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The Board of Directors
MCB-Arif Habib Savings and Investments Limited
2nd Floor, Adamjee House
I.I. Chundrigar Road
Karachi

February 4, 2022

ASR 2714

Dear Board Members

REVIEW OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

MCB CASH MANAGEMENT OPTIMIZER (CMOP);
MCB DCF INCOME FUND (DCFIF);
ALHAMRA ISLAMIC ASSET ALLOCATION FUND (ALHAA);
PAKISTAN CASH MANAGEMENT FUND (PCF);
PAKISTAN CAPITAL MARKET FUND (PCMF); and
PAKISTAN INCOME ENHANCEMENT FUND (PIEF)

We have pleasure in enclosing three copies of the draft condensed interim financial statements of CMOP, DCFIF, ALHAA, PCF, PCMF and PIEF (collectively referred to as 'the Funds') being managed by MCB-Arif Habib Savings and Investments Limited (the Management Company) along with our draft review reports thereon initialled by us for identification purposes. We shall be pleased to sign our draft review reports in their present or amended forms after:

(a) the draft condensed interim financial statements of the Funds have been approved by the Board of Directors of the Management Company and signed by the Chief Executive Officer, the Chief Financial Officer and any one of the directors of the Management Company authorised by the Board in this behalf;

(b) we have seen the Board's specific approval for:

- transactions with connected persons / other related parties as disclosed in the enclosed condensed interim financial statements of the respective Funds; and

- amounts stated in Annexure 'A' to this letter;

(c) we have received the final drafts of other information to be printed in the condensed interim reports of the Funds signed by the Chief Executive Officer and Company Secretary of the Management Company to consider whether these, including the manner of their presentation, are materially consistent with the information appearing in the enclosed draft condensed interim financial statements; and

(d) we have received appropriately signed letters of representation for each Fund duly signed by the Chief Executive Officer and Chief Financial Officer of the Management Company. The draft representation letters are enclosed to this letter, which contain certain written representations being sought from the Management Company.

We take this opportunity to draw your attention to certain accounting and related matters which are set forth in the following paragraphs:

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2. RESPONSIBILITIES OF THE MANAGEMENT AND AUDITORS IN RELATION TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of the condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The management is responsible for the preparation and presentation of the condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on the condensed interim financial statements based on our review.

We would like to inform the management that unless we have signed the review reports on the enclosed condensed interim financial statements of the Funds, the same shall remain and be deemed not to be reviewed.

3. FEDERAL EXCISE DUTY (FED) ON REMUNERATION OF THE MANAGEMENT COMPANY

We refer to our covering letter ASR 0265 dated August 12, 2021 issued on the financial statements of the Funds for the year ended June 30, 2021 wherein the matter related to retaining the provision in respect of FED on remuneration of the Management Company was highlighted to the Board of Directors of the Management Company. The provision against FED on remuneration of the Management Company has been retained in the condensed interim financial statements of the respective Funds as at December 31, 2021 as the matter is currently pending before the Supreme Court of Pakistan. There has been no change during the current period.

4. SINDH WORKERS' WELFARE FUND

We refer to our covering letter ASR 0265 dated August 04, 2021 issued on the financial statements of the Funds for the year ended June 30, 2021 wherein the matter related to the applicability of Sindh Workers' Welfare Fund (SWWF) under Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) on CISs / mutual funds was highlighted to the Board of Directors of the Management Company.

During the current period, SRB through its letter dated August 12, 2021 intimated MUFAP that the mutual funds do not qualify as Financial Institutions / Industrial Establishments and are therefore, not liable to pay the SWWF contributions. The MUFAP in an emergent meeting held on August 13, 2021 discussed this development with its members and it has been decided by MUFAP that CISs are no longer required to retain the provision in the financial statements and considering the nature and operation of CIS, the provision should be reversed prospectively on August 13, 2021. MUFAP took up the matter for reversal of the entire provision (created during the period from May 21, 2015 to August 12, 2021) on August 13, 2021 with the SECP and the SECP gave its concurrence for prospective reversal of provision for SWWF.

Based on these developments, the management is no longer recognising provision for SWWF in the financial statement of the Funds from August 13, 2021 and has reversed the entire provision on August 13, 2021 in the financial statements of the respective Funds.

