



**Bachat** ka Doosra Naam

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# Annual Report 2012



PAKISTAN

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## INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND

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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.

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND FUND'S INFORMATION

<b>Management Company</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
<b>Human Resource Committee</b>	Dr. Salman Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; CFO of the Management Company</b>	Mr. Muhammad Saqib Saleem	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	Bank AL Habib Limited Summit Bank Limited (formerly :Arif Habib Bank Limited) Meezan Bank Limited Bank Alfalah Limited Al-Baraka Islamic Bank MCB Bank Limited Bank Islami Pakistan Limited Dubai Islamic Bank Limited Standard Chartered Bank Limited Deutsche Bank Limited Habib Metro Bank Limited	
<b>Auditors</b>	A.F. Ferguson & Co.-Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi-74000	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

# **PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012**

The board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan International Element Islamic Asset Allocation Fund (PIEIF), is pleased to present the Annual Report on the affairs of PIEIF for the year ended June 30, 2012.

## **Economy & Money Market Overview and Outlook**

Despite continued macro-economic challenges throughout the period, the year under review (July '11-June '12) could be classified as a mixed bag for the economy and capital markets as some of the key macroeconomic indicators have depicted positive trend during the period under review despite having burgeoning fiscal challenges.

The external account, which was the top performing sector during the previous year, couldn't maintain its positive trend during FY12 owing to widening trade deficit on the back of lower cotton and higher oil prices despite having record-high workers' remittances. During the year, export dipped by 3% while imports grew by 12% causing the overall trade deficit to widen to around US\$ 15.4 billion, 46% higher YoY. Despite record-high level of workers' remittances flow of US\$ 13.2 billion, higher trade and income deficit caused the current account balance to post a deficit of US\$ 4.5 billion as against a surplus of US\$ 214 million last year. Given higher current account deficit coupled with meager financial account flows, country's balance of payment position declined significantly during the year by around US\$ 3.3 billion - taking the FX reserves down to a level of US\$ 15.3 billion, while also causing sizeable depreciation of 10% in the PKR-USD exchange rate during the year.

Inflationary pressures, on the other hand, have remained largely on the lower side during the period with YoY CPI Inflation averaging 11.0% amid change in CPI methodology as well as high base-effect of last year. Moreover, real economy has shown a relatively improved picture during the year with FY12 real GDP growth stood at 3.7%, slightly higher than the revised GDP growth of 3.0% during the last year.

Fiscal indiscipline continued to remain a cause of concern for the economic managers as the country is expected to witness a higher deficit of over 8% of the GDP during FY12 (including one-off circular debt adjustments). Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 895 billion, 4.3% of the GDP. Although growth in tax revenue collection has been strong, lower non-tax revenue on the back of non-realization of CSF proceeds coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review. Government borrowing from Central Bank has gone up by Rs. 508 billion during FY12, which is staggering 44% of total outstanding stock.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Given benign YoY CPI Inflation coupled with lower GoP borrowing from SBP as well as contained external current account deficit during the earlier part of the year, the SBP cut its policy discount rate cumulatively by 200 bps to 12.0%. However, gradual deterioration in the macro-economic environment lately has compelled the central bank to keep its policy DR unchanged for the next 4 policies during the latter part of the year. Due to an overall relatively lower interest rate environment, 1 year PKRV averaged at around 12.4% during FY12, much lower than the average 13.4% a year ago.

During FY12, key monetary indicators have shown reasonable improvement with money supply (M2) posting a strong growth of 14.4%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY decline of 32% in Net Foreign Assets (NFA) has been very alarming - also reflecting weak BOP position.

Significant credit demand by the government coupled with an attractive risk-return profile has kept government papers a very attractive investment vehicle for the investors during this year also. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs continued to command improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS), like previous year, has remained an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during this year also in both primary as well as secondary markets.

Although medium term macroeconomic picture remains gloomy, benign CPI inflation trend coupled with the release of US\$ 1.18 billion under Coalition Support Fund by the US does provide a short term breather thereby creates a potential room for monetary easing by the State Bank of Pakistan in the upcoming monetary policy announcement. We continue to emphasize that the realization of sizeable foreign inflows holds the key in rejuvenating economic engine, while a potential return to IMF program in the next 6-8 months would adversely affect the liquidity and interest rate scenario.

In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

## **Equities Market Overview and Outlook**

The local bourses gave an average performance with the KSE-100 index rising by about 10% in FY12 as against 29% return posted in FY11. Pakistan equity market, however, remained the 3rd best performing market in the region this year as well after Philippines and Thailand.

KSE-100 Index made a depressing start with market shedding 13% during the first couple of months and made the yearly bottom at around 10,800 levels. Alongside negative returns, the market continued to remain dull with consistently low turnover throughout the period remained indicative of investor's shyness towards equity asset class. Even a cumulative cut of 200 bps in DR by the SBP during the first half failed to generate strong momentum among equity investors due to fear of aggressive sell off by foreign investors. Global equities market went down significantly during the quarter, which also had an adverse impact on emerging and frontier markets including Pakistan. Other resistive forces that played a dampening role for the market were political unrest, worsened law and order situation, strained Pak-US relations, floods in Sindh and energy crisis. Foreigners were net seller during the first half with an outflow of US\$ 151 million.

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

After a depressing first half, the Capital Gains Tax amnesty came as a piece of fortune to the investors at the local equities market and the KSE-100 index surged by 22% during the latter half of the year under review. The expectation of relieving CGT also waded a magic wand on the volumes too where 2HFY12 saw buoyant volumes while marking a 33-month high at 577mn shares traded in a day. Participation from retail investors also returned to the market during the latter part of this year where mid and small-cap stocks remained the highlights of market activities lately. After a significant sell-off during the first half, foreigners' also jumped on to the bandwagon during the latter half with a net inflow of US\$ 62 million.

Macro economic factors remained challenging the KSE performance included sustained high oil and declining cotton prices resulting in higher trade deficit, lack of foreign flows as well IMF repayments depleted FX reserves and caused PKR to depreciate against the US\$ by around 10%. On the positive front, the SBP remained in a monetary easing cycle with a cumulative reduction of 200 bps in the policy discount rate during the year- improving the fundamentals of debt-laden companies.

Sector wise, Cements, Power and Autos outperformed the KSE-100 index while sectors like Chemicals, Textiles and Refineries remained among the underperformers. Best performing stocks included EFOODS, MEBL, BAFL, and DGKC.

We believe that the political arena would turn noisy on the back of election year ahead as well as continued confrontation between government and judiciary. Global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. However, expectation of monetary easing by the SBP in the upcoming monetary policy on the back of benign inflation as well as release of CSF payment should support the bull-run in the market in the near term while any major deterioration in key macro-indicators going forward could have a toll on the market performance. Strong earnings growth, sizeable discount to regional markets, high dividend yield and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

## Fund's Performance

The investment objective of the fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally. The fund is benchmarked against a composite based on 70% KMI-30 Index and 30% DJIM World Index. The fund generated a return of 15.7% during the year as against its benchmark return of 11.0%, an out-performance by 4.7%. Fund kept a vigilant eye on key developments and kept adjusting sector, company and overall equity exposure of the fund accordingly. The fund kept a decent exposure within selected stocks of Oil & Gas, Banks, Chemicals and Construction & Materials sectors throughout the year, which contributed towards healthy fund's returns. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

On the fixed income side, the fund kept its exposure at higher levels in GOP Ijarah Sukuk that provided decent returns during the period under review while kept only a marginal exposure in corporate Sukuks.

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

Performance Information (%)	PIEIF	Benchmark
Last twelve Months Return	15.7%	11.0%
Since Inception	45.9%	N/A

During the year your fund earned net income of Rs 42.099 million. The Board in the meeting held on June 25, 2012 has declared final distribution amounting to Rs. 29.792 million (i.e. Rs. 4.33 per unit).

During the period, units worth Rs.64.153 million (including Rs.52.964 million worth of bonus units) were issued and units with a value of Rs. 76.379 million were redeemed. As on 30 June 2012 the NAV of the Fund was Rs. 39.75 per unit.

## Update on Workers' Welfare Fund

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

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

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

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

In view of the afore mentioned developments, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. However the auditor of the Fund because of pending adjudication of the Constitutional petition in Honourable Sindh High Court and included an emphasis of matter paragraph in auditor's report highlighting the said issue.

The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs.3.42 million.

## Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Karachi Stock Exchange, Islamabad Stock Exchange and 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.
- 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 it applies to the Management Company; hence appropriate 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 22 to the attached financial statements. During the year four meetings of Audit Committee were held on 19th September 2011, 26th October 2012, 26 January 2012 and 24th April 2012, the details of attendance is as follows:

S. No.	Name	Designation	Attendance required	Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	4	3	1
2.	Mr. Nasim Beg	Member - Executive Vice Chairman	4	4	-
3.	Mr. Samad A. Habib	Member	4	2	2
4.	Mr. Ali Munir	Member	4	2	2

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2012**

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. No trades in the Units o f the Fund were carried out during the year by Directors, CEO, Company Secretary & Chief Financial Officer of the Management Company and their spouses and minor children

**External Auditors**

The fund's external auditors, A.F. Ferguson & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Since AFF have consented to act as the External Auditors of the Management Company, they are not eligible for reappointment as statutory auditors of the Fund. The audit committee of the Board has recommended appointment of KPMG Taseer Hadi Khalid & Co., Chartered Accountants, (who have given consent to such appointment) as auditors for the year ending June 30, 2013.

**Acknowledgement**

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in Arif Habib 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, Islamabad Stock Exchange and Lahore 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: August 15, 2012

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2012

## Fund Type and Category

Pakistan International Element Islamic Asset Allocation Fund (PIEIF) is an Open-End Shariah Compliant Asset Allocation Scheme.

## Fund Benchmark

The benchmark for PIEIF is a composite of KMI-30 Index and DJIM-World Index in a proportion of 70% and 30% respectively.

## Investment Objective

The objective of the fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally.

## Investment Strategy

Pakistan International Element Islamic Fund (PIIF) is an open-end asset allocation fund, which seeks to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic allocation towards different asset classes. The investment process is driven by fundamental research. The domestic portfolio of the Fund primarily invests in fundamentally strong Shariah compliant equities, high quality Sukuks and other Shariah compliant instruments. For equities, fundamental outlook of sectors/companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the Fund's portfolio is high quality liquid stocks.

## Manager's Review

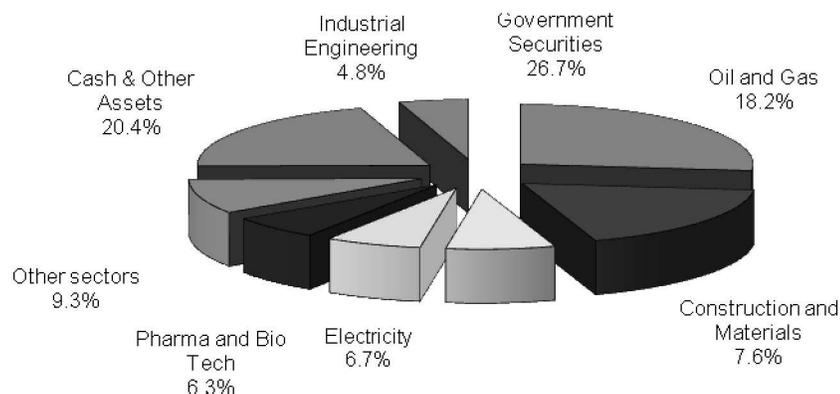
During the year under review, PIEIF outperformed the benchmark by delivered a return of 15.7% against a benchmark return of 11%.

The fund started the year with an equity allocation of 81% with average equity allocation for the first half of the year of around 80%. Fund's return during the first half was -6.5% against the benchmark's return of -4.5%. However, the average equity allocation during the second half hovered around 60%-65%. The fund reduced its allocation during the period under review in selected oil sector stocks in order to realize capital gains while building its allocations in Pharma & Biotech and Industrial Engineering sectors offering attractive returns. Overall the fund decreased its equity allocation from around 81% to 51% by the end of FY12.

Since inception return of the fund was 45.9%. The fund's Net Assets reduced from PKR 337 Million at the beginning of the year to PKR 294 Million as on June 30, 2012.

On the fixed income side, the fund's exposure towards GoP Ijara Sukuk was increased from 1.6% last year to 26.7% by the end of June 2012, while the exposure towards cash and bank deposits also went up to 18.3% by year-end.

## Asset Allocation as on June 30, 2012 (% of total assets)



## Unit Holding by Size

Syed Akbar Ali, CFA  
Fund Manager

Karachi: August 15, 2012

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
TRUSTEE REPORT TO THE UNIT HOLDERS  
FOR THE YEAR ENDED JUNE 30, 2012**

**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



ISO 27001 Certified

**TRUSTEE REPORT TO THE UNIT HOLDERS**

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET 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 International Element Islamic Asset Allocation Fund (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 in accordance with the provisions of the following:

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

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

Karachi: October 17, 2012



**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
REPORT OF THE SHARIAH ADVISORY COUNCIL  
FOR THE YEAR ENDED JUNE 30, 2012**

Alhamdulillah, the year under review was the fourth full year of operations of Pakistan International Element Islamic Fund (the Fund). We, the Shariah Advisory Council of the Fund, are issuing this report in accordance with the clause 2.3 of the Trust Deed of the Fund. The scope of the report is to express and opinion on the Shariah compliance of the Fund's activities.

It is the responsibility of M/s Arif Habib Investments Limited (AHI), the management company of the Fund, to establish and maintain a system of internal controls to ensure compliance with the Shariah guidelines. Our responsibility is to express an opinion, based on our review of the representations made by the management, to the extent where such compliance can be objectively verified.

For Screening equities in the local stock market, we have advised a criteria on the basis of the following: (1) Nature of business, (2) Interest bearing debt in relation to the total assets. (3) Illiquid assets in relation to the total assets, (4) investment in non-Shariah complaint activities to total assets (5) Income from non-complaint investment to Gross revenues and (6) Net liquid assets per share us share price.

For Screening international equities, we have advised the Dow Jones Islamic Indices criteria to be used, which relate the level of cash, receivable, interest bearing, securities and debt to the average market capitalization of the company. As of 30th June 2012, the Fund had none of its Net Assets in International investments.

As part of our mandate as Shariah Advisor to the Fund, we have reviewed the following during the year:

- The modes of investment of the Fund's property and its compliance with the Shariah guidelines.
- Shariah compliance of new investment avenues proposed by AHI.
- Shariah compliance of its International investment.

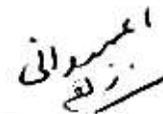
In the light of the above scope, we hereby certify that all the provisions of the scheme and investments made by the Fund for the year ended 30th June 2012 are in compliance with the Shariah Principles.

The management company has been directed to set aside as charity, amount earned as interest from conventional banks. In addition, there are investments made by the Fund where investee companies have earned a part of their income from non-complaint sources (e.g. interest income). In such cases, the management company has been directed to set aside as charity such proportion of the income from Investee companies in order to purify the earnings of the Fund.

During the year an amount of Rs. 0.188 million was transferred to the charity account. The total amount of charity payable as of 30th June 2012 is Rs 0.505 million.

May Allah bless us with Tawfeeq to accomplish these cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Karachi: 15th August 2012

  
**Dr. Ejaz Ahmed Samadani**  
For and behalf of Shariah Advisory Council

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of Pakistan International Element Islamic Asset Allocation Fund ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

Pakistan International Element Islamic Asset Allocation Fund is an open end mutual fund and is listed at Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, Arif Habib Investments Limited, on behalf of the Fund, has applied the principles contained in the Code in the following manner:

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

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

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

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the 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 had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings,. The minutes of the meetings were appropriately recorded and circulated.
9. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Accordingly, the Management Company is compliant with this requirement for the current year. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
10. No new appointments of Chief Financial Officer and Company Secretary were made during the year. The Board has approved the remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. Subsequent to the year end, the Management Company has appointed Head of Internal Audit who is also planned to be designated as the secretary to the Audit Committee in the upcoming Audit Committee meeting.
11. The Directors' Report of the fund for the year ended June 30, 2012 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2012**

12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises of four members, three of whom are the directors of the Management Company. Two are non-executive directors and the Chairman of the Committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises four members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. During the year, the Management Company has outsourced the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants who are considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of 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 of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the Code have been complied with towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

On behalf of the Board

**Yasir Qadri**  
Chief Executive Officer

Karachi: August 15, 2012

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES  
OF THE CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2012**



**A. F. FERGUSON & CO.**

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Arif Habib Investments Limited**, the Management Company of **Pakistan International Element Islamic Asset Allocation Fund**, to comply with the Listing Regulation No. 35 (Chapter XI) of the Karachi, Lahore and Islamabad Stock Exchanges where the Fund is listed.

