NAFA Income Fund (NIF)

National Fullerton Asset Management Limited

Unit Price (31/01/2010): Rs. 10.3714 January 2010

Investment Objective

To earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.

Performance

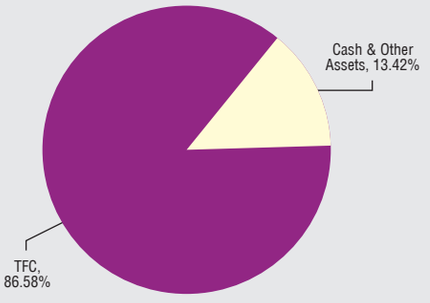
Performance (%)	Mar - Dec 2008*	Jan - Dec 2009*	January 2010**	Since Launch March 29, 2008**
NAFA Income Fund	**(2.04)%**	**13.50%**	**(1.06)%**	**10.55%**
Benchmark	12.53%	13.18%	1.02%	25.09%

* Represents Annualized Return
** Represents Cumulative Return
(Returns are net of management fee & all other expenses)

General Information

Launch Date:	March 29, 2008
Fund Size:	Rs. 643 million
Type:	Open-end – Income Fund
Dealing Days:	Daily – Monday to Friday
Settlement:	2-3 business days
Pricing Mechanism:	Forward Pricing
Load:	Front end: 1.0%
Management Fee:	1.5% per annum
Risk Profile:	Low
Fund Stability Rating:	"A(f)" by PACRA
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company (CDC)
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	3-Month T-Bills
Fund Manager:	Ahmad Nouman, CFA
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-
Asset Manager Rating	AM2-

Asset Allocation (as on 31st January 2010)



Leverage: (Amount of leveraging / borrowing done by the Fund.)	Nil
Name of the members of Investment Committee:	Dr. Amjad Waheed, CFA Irfan Malik, CFA Ahmad Nouman, CFA Sajjad Anwar, CFA Tanvir Abid, CFA

Fund Manager's Commentary

During the month of January, 2010, the TFC market experienced selling pressure as an income fund resorted to selling due to heavy redemptions. As a result, prices of some TFCs such as Engro have declined. This TFC is rated AA, with very low credit risk. Since all mutual funds are required to use traded prices of TFCs to calculate Net Asset Values of their Funds, the unit price of NAFA Income Fund declined by 1.06% during January. We believe that this is a temporary phenomenon and the market should correct this anomaly as liquidity eases in the system in the coming months.

The State Bank of Pakistan kept the policy rate unchanged at 12.5% in its Monetary Policy Statement announced on January 30, 2010. Many recent macro economic indicators suggest the country is on the path of economic recovery, with challenges in few areas. Positives include improving current account deficit and foreign exchange reserves and limited Govt. borrowing from the State Bank. The challenges faced by Pakistan's economy are largely, fiscal austerity, timely materialization of expected foreign inflows, improvement in supply side of basic necessities and law and order situation.

Month on Month CPI during December 2009 was negative 0.5%, while headline Year on Year inflation was 10.5%. However, we believe this trend may not sustain because of gradual removal of subsidies and recent deteriorating weekly data of Sensitive Price Indicator (SPI) inflation. Expected increase in Foreign Direct Investment and Foreign loans inflows will likely enhance the domestic liquidity enabling prices of financial assets including TFCs to improve. Effects of improved liquidity expectations have caused 6m KIBOR to decline by 20bps during the month to close at 12.23% on January-end.

The current weighted average yield to maturity on the TFCs held in NAFA Income Fund (NIF) is around 21% p.a. Overall, your Fund is well positioned to earn attractive returns going forward. The return during last Calendar Year (January 2009 to December 2009) was also a decent 13.5%.

Disclaimer: *This publication is for informational purposes only and nothing herein should be construed as a solicitation, recommendation or an offer to buy or sell the fund. All investments in mutual funds are subject to market risks. The price of units may go up as well as down. Past performance is not necessarily indicative of future results.*