5. BONUS SHARES WITHHELD

The Finance Act, 2014 introduced a levy of 5% income tax on bonus shares and made every company responsible to withhold and deposit 5% of total bonus shares into the Government treasury after selling them into the Stock Exchange. Consequently, shares withheld were only to be released once the recipients of bonus shares deposit tax equivalent to 5% of the value of the bonus shares issued. The value of tax is computed on the basis of day-end price on the first day of book closure.

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In this regard, a constitutional petition has been filed by Collective Investment Schemes (CISs) through their Trustees in the High Court of Sindh, challenging the applicability of withholding tax provisions on bonus shares received by CISs. The petition was based on the fact that because CISs are exempt from deduction of income tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, the withholding tax provision should also not be applicable on bonus shares received by CISs. A stay order has been granted by the High Court of Sindh in favour of CISs.

During the year ended June 30, 2018, the Supreme Court of Pakistan passed a judgement on June 27, 2018 whereby the suits which are already pending or shall be filed in future must only be continued / entertained on the condition that a minimum of 50 percent of the tax calculated by the tax authorities is deposited with the tax authorities. Accordingly, the CISs were required to pay minimum 50% of the tax calculated by the tax authorities for the case to remain continued. The CISs failed to deposit the minimum 50% of the tax liability and accordingly the stay got vacated automatically during the year ended June 30, 2019. During the year ended June 30, 2020, the CISs have filed a fresh constitutional petition via CP 4653 dated July 11, 2019. In this regard, on July 15, 2019, the Honourable High Court of Sindh has issued notices to the relevant parties and has ordered that no third party interest on bonus shares issued to the Funds in lieu of their investments be created in the meantime. The matter is still pending adjudication and the Funds have included these shares in their portfolio, as the management is confident that the decision of the constitutional petition will be in favour of the CISs. During the year ended June 30 2021, the Fund reclassified the amount of these shares from "investments" to "advances, deposits and other receivables" based on the market values of these shares on November 13, 2020.

We would like to highlight that the Finance Act, 2018 (effective from July 1, 2018) has omitted Section 236M of the Income Tax Ordinance, 2001 requiring every company quoted on stock exchange issuing bonus shares to the shareholders of the company to withhold five percent of the bonus shares to be issued. Accordingly, post July 1, 2018 shares are not being withheld at the time of bonus issue.

The table presenting details of bonus shares withheld in respect of each Fund as at December 31, 2021 is given in Annexure B to this letter.

6. ALLOCATED EXPENSES AND SELLING AND MARKETING EXPENSES

(i) Allocated Expenses

In accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (amended vide S.R.O 1160(I) / 2015 dated November 25, 2015), the Management Company was entitled to reimbursement of fee and expenses in relation to registrar services, accounting, operation and valuation services related to the Fund up to a maximum of 0.1% of the average annual net assets of its Collective Investment Schemes (CISs) or actual, whichever is less.

During the year ended June 30, 2019, the Securities and Exchange Commission of Pakistan (SECP) vide SRO 639 of 2019 dated June 20, 2019 introduced amendments in Regulation 60 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 whereby the maximum limit of 0.1% was removed. However, capping of Total Expense Ratio (TER) of the Fund is in place according to different categories of the Funds.

In this connection, the Management Company has allocated such expenses to the Fund based on its discretion subject to not being higher than actual expense, which has also been approved by the Board of Directors of the Management Company (BOD).

We have been informed by the management that the total expenses allocated to all the Funds do not exceed the total eligible allocable expenses incurred by the Management Company during the period.

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(ii) Selling and Marketing Expenses

The SECP had allowed the Asset Management Companies to charge selling and marketing expenses to all categories of open-end mutual funds (except fund of funds) initially for a period of three years (i.e. from January 1, 2017 till December 31, 2019). The maximum cap of selling and marketing expense was 0.4% per annum of the net assets of the Fund or actual expenses whichever is lower.

During the year ended June 30, 2020, the SECP through its circular 11 dated July 5, 2019 has revised the conditions for charging of selling and marketing expenses to a Fund. As per the revised guidelines, the maximum cap of 0.4% per annum has been lifted and now the asset management company is required to set a maximum limit for charging of such expense to the Fund and the same should be approved by the Board of Directors of the Management Company as part of an annual plan.

The Management Company has charged selling and marketing expenses to the Fund based on its discretion subject to not being higher than actual expenses. We suggest that the Management Company should set a mechanism and threshold for chargeability of selling and marketing expenses for each fund to completely comply with the requirements of Circular 11 of 2019.

