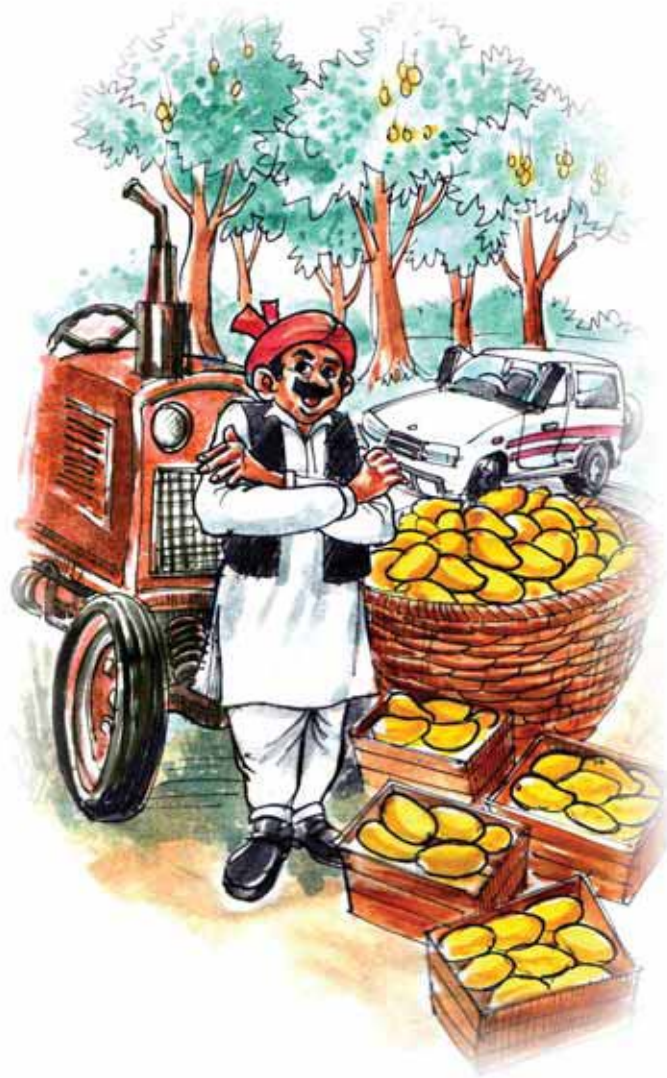




Bachat ka Doosra Naam

**Annual Report
2014**



Sabar Ka Phal Meetha

PAKISTAN
STRATEGIC ALLOCATION
FUND

MCB-Arif Habib Savings and Investments Limited

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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 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors	Mian Mohammad Mansha	Chairman
	Mr. Nasim Beg	Executive Vice Chairman
	Mr. Yasir Qadri	Chief Executive Officer
	Dr. Syed Salman Ali Shah	Director
	Mr. Haroun Rashid	Director
	Mr. Ahmed Jahangir	Director
	Mr. Samad A. Habib	Director
	Mr. Mirza Mahmood Ahmad	Director
Audit Committee	Mr. Haroun Rashid	Chairman
	Mr. Ahmed Jahangir	Member
	Mr. Samad A. Habib	Member
Human Resource & Remuneration Committee	Dr. Syed Salman Ali Shah	Chairman
	Mr. Nasim Beg	Member
	Mr. Haroun Rashid	Member
	Mr. Ahmed Jahangir	Member
	Mr. Yasir Qadri	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	MCB Bank Limited Summit Bank Limited Habib Metropolitan Bank Limited United Bank Limited Standard Chartered Bank (Pakistan) Limited	
Auditors	M. Yousuf Adil Saleem & Co.-Chartered Accountants Cavis Court, A-35, Block 7 & 8, KCHSU, Sharae Faisal, Karachi-75350	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	Asset Manager AM2 - Management quality rating assigned by PACRA	

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2014

Dear Investor,

On behalf of the Board of Directors, MCB-Arif Habib Savings and Investments Limited the Management Company of Pakistan Strategic Allocation Fund is pleased to present the Annual Report on the affairs of (PSAF) for the year ending June 30, 2014.

EQUITIES MARKET OVERVIEW

Economic optimism generally prevailed throughout the year, as the new government managed to close the performance of their first fiscal year with improving macroeconomic indicators. Single-digit inflation, improvement in reserves, stability in rupee and successful implementation of fiscal reforms managed to dilute the negative impact arising from wide fiscal and current account deficits on the economy.

Despite poor law and order situation and energy crisis, the real GDP growth remained in the vicinity of 4% in FY14, as opposed to 3.7% during the previous fiscal year. During the year, the country successfully entered into a three-year \$6.6 billion loan program with IMF. The country received four tranches of around \$540 million each during FY14 as against the total \$3 billion repayments to IMF due in FY14.

The reserves had remained under pressure during the first eight months of FY14 on account of hefty repayments to foreign donors. However, multilateral agencies and close allies along with fewer repayments towards the latter part of the year helped improve reserve balance to \$13.99 billion as on 27-June-2014 from the trough of \$7.59 billion touched on 7-February-2014. Not to mention, \$1.5 billion from Saudi Arabia in March 2014. Local currency managed to appreciate to Rs98 against dollar from a record low of Rs108.6 against dollar on 5-December-2013.

Despite implementation of fiscal reforms, inflation remained in single digit with CPI averaging around 8.62% in FY14. Although the government had twice announced 50 bps hikes in the discount rate in the monetary policy held in September and November, bringing the discount rate to 10%, stable inflation and improvement in foreign reserve convinced policy makers to keep discount rate unchanged in the later three monetary policies, in spite of IMF pressure of maintaining positive real returns.

The Current Account balance remained in pressure posting a deficit of \$2.57 billion in 11MFY14 as opposed to deficit of \$2.15 billion reported in 11MFY13. Last year's saving grace came in the form of proceeds under Coalition Support Funds (CSF) where the country received \$1 billion as opposed to inflows of \$1.8 billion received during 11MFY14. The country's import bill nudged up by 3.31% to \$38.13 billion and exports stayed constant at last year's level of around \$23 billion. At the same time, remittances improved to \$14.33 billion from \$12.75 billion reported in 11MFY13.

The country's financial account registered a surplus of \$4.36 billion, as opposed to surplus of \$212 million in the previous year. Thanks to higher FDIs as proceeds amounted to \$ 1.36 billion in 11MFY14, nearly \$34 million higher than the previous fiscal year. A large portion of this increase could be attributed to sale of 3G & 4G licenses.

The lower current account deficit along with surplus in financial account and capital account summed to an overall surplus of \$3.33 billion in 11MFY14 as opposed to deficit of \$1.86 billion during the previous year.

On the heels of structural reforms, the country's performance on fiscal side improved, with the government expected to conclude the year by recording a fiscal deficit of 5.8% largely lower than the year's target of 6.3% and the last year's level of 8%. A big part of this reduction could be attributed to large Circular Debt transaction towards the end of last fiscal year.

The tax revenue collection is expected to remain close to the budgeted amount of around Rs 2.51 trillion, while higher than expected growth in non-tax revenues would help the country to record Rs 3.59 trillion in gross receipts that is nearly 10% higher than the budgeted revenue.

While being overly aggressive with their tax collection drive the government's debt management has left a lot to be desired. Perhaps a better strategy could here helped the Govt. borrow long at better rates while developing the mid to long end debt market.

FUND PERFORMANCE

During the period, PSAF underperformed KSE100 index by delivering 31.38% return as compared to KSE100 index return of 41.16%. Overall equity exposure of the fund was decreased by around 5.1% which stood at 70.6% at the end of the period. The fund changed its investment strategy several times during the period to cope with various sector and company level fundamental developments. Major sector level changes include decrease in exposure in Chemicals and Oil and Gas and increase in allocation in Construction and Materials and Electricity.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2014

The Net Assets of the Fund as at June 30, 2014 stood at Rs. 357.9 million as compared to Rs.305.7 million as at June 30, 2013 registering a growth of 17.1%.