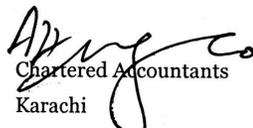
The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's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

As 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Regulation 35 (x) of the Listing Regulations requires the Management Company to place before the Board of Directors for their consideration and approval, 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 recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices 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 Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2012.

We draw attention to paragraph 10 of the annexed statement which highlights that subsequent to the year end the Management Company has appointed the Head of Internal Audit who is also planned to be designated as the secretary to the Audit Committee in the upcoming Audit Committee meeting.

  
Chartered Accountants  
Karachi  
Dated: September 17, 2012

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Lahore-54660, Pakistan; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872  
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924  
Kabul: House No. 1, Street No. 3, Darulaman Road, Ayoub Khan Meina, Opposite Ayoub Khan Mosque, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS



**A. F. FERGUSON & CO.**

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Pakistan International Element Islamic Asset Allocation Fund (here in after referred to as "the Fund")**, which comprise the statement of assets and liabilities as at June 30, 2012, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management Company's responsibility for the financial statements

The Management Company is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 whether the financial statements are free from material misstatements.

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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at June 30, 2012, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

#### Emphasis of matter paragraph

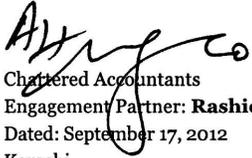
We draw attention to note 13.1 to the accompanying financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh. Our opinion is not qualified in respect of this matter.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

#### Other matter

The financial statements of the Fund for the year ended June 30, 2011 were audited by another firm of Chartered Accountants. Their audit report dated September 20, 2011 contained an emphasis of matter paragraph on the same issue as described above.

  
Chartered Accountants  
Engagement Partner: **Rashid A. Jafer**  
Dated: September 17, 2012  
Karachi

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
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# **FINANCIAL STATEMENTS**

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2012**

	Note	2012	2011
		Rupees in '000	
<b>ASSETS</b>			
Balances with banks	4	56,479	49,430
Investments	5	245,906	283,387
Receivable against sale of units		1,584	2,323
Dividend and profit receivable	6	1,590	2,125
Advances and deposits	7	3,198	3,198
<b>Total assets</b>		<b>308,757</b>	<b>340,463</b>
<b>LIABILITIES</b>			
Payable to Arif Habib Investments Limited- Management Company	9	528	534
Payable to Central Depository Company of Pakistan Limited- Trustee	10	57	58
Payable to Securities and Exchange Commission of Pakistan	11	290	373
Payable against purchase of investments		11,826	-
Payable against redemption of units		-	881
Accrued expenses and other liabilities	12	1,993	1,404
<b>Total liabilities</b>		<b>14,694</b>	<b>3,250</b>
<b>NET ASSETS</b>		<u>294,063</u>	<u>337,213</u>
<b>UNIT HOLDERS' FUND (as per statement attached)</b>		<u>294,063</u>	<u>337,213</u>
<b>CONTINGENCIES &amp; COMMITMENTS</b>	13		
		-----Number of units-----	
<b>NUMBER OF UNITS IN ISSUE</b>		<u>7,397,111</u>	<u>7,713,855</u>
		-----Rupees-----	
<b>NET ASSET VALUE PER UNIT</b>	3.9	<u>39.75</u>	<u>43.72</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

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

  
\_\_\_\_\_  
Director

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
INCOME STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012**

	Note	2012 -----Rupees in '000-----	2011
<b>INCOME</b>			
Capital gain on sale of investments - net		25,105	33,350
Profit on bank deposits		270	4,341
Dividend income		15,274	21,429
Income from investment in sukkuk bonds		386	1,580
Income from investment in GoP Ijarah Sukkuks		3,918	1,584
		44,953	62,284
Net unrealised appreciation on remeasurement of investments classified as 'financial assets at fair value through profit or loss'		7,948	12,826
<b>Total income</b>		<b>52,901</b>	<b>75,110</b>
<b>EXPENSES</b>			
Remuneration of Arif Habib Investments Limited- Management Company	14	5,958	10,841
Sindh sales tax on remuneration of the Management Company		841	-
Remuneration of Central Depository Company of Pakistan Limited- Trustee		700	786
Annual fee - Securities and Exchange Commission of Pakistan		290	373
Securities transaction cost		1,595	1,098
Settlement and bank charges		254	218
Fees and subscription		180	248
Auditors' remuneration	15	492	383
Printing and related cost		554	214
Professional charges		77	52
Amortisation of preliminary expenses and floatation costs		-	1,370
Other expenses		11	56
<b>Total expenses</b>		<b>10,952</b>	<b>15,639</b>
<b>Net income from operating activities</b>		<b>41,949</b>	<b>59,471</b>
Element of income and capital gains included in the prices of units issued less those in units redeemed		150	1,205
<b>Net income for the year before taxation</b>		<b>42,099</b>	<b>60,676</b>
Taxation	17	-	-
<b>Net income for the year after taxation</b>		<b>42,099</b>	<b>60,676</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>42,099</b>	<b>60,676</b>
<b>Earnings per unit</b>	3.13		

The annexed notes 1 to 28 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

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

  
\_\_\_\_\_  
Director

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	-----Rupees in '000-----	
<b>Undistributed losses brought forward</b>		
- Unrealised losses on remeasurement of investments classified at fair value through profit or loss - held for trading	(4,767)	(61,445)
- Realised (loss) / gain	<u>(43,827)</u>	<u>16,794</u>
	<u>(48,594)</u>	<u>(44,651)</u>
Final distribution for the year ended June 30, 2011: Rs 5.58 per unit (2010: Rs 7.10)		
- Cash distribution	(11,200)	(14,360)
- Bonus units	<u>(31,881)</u>	<u>(50,259)</u>
	<u>(43,081)</u>	<u>(64,619)</u>
Final distribution for the year ended June 30, 2012 : On June 25, 2012 at Rs 4.33 per unit		
- Cash distribution	<u>(8,709)</u>	-
- Bonus distribution	<u>(21,083)</u>	-
	<u>(29,792)</u>	-
Element of loss and capital losses included in prices of units issued less those in units redeemed	3,761	-
Net income for the year after taxation	42,099	60,676
<b>Accumulated loss carried forward</b>	<u>(75,607)</u>	<u>(48,594)</u>
- Unrealised losses on remeasurement of investments classified at fair value through profit or loss - held for trading	14,234	(4,767)
- Realised loss	<u>(89,841)</u>	<u>(43,827)</u>
	<u>(75,607)</u>	<u>(48,594)</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

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

  
\_\_\_\_\_  
Director

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	2012 -----Rupees in '000-----	2011
<b>Net assets at the beginning of the year</b>	<b>337,213</b>	410,415
Issue of 1,237,158 units (2011: 1,679,344 units)	<b>11,189</b>	71,751
Redemption of 2,922,808 units (2011: 4,389,713 units)	<b>(76,379)</b>	(190,064)
Issue of 1,368,906 bonus units (2011: 1,322,943 units)	<b>52,964</b>	50,259
	<b>(12,226)</b>	(68,054)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	<b>(150)</b>	(1,205)
- amount representing (income) / loss that forms part of unit holders' fund - transferred to distribution statement	<b>3,761</b>	-
	<b>3,611</b>	(1,205)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised income transferred to Distribution Statement	<b>(3,761)</b>	-
Net unrealised appreciation / (diminution) on re-measurement of investment classified as financial assets at fair value through profit or loss	<b>7,948</b>	12,826
Capital gain / (loss) on sale of investments	<b>25,105</b>	33,350
Other net income / (loss) for the period	<b>9,046</b>	14,500
	<b>42,099</b>	60,676
Final distribution for the year ended June 30, 2011: Rs 5.58 per unit (2010: Rs 7.10 per unit)		
- Cash distribution	<b>(11,200)</b>	(14,360)
- Bonus distribution	<b>(31,881)</b>	(50,259)
	<b>(43,081)</b>	(64,619)
Final distribution for the year ended June 30, 2012: Rs 4.33 per unit (On June 25, 2012)		
- Cash distribution	<b>(8,709)</b>	-
- Bonus distribution	<b>(21,083)</b>	-
	<b>(29,792)</b>	-
<b>Net assets as at the end of the year</b>	<b>294,063</b>	<b>337,213</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

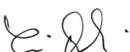
**For Arif Habib Investments Limited  
(Management Company)**

