

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

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# AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX 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>Company Secretary &amp; CFO of the Management Company</b>	Mr. Muhammad Saqib Saleem	
<b>Audit Committee</b>	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir	
<b>Trustee</b>	MCB Financial Services Limited (MCBFSL) 3rd Floor, Adamjee House, I.I. Chundrigar Road, Karachi.	
<b>Bankers</b>	Habib Metropolitan Bank Ltd.	
<b>Auditors</b>	KPMG Taseer Hadi & Co. - Chartered Accountants Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530, Pakistan	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Registrar</b>	Gangjees Registrar Services (Pvt.) Limited. Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton, Karachi.	
<b>Rating</b>	AM2 (Positive Outlook) – Management Quality Rating assigned by PACRA	

# AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

### FOR THE YEAR ENDED JUNE 30, 2011

The Board of Directors of Arif Habib Investments Limited, the Management Company of AH Dow Jones Safe Pakistan Titans 15 Index Fund (AHDJF), is pleased to present the Annual Report on the affairs of AHDJF for the period ending 30th June, 2011.

#### Equities Market Overview

Equities recorded second consecutive year of stellar performance with the KSE-100 index rising by about 29% in FY11 on top of 36% return posted in FY10. Pakistan equity market also remained the 3rd best performing market in the region after Indonesia and Thailand which posted 33% and 31% returns respectively.

KSE -100 Index made the fresh start with 76 points plus at 9,740 on its 1st day and closed the first month in same zeal at +8.2%. However the momentum halted abruptly as severe floods hit across provinces causing substantial damages and losses. Economic gloom pulled the index in the negative territory making a low of 9,488 on August 17, 2010. However persistent foreign inflow amounting to USD 105 m in the first quarter, turned the sentiment at KSE positive and second quarter proved to be the best performing period of the year and about 74% of the total annual performance could be attributed to this period. With the exception of initial period, market remained lackluster during most part of the 2nd half of the year where major dampeners included the political unrest in MENA region and highly volatile US-Pak diplomatic relationship. KSE-100 index closed the year at 12,496, down 2.1% from its year high of 12,768 made on Jan 17, 2011; overall 29% up YoY.

While returns remained impressive, volumes were unprecedentedly low. In its first year, post imposition of CGT, retail investors remained largely inactive as foreign investors and local institutions including Banks, Corporates and Mutual Funds demonstrated marginal interest. During the year, average daily turnover declined significantly to about 95 million shares, down 40% on YoY basis. KSE Management attempted to enthruse the market by introducing leverage products including Margin Trading System and Market Financing System and made few modifications in futures market, but to no avail.

Macro-economic factors challenging the KSE performance included strong detriments like capital gains tax, a cumulative 150 basis points increase in discount rate in an already high interest rate environment, economic loss due to floods and higher Oil prices and lower foreign flows. Some of the positives that propelled KSE in positive territory included strong external account position on the back of increased textile exports, flood-related foreign aids, coalition support fund and record-high remittances ultimately translating in a relatively stable exchange rate and record FX reserves. Moreover, strong liquidity from booming rural economy and persistent foreign interest in domestic equities, which continued to trade at a discount of around 35-40% despite strong dividend yield (near 7%) and corporate earnings growth (+20% YoY) helped the market to exhibit strong performance.

Sector wise, Food Producers, Metals and Mining, Beverages and Chemicals outperformed the KSE-100 index while the major sectors and index heavy weights including Banks and Oil & Gas Sectors remained among the underperformers while best performing stocks included Nestle, FFC, FFB, POL and LOTPTA.

#### Future Outlook

We believe that the global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. An unexpected 50 bps DR cut by the SBP during the early part of FY12 bodes well for the market, however, a ballooning fiscal deficit would continue to 'crowd out' domestic capital markets. Strong earnings growth, sizeable discount to regional markets, high dividend yields and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

#### Fund's Performance

The Fund aims to provide investors with a total return that before expenses closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 Index by tracking the returns of Dow Jones SAFE Pakistan Titans 15 Index, thus providing exposure to the constituents of Dow Jones SAFE Pakistan Titans 15 Index in a single security. The fund had employed a passive management approach to replicate the performance of the constituents during the year. However, post-merger, the fund had to reduce its exposure in MCB Bank to remain compliant with the group company exposure. However, by the timing of writing this report, the SECP has notified amendments in NBFC Regulations which now permit the fund to replenish its exposure in MCB Bank according to the index weight. Since inception of the fund in October 2010, the fund generated a return of 16.1% as against its benchmark return of 19.6% during the same period, an under-performance of 3.5%.

