

PAKISTAN STRATEGIC ALLOCATION FUND

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PAKISTAN STRATEGIC ALLOCATION FUND

FUND'S INFORMATION

Management Company

Arif Habib Investments Limited
(Formerly: Arif Habib Investment Management Limited)
2 / 1, R. Y. 16, Old Queens Road, Karachi-74000.

Board of Directors of the Management Company

| | |
|---------------------------|--|
| Mr. Nasim Beg | Chief Executive |
| Mr. Muhammad Shafi Malik | Director |
| Syed Ajaz Ahmed | Director |
| Mr. Sirajuddin Cassim | Director |
| Mr. Muhammad Akmal Jameel | Director |
| Mr. Muhammad Kashif | Director |
| Mr. S. Gulrez Yazdani | Director (appointment subject to approval of SECP) |

Audit Committee

| | |
|---------------------------|--------|
| Mr. Muhammad Shafi Malik | Member |
| Syed Ajaz Ahmed | Member |
| Mr. Muhammad Akmal Jameel | Member |
| Mr. Muhammad Kashif | Member |

Company Secretary & CFO of the Management Company

Mr. Zeeshan

Trustee

Central Depository Company of Pakistan Limited (CDC)
CDC House, 99-B, Block B, S.M.C.H.S
Main Shahrah-e-Faisal, Karachi.

Bankers of the Fund

- The Bank of Punjab
- Arif Habib Bank Limited
- Bank Alfalah Limited
- Allied Bank Limited
- Bank Al Habib Limited
- Habib Metropolitan Bank Limited
- MCB Bank Limited
- Standard Chartered Bank (Pakistan) Limited

Auditors

A.F. Ferguson & Co. -Chartered Accountants
State Life Building No. 1-C,
I.I Chundrigar Road, Karachi

Legal Adviser

M/s. Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
6-CL-10, Beaumont Road,
Civil Lines, Karachi.

Registrar

M/s. Gangjees Registrar Services (Pvt.) Limited
Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton,
Karachi.

Rating

- PACRA : 3 Star (Normal)
- PACRA : 3 Star (Long Term)
- PACRA : AM2 - (Management Quality rating assigned to Management Company)

PAKISTAN STRATEGIC ALLOCATION FUND

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED 30TH SEPTEMBER 2009

The Board of Directors of Arif Habib Investments Limited (Formerly: Arif Habib Investment Management Limited), the Management Company of the Pakistan Strategic Allocation Fund (PSAF), submits herewith its Report together with the Condensed Interim Financial Statements for the quarter ended 30th September 2009.

Fund Objective

The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term, primarily from investment in Pakistani equities.

Fund Profile

PSAF is a Closed-end strategic allocation Fund which is allowed to invest in equities based on a quantitative model. The Fund takes advantage of equity market volatility and buys equities when they are underpriced and sells 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.

Fund Performance during the Quarter Ended 30th September 2009

The Fund earned net income of Rs 450.48 million during the quarter which comprises mainly of capital gain on sale of investments of Rs 95.71 million, dividend income of Rs 35.68 million, income from Term Finance Certificates of Rs 4.91 million, profit on bank deposits of Rs 8.47 million and marked to market unrealized gain of equity portfolio of Rs 324.06 million.

The net assets of the Fund as at 30th September 2009 stood at Rs 2,640.37 million. The ex-dividend Net Asset Value (NAV) per unit at the start of the year was Rs 7.12 and with an increase of Rs 1.68 in the NAV per unit during the quarter, the NAV per unit as at 30th September 2009 was Rs 8.80. During the quarter, PSAF recorded an absolute return of 23.60% as compared to a return of 30.54% by the KSE-100 Index.

Earning Per Certificate (EPC)

EPC of the Fund for the quarter ended 30th September 2009 is Rs 1.50.

Future Outlook

Overall macroeconomic situation has stabilized under the USD 11.3 billion IMF program of 3 years. In addition, other commitments of over USD5 billion have been pledged by "Friends of Democratic Pakistan" (FoDP) consortium, which should help the country in overcoming the pressures on its external account. Economic growth is expected to be slow around 3% as aggregate demand remains slow due to continuing double digit interest rates and relatively tight monetary conditions. During the coming months, external inflows should help in improving domestic liquidity situation. While economic indicators have started to stabilize, the country has confronted another round of escalation in terrorist attacks. Successful completion of army operation in Waziristan and reduction in security threat will be crucial for retaining investors' confidence.

PAKISTAN STRATEGIC ALLOCATION FUND

Acknowledgement

The Board is thankful to the Fund's valued investors and grateful for the confidence reposed by the investors in the Fund. The Board would also like to thank the Securities and Exchange Commission of Pakistan, the State Bank of Pakistan, the Trustees of the Fund – the Central Depository Company of Pakistan Ltd., and the managements of the Karachi, Lahore and Islamabad Stock Exchanges for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the Management Company.

For and on behalf of the Board

22nd October 2009
Karachi

Nasim Beg
Chief Executive

PAKISTAN STRATEGIC ALLOCATION FUND

REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED 30TH SEPTEMBER 2009

Fund Objective

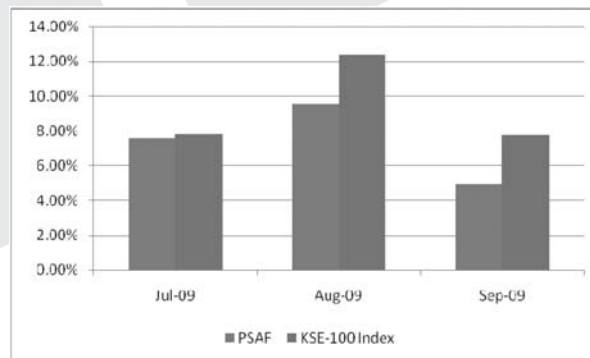
The objective of the Fund is to provide investors a mix of income and capital growth over medium to long term primarily from investment in Pakistani equities.

