	-	0.00	0.00
Nishat Power Limited	-	1,179,000	-	(1,179,000)	-	-	0.00	0.00
The Hub Power Company Limited	394,513	1,221,500	-	(1,281,500)	334,513	17,747	5.15	5.69
					17,747	20,623		
BANKS								
Askari Bank Limited	101,332	1,406,000	-	(1,507,285)	47	1	0.00	0.00
Bank Al Habib Limited	118,530	1,219,000	-	(1,066,530)	271,000	8,167	1.84	2.03
Bank Alfalah Limited	100,000	928,000	-	(795,000)	233,000	4,043	1.06	1.17
Habib Bank Limited	-	16,000	1,600	-	17,600	1,904	0.52	0.58
MCB Bank Limited	-	35,000	-	(35,000)	-	-	0.00	0.00
Mezzan Bank Limited	-	252,000	27,720	(239,000)	40,720	1,091	0.29	0.33
United Bank Limited	63,000	284,000	-	(284,000)	63,000	6,454	1.69	1.87
					21,660	21,672		
NON LIFE INSURANCE COMPANIES								
Adanjee Insurance Company Limited	-	67,000	-	-	67,000	5,911	1.27	1.41
Pakistan Reinsurance Limited	-	400,000	-	(85,000)	315,000	5,916	1.86	2.05
					11,827	12,540		
Total as at 30 June 2013					206,843	237,521		30,678
Total as at 30 June 2012					147,030	151,963		4,933
* Par value of Rs. 50 each								
Investments include quoted equity security with market value of Rs. 16,895,599 (2012 : Rs. 8,849,138) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular No. 11 dated 23 October 2007 issued by the Securities and Exchange Commission of Pakistan.								
Cost of investment of equity securities is Rs. 205 million (2012: Rs. 152 million)								
6.2 Listed preference shares								
Name of the investee company	Number of shares			Balance as at 30 June 2013		Market Value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at 1 July 2012	Purchases during the year	Bonus / right issue during the year	Redeemed during the year	As at 30 June 2013	Carrying value	Market value	
TEXTILE								
Masood Textile Mills Limited	8,333	-	-	(8,333)	-	-	-	-
Total as at 30 June 2013								
Total as at 30 June 2012					8,333	8,333		-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

6.3 Term finance and sukuk certificates

2013 2012
(Rupees in '000)

Debt securities

63,348 55,351

Less: Provision of Maple Leaf Cement Factory Limited

On 1 July

1,782	-
--------------	---

Charged during the year

2,895	1,782
--------------	-------

Reversal during the year

(375)	-
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4,302	1,782
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59,046	53,569
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6.3.1 Name of Investee company	Number of certificate				Balance as at 30 June 2013			Market Value		Percentage in relation to size of issue
	As at 1 July 2012	Purchases during the year	Sales / matured during the year	As at 30 June 2013	Carrying value	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage on net assets	
----- (Rupees in '000) -----										

Unless stated otherwise, the holdings are in certificates having face value of Rs. 5,000 each.

Listed debt securities

Bank Alfalah Limited V	6.3.4	-	4,000	-	4,000	20,000	20,312	312	5.60	5.07	0.00
NIB Bank Limited	6.3.4	4,000	-	-	4,000	19,870	19,908	38	5.49	4.97	0.01
United Bank Limited III	6.3.4	7,020	-	-	7,020	17,314	17,632	318	4.86	4.40	0.02
					57,184	57,852	668				

Unlisted Sukuk Bonds

Maple Leaf Cement Factory Limited											
Sukuk - I (Note 6.3.1)	6.3.4	2,000	-	-	2,000	5,108	5,496	388	1.52	1.37	0.00
Maple Leaf Cement Factory Limited											
Sukuk - II	6.3.4	75	-	(75)	-	-	-	-	0.00	0.00	0.00
					5,108	5,496	388				
Total as at 30 June 2013						62,292	63,348	1,056			
Total as at 30 June 2012						55,724	53,569	(2,155)			

6.3.2 Owing to continuous default on repayment of coupon by the issuer, the Fund has classified the said investment as non-performing debt securities. During the year, the Fund has recognised net provision amounting to Rs. 2.52 million in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