  
\_\_\_\_\_  
Director

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year before taxation	42,099	60,676
<b>Adjustments for:</b>		
Dividend income	(15,274)	(21,429)
Net unrealised appreciation on remeasurement of investments classified as 'financial assets at fair value through profit or loss'	(7,948)	(12,826)
Amount of additional units issued to class 'C' and 'D' unit holders against the amount of rebate in management fee	685	1,357
Amortisation of preliminary expenses and floatation costs	-	1,370
Element of income and capital gains included in the prices of units issued less those in units redeemed	(150)	(1,205)
	19,412	27,943
<b>(Increase) / decrease in assets</b>		
Receivable against sale of units	739	(1,246)
Receivable against sale of investments	-	21,264
Investments	45,429	57,176
Profit receivable	(168)	(75)
Advances, deposits, prepayments and other receivables	-	-
	46,000	77,119
<b>Increase / (decrease) in liabilities</b>		
Payable to Arif Habib Investments Limited- Management Company	(6)	(340)
Payable to Central Depository Company of Pakistan Limited- Trustee	(1)	(11)
Payable to Securities and Exchange Commission of Pakistan	(83)	(149)
Payable against purchase of investments	11,826	(2,070)
Payable against redemption of units	(881)	854
Accrued expenses and other liabilities	589	(187)
	11,444	(1,903)
Dividend received	15,977	22,207
<b>Net cash flow generated from operating activities</b>	92,833	125,366
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on redemption of units	(65,875)	(119,670)
Cash distribution	(19,909)	(14,360)
<b>Net cash used in financing activities</b>	(85,784)	(134,030)
Net increase / (decrease) in cash and cash equivalents during the year	7,049	(8,664)
Cash and cash equivalents at the beginning of the year	49,430	58,094
<b>Cash and cash equivalents at the end of the year</b>	56,479	49,430

The annexed notes 1 to 28 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

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

  
\_\_\_\_\_  
Director

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

## 1 LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Asset Allocation Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 December 2005 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The name of the Fund was changed via fourth supplemental Trust Deed dated 11 May 2011 and it was categorized as Shariah Compliant Asset Allocation Scheme.

The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited (AHIL) the two companies have merged as of June 27, 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated June 10, 2011). AHIL being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to July 30, 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated June 27, 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable Sindh High Court (SHC). The honourable SHC has held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

All the activities of the Fund are undertaken in accordance with the Islamic Shariah rules and principles. The Management Company has appointed a Shariah Supervisory Council whose advice is followed to ensure that activities of the Fund are in compliance with Shariah. The Fund has been categorised as an Islamic Asset Allocation Scheme.

The Fund is an open-ended mutual fund, listed on the Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Fund is to make investment in shariah compliant investments in securities or instruments both inside and outside Pakistan. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

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

The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'AM2' (Positive Outlook) to the Management Company and 3 star and 2 star rating of short and long term respectively to the Fund.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

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

### 2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2012

- a) IFRS 7, 'Financial Instruments: Disclosures' This amendment is effective from January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements during the current year.
- b) IFRS 7, 'Financial instruments: Disclosures' This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

#### 2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment will not have any significant effect on the Fund's financial statement.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

#### 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.1 and 5).

#### 2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain financial assets have been carried at fair value in accordance with the requirements of International Accounting Standards (IAS) 39; 'Financial Instruments Recognition and Measurement.'

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#### 2.6 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund.

#### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

##### 3.1 Financial assets

###### 3.1.1 Classification

The Fund classifies its financial assets in the following categories: 'financial assets at fair value through profit or loss', 'loans and receivables', and 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 a regular basis.

Investments are categorised as follows:

###### 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 prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

###### b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

###### c) Available for sale

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

###### 3.1.2 Regular way contracts

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

###### 3.1.3 Initial recognition and measurement

Financial assets are initially recognised 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 recognised at fair value and transaction costs are expensed in the income statement.

###### 3.1.4 Subsequent measurement

###### 3.1.4.1 Financial assets 'at fair value through profit or loss' and 'available for sale'

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:

###### a) Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange. A security listed on the stock exchange for which no sale is reported on the reporting date is valued at its last sale price on the next preceding date on which such exchange is open and if no sale is reported for such date, the security is valued at an amount neither higher than the closing asked price nor lower than the closing bid price.

###### b) Basis of valuation of debt securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 1 of 2009 dated January 6, 2009. In the determination of the rates MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

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#### c) 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 of Pakistan in accordance with the requirements of NBFC Regulations.

Net gains and losses arising on changes in the fair value of financial assets at fair value through profit or loss are taken to the income statement.

Net gains and losses arising on changes in fair value of available for sale financial assets are taken to other comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss, previously shown under other comprehensive income, is transferred to income before taxation.

#### 3.1.4.2 Loans and receivables

Subsequent to initial recognition financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method. Gain or loss is also recognised in the 'Income statement' when financial assets carried at amortised cost are derecognised or impaired.

#### 3.1.5 Impairment

The carrying amounts of the Fund's assets are revalued at each reporting 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 recognised immediately as an expense in the income statement. If any impairment 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 recognised in other comprehensive income is reclassified from other comprehensive income, and is recognised in the income before taxation.

Provision for debt securities which are classified as non-performing asset is made in accordance with the criteria specified in circular No. 1 dated January 6, 2009 and circular No. 13 dated May 4, 2009 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Director of the Management Company.

#### 3.1.6 Derecognition

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

#### 3.2 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

#### 3.3 Offsetting of financial assets and liabilities

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

#### 3.4 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and short term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried in the Statement of Assets and Liabilities at cost.

#### 3.5 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is measured to its fair value and resultant gain or loss is recognised in the income statement.

#### 3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from April 30, 2006, as per the requirement of the Trust Deed of the Fund approved by the Securities and Exchange Commission of Pakistan.

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#### 3.7 Provisions

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

#### 3.8 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 ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

The Fund is also exempt from the provisions of Section 113 (minimum tax) under clause 11 A 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 unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to avail 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 realised or unrealised, to its unit holders every year.

#### 3.9 Net asset value per unit

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

#### 3.10 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company of the Fund 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 and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications 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 backend load (if any), any duties, taxes, and charges on redemption, if applicable.

#### 3.11 Proposed distributions

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holder's Fund 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 recognised in the Income Statement.

#### 3.13 Earnings per unit

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

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**3.14 Net asset value per unit**

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

**3.15 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of securities classified as 'fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Unrealised gains / (losses) arising on revaluation of derivatives to fair value are taken to the Income Statement in the period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.
- Profit on investment is recognised on an accrual basis.
- Income on GoP Ijara and Sukuks certificates are recognised on an accrual basis.
- Dividend income is recognised when the Fund's right to receive the dividend is established.
- Income on issue and purchase of units is recognised when the units are issued and redeemed at the transaction date.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units. (subject to para 3.12)
- Dividend income is recognised when the right to receive the dividend is established.

**3.16 Expenses**

All expenses including Management Fee and Trustee Fee are recognised in the Income Statement on an accrual basis.

**3.17 Dividend (including bonus units)**

Dividend (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which they are approved.

**3.18 Other assets**

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

**3.19 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 recognised in the income statement.

4	BALANCES WITH BANKS	Note	2012	2011
		Rupees in '000		
	In current accounts		55,354	1,697
	In deposit accounts	4.1	1,125	47,733
			<u>56,479</u>	<u>49,430</u>

**4.1** These carry a rate of return ranging from 5% to 10% per annum (2011: 5% to 10.75% per annum).

5	INVESTMENTS	Note	2012	2011
		Rupees in '000		
	Financial assets at fair value through profit or loss - held for trading		<u>245,906</u>	<u>283,387</u>
			<u>245,906</u>	<u>283,387</u>

**5.1 Financial assets at fair value through profit or loss - held for trading**

	Investments in shares listed in Pakistan	5.2	158,864	277,028
	Investment in unlisted debt securities	5.3	4,500	6,359
	Investment in GOP Ijara Sukkuks	5.4	82,542	-
			<u>245,906</u>	<u>283,387</u>

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**5.2 Investment in shares listed in Pakistan**

Shares of listed companies- fully paid ordinary shares with a face value of Rs.10 each unless stated otherwise.