Profile

Pakistan Strategic Allocation Fund (PSAF) is a Closed-end strategic allocation Fund which is allowed to invest in equities based on a quantitative model. The Fund takes advantage of equity market volatility and buys equities when they are under priced 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.

Fund's Performance

PSAF gave a return of 23.60% during the first quarter ended September 2009 compared to 30.54% return of KSE-100 index. Consistent with the stated profile, the Fund increased allocation in undervalued stocks and sold when security prices exceeded fair values. During the quarter, stock prices of some of the key portfolio holdings moved above AHI fair values. As a result, PSAF's equity exposure declined from 85% at beginning to 73% at quarter end. Due to declining exposure to equities, the Fund's return was comparably lower than KSE-100 index.

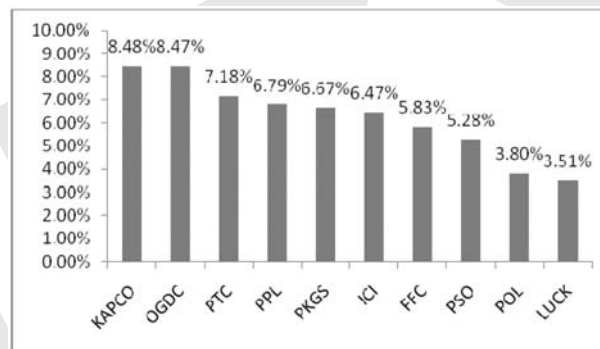


| | Jul-09 | Aug-09 | Sep -09 |
|----------------------|--------|--------|---------|
| PSAF | 7.58% | 9.53% | 4.89% |
| KSE-100 Index | 7.80% | 12.37% | 7.77% |

PAKISTAN STRATEGIC ALLOCATION FUND

Fund Allocation Equities

PSAF was on average 80% invested in equities during the first quarter FY10. During the period under review, the Fund remained well diversified across sectors. On average basis, top ten holdings of the Fund's portfolio during the quarter were listed as below:



Commercial Banks: The Fund reduced its exposure gradually from 7.92% to 2.86%. UBL was disposed of completely, while exposures were built in ABL, MCB, NBP and HBL. However, the Fund offloaded these holdings gradually as the market rose towards the end of the quarter.

Textile: Exposure in the sector was increased from 1.47% to 1.74% during the quarter primarily due to price appreciation. The Fund completely offloaded its investment in Nishat Mills during the period under review.

Cement: Exposure to the sector was reduced gradually from 6.15% to 1.78% as scrips became overvalued.

Oil and Gas Exploration: Overall exposure of the Fund's investment in E&P sector was reduced from 20.42% to 16.83% primarily in OGDCL. On the other hand, the Fund increased its exposure to Pakistan Oilfields on relative attractiveness.

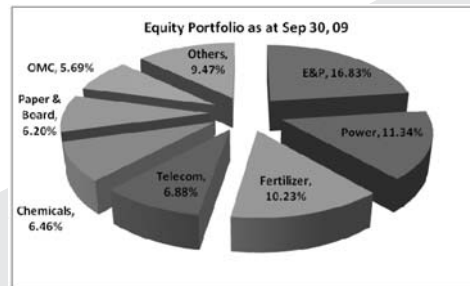
Fertilizer: Exposure in the sector was increased from 8.63% to 10.23% during the quarter due to both price appreciation and gradual accumulation at lower levels.

Chemicals: Exposure in Chemicals (ICI) remained almost flat to close the period at 6.46% despite partly offloading at higher levels.

Paper & Board: The Fund continued to accumulate Packages at lower levels. However, total weight of Packages in the portfolio at quarter end decreased to 6.20% compared to 7% as the stock underperformed relative to the broader market.

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PSAF's sector wise allocation in equity at quarter end is presented below:



Fixed Income

The Fund had about 6.03% of net assets invested in TFCs at the beginning of the quarter. During the quarter, the Fund completely offloaded its exposure of TFCs as their spreads over KIBOR reduced. We also invested in short dated T-bills / reverse repo when effective yields moved above 12%. This constituted 16% at quarter end, while bank deposits were 6.5% of net assets.

Equity Market Review

The market has ended the first quarter with strong gains of 30.54%. The present rally has pushed the market beyond the important 9000 level. This was the level, where the index remained frozen for over three months (from 27th August – 15th December 08) due to imposition of price floor amid the settlement crises. From its low of 4815 on 26th January 09, the market has bounced back 94%. Amongst the top ten performing sectors which collectively contributed more than 80% of the index return were Oil & Gas Exploration, Banks, Fertilizer, Investment Companies, OMC, Food, Power, Textile Composite, Technology & Communication and Chemicals.

The recent gains are mostly attributed to foreign investors who have invested USD 235 mn during the Q1 of FY 2009/10. These inflows are primarily due to relatively cheap valuations of Pakistani stocks compared to regional and other emerging markets. Equity markets world over have recorded sharp gains during the past few months, with Pakistani market being the second best in July-September 09 quarter.

Overall investors' sentiments turned positive on Pakistani equities as the balance of payment situation was addressed through enhancement in IMF standby arrangement by USD 3.7 bn (to USD 11.3 bn) in August. This also led to improvement in the country's rating from CCC+ to B- with a stable outlook. Average daily volume of 154.55 mn shares was traded during the quarter.

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Economic Review

As data from the month of July reveals, the slump in manufacturing activity continued into the new financial year; the Quantum Index Numbers of Large Scale Manufacturing (LSM) contracted by 2.87 percent in July over June, 2009. These have shown a small increase of 0.47 percent on a YoY basis, owing mostly to a lower base. Major concerns particularly from the supply side remain such as power outages and structural issues in the Textile sector, the largest constituent of LSM, and are likely to dampen the pace of growth in the Index going forward. Overall current trends indicate a GDP growth rate of 3.0 – 3.5 percent in FY10 with Agriculture likely to grow by 3.3 percent, Industry by 3.2 percent and Services by 4.0 percent.