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs. 9.65 as compared to opening NAV of Rs. 11.34 per unit as at June 30, 2013 registering a decrease of Rs. 1.69 per unit.

Income Distribution

During the period, the Management Company has announced the following final distribution:

Date of distribution	Per unit distribution
	Rs.
June 27, 2014	2.57

FUTURE OUTLOOK

The country's trade deficit is likely to reduce on account of stable commodity prices, stronger rupee and incremental exports due to GSP plus facility. Also, in consideration of various reforms introduced in FY15, targeted fiscal deficit level of 4.9% doesn't appear as farfetched as it has been in the last few years. The government expects reserve position to improve further on the back pledges made by multilateral agencies, approved project financing and divestment of strategic assets.

Earnings growth is expected to continue in Cement, Autos and Consumer goods sector, amongst others.

The rupee appreciation bodes well for Autos and Consumer goods sectors, while higher allocation in PSDP will increase demand for cement. Moreover, expected monetary easing down the line would reignite the market's interest in the leveraged scripts.

Above all, the equity market will continue to attract foreign investors owing to divestment of the government's holding in listed companies and increase in the country's weight in MSCI FM Index.

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 Lahore 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 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.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2014

- 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 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2014:

1. Meeting of Human resource and remuneration committee (held on July 31, 2013)

<i>S. No.</i>	<i>Name</i>	<i>Designation</i>	<i>Total Meetings Held</i>	<i>No. of Meetings Attended</i>	<i>Leave granted</i>
1.	<i>Dr. Syed Salman Shah</i>	<i>Chairman</i>	<i>1</i>	<i>1</i>	<i>-</i>
2.	<i>Mr. Haroun Rashid</i>	<i>Member</i>	<i>1</i>	<i>1</i>	<i>-</i>
3.	<i>Mr. Nasim Beg</i>	<i>Member</i>	<i>1</i>	<i>1</i>	<i>-</i>
4.	<i>Mr. Ahmed Jahangir</i>	<i>Member</i>	<i>1</i>	<i>-</i>	<i>1</i>
5.	<i>Mr. Yasir Qadri</i>	<i>Member</i>	<i>1</i>	<i>1</i>	<i>-</i>

2. Meeting of Audit Committee (held on August 02, 2013, October 22, 2013, November 18, 2013, February 04, 2014 and April 18, 2014)

<i>S. No.</i>	<i>Name</i>	<i>Designation</i>	<i>Total Meetings Held</i>	<i>No. of Meetings Attended</i>	<i>Leave granted</i>
1.	<i>Mr. Haroun Rashid</i>	<i>Chairman</i>	<i>5</i>	<i>4</i>	<i>1</i>
2.	<i>Mr. Nasim Beg*</i>	<i>Member – Executive Vice Chairman</i>	<i>5</i>	<i>4</i>	<i>-</i>
3.	<i>Mr. Samad A. Habib</i>	<i>Member</i>	<i>5</i>	<i>3</i>	<i>2</i>
4.	<i>Mr. Ahmed Jahangir*</i>	<i>Member</i>	<i>5</i>	<i>1</i>	<i>-</i>

* During the period Mr. Nasim Beg retired from audit committee and Mr. Ahmed Jahangir has been appointed as a member of audit Committee.

- m. During the year one of the Directors and in total Three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting the Management Company.
- n. The trades in Units of the Fund carried out 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 are as under:

**REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2014**

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	-
2.	Yasir Qadri	Chief Executive Officer	1,036	-	278
3.	Mr. Saqib Saleem	Chief Operating Officer & Company Secretary	-	-	-
4.	Umair Ahmed	Chief Financial Officer	-	-	-
5.	Asif Mehdi Rizvi	Head of Internal Audit & Compliance	-	-	-

EXTERNAL AUDITORS

The fund's external auditors, M. Yousuf Adil Saleem & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Due to completion of maximum time allowed under Code Corporate Governance, they are not eligible for reappointment. The audit committee of the Board has recommended appointment of M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants (who have given consent to such appointment) as auditors for the year ending June 30, 2015.

ACKNOWLEDGMENT

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 Officer
Karachi: July 28, 2014

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2014

Fund Type and Category

Pakistan Strategic Allocation Fund is an Open-End Equity Scheme

Fund Benchmark

The benchmark for PSAF is KSE100 Index

Investment Objective

The objective of the fund is to provide investors capital growth over medium to long term primarily from investment in more liquid Pakistani equities

Investment Strategy

Pakistan Strategic Allocation Fund (PSAF) is an open end strategic allocation fund which primarily invests in equities based on a quantitative model. The Fund takes advantage of equity market volatility and buys equities when they are underpriced and sells equities when they are overpriced. DCF (discounted cash flow) valuations are pivotal for stocks selection in the portfolio. The fund is mostly invested in liquid stocks. 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

During the year under review, Pakistan Strategic Allocation Fund returned 31.38% as compared to the benchmark KSE-100 Index return of 41.16%, resulting in an under-performance of 9.78% by the fund. The double-digit growth in performance helped the local equity market to shine as one of the best performing markets in the world. The volumes remained healthy with an average daily market turnover of around 216 million shares during the year. Smooth political transition, entry into IMF program and foreign inflows helped the stock market climb strongly during the year. In addition, monetary easing in developed countries also played a catalyst as they continued to facilitate the flow of funds towards the developing countries. Moreover, a combination of improving economic indicators, strong inherent bottom line growth and healthy payouts helped keep the investors' interest alive in the stock market. The rally remained broad based, but interest largely remained in Construction and Materials, Pharmaceuticals, Banks and Automobile sectors. The fund remained vigilant and tried to concentrate its exposure in those stocks and sectors that were the beneficiary of improved economic fundamentals. The fund changed overall equity allocation several times during the year in sync with various developing market scenarios.

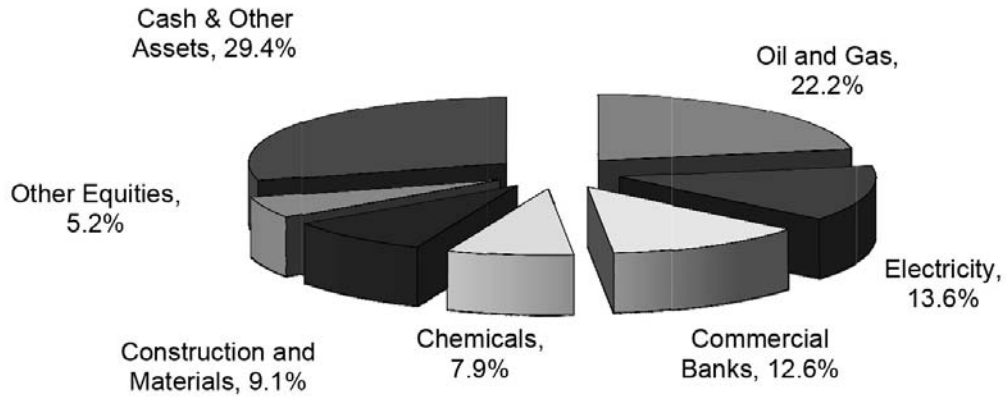
The fund started the year with an equity allocation of 75.7%. Fund changed overall equity allocation several times during the year following its allocation strategy. Maximum equity allocation during the year remained 85% while minimum was 55%. Average equity allocation during the year comes out to be around 72%.

On sector basis fund generally increased its exposure in Electricity, Construction and Materials and Banks while exposure in Oil and Gas, Chemicals and Personal Goods was reduced during the year. Fund also took active positions in growth and value companies of miscellaneous sectors in the period under review.