Name of the investee company	Number of shares					Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company
	As at July 1, 2011	Purchases during the year	Bonus/right/New issue during the year	Sales during the year	As at June 30, 2012	Carrying value	Market value	Appreciation/(diminution)			
------(Rupees in '000)-----											
<b>Oil and Gas</b>											
Attock Petroleum Limited	-	63,764	-	63,764	-	-	-	-	0.00%	0.00%	0.00%
National Refinery Limited	-	11,065	-	11,065	-	-	-	-	0.00%	0.00%	0.00%
Oil and Gas Development Company Limited	-	100,000	-	80,000	20,000	3,030	3,209	179	1.09%	1.30%	0.00%
Pakistan Oilfields Limited	143,011	63,000	-	137,500	68,511	25,006	25,139	133	8.55%	10.22%	0.03%
Pakistan Petroleum Limited	194,364	128,000	14,836	189,500	147,700	27,206	27,810	604	9.46%	11.31%	0.01%
Pakistan State Oil Company Limited	154,079	46,500	-	200,579	-	-	-	-	0.00%	0.00%	0.00%
						<u>55,242</u>	<u>56,158</u>	<u>916</u>	<u>19.10%</u>	<u>22.83%</u>	
<b>Chemicals</b>											
Fatima Fertilizer Company Limited	-	9,752	-	9,752	-	-	-	-	0.00%	0.00%	0.00%
Fauji Fertilizer Company Limited	67,530	330,863	605	287,799	111,199	11,951	12,349	398	4.20%	5.02%	0.01%
Sitara Chemical Industries Limited	62,483	-	-	62,483	-	-	-	-	0.00%	0.00%	0.00%
						<u>11,951</u>	<u>12,349</u>	<u>398</u>	<u>4.20%</u>	<u>5.02%</u>	
<b>General Industrials</b>											
Ghani Glass Limited	-	17,931	-	17,931	-	-	-	-	0.00%	0.00%	0.00%
Packages Limited	314,074	-	-	314,074	-	-	-	-	0.00%	0.00%	0.00%
Tri- Pack Films Limited	-	29,350	-	-	29,350	5,285	6,163	878	2.10%	2.51%	0.10%
						<u>5,285</u>	<u>6,163</u>	<u>878</u>	<u>2.10%</u>	<u>2.51%</u>	
<b>Industrial Engineering</b>											
Millat Tractors Limited	-	30,753	-	-	30,753	14,966	14,849	(117)	5.05%	6.04%	0.08%
						<u>14,966</u>	<u>14,849</u>	<u>(117)</u>	<u>5.05%</u>	<u>6.04%</u>	
<b>Household Goods</b>											
Pakistan Elektron Limited	1,085,011	-	-	1,085,011	-	-	-	-	0.00%	0.00%	0.00%
						<u>-</u>	<u>-</u>	<u>-</u>	<u>0.00%</u>	<u>0.00%</u>	
<b>Personal Goods</b>											
Nishat Mills Limited	657,340	-	-	657,340	-	-	-	-	0.00%	0.00%	0.00%
						<u>-</u>	<u>-</u>	<u>-</u>	<u>0.00%</u>	<u>0.00%</u>	
<b>Pharma and Bio Tech</b>											
Abbott Laboratories Pakistan Limited	-	101,000	-	-	101,000	12,625	12,024	(601)	4.09%	4.89%	0.10%
Glaxo Smith Kline Pakistan Limited	-	119,000	-	-	119,000	7,675	7,526	(149)	2.56%	3.06%	0.05%
						<u>20,300</u>	<u>19,550</u>	<u>(750)</u>	<u>6.65%</u>	<u>7.95%</u>	
<b>Electricity</b>											
The Hub Power Company Limited	753,419	1,181,524	-	1,444,699	490,244	18,956	20,536	1,580	7.71%	8.35%	0.04%
						<u>18,956</u>	<u>20,536</u>	<u>1,580</u>	<u>7.71%</u>	<u>8.35%</u>	
<b>Construction and Materials</b>											
Attock Cement Pakistan Limited	-	173,000	-	57,495	115,505	9,213	9,407	194	3.75%	3.83%	0.13%
D.G Khan Cement	-	370,000	-	370,000	-	-	-	-	0.00%	0.00%	0.00%
Lucky Cement Limited	355,700	172,000	-	406,925	120,775	9,229	13,936	4,707	4.74%	5.67%	0.04%
						<u>18,442</u>	<u>23,343</u>	<u>4,901</u>	<u>8.49%</u>	<u>9.50%</u>	
<b>Fixed Line Telecommunication</b>											
Pakistan Telecommunication Company Limited	-	3,415,000	-	3,415,000	-	-	-	-	0.00%	0.00%	0.00%
						<u>-</u>	<u>-</u>	<u>-</u>	<u>0.00%</u>	<u>0.00%</u>	
<b>Banks</b>											
Meezan Bank Limited	-	1,531,269	173,283	1,500,000	204,552	3,397	5,916	2,519	2.01%	2.41%	1.86%
						<u>3,397</u>	<u>5,916</u>	<u>2,519</u>	<u>2.01%</u>	<u>2.41%</u>	
<b>Total - 2012</b>						<u>148,539</u>	<u>158,864</u>	<u>10,325</u>	<u>55.31%</u>	<u>64.61%</u>	
<b>Total - 2011</b>						<u>282,240</u>	<u>277,028</u>	<u>(5,212)</u>	<u>82.15%</u>	<u>97.76%</u>	

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**5.2.1** Investment in listed equity securities includes shares with market value aggregating to Rs 19.646 million (2011: Rs 22.991 million) that have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular no. 11 dated October 23, 2007 issued by Securities and Exchange Commission of Pakistan.

**5.3 Investment in unlisted debt securities**

Name of the investee company	Number of Certificates				Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investment	Outstanding principal value as a percentage of issued debt capital
	As at July 1, 2011	Purchases during the year	Sales during the year	As at June 30, 2012	Carrying value	Market value	Appreciation/ (Diminution)			
----- (Rupees in '000) -----										
Pak Elektron Limited (28 September 2007)	3,000	-	-	3,000	6,256	4,500	(1,756)	1.53%	1.83%	0.54%
<b>Total - 2012</b>					<b>6,256</b>	<b>4,500</b>	<b>(1,756)</b>	<b>1.53%</b>	<b>1.83%</b>	<b>0.54%</b>
<b>Total - 2011</b>					<b>5,914</b>	<b>6,359</b>	<b>445</b>	<b>1.89%</b>	<b>2.24%</b>	<b>1.25%</b>

**5.3.1** During the year, Pakistan Elektron Limited has been classified as non-performing asset in accordance with the Circular No. 7 of 2009 issued by Securities and Exchange Commission of Pakistan and accordingly, provision amounting to Rs.1.465 million has been charged during the year.

2012			2011			
Outstanding balance	Provision held	Net Carrying value	Outstanding balance	Provision held	Net Carrying value	
----- (Rs in '000) -----						
Pakistan Elektron Limited	5,965	1,465	4,500	6,359	-	6,359

**5.4 Investment in GoP Ijara Sukkuks**

Issue date	Face value				Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investment	
	As at July 1, 2011	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2012	Cost	Market value			Appreciation / (Diminution)
----- (Rupees in '000) -----										
16-May-11	-	65,000	40,000	-	25,000	25,625	25,013	(612)	8.51%	10.17%
15-Nov-10	-	57,500	-	-	57,500	57,538	57,529	(9)	19.56%	23.39%
<b>Total</b>	<b>-</b>	<b>127,500</b>	<b>40,000</b>	<b>-</b>	<b>82,500</b>	<b>83,163</b>	<b>82,542</b>	<b>(621)</b>	<b>28.07%</b>	<b>33.56%</b>

**5.5 Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'**

	2012	2011
	Rupees in '000	
Market value of investments	245,906	283,387
Less: Cost of investments	(237,958)	(270,561)
Net unrealised appreciation in the value of investment for the year	<u>7,948</u>	<u>12,826</u>

**6 DIVIDEND AND PROFIT RECEIVABLE**

Dividend receivable	269	972
Accrued profit on deposit accounts with banks	56	906
Accrued profit on GoP Ijara Sukkuks	1,265	247
	<u>1,590</u>	<u>2,125</u>

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7	ADVANCES AND DEPOSITS	Note	2012	2011
			Rupees in '000	
	Security deposits with			
	- National Clearing Company of Pakistan Limited		2,500	2,500
	- Central Depository Company of Pakistan Limited		200	200
	Advance tax		498	498
			3,198	3,198
8	PRELIMINARY EXPENSES AND FLOATATION COSTS			
	Opening balance		-	1,370
	Amortisation expense for the year		-	(1,370)
	Closing balance		-	-
9	PAYABLE TO ARIF HABIB INVESTMENTS LIMITED - MANAGEMENT COMPANY			
	Management fee	9.1	493	503
	Sales load payable		35	31
			528	534

**9.1** For class A and class B units, management fee is calculated at 2% (3% upto 29 April 2011) of the average annual net assets of the Fund attributable to class A and class B units as reduced by 25 percent of the management fee on the amount of foreign investments attributable to class A and class B units.