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

Performance Information (%)	AHDJP	Benchmark
Last twelve Months Return	N/A	N/A
Since Inception	16.1%	19.6%

During the year your fund earned net income of Rs 16.973 million. The Board in the meeting held on 4th July, 2011 has declared final distribution amounting to Rs. 4.65 million (i.e. Rs. 2.20 per unit).

During the period, units worth Rs.122.726 million were issued and units with a value of Rs. 16.814 million were redeemed. As on 30 June 2011 the NAV of the Fund was Rs. 58.03 per unit.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011**

## **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.

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 a emphasis of matter paragraph in auditor' report highlighting the said issue.

The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs.0.34 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.

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 and 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 applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.

# AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. As per note 1 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011. Statement showing attendance of Board Meeting is as under:-

## Attendance of Board Meeting from 1st July 2010 to 30th June 2011.

S.#	Name	Designation	Meetings			
			Total	Attended	Eligible to Attend	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	15	15	15	-
2.	Mr. Nasim Beg **	E. Vice Chairman	15	15	15	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	15	15	15	-
4.	Mr. Muhammad Kashif *	Former Director	15	11	15	4
5.	Syed Ajaz Ahmed *	Former Director	15	13	15	2
6.	Mr. Sirajuddin Cassim *	Former Director	15	4	15	11
7.	Mr. S. Gulrez Yazdani *	Former Director	15	13	15	2
8.	Mr. Samad A. Habib ***	Director	15	5	5	-
9.	Mian Mohammad Mansha ****	Chairman	15	1	1	-
10.	Mr. Yasir Qadri ****	Chief Executive	15	1	1	-
11.	Syed Salman Ali Shah ****	Director	15	1	1	-
12.	Mr. Haroun Rashid ****	Director	15	1	1	-
13.	Mr. Ahmed Jahangir ****	Director	15	1	1	-
14.	Mr. Mirza Mahmood Ahmad ****	Director	15	1	1	-
* Resigned on 27th June, 2011						
** Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.						
*** Mr. Samad A. Habib was elected as director on 7th February, 2011 and his appointment approved by SECP on 31st March, 2011.						
****Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.						

- m. The trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary of the management company and their spouses and minor children, as are under:-

S. #	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Baig	Executive Vice Chairman	400.00	-	-

## External Auditors

The fund's external auditors, Messers KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2012. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2012.

## 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, MCB Financial Services (Pvt.) Limited (the Trustee of the Fund) and the management of the Karachi Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

## For and on behalf of the board

Yasir Qadri  
Chief Executive

Karachi: September 20, 2011

# AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

## Fund Type and Category

AH Dow Jones Safe Pakistan Titans 15 Index Fund (AHDJPF) is an Open-End Index Tracker Fund.

## Fund Benchmark

The benchmark for AHDJPF is Dow Jones Safe Titans 15 Index.

## Investment Objective

The Fund aims to provide investors with a total return that before expenses closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 index by tracking the returns of Dow Jones SAFE Pakistan Titans 15 Index, thus providing exposure to the constituents of Dow Jones SAFE Pakistan Titans 15 Index in a single security.

## Investment Strategy

AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF) is an Open End Index Tracker under which aims to provide investors with a total return that closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 Index. The AHDJPF will employ a passive management approach to replicate the performance of the constituents of Dow Jones SAFE Pakistan Titans 15 Index. The Fund will invest all or substantially all, of its assets in securities that make up the target index. Excess cash, if any, may be kept in daily return bank deposits or short term money market instruments. The Fund is not allowed to take leveraged investment positions. This fund also provides a low cost exposure to a portfolio primarily holding blue chip liquid stocks selected on the basis of free float market capitalization and liquidity.

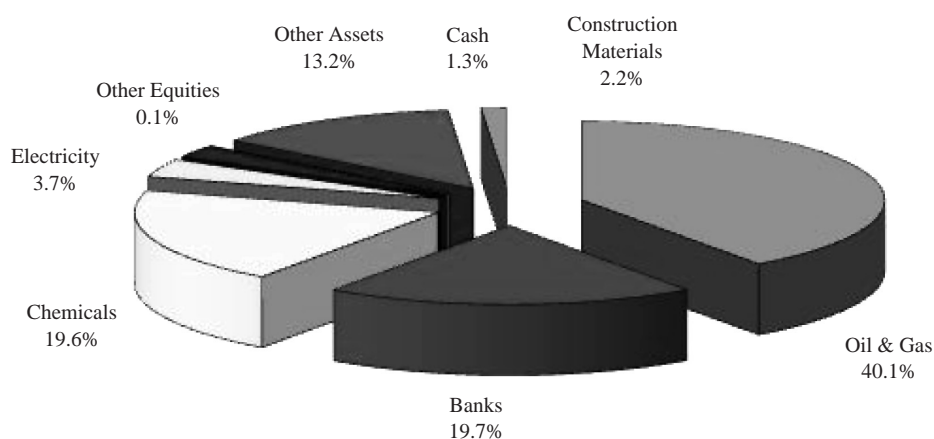
## Manager's Review

AH Dow Jones Safe Pakistan Titans 15 Index Fund (AHDJPF) was launched during the period in October 2010 with an aim of providing investors with a total return that before expenses closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 Index. In line with the fund's objective, the fund had employed a passive management approach to replicate the performance of the constituents during the year.