Since inception return of the fund was 307.97% as compared to the benchmark's return of 457.34%. The fund's Net Assets increased by 17% from PKR 306 Million at the beginning of the year to PKR 358 Million as of June 30, 2014.

**REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED JUNE 30, 2014**

Asset Allocation as on June 30, 2014 (% of total assets)



Mr. Mohsin Pervaiz
Fund Manager

Karachi: July 28, 2014

TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2014

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 STRATEGIC ALLOCATION 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 Strategic Allocation Fund (the Fund) are of the opinion that MCB - Arif Habib Savings and Investments Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 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.

A handwritten signature in black ink, appearing to read 'Muhammad Hanif Jakhura', is written over a circular stamp or watermark.

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

Karachi: October 13, 2014



STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2014

This statement is being presented by the Board of Directors of MCB Arif Habib Savings and Investments Limited, the Management Company of Pakistan Strategic Allocation Fund (the Fund) to comply with the Code of Corporate Governance contained in Regulation no. 35 of Karachi Stock Exchange Limited 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 Strategic Allocation is an open end mutual fund and is listed at Karachi Stock Exchange Limited The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, MCB-Arif Habib Saving and Investment 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 meet 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 seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
3. All the resident 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 has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Management 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.
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. During the year one of the Directors and in total Three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting the Management Company.
10. There have been no appointments of Chief Operating Officer and Company Secretary, Chief Financial Officer and Head of Internal Audit during the year. However, during the year, Chief Executive Officer has been re-appointed and his remuneration has been revised and approved by the Board.
11. The Directors' Report for the year ended June 30, 2014 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2014

12. The financial statements 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 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, which 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 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 a Human Resource and Remuneration Committee. It comprises of five members, of whom three 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 Management 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 / units of the Management Company / Fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by the 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 net assets value of the fund / market price of Management Company's shares, was determined and intimated to directors, employees and the stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through the stock exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

On behalf of the Board



Yasir Qadri
Chief Executive

Karachi: July 28, 2014

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

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

Phone: +92 (0) 21- 3454 6494-7
Fax: +92 (0) 21- 3454 1314
Web: www.deloitte.com

**REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **MCB-Arif Habib Savings & Investments Limited**, the Management Company of **Pakistan Strategic Allocation Fund (the Fund)** for the year ended June 30, 2014 to comply with the requirements of Listing Regulation No. 35 (Chapter XI) of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. 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 Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As a part of our audit of the 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 of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken 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 Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended June 30, 2014.


Chartered Accountants

Karachi
Date: July, 31, 2014

Member of
Deloitte Touche Tohmatsu Limited

**INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2014**

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8-
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

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Web: www.deloitte.com

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Pakistan Strategic Allocation Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2014, and the income statement, distribution statement, statement of movements in unit holder's fund, cash flow statement and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with 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 International Standards on Auditing 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 auditor's 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.

Member of
Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2014

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's financial position as at June 30, 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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



Chartered Accountants

Engagement Partner
Mushtaq Ali Hirani

Date: July 31, 2014
Karachi

Member of
Deloitte Touche Tohmatsu Limited

**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2014**

	Note	2014 (Rupees in '000)	2013
ASSETS			
Balances with banks	5	99,647	21,834
Investments	6	277,307	312,688
Receivable against sale of investments		12,401	400
Dividend and profit receivable	7	618	219
Security deposits and advances	8	2,971	2,971
Total assets		392,944	338,112
LIABILITIES			
Payable to Management Company		679	609
Payable to Central Depository Company of Pakistan Limited - Trustee		59	58
Payable to Securities and Exchange Commission of Pakistan - annual fee		330	311
Unclaimed dividend		12,400	12,405
Accrued expenses and other liabilities	9	21,535	18,944
Total liabilities		35,003	32,327
NET ASSETS		357,941	305,785
Unit holders' fund (as per statement attached)		357,941	305,785
Contingencies and commitments	10		
		(Number of Units)	
NUMBER OF UNITS IN ISSUE		37,107,015	26,957,076
NET ASSETS VALUE PER UNIT	11	9.65	11.34

The annexed notes from 1 to 26 form an integral part of these financial statements.

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


Chief Executive Officer


Director


**INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2014**

	Note	2014 (Rupees in '000)	2013
INCOME			
Capital gain on sale of investments - net		72,442	72,420
Dividend income		15,703	21,068
Income from government securities		5,827	5,233
Profit on bank deposits		3,999	3,304
		97,971	102,025
Unrealised appreciation on revaluation of investments 'at fair value through profit or loss' - net	6.4	9,861	14,933
Total income		107,832	116,958
EXPENSES			
Remuneration of Management Company	12	6,947	6,539
Sales tax and Federal Excise Duty on remuneration of Management Company	9.3	2,401	1,103
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13	713	703
Securities and Exchange Commission of Pakistan - annual fee	14	330	311
Securities transaction cost		1,932	2,530
Custody, settlement and bank charges		379	343
Fees and subscription		60	333
Printing and related cost		181	32
Auditors' remuneration	15	473	543
Total expenses		13,416	12,437
Net income from operating activities		94,416	104,521
Element of loss and capital losses included in prices of units issued less those in units redeemed		(5,185)	(16,943)
Provision for workers' welfare fund	9.1	(1,785)	(12,666)
Net income for the year before taxation		87,446	74,912
Taxation	16	-	-
Net income for the year after taxation		87,446	74,912
Other comprehensive income for the year			
Unrealised appreciation in value of investments classified as 'available for sale'	6.3	2	-
Total comprehensive income for the year		87,448	74,912
Earning per unit	4.14	-	-

The annexed notes from 1 to 26 form an integral part of these financial statements.

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


Chief Executive Officer

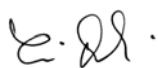

Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2014**

	2014	2013
	(Rupees in '000)	
Undistributed income / (accumulated) loss brought forward		
- Realised loss	19,419	(78,112)
- Unrealized gain	16,796	19,287
	36,215	(58,825)
Element of income / (loss) and capital gain / (losses) included in the prices of units issued less those in units redeemed - amount representing unrealised income	(7,092)	20,128
Net income for the year	87,446	74,912
	80,354	95,040
Final bonus distribution for the year ended June 30, 2013 distributed at Rs. 2.0247 per unit (Declared on July 4, 2013)	(54,580)	-
Final bonus distribution for the year ended June 30, 2014 distributed at Rs. 2.5700 per unit (Declared on June 27, 2014)	(75,234)	-
Undistributed income carried forward	(13,245)	36,215
Represented by:		
- Realised gain	(23,509)	19,419
- Unrealised gain	10,264	16,796
	(13,245)	36,215

The annexed notes from 1 to 26 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**STATEMENT OF MOVEMENT IN UNIT HOLDER'S FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	2014	2013
	(Rupees in '000)	
Net assets at beginning of the year	305,785	351,503
Amount received on issue of 6,569,458 (2013: 382,433) units	61,430	4,001
Bonus units issued 13,701,218(2013: Nil) units	129,814	-
Amount paid on redemption of 10,120,737 (2013: 14,458,201) units	(101,907)	(141,574)
	89,337	(137,573)
	395,122	213,930
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed :		
- amount representing loss / (income) and capital losses / (gains) - transferred to income statement	5,185	16,943
- amount representing unrealised capital (gains) / losses and capital (gains) / losses that forms part of the unit holders' fund transferred to distribution statement	7,092	(20,128)
	12,277	(3,185)
Net income for the year transferred from the distribution statement		
Capital gain on sale of investments - net	72,442	72,420
Unrealised appreciation on revaluation of investments 'at fair value through profit or loss' - net	9,861	14,933
Other income / (loss) for the year	5,143	(12,441)
Element of income / (loss) and capital gain / (losses) included in the prices of units issued less those in units redeemed - amount representing unrealised income	(7,092)	20,128
	80,354	95,040
Distributions made during the year (Refer distribution statement)	(129,814)	-
Unrealised appreciation in value of investment - classified as 'available for sale'	2	-
Net assets at end of the year	357,941	305,785
	(Number of Units)	
NUMBER OF UNITS IN ISSUE	37,107,015	26,957,076
(Rupees).....	
NET ASSETS VALUE PER UNIT	9.65	11.34

The annexed notes from 1 to 26 form an integral part of these financial statements.