For class C and class D units, management fee is calculated at 1.33% (2% up to 29 April 2011) of the average annual net assets of the Fund attributable to class C and class D units as reduced by 25 percent of the management fee on the amount of foreign investments attributable to class C and class D units. (Refer note 14.1 also).

For units which were originally issued to the core investors, management fee is calculated at 1% (1.5% up to 29 April 2011) of the average annual net assets of the Fund attributable to the units originally issued to the core investors as reduced by 25% of the management fee on the amount of foreign investments attributable to the units originally issued to the core investors.

The management fee is monthly paid to the Management Company in arrears. The rates of management fees were revised during the last year on completion of five year of the Fund on 29 April 2011.

10	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED- TRUSTEE	Note	2012	2011
			Rupees in '000	
	Remuneration payable	10.1	57	58
			57	58

**10.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Document as per the tariff specified therein, based on the daily net asset value of the Fund. The tariff structure applicable to the Fund in respect of trustee fee for the year ended June 30, 2012 is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.20% per annum of NAV whichever is higher.
On an amount exceeding Rs 1,000 million	Rs 2 million plus 0.10% per annum of NAV exceeding Rs 1,000 million.

The remuneration is paid to the Trustee monthly in arrears.

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**11 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme classified as "Asset allocation 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.

<b>12 ACCRUED EXPENSES AND OTHER LIABILITIES</b>	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>Rupees in '000</b>	
Auditors' remuneration		325	355
Brokerage payable		157	16
Zakat payable		224	159
Charity / donation payable	12.1	505	317
Capital gain tax payable		43	106
Credit rating fee		100	100
Professional services charges		135	125
Printing and related cost		457	211
Other payables		47	15
		<u>1,993</u>	<u>1,404</u>

**12.1** According to the instructions of the Shariah Board, any income earned by the Fund from investments whereby a portion of investment of such investee has been made in non-shariah compliant avenues, such portion of the income of the Fund from that investee should be donated for charitable purposes directly by the Fund.

**13 CONTINGENCIES AND COMMITMENTS**

There were no contingencies and commitments outstanding as at June 30, 2012 except as mentioned in Note 13.1.

**13.1 CONTRIBUTION TO WORKERS' WELFARE FUND**

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

Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to June 30, 2011, the Honourable Lahore High Court, (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the Sindh High Court. However, pending the decision of the said constitutional petition, the Management Company believes that the Pakistan International Element Islamic Asset Allocation Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company. The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs. 3.42 million (including Rs. 0.842 million for the year ended June 30, 2012).

<b>14 REMUNERATION OF ARIF HABIB INVESTMENTS LIMITED - MANAGEMENT COMPANY</b>	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>Rupees in '000</b>	
Management Fee		5,273	9,484
Amount of additional units issued to class 'C' & 'D' unit holders against the amount of rebate in management fee	14.1	685	1,357
		<u>5,958</u>	<u>10,841</u>

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- 14.1** The Management Company has announced different units (C and D class units) to which reduced levels of management fee are applicable. This reduction in management fee is passed on to such unit holders under a specific mechanism set out in the Trust Deed. In this connection, the amount of reduction in management fee is deemed to be reinvested in the Fund on behalf of eligible unit holders and additional units (at the prevailing NAV of the Fund) are issued by the Trustee to such unit holders on a daily basis. Consequently, under the mechanism, 17,381 additional units (June 30, 2011: 32,441 units) amounting to Rs. 0.685 million (June 30, 2011: Rs.1.357 million) have been issued to these unit holders by the Trustee during the current year.

<b>15 AUDITORS' REMUNERATION</b>	<b>2012</b>	<b>2011</b>
	<b>Rupees in '000</b>	
Annual statutory audit fee	225	210
Half yearly review fee	125	100
Other certifications and services	100	45
Out of pocket expenses	42	28
	<u>492</u>	<u>383</u>

**16 DETAILS OF NON- COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

The Securities and Exchange Commission of Pakistan (SECP) vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. Arif Habib Investments Limited ( the Management Company) has classified the Fund as ' Shariah compliant Asset Allocation Scheme ' in accordance with the said circular. As at June 30, 2012, the Fund is compliant with all the requirements of the said circular except for clause 5 (ii) which requires that the rating of any security in the portfolio shall not be lower than the investment grade. The following investments were held by the Fund which were in non - investment grade:

Category of non-compliant investment	Name of Company	Value of investment before provision	Provision held	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Unlisted debt securities	Pak Elektron Limited	5,965	1,465	4,500	1.53%	1.46%

At the time of purchase, the above mentioned securities were in compliance of the aforementioned circular (i.e the investment grade) and were subsequently downgraded to non-investment grade by MUFAP.

**17 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 realised or unrealised, is distributed amongst the unit holders. No tax liability has been recognised during the current year as the Fund has distributed 90 percent of its accounting income (as reduced by capital gains whether realised or unrealised) during the current year.

**18 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 of the management company and other associated undertakings.

The transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Rules 2003, the NBFC Regulations 2008 and the Trust Deed respectively.

Details of transactions and balances at year end with related parties/ connected persons, other than those which have been disclosed elsewhere in these financial statements, are as follows:

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**18.1 Details of the transactions with the connected persons during the year are as follows:**

	Note	2012	2011
		Rupees in '000	
<b>Arif Habib Investments Limited- Management Company</b>			
- Remuneration of the Management Company		5,958	10,841
- Sindh sales tax on remuneration of the Management Company		841	-
- Sales load for the year		-	211
<b>Arif Habib Limited- Brokerage House</b>			
- Brokerage	18.3	94	171
<b>Central Depository Company of Pakistan Limited- Trustee</b>			
- Remuneration of the Trustee		700	786
- CDC settlement charges		-	88
<b>Key management personnel</b>			
- Issue of 27,008 units (2011: 48,005 units)		1,096	2,090
- Issue of 1,550 bonus units (2011: 22,853 units)		60	868
- Redemption of 24,016 units (2011: 137,162 units)		991	6,055
<b>Bank of Punjab</b>			
- Issue of 13,471 units (2011: 378,007 units)		532	14,360
- Issue of 513,822 bonus units (2011: Nil units)		19,909	-
- Redemption of 523,747 units (2011: 415,769 units)		19,953	17,956
<b>D.G Khan Cement Company Limited Employees Provident Fund Trust</b>			
- Issue of 15,695 bonus units (2011: Nil)		609	-
<b>Ernst &amp; Young Ford Rhodes Sidat Hyder</b>			
- Issue of 163,040 bonus units (2011: 22,853 units)		6,325	-
<b>18.2 Amount outstanding as at year end</b>			
<b>MCB Bank Limited</b>			
- Bank balances		10	-
<b>Summit Bank Limited</b>			
Bank Balances		55,246	1,531
Profit receivable		23	-
<b>Arif Habib Investments Limited- Management Company</b>			
- Remuneration payable to Management Company		493	503
- Sales load payable		35	31
<b>Central Depository Company of Pakistan Limited</b>			
- Remuneration payable to the Trustee		57	58
- Security deposit		200	200
- Other charges		-	15
<b>Key management personnel</b>			
- Units held as at June 30, 2012: 9,039 units (2011: 55,977 units)		359	2,447
<b>D.G Khan Cement Company Limited Employees Provident Fund Trust</b>			
- Units held as at June 30, 2012: 73,403 units (2011: 57,708 units)		2,918	2,523
<b>Nishat Mills Limited</b>			
Shares held as at June 30, 2012: Nil (June 30, 2011: 657,340 shares)		-	33,090
<b>Ernst &amp; Young Ford Rhodes Sidat Hyder</b>			
- Units held as at June 30, 2012: 762,529 units (2011: Nil units)		30,311	-
<b>Bank of Punjab</b>			
- Units held as at June 30, 2012: 2,009,811 units (2011: 2,006,229 units)		79,890	87,712

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- 18.3** 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.