6.3.3 Movement in provision against debt securities

2013 2012
(Rupees in '000)
Unlisted debt securities

Opening balance

1,782	-
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Add : Charge for the year

2,895	1,782
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Less: Reversal of provision

(375)	-
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Charge for the year - net

2,520	1,782
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Closing balance

4,302	1,782
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

6.3.4 Significant terms and conditions of Term Finance Certificate and Sukuk Certificate outstanding are as follows:

Name of security	Mark-up rate (per annum)	Issue date	Maturity date
Bank Al-Falah (20 February 2013)	6 months KIBOR 1.25%	20 February 2013	20 February 2021
NIB Bank Limited	6 months KIBOR 1.15%	05 March 2008	05 March 2016
UBL Bank Limited	6 months KIBOR 1.70%	08 September 2006	08 September 2014
Maple Leaf Cement Limited	3 months KIBOR 1.00%	03 December 2007	03 December 2018
Maple Leaf Cement Limited	3 months KIBOR 1.00%	30 September 2010	31 March 2012

6.4 Government Securities

	Face value				Balance as at 30 June 2013			Market Value		
	As at 1 July 2012	Purchases during the year	Sold / matured during the year	As at 30 June 2013	Carrying value	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage on net assets	
----- (Rupees in '000) -----										
Pakistan Investment Bonds										
PIB - 3 Years	6.4.1	-	150,000	(125,000)	25,000	25,580	25,962	382	7.16	6.48
PIB - 5 Years		-	110,000	(110,000)	-	-	-	-	0.00	0.00
PIB - 10 Years		-	75,000	(75,000)	-	-	-	-	0.00	0.00
Total - 30 June 2013					25,580	25,962	382			
Total - 30 June 2012					-	-	-		0.00	0.00
Market Treasury Bill										
Treasury bills - 12 Months	6.4.2	-	420,000	(420,000)	-	-	-	-	0.00	0.00
Treasury bills - 3 Months	6.4.2	75,000	610,000	(685,000)	-	-	-	-	0.00	0.00
Total - 30 June 2013					-	-	-			
Total - 30 June 2012					73,783	73,774	(9)		22.52	20.84
Government of Pakistan Ijara Sukuk										
GoP Ijarah Sukuk - 3 Years	6.4.3	40,000	-	-	40,000	40,020	40,060	40	11.05	10.00
Total - 30 June 2012					40,400	40,020	(380)		12.21	11.30
Total of investment in Government Securities - 30 June 2013					65,600	66,022	422		18.21	16.48
Total of investment in Government Securities - 30 June 2012					114,183	113,794	(389)		34.73	32.14

6.4.1 These Pakistan Investment Bonds have a cost of Rs. 25.580 million (2012 : nil) maturing till 19 July 2015 (2012: nil) and carry interest at the rate of 11.25% (2012: nil) per annum.

6.4.2 These Treasury Bills having an amortised cost of Nil (2012 : Rs. 73.783 million) carries effective yield ranging from 9.13% to 11.94% per annum as at 30 June 2012.

6.4.3 These Government of Pakistan Ijara Sukuk have a cost of Rs. 40.40 million (2012: 40.40) maturing on 15 November 2013 (2012: 15 November 2013) and carry interest at the rate of 9.2253% to 11.9405% (2012: 11.7903% to 11.9405%) per annum.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

6.5 Details of non-compliant investments with the investment criteria as specified by the Securities and Exchange Commission of Pakistan

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated 6 March 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Board of Directors of Management Company has approved the category of the fund as a "Balanced Scheme".

In accordance with clause (iv) of the investment criteria laid down for 'Balanced Scheme' in circular 7 of 2009, the Fund is not allowed to invest in any debt security having a rating lower than A- (A minus). However, as at 30 June 2013, the Fund is non-compliant with the above mentioned requirement in respect of the following:

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Investment in debt securities *	Maple Leaf Cement Factory Limited - Term Finance Certificate (03-Dec-2007)	5,495	4,301	1,194	0.30%	0.29%

*At the time of purchase, the above investments was in compliance of the said Circular (i.e. investment grade) and was subsequently downgraded to D due to default in payments of principal and mark-up due on respective coupon dates.