Interest rates have edged upwards in Q1 FY10 in longer tenures with a 23 bps and 31 bps rise in 6-month and 1 year T-bills, while in the 3 month tenure there was a decline of 11 bps. There was however a more substantial rise in the 10 year PIB yield which rose by 48 bps to 12.47 percent at Q1 end. Liquidity pressures emanating from an aggressive T-bill auction target in Q1 against maturities and deposit withdrawals as a result of the Ramadan-Eid season restrained the KIBOR from slipping down significantly while expectations of the Central Bank maintaining policy rate at 13 percent against previous anticipations of a cut, were paramount in pushing treasury yields higher. In addition to this SBP announced a cut in the discount rate by 100 bps in August, which was less than originally anticipated. The State Bank of Pakistan (SBP) is viewing mixed inflationary signals going forward and continued stress on the fiscal accounts.

What particularly concerns the Central Bank is that effectively a rising trend has been witnessed in the CPI since February 2009, which if continued, will push headline CPI higher in the months to come. The CPI increased 10.12 YoY percent in September and an average 10.66 percent in Q1 FY10 as against the corresponding period last FY. On the positive side however, Non Food, Non Energy or core inflation fell to 11.9 percent YoY against 12.6 percent a month earlier and in SBP's view, slow economic activity is likely to keep fundamental drivers of core inflation under control. In this regard, SBP may opt for easing the discount rate by 100 bps to 12 percent, expectations of which may allow market interest rates to adjust downward. Moreover, the liquidity situation is likely to improve into Q2 FY10, driven by a buildup of Net Foreign Assets (NFAs) of the banking system. A more favourable, Balance of Payments (BoP) position has allowed the NFAs to increase by PKR 112.7 bn since July FY10, consequently increasing the Monetary base (RM) by 4.52 percent against a meager 0.83 percent in the corresponding period in FY09. However, risks to lower interest rates also emanate from the fiscal side as lack of clarity with respect to the timing of foreign inflows may increase budgetary financing needs from the domestic economy and decrease the quantum of credit available in an already inactive credit market.

The second quarterly review meeting with the IMF was held in August where additional financing to USD 11.3 bn from the original USD 7.6 bn was approved. The country has received USD 1.2 bn tranche from the IMF including the additional financing, part of which

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may be used for domestic spending until funds pledged at the FoDP arrive. The disbursements and the supplementary financing to a large extent have lowered sovereign risk, reflected in an upgrade in S&P's rating for Pakistan from CCC+ to B- with a stable outlook and Moody's outlook from negative to stable. As a result, foreign portfolio investment has begun to flow back into Pakistan with a significant inflow of USD 235 mn in Q1 FY10, making significant contribution to the buoyant activity seen in the local equity market.

The country's Current Account (CA) experienced a small surplus of USD 82 mn in August on the back of a solid improvement in the trade deficit and remittance flows. The trade deficit in Q1 FY10 improved by a staggering 44.74 percent against the corresponding quarter in FY09, bringing it to USD 3.09 bn. The improvement was driven mainly by a sharp decline in oil prices compared to the corresponding quarter and thus a 29.85 percent decline in imports. Exports on the other hand also suffered a decline of 13.86 percent in Q1 FY10; however this is also due to higher base in Q1FY09 as exports had not started to deteriorate back then. Workers' remittances on the other hand surged by 23.99 percent bringing the inflows from remittances to USD 2.33 bn in the Jul-Sept FY10 period. The Financial account surplus also observed an improvement by USD 2.1bn in the Jul – Aug period, owing mostly to disbursements made by donor agencies and friendly countries. Following an improvement in Pakistan's sovereign rating from CCC+ to B-, foreign investors have contributed to the buoyant activity in the local equity market, with an inflow of USD 235 mn in 1QFY10. The overall improvement in the BoP has allowed FX-reserves to cross USD 14.8 bn, their highest level in almost 2 years.

The local currency experienced a depreciation of 2.15 percent in Q1 FY10, driven to a large extent by expectations of the pass-on of oil payments to the interbank market from the SBP. Furnace Oil payment had already been passed on in February 2009 and Diesel payments have commenced in August 2009. However some strengthening of the currency was also seen in August on the back of significant foreign inflows reflected in the improving BoP position.

Outlook

Overall macroeconomic situation has stabilized under the USD 11.3 bn IMF program of 3 years. In addition, other commitments of over USD 5 bn have been pledged by "Friends of Democratic Pakistan" (FoDP) consortium, which should help the country in overcoming the pressures on its external account. Economic growth is expected to be slow around 3% as aggregate demand remains slow due to continuing double digit interest rates and relatively tight monetary conditions. However, these tightening measures along with fall in international oil prices and improvement in agricultural output have helped in reducing inflation to around 10-11% from over 20% a year earlier. Going forward, external inflows should help in improving domestic liquidity situation. Given the increasingly high participation from foreigners, any pull back in international markets could have material impact on local equities as well. But most importantly, the direction of the market from here hinges to a large extent on further improvement in the macroeconomic environment particularly so with respect to lowering inflation, declining interest rates and clarity with respect to foreign inflows pledged at the FoDP forum. Moreover, the country has confronted another round of escalation in terrorist attacks and hence, successful completion of army operation in Waziristan and reduction in security threat will be crucial for retaining investors' confidence.