Since inception of the fund in October 2010, the fund generated a return of 16.1% as against its benchmark return of 19.6% during the same period, an under-performance of 3.5%. Post-merger, the fund had to reduce its exposure in MCB Bank to remain compliant with the group company exposure. However, by the timing of writing this report, the SECP has notified amendments in NBFC Regulations which now permit the fund to replenish its exposure in MCB Bank according to the index weight.

Since the launch of the fund, the fund has grown to a size of PKR 123 million by end of June 2011.

Asset Allocation as on June 30, 2011 (% of total assets)



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Mr. Junaid Khalid, FRM  
Fund Manager

Karachi: September 20, 2011

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND REPORT OF THE TRUSTEE PURSUANT TO REGULATION 41(H) OF THE NON-BANKING FINANCE COMPANIES AND NOTIFIED ENTITIES REGULATIONS, 2008**

AH Dow Jones Safe Pakistan Titans 15 Index Fund, an open-end scheme established under a Trust Deed dated March 30, 2010 executed between Arif Habib Investments Limited, as the Management Company and MCB Financial Services Limited, as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on April 22, 2010.

Arif Habib Investments Limited, the Management Company of AH Dow Jones Safe Pakistan Titans 15 Index Fund, has in all material respects managed AH Dow Jones Safe Pakistan Titans 15 Index Fund, during the period from August 16, 2010 to June 30, 2011 in accordance with the provisions of the following:

- (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
- (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
- (iii) the creation and cancellation of units are carried out in accordance with the deed;
- (iv) and any regulatory requirement

For the purpose of information, the attention of unit holder's is drawn towards auditor's report and note 13 to financial statements which refers to the pending outcome of the litigation regarding contribution to WWF in Honorable Sindh High Court.

**Karachi: October 19, 2011**

**Khawaja Anwar Hussain**  
Chief Executive Officer  
**MCB Financial Services Limited**

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

## **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE**

### **FOR THE YEAR ENDED JUNE 30, 2011**

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of AH Dow Jones Safe Pakistan Titans 15 Index Fund ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi 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.

The Management Company 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 three independent non-executive directors out of a total strength of eight directors.
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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company, on the same day due to merger as fully explained in note 1 to the financial statements.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
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 (CE) has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.
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, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.
12. The Directors' Report of the Fund for this period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CE 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 financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.
17. 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.
18. The Company has an effective internal audit function which was headed by the Head of Internal Audit who resigned on amalgamation. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.



**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

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, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
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 IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

**For and on behalf of the board**

**Yasir Qadri  
Chief Executive**

**Karachi: September 20, 2011**

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND 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 the Fund to comply with the Listing Regulations of Karachi Stock Exchange 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 of the Fund. 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 Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of 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 the controls and the effectiveness of such internal controls.

Further, sub-regulation (xiii-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited 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 requirement 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 under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the period from 16 August 2010 to 30 June 2011.

**Karachi**  
**Dated: September 20, 2011**

**KPMG Taseer Hadi & Co.**  
Chartered Accountants

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

## **INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS**

We have audited the accompanying financial statements of AH Dow Jones SAFE Pakistan Titans 15 Index Fund ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2011, and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in unit holders' fund for the period from 16 August 2010 to 30 June 2011 and a summary of significant accounting policies and other explanatory notes.

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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan, and for such internal control as the Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards 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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 state of the Fund's affairs as at 30 June 2011, and of its financial performance, cash flows and transactions for the period from 16 August 2010 to 30 June 2011 in accordance with approved accounting standards as applicable in Pakistan.