7. ADVANCES, DEPOSITS AND OTHER RECEIVABLE

	2013	2012
	(Rupees in '000)	
Advance tax	342	342
Deposit with National Clearing Company of Pakistan Limited	7.1 3,028	2,625
Deposit with Central Depository Company of Pakistan Limited	300	300
Others	476	476
	<u>4,146</u>	<u>3,743</u>

7.1 This includes Rs. 0.403 million refundable amount deposited with National Clearing Company of Pakistan Limited for the purpose of trading in ready future by the fund.

8. PAYABLE TO MANAGEMENT COMPANY

Management fee payable	8.1 851	673
Front end load payable	5	-
	<u>856</u>	<u>673</u>

8.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund and, in any case, it shall not exceed the limit prescribed by the NBFC Regulations, 2008. During the year, the Management Company has charged its remuneration at the rate of 2% (2012: 2%) of the average annual net assets of the Fund. The remuneration is paid to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusion of all government levies.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	2013	2012
	(Rupees in '000)	
Trustee fee	9.1	73
CDS charges payable		58
		<u>16</u>
		<u>60</u>
		<u>89</u>

9.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30 June 2013 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee monthly in arrears.

10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, a collective investment scheme categorised as 'Balanced Scheme' is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

11. ACCRUED AND OTHER LIABILITIES	2013	2012
	(Rupees in '000)	
Brokerage payable	134	452
FED payable on brokerage	20	71
Auditor's remuneration payable	400	414
Credit rating fee	110	100
Legal and professional charges payable	80	50
Printing and related expenditure payable	300	493
Workers' welfare fund	12	-
Others	292	89
	<u>7,533</u>	<u>1,669</u>

12. PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on 8 July 2010 which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

14 December 2010 the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to the year ended 30 June 2011, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions filed by institutions other than mutual funds declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

However, as per the legal counsel the stay granted to Collective Investment Schemes (CIS) remains intact and the constitution petitions filed by the CIS to challenge the Workers Welfare Fund contribution have not been affected SHC judgment. The Management Company as a matter of abundant precaution has charged provision for WWF, amounting to Rs. 6.197 million (including Rs. 1.879 million for the current period).

13. CONTINGENCIES AND COMMITMENTS

13.2 There were no other contingencies and commitments outstanding as at 30 June 2013.

14. AUDITOR'S REMUNERATION

	2013	2012
	(Rupees in '000)	
Annual audit fee	275	275
Half yearly review	150	150
Other certifications and services	100	100
Out of pocket expenses	10	30
	535	555

15. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulation, 2008, the fund is required to distribute 90% of the net accounting income other than unrealised capital gains to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance 2001. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

16. EARNINGS PER UNIT

Earnings per unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average number of outstanding units for calculating EPU is not practicable.

17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Related parties / connected persons of the Fund include the Management Company, other collective investment schemes managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertakings and unit holders holding more than 10% units of the Fund.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provision of the NBFC Regulations 2008 and Constitutive documents of the Fund.

The transactions with connected persons / related parties are in the normal course of business and are carried out on agreed terms / at contracted rates.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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17.1 Details of transactions with the connected persons / related parties during the year are as follows:

		2013	2012
		(Rupees in '000)	
MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) - Management Company of the Fund			
Remuneration to the Management Company		7,566	7,178
Federal excise duty on remuneration to Management Company		64	-
Sindh sales tax on remuneration to Management Company		1,221	1,149
Sales load expense		13	-
Summit Bank Limited (Formerly Arif Habib Bank Limited)			
Profit on bank deposits		38	-
MCB Bank Limited			
Bank charges		13	10
Profit received		1,411	1,988
Nishat Mills Limited			
Dividend income		490	-
Nishat Chunian Power Limited			
Dividend income		1,202	-
Central Depository Company of Pakistan Limited - Trustee of the Fund			
Remuneration for the year		757	720
CDC settlement charges		55	24
Next Capital Limited - Brokerage House			
Brokerage expense	17.4	59	75
Arif Habib Limited - Brokerage House			
Brokerage expense	17.4	121	204
17.2 Balance outstanding as at year end are as follows:			
MCB-Arif Habib Savings and Investments Limited - Management Company of the Fund			
Remuneration payable to the Management Company		670	580
Federal excise duty payable on Management Company remuneration		64	-
Sales tax payable on remuneration of Management Company remuneration		117	93
Sales load payable		5	-
Central Depository Company of Pakistan Limited of the Fund			
Remuneration payable to the Trustee		73	58
CDC Settlement charges payable		16	2
Security deposit		300	300