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


Chief Executive Officer


Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2014**

	2014	2013
	(Rupees in '000)	
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	87,446	74,912
Adjustments for:		
Element of loss and capital losses included in prices of units issued less those in units redeemed	5,185	16,943
Unrealised appreciation on revaluation of investments 'at fair value through profit or loss' - net	(9,861)	(14,933)
Dividend income	(15,703)	(21,068)
	67,067	55,854
Decrease / (increase) in assets		
Investments - net	45,242	28,596
Receivable against sale of investments	(12,001)	150
Profit receivable	(140)	501
	33,101	29,247
Increase / (decrease) in liabilities		
Payable to Management Company	70	(2)
Payable to Central Depository Company of Pakistan Limited - Trustee	1	-
Annual fee payable to Securities and Exchange Commission of Pakistan	19	(165)
Accrued expenses and other liabilities	2,591	10,949
	2,681	10,782
Dividend received	15,446	21,240
Net cash generated from operating activities	118,295	117,123
B. CASH FLOW FROM FINANCING ACTIVITIES		
Cash received from units sold	61,430	4,001
Cash paid on units redeemed	(101,907)	(141,574)
Dividend paid	(5)	(87)
Net cash used in financing activities	(40,482)	(137,660)
Net decrease in cash and cash equivalent	77,813	(20,537)
Cash and cash equivalent at beginning of the year	21,834	42,371
Cash and cash equivalent at end of the year	99,647	21,834

The annexed notes from 1 to 26 form an integral part of these financial statements.

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



Chief Executive Officer



Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Pakistan Strategic Allocation Fund (the Fund) was established under a Trust Deed executed between MCB-Arif Habib Savings and Investments Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee on May 26, 2004.
- 1.2** Pursuant to the merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited (AHIL), the name of AHIL has been changed to MCB-Arif Habib Savings and Investments Limited.
- 1.3** Formation of the Fund as a closed-end fund was authorized by SECP on May 13, 2004, however with effect from November 11, 2010 the Fund was converted into open-end fund. The Management Company of the Fund obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake asset management services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.
- 1.4** The Fund is categorised as "equity scheme" and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.5** The Fund primarily invests in listed equity securities. It also invest in cash instruments and treasury bills not exceeding 90 days maturities.
- 1.6** The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2' dated April 10, 2014 to the Management Company and 1-Star Short term and 2-Star Long Term to the Fund dated December 18, 2013.
- 1.7** 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. STATEMENT OF COMPLIANCE

- 2.1** These financial statements have been prepared in accordance with 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 Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP shall prevail.

2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2014

The following standards, amendments and interpretations are effective for the year ended June 30, 2014. These standards, interpretations and the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

Standards / amendments / interpretations	<i>Effective date (accounting period beginning on or after)</i>
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information.	January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction.	January 01, 2013
Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities.	January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities.	January 01, 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

2.3 Standards, interpretations and amendments to approved accounting standards not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the fund's operations or are not expected to have significant impact on the fund's financial statements other than certain additional disclosures.

Standards / amendments / interpretations	Effective for annual periods beginning on or after
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities.	January 01, 2014
IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets.	January 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting.	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

Standards or interpretations

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of IFRS 10 and IFRS 11

3. BASIS OF PREPARATION

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments' : Recognition and Measurement'.

3.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances.

The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised by the management in application of accounting policies principally relate to classification and valuation of investment (refer notes 4.1 and 4.4) and impairment of financial assets (refer note 4.5).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

3.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates. The financial statements are presented in Pakistani Rupees, which is the Fund's functional and presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated:

4.1 Financial assets

The fund classifies its financial assets in following categories:

- financial assets at fair value through profit and loss
- held to maturity
- loans and receivables
- available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on regular basis.

(a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or financial assets included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity.

(c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise of cash and bank balances, receivable against sale of investments, deposits, dividend and profit receivable.

(d) Available for sale

These are non-derivatives that are either designated in this category or not classified in any of the other categories.

4.2 Regular way contracts

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Fund commits to purchase or sell the asset.

4.3 Initial recognition and measurement

Financial assets are initially recognized at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

4.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

a) **Basis of valuation of Equity Securities**

The investment of the Fund in equity securities is valued on the basis of quoted market prices available at the stock exchange.

Net gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from the difference in value determined in accordance with the above mentioned criteria compared to the carrying amount in respect of available for sale financial assets are recognized in other comprehensive income until the available for sale financial assets are derecognized. At this time, the cumulative gain or loss previously recognized directly in other comprehensive income is reclassified from other comprehensive income to income statement as a reclassification adjustment.

Loans and receivables and held to maturity financial assets are carried at amortized cost.

b) **Basis of valuation of Government Securities**

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association.

4.5 **Impairment**

The carrying amounts of the Fund's assets are assessed at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognized immediately as an expense in the income statement. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income is reclassified from other comprehensive income and recognized in the income statement. Impairment losses recognized on equity financial assets recognized in the income statement are not reversed through the income statement. For loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

4.6 **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realized or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

4.7 **Offsetting of financial assets and liabilities**

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

4.8 **Reclassification**

The Fund may choose to reclassify a non-derivative trading financial asset in equity securities out of the 'held for trading' category to the 'available for sale' category if the financial asset is no longer held for the purpose of selling it in the near term. Such reclassifications are made only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. Reclassifications are made at fair value as of the reclassification date which then becomes the new cost and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made.

4.9 **Financial liabilities**

All financial liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to Management Company, payable to the trustee, payable against purchase of investments, unclaimed dividend and other liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

4.10 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. Unit Holder's 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 request 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.

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

An equalization 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 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 recognized in the Income Statement.

4.12 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are recognized in the financial statements in the period in which such dividends are declared / transfers are made.

4.13 Provisions

Provisions are recognized 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 estimates.

4.14 Earnings per unit

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

4.15 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 Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealised capital gains to the unit holders. The management intends to distribute at least 90% of the income earned by the Fund during the year 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.

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 asset on unutilized tax losses to the extent that it is no longer probable that the related tax benefit will be realized. However, the Fund has not recognized any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realized or Unrealised, to its unit holders every year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

4.16 Revenue recognition

Realized capital 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 marking to market of investments classified as ' Financial assets at fair value through profit or loss ' are included in the Income Statement in the period in which they arise.

Dividend income is recognized when the right to receive the payment is established.

Profit on bank deposits is recognized on an accrual basis.

Profit on investment is recognized on an accrual basis.

4.17 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.

4.18 Cash and cash equivalent

Cash and cash equivalent comprise of balances with banks.

4.19 Other assets

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

4.20 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on non-monetary financial assets and liabilities are recognized in the Income Statement.