PAKISTAN STRATEGIC ALLOCATION FUND

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES
AS AT 30TH SEPTEMBER 2009**

| | Note | Unaudited 30 th September 2009 | Audited 30 th June 2009 |
|---|------|---|--|
| (Rupees in '000) | | | |
| Assets | | | |
| Bank balances | | 167,852 | 181,921 |
| Receivable against sale of investments | | 110,340 | 13,411 |
| Investments | 5 | 2,265,025 | 1,958,958 |
| Receivable against reverse repurchase transaction | | 89,083 | - |
| Dividend and profit receivable | | 18,828 | 20,439 |
| Advances, deposits and prepayments | | 3,182 | 2,971 |
| Preliminary expenses and floatation costs | | - | 731 |
| Total assets | | <u>2,654,310</u> | <u>2,178,431</u> |
| Liabilities | | | |
| Payable to Management Company | | - | 10,192 |
| Payable to Trustee | | 232 | 207 |
| Payable to Securities and Exchange Commission of Pakistan | | 577 | 2,008 |
| Payable against purchase of investments | | 564 | 15,139 |
| Unclaimed Dividend | | 11,321 | 13,384 |
| Accrued expenses and other liabilities | | 1,246 | 935 |
| Total liabilities | | <u>13,940</u> | <u>41,865</u> |
| Net assets | | <u>2,640,370</u> | <u>2,136,566</u> |
| Certificate Holders' Equity | | | |
| Issued, subscribed and paid-up capital | | | |
| 300,000,000 ordinary certificates of Rs. 10 each issued as fully paid up in cash | | 3,000,000 | 3,000,000 |
| Unrealised appreciation in fair value of investments classified as 'available for sale' | 5.7 | 80,472 | 27,146 |
| Accumulated loss | | (440,102) | (890,580) |
| | | <u>2,640,370</u> | <u>2,136,566</u> |
| ----- (Rupees) ----- | | | |
| Net asset value per certificate | | <u>8.80</u> | <u>7.12</u> |

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

For Arif Habib Investments Limited
(formerly Arif Habib Investment Management Limited)
Management Company

Chief Executive

Director

PAKISTAN STRATEGIC ALLOCATION FUND

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

| | 2009 | 2008 |
|---|----------------------|------------------|
| | (Rupees in '000) | |
| Income | | |
| Capital gain / (loss) on sale of investments - net | 95,712 | (95,603) |
| Income from Continuous Funding System (CFS) transactions | - | 1,131 |
| Dividend income | 35,681 | 23,222 |
| Profit on bank deposits | 8,471 | 9,385 |
| Income from term finance certificates | 4,906 | - |
| Income from government securities | 797 | - |
| Income from reverse repo transaction | 61 | - |
| | <u>145,628</u> | <u>(61,865)</u> |
| Unrealised appreciation / (diminution) in value of investments at fair value through profit or loss - net | 5.5 <u>324,063</u> | <u>(594,716)</u> |
| Total income / (loss) | <u>469,691</u> | <u>(656,581)</u> |
| Operating expenses | | |
| Remuneration of Management Company | 15,590 | 18,426 |
| Remuneration of Trustee | 585 | 621 |
| Annual fee - Securities and Exchange Commission of Pakistan | 577 | 614 |
| Securities transaction cost | 1,338 | 1,119 |
| Custody, settlement and bank charges | 116 | 147 |
| Fees and subscription | 110 | 101 |
| Auditors' remuneration | 108 | 187 |
| Printing charges | 58 | 143 |
| Amortisation of preliminary expenses and floatation costs | 731 | 1,223 |
| | <u>19,213</u> | <u>22,581</u> |
| Net income / (loss) for the period | <u>450,478</u> | <u>(679,162)</u> |
| | ----- (Rupees) ----- | |
| Earnings / (Loss) per certificate - Basic and diluted | <u>1.50</u> | <u>(2.26)</u> |

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

For Arif Habib Investments Limited
(formerly Arif Habib Investment Management Limited)
Management Company

Chief Executive

Director

PAKISTAN STRATEGIC ALLOCATION FUND

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

| | 2009 | 2008 |
|--|-------------------------|-------------------------|
| | (Rupees in '000) | |
| (Accumulated loss) / Undistributed income brought forward | (890,580) | 253,495 |
| Net income / (loss) for the period | 450,478 | (679,162) |
| Final cash dividend @ Rs Nil per certificate (2008: Re 0.70 announced on 25 th July 2008 and distributed on 19 th September 2008) | - | (210,000) |
| Accumulated loss carried forward | <u>(440,102)</u> | <u>(635,667)</u> |

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

**For Arif Habib Investments Limited
(formerly Arif Habib Investment Management Limited)
Management Company**

Chief Executive

Director

PAKISTAN STRATEGIC ALLOCATION FUND

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

| | 2009 | 2008 |
|--|-----------------|----------------|
| (Rupees in '000) | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net income / (loss) for the period | 450,478 | (679,162) |
| Adjustments | | |
| Amortisation of preliminary expenses and floatation costs | 731 | 1,223 |
| Unrealised (appreciation) / diminution in value of investments at fair value through profit or loss - net | (324,063) | 594,716 |
| Remuneration of Management Company | 15,590 | 18,426 |
| Remuneration of Trustee | 585 | 621 |
| | 143,321 | (64,176) |
| (Increase) / decrease in assets | | |
| Receivable against sale of investments | (96,929) | 18 |
| Receivable against Continous Funding System (CFS) transactions | - | 161,432 |
| Investments | 71,322 | 105,044 |
| Receivable against reverse repurchase transaction | (89,083) | - |
| Dividend and profit receivable | 1,611 | 6,597 |
| Advances, deposits and prepayments | (211) | (76) |
| | (113,290) | 273,015 |
| (Decrease) / increase in liabilities | | |
| Payable against purchase of investments | (14,575) | - |
| Payable to Management Company | (4,851) | (4,852) |
| Payable to Trustee | 1 | (31) |
| Payable to Securities and Exchange Commission of Pakistan | (1,431) | (2,883) |
| Accrued expenses and other liabilities | 311 | (396) |
| | (20,545) | (8,162) |
| | 9,486 | 200,677 |
| Remuneration paid to Management Company | (20,931) | (20,827) |
| Remuneration paid to Trustee | (561) | (671) |
| Dividend paid | (2,063) | (176,680) |
| Net cash flows from operating activities | (14,069) | 2,499 |
| Cash and cash equivalents at the beginning of the period | 181,921 | 331,279 |
| Cash and cash equivalents at the end of the period | 167,852 | 333,778 |