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	2013	2012
	(Rupees in '000)	
Next Capital Limited - Brokerage House		
Brokerage payable	<u>1</u>	<u>13</u>
MCB Bank Limited		
Bank balances	<u>33,472</u>	<u>1,200</u>
Profit receivable on bank balances	<u>49</u>	<u>298</u>
Nishat Mills Limited		
64,500 shares held by the Fund (30 June 2012: nil shares)	<u>6,077</u>	<u>-</u>
Nishat Chunian Power Limited		
Nil shares held by the Fund (30 June 2012: 551,648 shares)	<u>-</u>	<u>8,181</u>
Adamjee Insurance Company Limited		
67,000 shares held by the Fund (30 June 2012: nil shares)	<u>5,097</u>	<u>-</u>
Arif Habib Limited - Brokerage House		
Brokerage payable	<u>17</u>	<u>82</u>

17.3 Transactions during the period with connected persons / related party in the units of the Fund

	2013		2012	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units issued to:				
Key management personnel	<u>18,303</u>	<u>163</u>	<u>-</u>	<u>-</u>
Bonus units issued to:				
Bank Alfalah Limited	<u>-</u>	<u>-</u>	<u>1,616,740</u>	<u>12,103</u>
Key management personnel	<u>-</u>	<u>-</u>	<u>753</u>	<u>6</u>
Units redeemed by:				
Key management personnel	<u>1,283</u>	<u>10</u>	<u>-</u>	<u>-</u>
Units held by:				
Bank Alfalah Limited	<u>11,275,972</u>	<u>109,039</u>	<u>11,275,972</u>	<u>85,134</u>
Key management personnel	<u>22,272</u>	<u>215</u>	<u>5,252</u>	<u>40</u>

17.4 The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

18. FINANCIAL RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The Fund's activities expose it to a variety of financial risks such as:

- Market risk
- Credit risk and
- Liquidity risk

18.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the Securities and Exchange Commission of Pakistan.

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupee

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(a) Sensitivity analysis for fixed rate instruments

As at 30 June 2013, the Fund holds Pakistan Investment Bonds which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan on 30 June 2013 with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.249 million (2012: Rs. nil).

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

(b) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30 June 2013, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 0.343 (2012: Rs 0.155 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association of Pakistan is expected to change over time. Further, in case of variable rate instruments, the sensitivity has been done from the last repricing date. Accordingly, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Presently, the Fund holds GOP Ijarah Sukuk exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase/ decrease in 6 months weighted average yield of GOP Ijarah Sukuk on 30 June 2013 with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 0.4 million (2012: Rs 51,512).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Other price risk

Other price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of Karachi Stock Exchange (KSE) and other respective market indices and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund's policy is to manage price risk through diversification within specified limits set by internal risk management guidelines.

The fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the trust deed. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

A summary analysis of local investments by industry sector, the percentage in relation to Fund's own net assets and the issued capital of the investee company is presented in note 6.1.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 30 June. The analysis is based on the assumption that KSE-100 index increased by 5% and decreased by 5%, with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE-100 index, having regard to the historical volatility of index of past three years.

At 30 June, the fair value of equity securities exposed to price risk is disclosed in note 6.1.

The impact below arises from the reasonable possible change in the fair value of listed equity securities.

	2013	2012
	(Rupees in '000)	
Effect on income statement, net assets attributable to unit holders and equity investments due to increase / decrease in the KSE-100 index	10,869	6,978

The sensitivity analysis presented is based upon the portfolio composition as at 30 June 2013 and the historical correlation of the securities comprising the portfolio to the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE and other respective market indices, is expected to change over time. Accordingly, the sensitivity analysis prepared as at 30 June 2013 is not necessarily indicative of the effect on the Fund's net assets attributed to unit holders of future movements in the level of the KSE and other respective market indices.