**19 PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER**

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

----- 2012 -----			
	<b>Designation</b>	<b>Experience in years</b>	<b>Qualification</b>
1	Mr. Yasir Qadri	Chief Executive Officer	17 MBA
2	Syed Akbar Ali	Fund Manager	8 MBA & CFA
3	Mr. Muhammad Asim	Senior Vice President	9 MBA & CFA
4	Mr. Kashif Rafi	SVP- Investments	11 MBA & CFA Level I
5	Mr. Mohsin Pervaiz	Vice President	11 MBA & CFA Level I

- 19.2** Syed Akbar Ali is the Fund Manager. Other funds being managed by the fund manager are as follows:

- a) MCB Islamic Income Fund
- b) Pakistan Stock Market Fund
- c) Pakistan Islamic Pension Fund

**20 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID**

	2012 (Percentage)
1 Elixir Securities Pakistan (Private) Limited	16
2 Foundation Securities (Private) Limited	13
3 J.S Global Capital Limited	9
4 Arif Habib Limited	7
5 Invest and Finance Securities Limited	7
6 Fortune Securities Limited	6
7 Next Capital Limited	5
8 KASB Securities Limited	5
9 BMA Capital Management Limited	4
10 Topline Securities (Private) Limited	4
	<b>2011 (Percentage)</b>
1 Arif Habib Limited	18
2 Invest & Finance Securities Limited	11
3 BMA Capital Management Limited	7
4 KASB Securities Limited	7
5 Invisor Securities (Private) Limited	6
6 D.J.M Securities (Private) Limited	5
7 Topline Securities (Private) Limited	5
8 Cassim Investments (Private) Limited	5
9 Al Hoqani Securities (Private) Limited	4
10 Foundation Securities (Private) Limited	4

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**21 DETAILS OF PATTERN OF UNIT HOLDING**

----- As at June 30, 2012 -----

Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
(Rupees in '000)				
Individuals	1,768	3,706,097	147,331	50.10%
Insurance companies	1	51,133	2,033	0.69%
Directors	-	-	-	0.00%
Banks / DFIs	1	2,009,811	79,897	27.17%
NBFCs	1	27	1	0.00%
Retirement funds	19	787,363	31,301	10.64%
Public limited companies	-	-	-	0.00%
Others	22	842,680	33,500	11.39%
	<u>1,812</u>	<u>7,397,111</u>	<u>294,063</u>	<u>100%</u>

----- As at June 30, 2011 -----

Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
(Rupees in '000)				
Individuals	2,050	4,115,590	179,914	53.35%
Insurance companies	1	40,192	1,757	0.52%
Directors	-	-	-	-
Banks / DFIs	1	2,006,234	87,703	26.01%
NBFCs	-	-	-	-
Retirement funds	20	883,125	38,606	11.45%
Public limited companies	1	23	1	0.00%
Others	7	668,691	29,232	8.67%
	<u>2,080</u>	<u>7,713,855</u>	<u>337,213</u>	<u>100.00%</u>

**22 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS**

The 89th, 90th, 91st, 92nd, 93rd, 94th, 95th, 96th and 97th BoD meetings of the Fund were held on July 4, 2011, August 8, 2011, September 10, 2011, September 20, 2011, October 26, 2011, January 27, 2012 and March 29, 2012, April 27, 2012 and June 25, 2012 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of persons	Number of meetings held	Number of Meetings		Meetings not attended
		Attended	Leave granted	
1 Mian Muhammad Mansha	9	4	5	89th, 90th, 93rd, 96th and 97th meetings
2 Mr. Nasm Beg	9	9	-	-
3 Syed Salman Ali Shah	9	8	1	92nd meeting
4 Mr. Haroun Rashid	9	6	3	91st, 92nd and 95th meetings
5 Mr. Ahmed Jahangir	9	7	2	91st and 92nd meetings.
6 Mr. Samad. A. Habib	9	6	3	89th, 91st, and 96th meetings
7 Mr. Mirza Mahmood Ahmed	9	7	2	89th and 97th meetings
8 Mr. Yasir Qadri	9	9	-	-

**23 FINANCIAL RISK MANAGEMENT**

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

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

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2012

The Fund primarily invests in equity securities of listed companies, Sukuk bonds, and units of mutual funds outside Pakistan. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

- market risk
- credit risk
- liquidity risk
- operational risk

#### 23.1 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 Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

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

##### 23.1.1 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.

##### 23.1.2 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 for variable rate instruments

Presently, the Fund holds GOP Ijarah Sukuks exposing the Fund to cashflow interest rate risk. In case of 100 basis points increase/decrease in 6 months weighted average yield of market treasury bills on June 30, 2012 with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by 2012 : Rs 305,836. (2011: Rs. Nil).

###### b) Sensitivity analysis for fixed rate instruments

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

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June 30, 2012					
Effective Yield / interest rate	Exposed to interest rate risk			Not exposed to interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		

% ----- Rupees in '000 -----

**On-balance sheet financial instruments**

**Financial assets**

Balances with banks	5% to 10.0%	1,125	-	-	55,354	56,479
Investments	Kibor + 1.75%	4,500	82,542	-	158,864	245,906
Receivable against sale of units		-	-	-	1,584	1,584
Dividend and profit receivable		-	-	-	1,590	1,590
Advances, deposits, prepayments and other receivables		-	-	-	2,700	2,700
		5,625	82,542	-	220,092	308,259

**Financial liabilities**

Payable to Arif Habib Investments Limited- Management Company		-	-	-	528	528
Payable to Central Depository Company of Pakistan Limited- Trustee		-	-	-	57	57
Payable against purchase of investments		-	-	-	11,826	11,826
Accrued expenses and other liabilities		-	-	-	1,726	1,726
		-	-	-	14,137	14,137

**On-balance sheet gap**

	5,625	82,542	-	205,995	294,122
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**Off-balance sheet financial instruments**

	-	-	-	-	-
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June 30, 2011					
Effective Yield / interest rate	Exposed to interest rate risk			Not exposed to interest rate risk	Total
	Upto three months	More than three months and upto one year	More than one year		

% ----- Rupees in '000 -----

**On-balance sheet financial instruments**

**Financial assets**

Balances with banks	5.52 - 10.75	47,733	-	-	1,697	49,430
Investments	Kibor + 1.5%	6,359	-	-	277,028	283,387
Receivable against sale of units		-	-	-	2,323	2,323
Dividend and profit receivable		-	-	-	2,125	2,125
Advances, deposits, prepayments and other receivables		-	-	-	2,700	2,700
		54,092	-	-	285,873	339,965

**Financial liabilities**

Payable to Arif Habib Investments Limited- Management Company		-	-	-	534	534
Payable to Central Depository Company of Pakistan Limited- Trustee		-	-	-	58	58
Payable on redemption of units		-	-	-	881	881
Accrued expenses and other liabilities		-	-	-	1,404	1,404
		-	-	-	2,877	2,877

**On-balance sheet gap**

	54,092	-	-	282,996	337,088
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**Off-balance sheet financial instruments**

	-	-	-	-	-
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**23.1.3 Price Risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as available for sale and at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks in accordance with the risk management guidelines adopted by the Management Company. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to the extent of lower of 15% of net assets value of Fund or issued capital of that investee company with overall limit of higher of 35% of net assets of Fund or index weight, subject to maximum of 40%, to a single industry sector.

In case of 5% increase in KSE 100 index on June 30, 2012, net income and net assets of the Fund would increase by Rs 7.095 million (2011: Rs 15.536 million) as a result of gains/losses on equity securities at fair value through profit or loss.

In case of 5% decrease in KSE 100 index on June 30, 2011, net income and net assets of the Fund would decrease by Rs 7.095 million (2011: Rs 15.536 million) as a result of gains/losses on equity securities 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, 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

**23.2 Credit risk**

**Credit risk management**

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in unlisted debt securities, GoP Ijara Sukkuks, balances with banks and credit exposure arising as a result of dividend receivable on equity securities. The Fund does not foresee any credit risk with respect to GoP Ijara Sukkuks since these represent the interest of the Government of Pakistan. The credit risk on balances with banks is limited because the counter parties are financial institutions with reasonably high credit ratings.

**Management of credit risk**

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Board of Directors. In addition, credit risk is also minimised due to the fact that the Fund invests only in high quality financial assets, majority of which have been rated by a reputable rating agency. All transactions in listed securities are settled / paid for upon delivery using the National Clearing Company of Pakistan Limited. The risk of default is considered minimal due to inherent systematic measures taken therein.

**Exposure to credit risk**

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk as at 30 June 2012 and 30 June 2011 is as follows:

Particulars	2012		2011	
	Statement of Assets and Liabilities	Maximum exposure	Statement of Assets and Liabilities	Maximum exposure
	Rupees in '000s			
Bank balances (including profit receivable)	56,535	56,535	50,336	50,336
Investments	245,906	4,500	283,387	6,359
Receivable against sale of units	1,584	1,584	-	-
Dividend receivable	1,534	1,534	2,125	2,125
Deposits	2,700	2,700	2,700	2,700
	<u>308,259</u>	<u>66,853</u>	<u>338,548</u>	<u>61,520</u>

Difference in the balance as per the Statement of Assets and Liabilities and maximum exposure in investments is due to the fact that investment in equity securities of Rs. 158.864 million (2011: Rs.277.028 million) is not exposed to credit risk but price risk. Investment in Government Ijarah Sukkuks of Rs. 82.542 million (2011: Nil) is not exposed to credit risk.