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

**For Arif Habib Investments Limited
(formerly Arif Habib Investment Management Limited)
Management Company**

Chief Executive

Director

PAKISTAN STRATEGIC ALLOCATION FUND

**CONDENSED INTERIM STATEMENT OF MOVEMENT
IN EQUITY AND RESERVES 'PER CERTIFICATE' (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

| | 2009 | 2008 |
|---|-------------|-------------|
| | (Rupees) | |
| Net assets per certificate at the beginning of the period | 7.12 | 10.72 |
| Final cash dividend: Nil % (2008: 7%) | - | (0.70) |
| Capital (loss) / gain on sale of investments - net | 0.32 | (0.32) |
| Unrealised appreciation / (diminution) in fair value of investments classified as fair value through profit or loss - net | 1.08 | (1.98) |
| Other net operating income for the period | 0.10 | 0.04 |
| Net income / (loss) for the period | 1.50 | (2.26) |
| Unrealised appreciation / (diminution) in fair value of investments classified as 'available for sale' | 0.18 | (0.24) |
| Net assets per certificate at the end of the period | 8.80 | 7.52 |

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

For Arif Habib Investments Limited
(formerly Arif Habib Investment Management Limited)
Management Company

Chief Executive

Director

PAKISTAN STRATEGIC ALLOCATION FUND

**CONDENSED INTERIM STATEMENT OF MOVEMENT
IN EQUITY AND RESERVES (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

| | Issued subscribed and paid up capital | Undistributed income / (loss) | Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' | Total |
|--|---|----------------------------------|---|------------------|
| (Rupees in '000) | | | | |
| Balance as at 01st July 2008 | 3,000,000 | 253,495 | (37,418) | 3,216,077 |
| Net loss for the period ended 30 th September 2008 | - | (679,162) | - | (679,162) |
| Final cash dividend for the year ended 30 th June 2008 @ Re 0.70 per certificate | - | (210,000) | - | (210,000) |
| Unrealised diminution in fair value of investments classified as 'available for sale' - net | - | - | (71,348) | (71,348) |
| Balance as at 30th September 2008 | <u>3,000,000</u> | <u>(635,667)</u> | <u>(108,766)</u> | <u>2,255,567</u> |
| Balance as at 01st July 2009 | 3,000,000 | (890,580) | 27,146 | 2,136,566 |
| Net income for the period ended 30 th September 2009 | - | 450,478 | - | 450,478 |
| Final cash dividend for the year ended 30 th June 2009 @ Rs Nil per certificate | - | - | - | - |
| Unrealised appreciation in fair value of investments classified as 'available for sale' - net | - | - | 53,326 | 53,326 |
| Balance as at 30th September 2009 | <u>3,000,000</u> | <u>(440,102)</u> | <u>80,472</u> | <u>2,640,370</u> |

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

**For Arif Habib Investments Limited
(formerly Arif Habib Investment Management Limited)
Management Company**

Chief Executive

Director

PAKISTAN STRATEGIC ALLOCATION FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE QUARTER ENDED 30TH SEPTEMBER 2009

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Pakistan Strategic Allocation Fund (PSAF) (The Fund) was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL) (Formerly: Arif Habib Investment Management Limited) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee on 26th May 2004. The Management Company is registered with Securities and Exchange Commission of Pakistan (SECP) as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). Formation of PSAF as a closed-end fund was authorised by SECP on 13th May 2004. PSAF is listed on all three stock exchanges in Pakistan. The registered office of the Management Company is situated at 2/1, R.Y.16, Old Queens Road, Karachi, Pakistan.

The Fund is allowed to invest in a mix of traded securities covering debt, equity, money market transactions (such as financing arrangements under Continuous Funding System and inter-bank placements, etc.) and deposits in the Pakistan Rupee. The investments may also be made in listed venture capital companies, subject to the regulatory compliances.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned a management quality rating of 'AM2' to the Management Company and 3-Star Normal and 3-Star Long Term rating to the Fund.

The Securities and Exchange Commission of Pakistan notified the Non-Banking Finance Companies and Notified Entities Regulations, 2008 during the year. As per Regulation 65 of these regulations an asset management company managing a Fund shall, upon the expiry of every five years from 21st November 2007 or the date of launch of the Fund whichever is later, hold within one month of such period a meeting of certificate holders to seek the approval of the certificate holders (by special resolution) to convert the Closed End Fund into an Open End Scheme or revoke the Fund.

2 BASIS OF PREPARATION

Statement of compliance

These un-audited condensed interim 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 the Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Regulations or the directives issued by the SECP prevail. These financial statements are presented in condensed form in accordance with International Accounting Standard, 34 "Interim Financial Reporting". These do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Fund as at and for the year ended 30th June 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended 30th June 2009.

4. RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the year ended 30th June 2009.

5 INVESTMENTS

At fair value through profit or loss

| | Note | Unaudited 30 th September 2009 | Audited 30 th June 2009 |
|----------------------------------|------|---|--|
| | |(Rupees in '000)..... | |
| Investments in equity securities | 5.1 | 1,697,824 | 1,649,219 |
| Term finance certificates | 5.2 | - | 128,886 |
| Government Securities | 5.3 | 335,243 | - |
| Available for sale | | | |
| Investments in equity securities | 5.4 | <u>231,958</u> | <u>180,853</u> |
| | | <u>2,265,025</u> | <u>1,958,958</u> |

PAKISTAN STRATEGIC ALLOCATION FUND

5.1 Listed equity securities - 'At fair value through profit or loss'

| Name of the Investee Company | Number of shares | | | | | Balance as at 30 th September 2009 | | | Market Value as a % of net assets | Market value as a % of total investments | Market value as a % of paid up capital of the investee company |
|--|----------------------------------|-----------------------------|---|------------------------|---------------------------------------|---|------------------|----------------------------|-----------------------------------|--|--|
| | As at 01 st July 2009 | Purchased during the period | Bonus / right issue of shares during the period | Sold during the period | As at 30 th September 2009 | Cost | Market value | Appreciation/ (diminution) | | | |
| (Rupees in '000) | | | | | | | | | | | |
| SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs 10 each unless stated otherwise | | | | | | | | | | | |
| COMMERCIAL BANKS | | | | | | | | | | | |
| Allied Bank Limited | 1,008,670 | 38,109 | - | 580,800 | 465,979 | 21,912 | 21,952 | 40 | 0.83 | 0.97 | 0.07 |
| National Bank of Pakistan | 116,400 | 47,807 | - | 89,300 | 74,907 | 5,107 | 6,252 | 1,145 | 0.24 | 0.28 | 0.01 |
| United Bank Limited | 1,683,520 | - | - | 1,683,520 | - | - | - | - | - | - | - |
| MCB Bank Limited | 380,500 | 59,600 | - | 290,300 | 149,800 | 22,094 | 33,118 | 11,024 | 1.25 | 1.46 | 0.02 |
| Habib Bank Limited | - | 242,900 | - | 127,221 | 115,679 | 11,404 | 14,192 | 2,788 | 0.54 | 0.63 | 0.01 |
| | | | | | | 60,517 | 75,514 | 14,997 | | | |
| TEXTILE COMPOSITE | | | | | | | | | | | |
| Nisat Mills Limited | 176,185 | - | - | 176,185 | - | - | - | - | - | - | - |
| CEMENT | | | | | | | | | | | |
| Attock Cement Pakistan Limited | 533,800 | - | - | 454,145 | 79,655 | 7,049 | 6,864 | (185) | 0.26 | 0.30 | 0.11 |
| Lucky Cement Limited | 1,603,700 | - | - | 1,067,400 | 536,300 | 38,614 | 40,190 | 1,576 | 1.52 | 1.77 | 0.17 |
| | | | | | | 45,663 | 47,054 | 1,391 | | | |
| TOBACCO | | | | | | | | | | | |
| Pakistan Tobacco Co. Limited | 22,500 | - | - | - | 22,500 | 3,505 | 2,407 | (1,098) | 0.09 | 0.11 | 0.01 |
| | | | | | | 3,505 | 2,407 | (1,098) | | | |
| POWER GENERATION AND DISTRIBUTION | | | | | | | | | | | |
| Hub Power Company Limited | 2,414,500 | - | - | - | 2,414,500 | 71,799 | 75,791 | 3,992 | 2.87 | 3.35 | 0.21 |
| Kot Addu Power Company Limited | 4,184,000 | - | - | 8,700 | 4,175,300 | 198,471 | 223,545 | 25,074 | 8.47 | 9.87 | 0.47 |
| | | | | | | 270,270 | 299,336 | 29,066 | | | |
| OIL & GAS MARKETING COMPANIES | | | | | | | | | | | |
| Pakistan State Oil Company Limited | 489,400 | - | - | 9,700 | 479,700 | 106,636 | 150,199 | 43,563 | 5.69 | 6.63 | 0.28 |
| OIL & GAS EXPLORATION COMPANIES | | | | | | | | | | | |
| Oil & Gas Development Company Limited | 2,418,300 | - | - | 1,387,960 | 1,030,340 | 115,948 | 110,638 | (5,310) | 4.19 | 4.88 | 0.02 |
| Pakistan Oilfield Limited | 492,360 | 65,700 | - | - | 558,060 | 135,332 | 116,417 | (18,915) | 4.41 | 5.14 | 0.24 |
| Pakistan Petroleum Limited | 790,111 | 19,600 | 161,942 | - | 971,653 | 163,261 | 183,633 | 20,372 | 6.95 | 8.11 | 0.10 |
| | | | | | | 414,541 | 410,688 | - 3,853 | | | |
| AUTOMOBILE ASSEMBLER | | | | | | | | | | | |
| Pak Suzuki Motor Company Limited | 191,550 | - | - | - | 191,550 | 30,610 | 16,673 | (13,937) | 0.63 | 0.74 | 0.23 |
| | | | | | | 30,610 | 16,673 | - 13,937 | | | |
| CABLE & ELECTRICAL GOODS | | | | | | | | | | | |
| Pakistan Electron Limited | 2,446,075 | - | - | - | 2,446,075 | 103,556 | 55,355 | (48,201) | 2.10 | 2.44 | 2.52 |
| | | | | | | 103,556 | 55,355 | (48,201) | | | |
| TECHNOLOGY AND COMMUNICATION | | | | | | | | | | | |
| Pakistan Telecommunication Limited-'A' | 9,081,200 | - | - | - | 9,081,200 | 338,028 | 181,533 | (156,495) | 6.88 | 8.01 | 0.24 |
| | | | | | | 338,028 | 181,533 | - (156,495) | | | |
| FERTILIZER | | | | | | | | | | | |
| Engro Chemical Pakistan Limited | 457,200 | 233,454 | - | - | 690,654 | 94,402 | 124,912 | 30,510 | 4.73 | 5.51 | 0.23 |
| | | | | | | 94,402 | 124,912 | 30,510 | | | |
| CHEMICALS | | | | | | | | | | | |
| I.C.I Pakistan Limited | 1,033,100 | - | - | 79,300 | 953,800 | 153,266 | 170,568 | 17,302 | 6.46 | 7.53 | 0.69 |
| | | | | | | 153,266 | 170,568 | 17,302 | | | |
| PAPER AND BOARD | | | | | | | | | | | |
| Packages Limited | 946,936 | 59,183 | - | - | 1,006,119 | 162,814 | 163,585 | 771 | 6.20 | 7.22 | 1.19 |
| | | | | | | 162,814 | 163,585 | 771 | | | |
| Total listed equity securities | | | | | | 1,783,808 | 1,697,824 | (85,984) | | | |