18.2 Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfill their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Exposure to credit risk

Is summary, compared to the maximum amount included in statement of assets and liabilities, the maximum exposure to credit risk as at 30 June is as follows:

	2013		2012	
	Statement of Assets and Liabilities (Rupees in '000)	Maximum Exposure	Statement of Assets and Liabilities (Rupees in '000)	Maximum Exposure
Balance with banks	37,294	37,294	26,595	26,595
Dividend and other receivables	4,093	2,322	4,360	3,740
Investments	362,589	63,348	327,659	53,569
Advances and deposits	4,146	3,804	3,743	3,401
Receivable against sale of investment	3,997	-	-	-
	412,119	106,768	362,357	87,305

Difference in the balance as per statement of assets and liabilities and maximum exposure in investment is due to the fact that investment in equity and government securities of Rs. 303.543 million (2012: 274.09 million) and receivable against sale of investment amounting to Rs. 3.997 million (2012: nil) are not exposed to credit risk.

Investment in Pakistan Investment Bonds and Ijarah Sukuk amounting to Rs. 66.022 million do not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan.

None of the financial assets were considered to be past due or impaired as on 30 June 2013.

Details of credit rating of balance with banks, deposits and other receivables as at 30 June are as follows:

	2013 (Percentage holding)	2012
A1+	100.00%	99.95%
A-1	0.00%	0.01%
Unrated	0.00%	0.04%
	100.00%	100.00%

Above rates are on the basis of available ratings assigned by The Pakistan Credit Rating Agency Limited as at 30 June 2013. The investments in bank balances are unsecured.

The analysis below summarises the credit quality of the Fund's investment in term finance certificates as at 30 June:

	2013 (Percentage holding)	2012
AA	27.83%	54.12%
AA-	32.06%	0.00%
A+	31.43%	37.11%
BB+	0.00%	8.77%
Unrated	8.68%	0.00%
	100.00%	100.00%

An analysis of the financial assets that are individually impaired as per the requirements of Circular No. 1 dated 6 January 2009 and Circular No. 13 dated 4 May 2009 issued by the Securities and Exchange Commission of Pakistan are as under:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2013	2012
Term Finance Certificates	(Percentage holding)	
15 to 89	-	-
90 to 179	-	-
180 to 270	-	-
270 to 365	-	4,700
over 365	5,496	-
	5,496	4,700

Concentration of credit risk

Concentration is the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentration of risks arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Details of the Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	30 June 2013		30 June 2012	
	(Rupees in '000)	Percentage	(Rupees in '000)	Percentage
Commercial banks	37,294	34.93%	26,595	30.46%
Others	69,474	65.07%	60,710	69.54%
	106,768	100.00%	87,305	100.00%

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

18.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by the SECP.

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

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The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30 June 2013			Total
	Up to three months	More than three months and up to one year	More than one year	
	(Rupees in '000)			
Payable to Management Company	856	-	-	856
Payable to Central Depository Company of Pakistan Limited - Trustee	89	-	-	89
Payable to Securities and Exchange Commission of Pakistan	322	-	-	322
Dividend payable	2,783	-	-	2,783
Payable on redemption of units	-	-	-	-
Payable against purchase of investment	-	-	-	-
Accrued expenses and other liabilities	1,336	-	6,197	7,533
	5,386	-	6,197	11,583

	30 June 2012			Total
	Up to three months	More than three months and up to one year	More than one year	
	(Rupees in '000)			
Payable to Management Company	673	-	-	673
Payable to Central Depository Company of Pakistan Limited - Trustee	60	-	-	60
Payable to Securities and Exchange Commission of Pakistan	305	-	-	305
Dividend payable	-	-	2,798	2,798
Payable on redemption of units	1	-	-	1
Payable against purchase of investment	2,798	-	-	2,798
Accrued expenses and other liabilities	1,669	-	-	1,669
	5,506	-	2,798	8,304

Units of the Fund are redeemable on demand at the holder's option, however, the Fund does not anticipate significant redemption of units.