The SECP's circular further mentions that the selling and marketing expenses are to be reimbursed by the Funds to the Management Company at the end of each quarter subject to verification of documentary evidence by the Trustee and ensuring that the expenses are used for the purpose allowed. In case of dispute between the Asset Management Company and the Trustee, the matter shall be referred to the SECP and the decision of the SECP shall be binding on both the Asset Management Company and the Trustee.

We would like to highlight that the Management Company has submitted details of selling and marketing expenses for DCFIF, CMOP, PCMF and PIEF from July 01, 2021 to September 30, 2021 and is in the process of submitting documents for the period from October 01, 2021 to December 31, 2021 with the trustees. No dispute with the Trustee has arisen on information submitted from July 01, 2021 to September 30, 2021 and the management company is confident that no dispute is likely to arise on reimbursement of payment for selling and marketing expenses for the period from October 01, 2021 to December 31, 2021.

7. WITHHOLDING TAX DEDUCTION BY COMPANIES

As per clause 47(B) of part IV of the Second Schedule to the Income Tax Ordinance, 2001 (the Ordinance), payments made to collective investment schemes (CISs) are exempt from withholding tax under sections 150 and 151 of the Ordinance. However, during the course of our review, we noted that certain withholding agents had deducted withholding tax on profit on bank balances, profit on debt securities, income of margin trading system and dividend received by the Funds in current and prior years citing that a valid exemption certificate under section 159(1) issued by the concerned Commissioner of Inland Revenue (CIR) had not been submitted to them by the Funds at the time the profit on bank balances, profit on debt securities, income of margin trading system and dividends were paid. The cumulative amount of tax withheld has been recorded as advance tax in the condensed interim financial statements of the respective Funds for the period ended December 31, 2021 as, in the opinion of the management, the Funds will be able to obtain refunds against the tax so withheld.

The table below presents details of taxes withheld in respect of each Fund as at December 31, 2021:

Name of Fund	Amount
	(Rupees in '000')
MCB Cash Management Optimizer	1,411
MCB DCF Income Fund	1,607
Alhamra Islamic Asset Allocation Fund	1,205
Pakistan Cash Management Fund	386
Pakistan Capital Market Fund	466
Pakistan Income Enhancement Fund	329

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8. CONTINGENCIES AND COMMITMENTS AND TRANSACTIONS WITH CONNECTED PERSONS

We have been informed by the management that there were no contingencies and commitments and transactions with connected persons / related parties other than those already disclosed in the condensed interim financial statements of the respective Funds.

We wish to place on record our appreciation of the courtesy and cooperation extended to us during our review.

Yours truly

A.F.Ferguson & Co

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ANNEXURE A

DETAILS OF ITEMS FOR WHICH SPECIFIC APPROVAL IS REQUIRED AS REFERRED TO IN PARAGRAPH 1(b) OF OUR LETTER ASR 2714 DATED FEBRUARY 4, 2022

Name of the Fund	Remuneration of the Management Company (including indirect taxes)	Remuneration of the Trustee (including indirect taxes)	Expenses allocated by the Management Company	Selling and marketing expenses	Reversal of provision against Sindh Workers' Welfare Fund
	------------------------- (Rupees in 000) ----------------------				
MCB Cash Management Optimiser	51,476	11,259	10,142	26,838	134,276
MCB DCF Income Fund	35,602	1,780	2,100	8,917	42,902
Alhamra Islamic Asset Allocation Fund	43,524	1,888	1,167	-	18,922
Pakistan Cash Management Fund	6,468	1,434	21	2,147	12,614
Pakistan Capital Market Fund	8,806	525	233	-	6,269
Pakistan Income Enhancement Fund	5,857	458	539	165	9,434

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ANNEXURE B

DETAILS OF BONUS SHARES WITHHELD AS REFERRED TO IN PARAGRAPH 5 OF OUR LETTER ASR 2714 DATED FEBRUARY 4, 2022

Particulars	Bonus shares withheld	Carrying value of shares withheld
	(Number of shares)	(Rupees in 000)
Alhamra Islamic Asset Allocation Fund		
IBL Healthcare Limited	691	59
The Searle Company Limited	196	46
Pakistan Capital Market Fund		
The Searle Company Limited	209	51
Al Shaheer Corporation Limited	805	18
Faysal Bank Limited	8,250	134

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