5.2 Term Finance Certificates - 'At fair value through profit or loss'

| Name of the Investee Company | Issue date | Number of certificates | | | | | Balance as at 30 th September 2009 | | | Market Value | | |
|--|--------------------------------|----------------------------------|-----------------------------|------------------------------|-------------------------|---------------------------------------|---|--------------|----------------------------|----------------------|---|---|
| | | As at 01 st July 2009 | Purchases during the period | Bonus/ right issue of shares | Sales during the period | As at 30 th September 2009 | Cost | Market value | Appreciation/ (diminution) | as a % of net assets | as a % of paid up capital of the investee company | Percentage in relation to the size of the issue |
| (Rupees in '000) | | | | | | | | | | | | |
| Certificates of face value of Rs 5,000 unless denominated otherwise | | | | | | | | | | | | |
| United Bank Limited | 14 th February 2008 | 25,000 | - | - | 25,000 | - | - | - | - | - | - | |
| Pakistan Mobile Communication | 1 st October 2007 | 3,200 | - | - | 3,200 | - | - | - | - | - | - | |

PAKISTAN STRATEGIC ALLOCATION FUND

5.3 Investment in government securities - 'At fair value through profit or loss'

| Issue date | Tenor | Face value | | | Balance as at 30 th September 2009 | | Market value | | |
|----------------|---------|--|-----------------------------|---------------------------|---|---------------------------|-------------------------------|--------------------------------------|------|
| | | Balance as at 01 st July 2009 | Purchases during the period | Matured during the period | Cost | Market Value (Diminution) | as a percentage of net assets | as a percentage of total investments | |
| Treasury Bills | | | | | | | | | |
| 25/Mar/09 | 1 Year | - | 50,000 | - | 47,184 | 47,166 | (18) | 1.79 | 2.00 |
| 12/Feb/09 | 1 Year | - | 50,000 | - | 50,000 | 47,825 | (13) | 1.81 | 2.03 |
| 7/May/09 | 6 Month | - | 75,000 | - | 75,000 | 74,124 | (26) | 2.81 | 3.15 |
| 23/Apr/09 | 6 Month | - | 75,000 | - | 75,000 | 74,445 | (26) | 2.82 | 3.16 |
| 26/Sep/09 | 1 Year | - | 50,000 | - | 50,000 | 44,555 | (16) | 1.69 | 1.89 |
| 26/Sep/09 | 6 Month | - | 50,000 | - | 50,000 | 47,161 | 5 | 1.79 | 2.00 |
| | | | | | 335,337 | 335,243 | (94) | | |

5.4 Listed equity securities - 'available for sale'

| Name of the Investee Company | As at 01 st July 2009 | Number of shares | | As at 30 th September 2009 | Balance as at 30 th September 2009 | | Market value as a % of net assets | Market value as a % of total investments | | | |
|--|----------------------------------|-----------------------------|-------------------------------|---------------------------------------|---|----------------------|-----------------------------------|--|---------------|----------------------------|------|
| | | Purchases during the period | Bonus / right issue of shares | | Impairment upto 30 th June 2009 | Cost less impairment | | | Market value | Appreciation/ (Diminution) | |
| SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise | | | | | | | | | | | |
| TEXTILE COMPOSITE | | | | | | | | | | | |
| Kahnore Mills Limited | 934,626 | - | - | 934,626 | 33,879 | 29,335 | 4,544 | 6,066 | 1,522 | 0.23 | 0.27 |
| Kahnore Textile Mills Limited | 2,383,652 | - | - | 2,383,652 | 108,499 | 97,080 | 11,419 | 25,208 | 13,869 | 0.96 | 1.12 |
| Ranjana Weaving Mills Limited | 840,000 | - | - | 840,000 | 26,554 | 25,014 | 2,940 | 5,376 | 2,436 | 0.20 | 0.24 |
| Sunji Cotton Mills Limited | 464,000 | - | - | 464,000 | 24,137 | 18,244 | 5,893 | 9,104 | 3,271 | 0.35 | 0.40 |
| | | | | | 193,069 | 168,273 | 24,796 | 45,874 | 21,078 | | |
| OIL & GAS EXPLORATION COMPANIES | | | | | | | | | | | |
| Oil & Gas Development Company Limited | 312,780 | - | - | 312,780 | 29,633 | 1,773 | 27,860 | 33,586 | 5,726 | 1.27 | 1.48 |
| | | | | | 29,633 | 1,773 | 27,860 | 33,586 | 5,726 | | |
| AUTOMOBILE ASSEMBLER | | | | | | | | | | | |
| Pak. Suzuki Motor Company Limited | 83,820 | - | - | 83,820 | 6,871 | 2,300 | 4,571 | 7,296 | 2,725 | 0.28 | 0.32 |
| | | | | | 6,871 | 2,300 | 4,571 | 7,296 | 2,725 | | |
| FERTILIZER | | | | | | | | | | | |
| Fuji Fertilizer Company Limited | 1,446,463 | - | - | 1,446,463 | 94,260 | - | 94,260 | 145,202 | 50,942 | 5.50 | 6.41 |
| | | | | | 94,260 | - | 94,260 | 145,202 | 50,942 | | |
| Total listed equity securities | | | | | 323,833 | 172,347 | 151,486 | 231,958 | 80,472 | | |

5.5 The above includes shares with a market value of Rs. 78,216 thousand (30th June 2009: Rs. 61,137 thousand) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Funds' trades in terms of circular no 11 dated 23rd October 2007 issued by the Securities and Exchange Commission of Pakistan.