	Note	2014 (Rupees in '000)	2013
5. BALANCES WITH BANKS			
In current accounts		12,419	12,421
In deposit accounts	5.1	87,228	9,413
		99,647	21,834

5.1 The profit rate on this account is 6% to 9% per annum (2013: 5% to 11% per annum).

6. INVESTMENTS

At fair value through profit or loss

Listed equity securities	6.1	277,100	255,998
Government securities	6.2	-	56,690
		277,100	312,688
Available for Sale			
Listed equity securities	6.3	207	-
		277,307	312,688

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

6.1 Listed equity securities 'at fair value through profit or loss'

Name of the Investee Company	Number of shares					Balance as at June 30, 2014				Market Value as percentage of total Paid up capital of the investee company	
	As at July 01, 2013	Purchases during the year	Bonus/Right Issue	Sales during the year	As at June 30, 2014	Cost	Market Value	Appreciation / (Diminution)	Market value as % of net assets		Market value as % of total investments
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10/- each unless stated otherwise											
OIL AND GAS											
Attock Petroleum Limited	26,184	5,600	4,046	33,950	1,880	959	1,109	150	0.31	0.40	0.00
National Refinery Limited	9,800	47,500	-	50,300	7,000	1,556	1,508	(48)	0.42	0.54	0.00
Oil and Gas Development Company Limited	78,776	122,900	-	91,800	29,533	28,709	802	(824)	8.02	10.35	0.00
Pakistan Oilfields Limited	42,453	76,100	-	95,150	121,28	13,440	1,312	13,440	3.75	4.85	0.01
Pakistan Petroleum Limited	136,848	228,400	8,409	291,100	82,557	18,521	(652)	18,521	5.17	6.68	0.00
Pakistan State Oil Company Limited	51,985	146,700	2,708	139,400	61,993	25,895	24,106	(1,789)	6.73	8.69	0.01
						89,044	87,393	(1,651)	24.40	31.51	
CHEMICALS											
Engro Corporation Limited	178,700	112,700	-	215,100	76,300	12,616	13,620	1,004	3.81	4.91	0.00
Engro Fertilizers Limited	-	30,750	-	17,000	13,750	798	786	(12)	0.22	0.28	0.00
Fadma Fertilizer Company Limited	532,200	90,000	-	234,000	388,200	9,738	11,258	1,520	3.15	4.06	0.00
Fauji Fertilizer Bin Qasim Limited	266,400	79,500	-	266,500	79,400	3,381	3,158	(223)	0.88	1.14	0.00
Fauji Fertilizer Company Limited	169,100	39,700	-	187,500	21,300	2,204	2,291	187	0.67	0.86	0.00
Lotte Chemical Pakistan Limited	125,000	-	-	125,000	-	-	-	-	-	-	-
						28,737	31,213	2,476	8.73	11.25	
CONSTRUCTION AND MATERIALS											
Cherat Cement Company Limited	51,500	294,830	-	252,500	93,830	6,326	6,142	(184)	1.72	2.21	0.01
D.G. Khan Cement Limited	20,100	202,000	-	153,000	69,100	5,762	6,078	316	1.70	2.19	0.00
Fauji Cement Company Limited	89,500	319,000	31,700	230,012	23,188	2,669	2,964	295	0.83	1.07	0.00
Kohat Cement Company Limited	2,619	40,600	-	106,000	647,500	14,187	19,457	5,270	0.35	0.45	0.00
Lucky Cement Limited	-	753,500	-	-	-	-	-	-	5.44	7.02	0.00
Maple Leaf Cement Factory Limited	-	-	-	-	-	30,097	35,880	5,783	10.04	12.94	
GENERAL INDUSTRIALS											
Packages Limited	-	47,800	-	38,600	9,200	4,264	4,614	350	1.29	1.66	0.01
						4,264	4,614	350	1.29	1.66	
FOOD PRODUCERS											
Engro Foods Limited	-	149,000	-	76,200	72,800	7,280	7,464	184	2.09	2.69	0.00
						7,280	7,464	184	2.09	2.69	
PERSONAL GOODS											
Nishat Mills Limited	68,300	245,100	-	304,600	8,800	1,105	985	(120)	0.28	0.36	0.00
						1,105	985	(120)	0.28	0.36	
FIXED LINE TELECOMMUNICATION											
Pakistan Telecommunication Company Limited 'A'	-	726,200	-	726,083	117	3	3	-	-	-	0.00
						3	3	-	-	-	
ELECTRICITY											
Hub Power Company Limited	337,571	808,300	-	597,000	548,871	32,940	32,241	(699)	9.01	11.63	0.00
Kot Addu Power Company Limited	-	742,000	-	440,000	302,000	17,991	17,830	(161)	4.98	6.43	0.00
Nishat Power Limited	100	150,000	-	59,000	91,100	2,783	3,241	458	0.91	1.17	0.00
Pakgen Power Limited	-	165,000	-	165,000	-	-	-	-	-	-	-
						53,714	53,312	(402)	14.90	19.23	
BANKS											
Allied Bank Limited	452	212,000	8,895	221,347	414,585	11,305	11,401	96	3.19	4.11	0.00
Bank AF-Pilani Limited	468,585	625,500	-	679,500	451,500	1,823	2,031	208	0.57	0.73	0.00
Bank AL-Habib Limited	499,891	351,500	21,559	827,800	364,300	8,949	10,888	1,939	3.04	3.93	0.00
MCB Bank Limited	-	42,900	3,530	10,300	189,500	647,570	-	-	-	-	-
Meezan Bank Limited	458,070	189,500	-	160,000	33,705	1,461	2,097	636	0.59	0.76	0.00
National Bank of Pakistan	126,205	67,500	-	160,000	138,118	22,549	23,281	732	6.50	8.40	0.00
United Bank Limited	-	298,118	-	160,000	-	-	-	-	-	-	-
						46,087	49,698	3,611	13.89	17.93	
NON LIFE INSURANCE											
Pakistan Rensurance Company Limited	393,500	483,100	-	628,500	248,100	6,820	6,428	(392)	1.80	2.32	0.00
						6,820	6,428	(392)	1.80	2.32	
AUTOMOBILE AND PARTS											
Pak Suzuki Motor Company Limited	-	51,000	-	50,600	400	88	110	22	0.03	0.04	0.00
						88	110	22	0.03	0.04	
Total - 2014						267,239	277,100	9,861	77.45	99.93	
Total - 2013						241,075	255,998	14,923			

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

6.2 Government securities - 'at fair value through profit or loss'

Issue Date	Tenor	Face Value				Balance as at June 30, 2014				
		As at July 01, 2013	Purchases during the year	Sales / matured during the year	As at June 30, 2014	Cost	Market value	Appreciation / (Diminution)	Market value as % of net assets	Market value as % of total investments
Treasury Bills										
August 9, 2012	12 Months	12,000.00	15,000	27,000	-	-	-	-	-	-
April 18, 2013	3 Months	20,000	-	20,000	-	-	-	-	-	-
May 2, 2013	3 Months	25,000	-	25,000	-	-	-	-	-	-
July 25, 2013	3 Months	-	50,000	50,000	-	-	-	-	-	-
September 19, 2013	3 Months	-	50,000	50,000	-	-	-	-	-	-
October 21, 2013	3 Months	-	35,000	35,000	-	-	-	-	-	-
November 28, 2013	3 Months	-	40,000	40,000	-	-	-	-	-	-
December 12, 2013	3 Months	-	40,000	40,000	-	-	-	-	-	-
February 20, 2014	3 Months	-	60,000	60,000	-	-	-	-	-	-
May 15, 2014	3 Months	-	50,000	50,000	-	-	-	-	-	-
May 29, 2014	3 Months	-	15,000	15,000	-	-	-	-	-	-
Total - 2014										
Total - 2013					56,680	56,690	10			

Rupees in '000'

6.3 Listed equity securities 'Available for sale'

Name of the Investee Company	Number of shares						Balance as at June 30, 2014			
	As at July 01, 2013	Purchases during the year	Bonus/Right issue	Sales during the year	As at June 30, 2014	Cost	Market Value	Appreciation	Market value as % of net assets	Market value as percentage of total Paid up capital of the investee company
Fully paid ordinary shares of Rs. 10/- each										
ELECTRICITY										
Kot Addu Power Company Limited		3,500	-	-	3,500	205	207	2	0.06	0.07
Total - 2014						205	207	2	0.06	0.07
Total - 2013										

Rupees in '000'