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Details of the credit ratings of bank balances, unlisted debt securities and other receivables as at 30 June 2012 are as follows:

Rating	2012
A1+	1.87%
A-	90.35%
A1	0.09%
A-1	0.22%
Others	7.47%
	<u>100%</u>

Rating	2011
AA	0.86%
A+	10.60%
A	2.69%
AA-	27.93%
A-	49.80%
Others	8.12%
	<u>100%</u>

**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.

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

	June 30, 2012		June 30, 2011	
	(Rupees)	(Percentage)	(Rupees)	(Percentage)
Commercial banks	56,535	84.57%	50,336	81.82%
Household goods	4,500	6.73%	6,606	10.74%
Others	5,818	8.71%	4,578	7.44%
	<u>66,853</u>	<u>100%</u>	<u>61,520</u>	<u>100%</u>

**23.3 Settlement risk**

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

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

**23.4 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 to the Fund.

The Fund is exposed to daily cash redemptions, if 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.

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For the purpose of making redemptions, the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would 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 then in issue.

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

----- June 30, 2012 -----				
	Upto three months	More than three months and upto one year	More than one year	Total
----- (Rupees in '000) -----				
<b>Liabilities</b>				
Payable to Arif Habib Investments Limited - Management Company	528	-	-	528
Payable to Central Depository Company of Pakistan Limited - Trustee	57	-	-	57
Payable against purchase of investments	11,826	-	-	11,826
Accrued expenses and other liabilities	1,726	-	-	1,726
	<u>14,137</u>	<u>-</u>	<u>-</u>	<u>14,137</u>

----- June 30, 2011 -----				
	Upto three months	Over three months and upto one year	More than one year	Total
----- (Rupees in '000) -----				
<b>Liabilities</b>				
Payable to Arif Habib Investments Limited - Management Company	534	-	-	534
Payable to Central Depository Company of Pakistan Limited - Trustee	58	-	-	58
Payable against redemption of units	881	-	-	881
Accrued expenses and other liabilities	1,404	-	-	1,404
	<u>2,877</u>	<u>-</u>	<u>-</u>	<u>2,877</u>

**23.5 Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

**23.6 Financial instruments by category**

As at June 30, 2012, all the financial assets carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

-----June 30, 2012-----			
Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
------(Rupees in '000)-----			
<b>Assets</b>			
Balances with banks	56,479	-	56,479
Investments	-	245,906	245,906
Receivable against sale of units	1,584	-	1,584
Dividend and profit receivable	1,590	-	1,590
Advances and deposits	2,700	-	2,700
	62,353	245,906	308,259

-----June 30, 2012-----			
Liabilities at fair value through profit or loss	Other financial liabilities	Total	
------(Rupees in '000)-----			
<b>Liabilities</b>			
Payable to Arif Habib Investments Limited - Management Company	-	528	528
Payable to Central Depository Company of Pakistan Limited - Trustee	-	57	57
Payable against purchase of investments	-	11,826	11,826
Accrued expenses and other liabilities	-	1,726	1,726
	-	14,137	14,137

-----June 30, 2011-----			
Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
------(Rupees in '000)-----			
<b>Assets</b>			
Balances with banks	49,430	-	49,430
Investments	-	283,387	283,387
Receivable against sale of units	2,323	-	2,323
Dividend and profit receivable	2,125	-	2,125
Advances and deposits	2,700	-	2,700
	56,578	283,387	339,965

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

	-----June 30, 2011-----		
	<b>Liabilities at fair value through profit or loss</b>	<b>Other financial liabilities</b>	<b>Total</b>
	------(Rupees in '000)-----		
<b>Liabilities</b>			
Payable to Arif Habib Investments Limited - Management Company	-	534	534
Payable to Central Depository Company of Pakistan Limited - Trustee	-	58	58
Payable against redemption of units	-	881	881
Accrued expenses and other liabilities	-	1,404	1,404
	-	2,877	2,877

**24 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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 reporting date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value as the items are either short-term in nature or periodically repriced.

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, 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:

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

Investment of the Fund carried at fair value are categorised as follows:

	-----As at June 30, 2012-----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
<b>ASSETS</b>				
Investments - net	158,864	82,542	4,500	245,906

**25 UNIT HOLDERS' FUND RISK MANAGEMENT**

The Fund's capital 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 unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restriction on the offering and redemption of units. There is no specific capital requirement which is applicable to the Fund.

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

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

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**26 CORRESPONDING FIGURES**

Corresponding figure have been rearranged and reclassified wherever necessary, for the purpose of comparision and better presentation. During the current year, there were no major reclassifications.

**27 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on August 15, 2012 by the Board of Directors of the Management Company.

**28 GENERAL**

**28.1** Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

  
\_\_\_\_\_  
Chief Executive Officer

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

  
\_\_\_\_\_  
Director

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND  
PATTERN OF HOLDING AS PER REQUIREMENT OF  
CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2012**

<b>Category</b>	<b>No.of Unit Holders</b>	<b>Units</b>
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>	2	51,160
<b>Individuals</b>	1768	3,706,097
<b>Corporate</b>		
<b>Trust</b>	19	787,363.00
<b>Other</b>	21	80,150.97
<b>Shareholders holding 5 percent or more</b>		
THE BANK OF PUNJAB	1	2,009,811.00
FORD RHODES SIDAT HYDER & COMPANY	1	762,529.03
	<u>1,812</u>	<u>7,397,111</u>

**PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND**  
**PATTERN OF UNIT HOLDING BY SIZE**  
**AS AT JUNE 30, 2012**

<b>No. of Unit Holders</b>	<b>Units Holdings</b>	<b>Total Units Held</b>
1,630	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	1,389,096.77
79	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	550,000.49
31	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	377,972.95
15	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	264,693.55
5	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	113,341.87
5	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	138,418.36
3	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	94,463.87
4	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	152,220.32
2	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	87,975.12
2	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	95,297.28
1	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	51,133.07
1	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	55,031.84
2	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	147,723.80
1	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	84,124.62
1	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	94,513.31
1	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	119,377.55
1	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	157,857.57
1	(SHAREHOLDING FROM 190001.0000 TO 195000.0000)	194,197.73
1	(SHAREHOLDING FROM 215001.0000 TO 220000.0000)	216,856.98
1	(SHAREHOLDING FROM 240001.0000 TO 245000.0000)	240,455.82
1	(SHAREHOLDING FROM 760001.0000 TO 765000.0000)	762,529.03
1	(SHAREHOLDING FROM 2005001.0000 TO 2010000.0000)	2,009,774.95
<b>1,812</b>	<b>Total :</b>	<b>7,397,111</b>

# PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION FUND PERFORMANCE TABLE

	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
(Rupees in '000)							
Net Assets	294,063	337,213	410,415	606,589	984,083	1,072,531	1,378,168
Net Income / (loss)	42,099	60,676	68,145	(114,977)	32,760	227,664	(65,690)
Net Asset Value per Unit	39.75	43.72	45.09	42.16	51.86	58.89	47.73
Closing selling price per unit	40.57	44.61	46.01	43.02	54.02	60.40	48.95
Closing repurchase price per unit	39.75	43.72	45.09	42.16	51.86	58.89	47.73
(Rupees)							
Highest selling price per unit	46.36	48.34	51.51	51.54	60.34	60.52	51.59
Lowest selling price per unit	40.38	38.37	44.24	30.49	48.69	46.22	44.25
Highest repurchase price per unit	45.45	47.37	50.48	49.48	58.83	59.01	50.30
Lowest repurchase price per unit	39.59	37.60	43.36	29.88	47.47	45.07	43.14
Dividend distribution - Final	4.33	5.58	7.10	-	1.75	8.75	-
Date of Distribution	June 20, 2012	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	-
(Percentage)							
Total return of the Fund	15.70	15.08	6.95	(15.87)	3.43	23.40	(4.54)
Income Distribution	9.90	14.69	16.84	-	3.49	18.33	-
Capital growth	5.80	0.39	(9.89)	(15.87)	(0.06)	5.07	-
Average return of the fund							
One Year	15.70	15.08	6.95	(15.87)	3.43	23.40	(4.54)*
Two Year	33.12	23.08	(5.14)	(6.71)	12.96	14.98	-
Three Year	42.40	3.60	(2.37)	2.40	9.50	-	-

\*Total return for the period (not CAGR)

## Disclaimer

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