PAKISTAN STRATEGIC ALLOCATION FUND

| | Unaudited | Audited |
|---|----------------------------------|-----------------------------|
| | 30th September | 30th June |
| | 2009 | 2009 |
| | (Rupees in '000) | |
| 5.6 Net unrealised appreciation / (diminution) in value of investments at fair value through profit or loss | | |
| Market value of investments | 2,033,067 | 1,778,105 |
| Less: Cost of investments | <u>(2,119,145)</u> | <u>(2,311,496)</u> |
| | (86,078) | (533,391) |
| Add: Realised on disposal during the period | (123,250) | (122,507) |
| Less: Net unrealised appreciation in value of investments at fair value through profit or loss at the beginning of the period | <u>533,391</u> | <u>131,982</u> |
| | <u>324,063</u> | <u>(523,916)</u> |
| 5.7 Net unrealised appreciation in value of investments classified as 'available for sale' | | |
| Market value of investments | 231,958 | 180,853 |
| Less: Cost of investments less impairment | <u>(151,486)</u> | <u>(326,054)</u> |
| | 80,472 | (145,201) |
| Impairment loss on financial assets classified as 'available for sale'- transferred to Income Statement | - | 172,347 |
| | <u>80,472</u> | <u>27,146</u> |
| Net unrealised appreciation in value of investments at the beginning of the period | <u>(27,146)</u> | <u>37,418</u> |
| | <u>53,326</u> | <u>64,564</u> |

6 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (formerly: Arif Habib Investment Management Limited) being the Management Company, Arif Habib Securities Limited, Arif Habib Limited, and Arif Habib Bank Limited being companies under common management, Central Depository Company of Pakistan Limited being the trustee, other collective investment schemes managed by the Management Company and directors and officers of the management Company.

Remunerations to the management company and trustee are determined in accordance with the provisions of NBFC regulations and Trust Deeds of the fund. All other transactions with the related parties / connected persons are carried on agreed terms.

Details of transactions with connected persons and balances with them at period end are as follows:

| | Unaudited | |
|--|----------------------------------|----------------------------------|
| | 30th September | 30th September |
| | 2009 | 2008 |
| | (Rupees in '000) | |
| 6.1 Transactions during the period | | |
| Management Company | | |
| Remuneration | 15,590 | 18,426 |
| Central Depository Company Limited | | |
| Remuneration | 585 | 621 |
| Other charges | 93 | 129 |
| Arif Habib Limited | | |
| Brokerage * | 152 | 268 |
| Arif Habib Bank Limited | | |
| Mark up income during the period | 8,085 | 7,581 |
| Bank Charges | - | - |
| Pakistan Income Enhancement Fund | | |
| Sale of Term Finance Certificates | | |
| United Bank Limited - IV 20,000 certificates | 91,897 | - |

PAKISTAN STRATEGIC ALLOCATION FUND

| | Unaudited 30 th September 2009 | Audited 30 th June 2009 |
|---|---|--|
| (Rupees in '000) | | |
| 6.2 Amounts outstanding as at the period end | | |
| Management Company | | |
| Remuneration Payable | - | 5,341 |
| Preliminary expenses and floatation costs | - | 4,851 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration payable | 200 | 177 |
| Other payables | 32 | 30 |
| Security deposit | 300 | 300 |
| Arif Habib Bank Limited | | |
| Balance with bank | 159,665 | 172,823 |
| Accrued mark-up | 3,226 | 1,715 |

* 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.

7 DATE OF AUTHORISATION FOR ISSUE OF CONDENSED FINANCIAL STATEMENTS

These condensed financial statements have been authorised for issue on 22nd October 2009 by the Board of Directors of the Management Company.

8 GENERAL

8.1 Figures have been rounded off to the nearest thousand Rupees.

8.2 Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purpose of comparison.

For Arif Habib Investments Limited
(formerly Arif Habib Investment Management Limited)
(Management Company)

Chief Executive

Director

PAKISTAN STRATEGIC ALLOCATION FUND

**STATEMENT OF INCOME & EXPENDITURE IN
RELATION TO THE FUND (UNAUDITED)
FOR THE QUARTER ENDED 30TH SEPTEMBER 2009**

| | 2009 | 2008 |
|---|-------------------------|---------------|
| Revenue | (Rupees in '000) | |
| Management Company remuneration | 15,590 | 18,426 |
| Return on bank deposits | 17 | 34 |
| Markup on Term Finance Certificates | - | 48 |
| Dividend Income | - | 9,889 |
| Gain on sale of available for sale investment | 21,908 | - |
| Other Income | 295 | 270 |
| Total Income | 37,810 | 28,667 |
| Operating Expenses | | |
| Staff salary | 6,672 | 10,650 |
| Technical and professional services | 112 | 283 |
| Staff training | 50 | 144 |
| Marketing and advertisement | 292 | 524 |
| Rent, rates and taxes | 1,229 | 710 |
| Communication cost | 307 | 381 |
| Directors' fee | 51 | 58 |
| Printing, stationery and other supplies | 283 | 266 |
| Insurance | 96 | 277 |
| Repair and maintenance | 256 | 299 |
| Fees and subscription | 147 | 251 |
| Legal and professional fees | 190 | 159 |
| Travelling and conveyance | 80 | 179 |
| Financial charges | 2,037 | 235 |
| Depreciation | 527 | 689 |
| Impairment Loss | 45 | - |
| | 12,374 | 15,105 |
| Net Income for the period | 25,436 | 13,562 |

Note: Above mentioned expenses are based on revenue generated through fund during the period. Expenses directly related to fund are allocated to specific funds.