18.4 Financial instrument by category

	30 June 2013			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	
	(Rupees in '000)			
Assets				
Balance with banks	37,294	-	-	37,294
Dividend and profit receivables	4,093	-	-	-
Investments	-	362,589	-	-
	41,387	362,589	-	37,294

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	30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
Liabilities			
Payable to Management Company	-	856	856
Payable to Central Depository Company of Pakistan Limited - Trustee	-	89	89
Payable to Securities and Exchange Commission of Pakistan	-	322	322
Payable against redemption of units	-	-	-
Payable against purchase of investment	-	-	-
Accrued expenses and other liabilities	-	7,533	7,533
Dividend payable	-	2,783	2,783
	-	11,583	11,583

	30 June 2012			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	------(Rupees in '000)-----			
Assets				
Balance with banks	26,595	-	-	26,595
Dividend and profit receivables	4,360	-	-	4,360
Investments	-	327,659	-	327,659
	30,955	327,659	-	358,614

	30 June 2012		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
Liabilities			
Payable to Management Company	-	673	673
Payable to Central Depository Company of Pakistan Limited - Trustee	-	60	60
Payable to Securities and Exchange Commission of Pakistan	-	305	305
Payable against redemption of units	-	1	1
Payable against purchase of investment	-	2,798	2,798
Accrued expenses and other liabilities	-	1,669	1,669
Dividend payable	-	2,798	2,798
	-	8,304	8,304

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

19. UNIT HOLDERS'S FUND RISK MANAGEMENT

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations, 2008, to maintain minimum fund size to Rs. 100 million to be maintained all the time during the life of the scheme. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holders' fund is to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption. In accordance with the risk management policies, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the statement of assets and liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

30 June 2013	Level 1	Level 2	Level 3
	(Rupees in '000)		

'At fair value through profit or loss'

Held for trading

- Quoted equity securities	237,521	-	-
- Fixed income securities	-	25,962	-
- Variable income securities	-	102,214	1,194

30 June 2012

'At fair value through profit or loss'

Held for trading

- Quoted equity securities	160,296	-	-
- Fixed income securities	-	73,774	-
- Variable income securities	-	88,889	4,700

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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21. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers, meetings of the Board of Directors of the management company and members of the Investment Committee are as follows:

21.1 Pattern of unit holding

Details of pattern of unit holding as at 30 June:

	30 June 2013		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	2,950	261,890	65.38%
Insurance companies	4	1,543	0.39%
Banks / DFIs	3	109,057	27.23%
NBFCs	3	247	0.06%
Retirement funds	5	10,533	2.63%
Others	30	17,266	4.31%
	2,995	400,536	100.00%

	2012		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	3,200	239,770	67.73%
Insurance companies	5	1,219	0.34%
Banks / DFIs	4	85,238	24.08%
NBFCs	3	193	0.05%
Retirement funds	5	8,224	2.32%
Others	36	19,369	5.48%
	3,253	354,013	100.00%

21.2 Top ten brokers / dealers by percentage of commission paid

Details of commission paid by the fund to top ten brokers by percentage during the year are as follows:

	2013 Percentage
1 JS Global Capital Limited	11.20%
2 Fortune Securities Limited	11.16%
3 Foundation Securities (Private) Limited	7.74%
4 Invest and Finance Securities Limited	7.54%
5 Elixir Securities Pakistan (Private) Limited	6.32%
6 Arif Habib Limited	6.02%
7 KASB Securities Limited	5.27%
8 First Capital Equities Limited	4.74%
9 Taurus Securities Limited	4.72%
10 Optimus Capital Management (Private) Limited	4.45%

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	2012 Percentage
1 Arif Habib Limited	10.11%
2 Fortune Securities Limited	8.07%
3 Elixir Securities Private Limited	7.14%
4 Taurus Securities Limited	6.04%
5 Invest and Finance Securities Limited	5.40%
6 Top line Securities Limited	5.37%
7 KASB Securities Limited	5.20%
8 Foundation Securities Limited	5.13%
9 Jahangir Siddiqui Capital Limited	4.15%
10 Invisor Securities Private Limited	4.10%

21.3 Attendance at meetings of the Board of Directors

The 98th, 99th, 100th, 101st, 102nd and 103rd Board meetings were held on 16 July 2012, 15 August 2012, 4 October 2012, 24 October 2012, 4 February 2013 and 24 April 2013, respectively.