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	Notes	2014 (Rupees in '000)	2013
6.4	Net unrealised appreciation / (diminution) in value of investments at fair value through profit or loss		
Market value of investments	6.1	277,100	312,688
Less: Carrying cost of investments	6.1	(267,239)	(297,755)
		9,861	14,933
7.	DIVIDEND AND PROFIT RECEIVABLE		
Dividend receivable		395	136
Profit on balances with banks		223	83
		618	219
8.	SECURITY DEPOSITS AND ADVANCES		
Security Deposit with National Clearing Company of Pakistan		2,500	2,500
Security Deposit with Central Depository Company of Pakistan		300	300
Advance tax		171	171
		2,971	2,971
9.	ACCRUED EXPENSES AND OTHER LIABILITIES		
Provision for workers' welfare fund	9.1	14,451	12,666
Federal excise duty payable on management fee	9.2	1,347	57
Auditors' remuneration		338	400
Legal and professional		-	150
Brokerage		182	158
Conversion cost payable	9.3	3,603	5,123
Front end load		38	-
Others		1,576	390
		21,535	18,944

9.1 Provision for workers welfare fund

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (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, all Collective Investment Schemes (CISs) I mutual funds 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 Collective Investment Schemes (CISs) through their trustees in the Honorable Sindh High Court (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

In 2011, a single judge of the Lahore High Court (LHC) issued a judgment in response to a petition in similar case whereby the amendments introduced in WWF Ordinance through Finance Acts, 2006 and 2008 have been declared unconstitutional and therefore struck down.

However in 2013, the Larger Bench of the SHC issued a judgment in response to a petition in another similar case in which it is held that the amendments introduced in the WWF Ordinance through Finance Acts, 2006 and 2008 do not suffer from any constitutional or legal infirmity.

As the matter relating to levy of WWF on CISs is currently pending in the SHC, the Management Company has decided to retain and continue with the provision for WWF in its books of account and these financial statement which aggregate to Rs. 14.45 million as at June 30, 2014. Had the said provision of WWF not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.39 per unit.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

9.2 Federal Excise duty payable on management fee

The Finance Act 2013 introduced an amendment to Federal Excise Act 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the eighteenth amendment. The SHC in its short order dated 4 September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. 1.35 million as at June 30, 2014. In case, the suit is decided against the fund the same would be paid to management company, who will be responsible for submitting the same to authorities. Had the said provision of FED and related taxes were not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.04 per unit as at June 30, 2014.

9.3 Conversion cost

Conversion cost represent expenditure incurred in connection with the conversion of the Fund into an open-end fund and includes fee paid to Securities and Exchange Commission of Pakistan (SECP), CDC charges for transfer of closed end certificates into open-end units, professional charges for revision of constitutive documents and other expenses. These costs have been charged as expense in the year of conversion in accordance with the condition notified by SECP vide its letter no. SCD/NBFC/MF-RS/PSAF/717/2010 dated September 23, 2010. Conversion cost has been initially paid by the management company which will be repaid by the Fund within five years ending on September 23, 2015.

10. Contingencies and commitments

There were no contingencies and commitments exist as at June 30, 2014 and June 30, 2013.

11. 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.

	Notes	2014 (Rupees in '000)	2013
12. REMUNERATION OF MANAGEMENT COMPANY			
Management fee	12.1	6,947	6,539
12.1	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. In compliance with the requirement of the said regulation, the Management Company has charged remuneration at two percent per annum with effect from August 23, 2009 (three percent till August 22, 2009) as the Fund has completed its five years on August 22, 2009.		

	Notes	2014 (Rupees in '000)	2013
13. REMUNERATION OF CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
Remuneration to trustee	13.1	713	703
13.1	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 asset value of the Fund.		

Based on the Trust Deed, the tariff structure applicable to the Fund from July 01, 2013 to June 30, 2014 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Up to Rs.1,000 million	Rs. 0.7 million or 0.20% p.a of NAV, whichever is higher.
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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	Notes	2014 (Rupees in '000)	2013
14. ANNUAL FEE - SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			
Annual fee	14.1	<u>330</u>	<u>31</u>

14.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment 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.

	2014 (Rupees in '000)	2013
15. AUDITORS' REMUNERATION		
Audit and review fee	325	426
Other certifications and services	100	104
Out of pocket expenses	48	13
	<u>473</u>	<u>543</u>

16. TAXATION

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 90 percent of its accounting income for the year, as reduced by capital gains, whether realized or unrealized, is distributed amongst the unit holders. The management intends to distribute at least 90% of the income earned during the current year to the unit holders therefore, no provision for taxation has been recorded in these financial statements.

17. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons of the Fund include the Management Company, other collective investment schemes being 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 undertaking and unit holders holding more than 10% units of the Fund.

Remuneration to the Management Company and Trustee are determined in accordance with the provisions of the NBFC Regulations and the Trust Deed of the Fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Detail of transactions with connected persons during the year and balances with them at year end are as follows:

	2014 (Rupees in '000)	2013
17.1 Transactions during the year		
MCB-Arif Habib Savings and Investments limited - Management Company		
Remuneration including indirect taxes	9,348	7,642
Payment of Conversion cost	1,520	1,520
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	713	703
Arif Habib Limited - Brokerage house		
Brokerage *	172	84
MCB Bank Limited		
Mark up income	2,983	1,781
Bank charges	10	9
Dividend Income	230	85

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	2014	2013
	(Rupees in '000)	
D.G khan Cement Company Limited		
Dividend Income	248	154
Nishat Chunian Power Limited		
Dividend Income	-	1,520
Nishat Mills Limited		
Issue of 316,676 Bonus units (2013: Nil)	3,003	-
Dividend Income	423	598
Nishat Power Limited		
Dividend Income	249	0.1
Fatima Fertilizers Limited		
Dividend Income	1,058	640
Dewan Salman Fibre Limited		
Issue of 1,395,908 Bonus units (2013: Nil)	13,236	-
Directors and executives of the Management Company		
Issue of 120,455 units (2013: Nil units)	1,427	-
Redemption of 109,662 units (2013: 46,617 units)	1,306	423
Issue of Bonus 2,893 Units (2013: Nil units)	28	-
17.2 Balances outstanding at year end		
Management Company		
Remuneration payable	585	525
Sales tax payment on management fee	94	84
Conversion cost payable	3,603	5,123
Front end load	38	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	59	58
Security deposits	300	300
Arif Habib Limited - Brokerage house		
Brokerage payable	46	-
Summit Bank Limited		
Balances with bank	5,109	5,109
MCB Bank Limited		
Balances with bank	85,935	8,041
Accrued mark-up	165	33
Nishat Mills Limited		
899,392 units held as at June 30, 2014 (2013: 582,716)	8,676	6,608
Dewan Salman Fibre Limited		
3,964,520 units held as at June 30, 2014 (2013: 2,568,612)	38,242	29,128
Directors and executives of the Management Company		
13,686 units held as at June 30, 2014 (2013: Nil)	132	-

* 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

18. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

Names	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	19
Mr. Kashif Rafi	Senior Vice President - Head of Fixed Income Invest	MBA & CFA Level-1	13
Mr. Muhammad Asim	Senior Vice President - Head of Equities	MBA & CFA	11
Mrs. Uzma Khan	Senior Assistant Vice President - Senior Research Analyst	MBA, CFA, FRM	9
Mr. Mohsin Pervaiz	Vice President - Investments	MBA & CFA Level-1	13

18.2 Mr. Mohsin Pervaiz is the Fund Manager. He is also the Fund Manager of Pakistan Capital Market Fund

2014
%

19. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Optimus Capital Management (Private) Limited	12.36
Topline Securities (Private) Limited	7.77
Foundation Securities (Private) Limited	7.60
Standard Capital Securities (Private) Limited	6.82
Arif Habib Limited	6.28
Invest Capital Markets Limited	5.42
Elixir Securities Pakistan (Private) Limited	5.01
JS Global Capital Limited	4.87
KASB Securities Limited	4.18
Shajar Capital Pakistan (Private) Limited	3.81

2013
%

Invest and Finance Securities Limited	7.49
Shajar Capital Pakistan (Private) Limited	7.41
Fortune Securities Limited	7.34
Optimus Capital Management (Private) Limited	6.82
IGI Finex Securities Limited	6.31
Foundation Securities (Private) Limited	6.27
Elixir Securities Pakistan (Private) Limited	5.11
AL Habib Capital Markets (Private) Limited	4.90
JS Global Capital Limited	4.69
Next Capital Limited	4.68

20. PATTERN OF UNIT HOLDINGS

	As at June 30, 2014			
	Number of unit holders	Number of Units held	Investment amount (Rupees in '000)	Percentage investment %
	Individuals	1,280	23,253,133	224,304
Insurance companies	2	1,879,729	18,132	5.07
Bank / DFIs	2	838,665	8,090	2.26
Retirement funds	13	2,775,413	26,772	7.48
Associated Companies	2	2,094,699	20,206	5.64
NBFC	2	19,788	191	0.05
Others	17	6,245,588	60,246	16.84
	<u>1,327</u>	<u>37,107,015</u>	<u>357,941</u>	<u>100.00</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

	Number of unit holders	Number of Units held	As at June 30, 2013	
			Investment amount	Percentage investment
			(Rupees in '000)	%
Individuals	1,365	16,805,495	190,632	62.34%
Insurance companies	2	1,217,876	13,815	4.52%
Bank / DFIs	3	1,533,989	17,401	5.69%
Retirement funds	15	1,812,159	20,556	6.72%
Public limited companies	18	4,627,290	52,489	17.17%
Others	11	960,267	10,892	3.56%
	1,414	26,957,076	305,785	100.00%

21. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year, eight board meetings were held on 4th July 2013, 5th August 2013, 23rd October 2013, 31st December 2013, 6th February 2014, 7th March 2014, 21st April 2014 and 27th June 2014. Information in respect of attendance by Directors in the meetings is given below :

Name of persons attending the meetings	No. of meetings held	Number of meetings			Meetings not attended
		Attendance required	Attended	Leave granted	
Mr. Mian Mohammad Mansha	8	8	1	7	104th, 105th, 106th, 107th, 108th, 109th and 111th
Mr. Nasim Beg	8	8	7	1	106th
Mr. Yasir Qadri (Chief Executive Officer)	8	8	8	-	-
Dr. Syed Salman Ali Shah	8	8	7	1	107th
Mr. Haroun Rashid	8	8	6	2	104th and 106th
Mr. Ahmed Jahangir	8	8	8	-	-
Mr. Samad A. Habib	8	8	6	2	105th, 109th
Mr. Mirza Mehmood Ahmed	8	8	7	1	106th
Mr. Saqib Saleem (Chief Operating Officer & Company Secretary)	8	8	8	-	-
Mr. Umair Ahmed (Chief Financial Officer)	8	8	8	-	-

22. FINANCIAL RISK MANAGEMENT

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate and price risk), credit risk and liquidity risk. Risk of the Fund are being managed by the Management Company in accordance with the approved policies of the investment committee which provide broad guidelines for management of above mention risks. The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Fund financial assets primarily comprise of balance with banks, investment in equity securities of listed companies classified at 'fair value through profit or loss' and at 'available for sale' and investment in government securities. The Fund also has dividend and profit receivable, deposits and other receivables. The Fund's principal financial liabilities include remuneration payable to Management Company, Trustee and SECP and accrued and other liabilities.

22.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Board and regulations laid down by the Securities and Exchange Commission of Pakistan and the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulations), The Non Banking Finance Companies (establishment and Regulation) Rules, 2003 (the Rules).

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

22.1.1 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 Rupees.

22.1.2 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 of variable rate instruments

As at June 30, 2014, the Fund does not hold any variable interest based investment except balances with bank in deposit account exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2014, 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. 0.5 million (2013: Rs. 0.09 million).

b) Sensitivity analysis of fixed rate instruments

As at June 30, 2014 the Fund does not hold any fixed rate instruments, therefore the Fund is not exposed to fair value interest rate risk.

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

----- June 30, 2014 -----						
Exposed to Yield/Interest rate risk						
Yield/ effective interest rate (%)	Up to three months	More than three months and up to one year	More than one year	Not exposed to Yield/ Interest rate risk	Total	
----- Rs in '000 -----						
On-balance sheet financial instruments						
Financial Assets						
Balances with banks	6 - 9	87,222	-	-	12,419	99,647
Investments		-	-	-	277,307	277,307
Receivable against sale of investments		-	-	-	12,401	12,401
Dividend and profit receivable		-	-	-	618	618
Security deposits and advances		-	-	-	2,971	2,971
		87,222	-	-	305,716	392,944
Financial Liabilities						
Payable to Management Company		-	-	-	679	679
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	59	59
Unclaimed dividend		-	-	-	12,400	12,400
Accrued expenses and other liabilities		-	-	-	7,084	7,084
		-	-	-	20,222	20,222
On-balance sheet gap		87,222	-	-	285,500	372,722

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

There is no off-balance sheet financial instrument that exist as at year ended June 30, 2014.

June 30, 2013					
Exposed to Yield/Interest rate risk					
Yield/ effective interest rate (%)	Up to three months	More than three months and up to one year	More than one year	Not exposed to Yield/ Interest rate risk	Total
Rs in '000					
On-balance sheet financial instruments					
Financial Assets					
Balances with banks	5 - 11	9,413	-	12,421	21,834
Investments	10 - 12.5	56,690	-	255,998	312,688
Receivable against sale of investments		-	-	400	400
Dividend and profit receivable		-	-	219	219
Security deposits and advances		-	-	2,971	2,971
		66,103	-	272,009	338,112
Financial Liabilities					
Payable to Management Company		-	-	609	609
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	58	58
Unclaimed dividend		-	-	12,405	12,405
Accrued expenses and other liabilities		-	-	6,278	6,278
		-	-	19,350	19,350
On-balance sheet gap		66,103	-	252,659	318,762

There is no off-balance sheet financial instrument that exist as at year ended June 30, 2013.

22.1.3 Price risk

The Fund is exposed to equity price risk because of equity securities held by the Fund and classified on the balance sheet as at fair value through profit or loss and available-for-sale. To manage its price risk arising from investment in equity securities, the Fund's investment policy, as restricted by the NBFC Regulations, the NBFC Rules, restricts investments in listed shares of one company to 10% of the Fund's net assets and investment in listed securities of a particular company have also been restricted to 10% of paid-up capital of investee company. Moreover, the sector limits have been restricted to 30% of the net assets of the Fund or index weight whichever is higher. The Investment Committee and Fund manager closely monitor the security performance and risk assessment with them and accordingly make their investment decision.

In case of 5% increase/ decrease in KSE 100 index on June 30, 2014, the net income for the year and net assets would be increase/ decrease by Rs. 14.38 million (2013: Rs. 11.99 million) as a result of gains / losses on equity securities classified as 'financial assets at fair value through profit or loss'.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the 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 the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

22.2 Credit risk

Credit risk represents the risk of loss if counterparties fail to perform as contracted. The Fund is exposed to counter party credit risks on balances with banks, profit and other receivable. The credit risk on the fund is limited because the counterparties are financial institutions with reasonably high credit ratings.

The Fund has adopted a policy of only dealing with creditworthy counterparties and investee companies and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies, where available, and if not available, the Fund uses other publicly available financial information and its own trading records to rate its major customers. The Fund's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Credit risk from balances with banks and financial institutions is managed in accordance with the Fund's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are approved by the Board of Directors. The limits are set to minimize the concentration of risk and therefore mitigate financial loss through potential counterparty failure.