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			
	Held	Attended	Leave	Meeting not
Mr. Mian Mohammad Mansha	6	2	4	98th, 99th, 100th and 103rd
Mr. Nasim Beg	6	5	1	102nd
Mr. Yasir Qadri (Chief Executive Officer)	6	6	-	
Dr. Syed Salman Ali Shah	6	5	1	103rd
Mr. Haroun Rashid	6	4	2	100th and 101st
Mr. Ahmed Jahangir	6	6	-	
Mr. Samad A. Habib	6	4	2	98th and 100th
Mr. Mirza Mehmood Ahmed	6	3	3	98th, 99th and 101st
Mr. M. Saqib Saleem (COO & Company Secretary)	6	6	-	
Mr. Umair Ahmed (Chief Financial Officer)*	3	3	-	

* appointed from 1 January 2013.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

21.4 Particulars of investment committee and fund manager

Details of members of investment committee of the Fund are as follows:

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	18
Mr. Kashif Rafi	Senior Vice President - Investments	MBA & CFA level I	12
Mr. Muhammad Asim	Vice President - Head of Equities	MBA & CFA	10
Mr. Mohsin Pervez	Vice President - Investments	MBA & CFA level I	12
Miss Uzma Khan	Assistant Vice President - Senior Research Analyst	MBA, CFA & FRM	8

21.5 Other funds managed by the fund manager

Mr. Mohsin Pervez

Mr. Mohsin Pervez is the Manager of the Fund as at year end. He has obtained a Masters degree in Business Administration and is a Certified Financial Analyst Level I. Other funds being managed by him are as follows:

- Pakistan Strategic Allocation Fund


22. DISTRIBUTIONS BY THE FUND

22.1 Non-adjusting event after the reporting date

The Board of Directors of the management company has approved bonus units of Rs. 1.2760 per unit (on 4 July 2013) for the year ended 30 June 2013 amounting to Rs. 52.845 million (2012: 26.57 million) in total. These financial statements do not include the effect of the above final distribution that will be accounted for subsequent to the year end.

23. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 05 August 2013.



Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited
(formerly: Arif Habib Investments Limited)
(Management Company)



Director

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2013**

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties	-	-
Directors		
Nasim Beg	1	4,764
Public Sector Companies and Corporations	30	1,785,522
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	9	183,161
Individuals	2,949	27,075,933
Trust	5	1,089,245
Unitholders holding 5 percent or more Voting interest in the listed company		
Bank AlFalah Limited	1	11,275,972
	<u>2,995</u>	<u>41,414,596</u>

**PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2013**

No. of Unit Holders	Units Holdings	Total Units Held
1,989	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	3,172,430.35
455	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	3,088,946.71
219	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	2,841,369.86
36	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	615,960.94
34	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	750,230.93
120	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	3,240,087.45
15	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	494,478.36
4	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	152,605.62
20	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	825,435.79
3	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	141,004.14
18	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	956,738.79
4	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	233,664.01
3	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	191,880.65
8	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	542,210.81
4	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	286,792.14
3	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	227,530.13
7	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	565,159.21
4	(SHAREHOLDING FROM 85001.0000 TO 90000.0000)	350,695.29
7	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	658,019.34
2	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	195,385.15
3	(SHAREHOLDING FROM 100001.0000 TO 105000.0000)	302,636.56
3	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	324,863.46
1	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	120,860.69
6	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	806,308.29
2	(SHAREHOLDING FROM 135001.0000 TO 140000.0000)	276,932.79
2	(SHAREHOLDING FROM 160001.0000 TO 165000.0000)	322,456.49
1	(SHAREHOLDING FROM 165001.0000 TO 170000.0000)	169,571.10
2	(SHAREHOLDING FROM 185001.0000 TO 190000.0000)	376,498.66
2	(SHAREHOLDING FROM 210001.0000 TO 215000.0000)	425,006.38
1	(SHAREHOLDING FROM 230001.0000 TO 235000.0000)	234,757.72
1	(SHAREHOLDING FROM 235001.0000 TO 240000.0000)	238,978.29
1	(SHAREHOLDING FROM 240001.0000 TO 245000.0000)	241,094.54
2	(SHAREHOLDING FROM 265001.0000 TO 270000.0000)	537,158.64
1	(SHAREHOLDING FROM 280001.0000 TO 285000.0000)	281,635.27
1	(SHAREHOLDING FROM 305001.0000 TO 310000.0000)	305,809.80
1	(SHAREHOLDING FROM 335001.0000 TO 340000.0000)	337,067.05
1	(SHAREHOLDING FROM 345001.0000 TO 350000.0000)	349,153.12
1	(SHAREHOLDING FROM 390001.0000 TO 395000.0000)	394,811.60
1	(SHAREHOLDING FROM 470001.0000 TO 475000.0000)	470,013.81
1	(SHAREHOLDING FROM 530001.0000 TO 535000.0000)	533,601.30
1	(SHAREHOLDING FROM 535001.0000 TO 540000.0000)	537,158.64
1	(SHAREHOLDING FROM 625001.0000 TO 630000.0000)	629,818.51
1	(SHAREHOLDING FROM 710001.0000 TO 715000.0000)	714,963.65
1	(SHAREHOLDING FROM 835001.0000 TO 840000.0000)	835,281.69
1	(SHAREHOLDING FROM 840001.0000 TO 845000.0000)	841,553.85
1	(SHAREHOLDING FROM 11275001.0000 TO 11280000.0000)	11,275,978.14
2,995	Total :	41,414,595.71

PERFORMANCE TABLE

	June 30, 2013 (Rupees in '000)	June 30, 2012 (Rupees in '000)	June 30, 2011 (Rupees in '000)	June 30, 2010 (Rupees in '000)	June 30, 2009 (Rupees in '000)	June 30, 2008 (Rupees in '000)	June 30, 2007 (Rupees in '000)	June 30, 2006 (Rupees in '000)	June 30, 2005 (Rupees in '000)	June 30, 2004 (Rupees in '000)
Net Assets	400,536	354,053	390,218	444,548	548,937	835,029	1,084,197	1,435,651	1,698,167	1,618,903
Net Income	87,782	32,314	42,625	140,941	(153,427)	86,943	108,929	392,053	525,758	126,354
Net Asset Value per Unit	9.67	7.55	8.06	9.97	8.28	10.85	14.59	14.53	13.08	9.97
Dividend distribution - interim (%)	-	-	-	-	-	-	-	-	12.50	-
Dividend distribution - final (%)	-	7.50	6.00	29.00	-	3.00	30.00	30.00	17.50	8.25
(Rupees)										
Closing selling price per unit	9.94	7.70	8.22	10.17	8.45	11.30	14.96	14.90		
Highest selling price per unit	10.23	8.38	8.47	10.80	10.81	13.35	14.98	6.92		
Lowest selling price per unit	7.78	7.15	7.26	8.69	7.14	10.78	11.31	12.44		
Closing repurchase price per unit	9.67	7.55	8.06	9.97	8.28	10.85	14.59	14.53		
Highest repurchase price per unit	9.99	8.21	8.22	10.58	10.38	13.02	14.61	16.50		
Lowest repurchase price per unit	7.62	7.01	7.04	8.52	7.00	10.35	11.03	12.13		
Dividend distribution - Final	1.27	0.61		2.90	-	0.30	3.00	3.00		
Announcement Date of Distribution										
Final	July 4, 2013	June 20, 2012	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	July 4, 2006		
(Percentage)										
Total return of the Fund	28.08	9.40	13.97	20.41	(21.52)	(6.38)	26.54	28.24		
Income Distribution	16.48	7.50	8.44	35.02	-	2.59	26.02	26.48		
Capital growth	11.59	1.90	5.53	(14.61)	(21.52)	(8.97)	0.52	1.77		
Average Annual return of the fund										
One Year	28.08	9.40	13.97	20.41	(21.52)	(6.38)	26.54	28.24		
Two Year	20.06	12.36	37.30	(2.79)	(14.27)	8.84	26.84	34.64		
Three Year	20.00	16.73	7.70	(4.00)	(2.40)	14.63	31.88	-		

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.

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