The Fund's maximum exposure to credit risk related to receivables at June 30, 2014 and June 30, 2013 is the carrying amounts of following financial assets.

	2014	2013
	(Rupees in '000)	
Balances with banks	99,647	21,834
Receivable against sale of investments	12,401	400
Dividend and profit receivable	618	219
Security deposits and advances	2,971	2,971
	115,637	25,424

The analysis below summaries the credit rating quality of the Fund's financial assets as at June 30, 2014 and June 30, 2013:

Bank Balances by rating category	Rating	2014	2013
	Long - term / Short - term	(Rupees in '000)	
Deposit Accounts			
Habib Metropolitan Bank	AA+ / A1+	1,292	1,372
MCB Bank Limited	AAA / A1+	85,930	8,041
United Bank Limited	AA+ / A-1+	6	-
		87,228	9,413
Current Accounts			
Standard Chartered Bank Limited	AAA / A1+	7,305	7,312
Summit Bank Limited	A - / A - 3	5,109	5,109
MCB Bank Limited	AAA / A1+	5	-
		12,419	12,421
		99,647	21,834

The maximum exposure to credit risk before any credit enhancement as at June 30, 2014 is the carrying amount of the financial assets. None of these assets are impaired nor past due.

Investment in fixed income securities

Investment in treasury bills do not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan and management does not expect to incur any credit loss on such investments.

Receivables against sale of units

These represents amount held under distribution accounts maintained by the management company for receipt of subscription money from unit holders. The amount has been cleared subsequently by the management company.

Advances and deposits

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

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 counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

22.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions, any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

The Fund has the ability to borrow in the short term to ensure settlement. During the current year, the Fund did not availed any borrowing. As per the NBFC regulation the maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets up to 90 days and would be secured by the assets of the Fund and bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund also has the ability to 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 in issue. The Fund did not withhold any redemptions during the year.

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.

	June 30, 2014			
	Up to three months	Over three months and up to one year	Over one year	Total
	Rupees in '000			
Liabilities				
Payable to Management Company	679	-	-	679
Payable to Central Depository Company of Pakistan Limited - Trustee	59	-	-	59
Unclaimed dividend	12,400	-	-	12,400
Accrued expenses and other liabilities	2,134	529	4,421	7,084
	15,272	529	4,421	20,222
	June 30, 2013			
	Up to three months	Over three months and up to one year	Over one year	Total
	Rupees in '000			
Liabilities				
Payable to Management Company	609	-	-	609
Payable to Central Depository Company of Pakistan Limited - Trustee	58	-	-	58
Unclaimed dividend	12,405	-	-	12,405
Accrued expenses and other liabilities	1,098	1,137	4,043	6,278
	14,170	1,137	4,043	19,350

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

22.4 Financial instruments by category

----- June 30, 2014 -----

	Loans and receivables	At fair value through profit or loss	Available for sale investments	Total
-----Rupees in '000-----				
Assets				
Balances with banks	99,647	-	-	99,647
Investments	-	277,100	207	277,307
Receivable against sale of investments	12,401	-	-	12,401
Dividend and profit receivable	618	-	-	618
Security deposits and advances	2,971	-	-	2,971
	115,637	277,100	207	392,944

----- June 30, 2014 -----

	Liabilities at fair value through profit or loss	Other financial liabilities	Total
-----Rupees in '000-----			
Liabilities			
Payable to Management Company	-	679	679
Payable to Central Depository Company of Pakistan Limited - Trustee	-	59	59
Unclaimed dividend	-	12,400	12,400
Accrued expenses and other liabilities	-	7,084	7,084
	-	20,222	20,222

----- June 30, 2013 -----

	Loans and receivables	At fair value through profit or loss	Available for sale investments	Total
-----Rupees in '000-----				
Assets				
Balances with banks	21,834	-	-	21,834
Investments	-	312,688	-	312,688
Receivable against sale of investments	400	-	-	400
Dividend and profit receivable	219	-	-	219
Security deposits and advances	2,971	-	-	2,971
	25,424	312,688	-	338,112

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	June 30, 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	Rupees in '000		
Liabilities			
Payable to Management Company	-	609	609
Payable to Central Depository Company of Pakistan Limited - Trustee	-	58	58
Unclaimed dividend	-	12,405	12,405
Accrued expenses and other liabilities	-	6,278	6,278
	-	19,350	19,350

22.5 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

22.6 Fair value hierarchy

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

International Financial Reporting Standard 7, Financial Instruments : Disclosure requires an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3:** inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
Investment in equity securities				
- at fair value through profit or loss	277,100	-	-	277,100
- Available for sale	207	-	-	207
	277,307	-	-	277,307
	June 30, 2013			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
Investment in equity securities - at fair value through profit or loss	312,688	-	-	312,688
	312,688	-	-	312,688

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

23. UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit Holders' Fund is represented by redeemable units. They are entitled to distributions and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable to the fund.

The Fund's objectives when managing unit holder's fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns for units holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 22, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments when necessary.

24. GENERAL

Figures have been rounded off to the nearest thousand Rupees.

25. RECLASSIFICATION

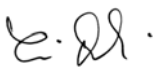
Following reclassification has been made in these financial statements in order to give better and more appropriate presentation:

	From	To	June 30, 2013 (Rupees in '000)
Federal excise duty payable on management fee	Payable to Management Company	Accrued expenses and other liabilities	57

26. DATE OF AUTHORIZATION OF ISSUE

These financial statements were authorized for issue on 28th July, 2014 by the Board of Directors of the Management Company.

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



Chief Executive Officer



Director

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2014**

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		
Nishat Mills Limited	1	899,392
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.		
	6	2,738,182
Individuals	1,289	23,253,133
Trust	14	3,970,720
Others	16	2,281,068
Unitholders holding 5 percent or more Voting interest in the listed company		
DEWAN SALMAN FIBRE LIMITED	1	3,964,520
	1,327	37,107,015

**PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2014**

No of Unit Holders	Unit Holdings	Total Units Held
959	1-10000	3,226,933
305	10001-100000	9,897,155
59	100001-1000000	15,495,347
4	1000001-Onwards	8,487,577
<hr/> 1327		<hr/> 37,107,012

PERFORMANCE TABLE

PSAF										
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	(Rupees in '000)									
Net Assets	357,942	305,785	351,503	608,242	2,531,171	2,136,566	3,216,077	4,080,334	3,989,330	3,651,951
Net Income / (loss)	94,416	74,912	46,284	114,294	334,453	(934,075)	(73,666)	803,401	855,120	918,640
Announcement Date of Distribution										
Interim			-	-	-	-	-	-	-	February 10, 2005
Final	June 27, 2014	July 5, 2013	June 20, 2012	July 4, 2010	August 3, 2010	-	July 25, 2008	July 21, 2007	July 22, 2006	July 30, 2005
(Percentage)										
Total return of the Fund	31.38	32.32	14.90	19.10	18.54	(27.35)	(1.80)	24.78	23.38	31.86
Dividend distribution - interim (%)	-	-	-	-	-	-	-	-	-	10.00
Dividend distribution - final (%)	2.570	21.720	10.000	4.040	11.534	-	7.000	25.000	25.000	15.000
Capital growth return	28.81	10.60	4.90	13.56	2.39	(27.35)	(8.21)	1.85	0.19	6.86
One Year	31.38	32.32	14.90	19.10	15.85	(27.35)	(1.80)	24.78	23.38	-
Two Year	73.85	52.05	36.71	41.20	(7.20)	(15.55)	10.68	24.12	-	-
Three Year	99.77	81.23	62.06	2.50	(5.44)	(3.81)	14.76	-	-	-

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and

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by typing: **Bachat Ka Doosra Naam**

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