### ***Emphasis of matter***

We draw attention to note 13 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 0.34 million is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

### ***Other matters***

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

**Karachi**  
**Dated: September 20, 2011**

**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
**Amyr Pirani**

# FINANCIAL STATEMENTS

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2011**

	Note	30 June 2011
		(Rupees in '000)
<b>Assets</b>		
Bank balances	4	1,682
Investments	5	108,713
Dividend and profit receivable	6	521
Advances, deposits, prepayments and other receivables	7	2,600
Preliminary expenses and floatation costs	8	858
Receivable against sale of investments		12,734
Receivable against sale of units		25
Total assets		127,133
<b>Liabilities</b>		
Payable to the Management Company	9	3,812
Payable to MCB Financial Services Limited - Trustee	10	57
Payable to Securities and Exchange Commission of Pakistan - Annual fee	11	80
Accrued expenses and other liabilities	12	497
Total liabilities		4,446
<b>Contingencies</b>	11	
<b>Net assets</b>		122,687
<b>Unit holders' fund</b> (as per the statement attached)		122,687
		(Number of Units)
<b>Number of units in issue</b> (face value of units is Rs. 50 each)		2,114,290
		(Rupees)
<b>Net asset value per unit</b>		58.03

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
INCOME STATEMENT  
FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

	Note	30 June 2011
<b>(Rupees in '000)</b>		
<b>Income</b>		
Profit on bank deposits		422
Dividend income		5,180
Gain on Sale of Investments - net		2,080
Unrealized Gain on securities classified as "at fair value through profit and loss" - net	5.2	11,815
<b>Total income</b>		<b>19,497</b>
<b>Expenses</b>		
Remuneration to the Management Company	9.1	846
Remuneration of MCB Financial Services Limited - Trustee	10.1	497
Annual fee - Securities and Exchange Commission of Pakistan	11	80
Settlement and bank charges		155
Auditor's remuneration	15	419
Brokerage and FED charges		323
Annual listing fee		80
Professional charges		75
Printing and related cost		105
Amortisation of preliminary expenses and floatation costs	8.1	142
<b>Total expenses</b>		<b>2,722</b>
<b>Net income from operating activities</b>		<b>16,775</b>
Net element of income and capital gains included in prices of units issued less those in units redeemed		198
<b>Net income carried forward for distrubution</b>		<b>16,973</b>

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

**30 June  
2011**

**(Rupees in '000)**

Net income for the period	16,973
Other comprehensive income for the period	-
<b>Total comprehensive income for the period</b>	<b>16,973</b>

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
DISTRIBUTION STATEMENT  
FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

**30 June  
2011**

**(Rupees in '000)**

Undistributed income brought forward	-
Comprehensive income for the period	16,973
Undistributed income carried forward	<u>16,973</u>
Undistributed income carried forward:	
- Unrealised appreciation on remeasurement of investments	11,815
- Realised gains - net	5,158
Undistributed income carried forward	<u>16,973</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director



**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

	<b>30 June 2011</b>
	<b>(Rupees in '000)</b>
Net assets at the beginning of the period	-
Issue of 2,408,918 units for the period from 16 August 2010 to 30 June 2011	122,726
Redemption of 294,628 units for the period from 16 August 2010 to 30 June 2011	(16,814)
	105,912
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed - transferred to the income statement	(198)
Capital gain on sale of investments	2,080
Net unrealised diminution on investments - net	11,815
Other net income for the year	3,078
Net income for the period	16,973
<b>Net assets at the end of the period</b>	<b>122,687</b>
	<b>(Rupees)</b>
Net asset value per unit at the end of the period	58.03

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

**30 June  
2011**

**(Rupees in '000)**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income for the period	16,973
<b>Adjustments</b>	
Dividend income	(5,180)
Unrealised appreciation in the value of investments - 'at fair value through profit or loss'	(11,815)
Amortisation of preliminary expenses and floatation costs	142
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed	(198)
	(78)
<b>(Increase) in assets</b>	
Investments - 'at fair value through profit or loss'	(96,898)
Profit receivable	(13)
Receivable against sale of investments	(12,734)
Receivable against sale of units	(25)
Advances, deposits, prepayments and other receivables	(3,600)
	(113,270)
<b>Increase in liabilities</b>	
Payable to the Management Company	3,812
Payable to MCB Financial Services Limited - Trustee	57
Payable to Securities and Exchange Commission of Pakistan - Annual fee	80
Accrued expenses and other liabilities	497
	4,446
Dividend received	4,672
<b>Net cash used in operating activities</b>	(104,230)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net receipts from issuance / redemption of units	105,912
<b>Net cash generated from financing activities</b>	105,912
Net increase in cash and cash equivalents during the period	1,682
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	1,682

The annexed notes 1 to 24 form an integral part of these financial statements.

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

Chief Executive

Director

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

#### **1. LEGAL STATUS AND NATURE OF BUSINESS**

AH Dow Jones SAFE Pakistan Titans 15 Index Fund (the Fund) was established under a Trust Deed executed on 30 March 2010 between Arif Habib Investments Limited as Management Company and MCB Financial Services Limited as Trustee of the Fund. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 19 March 2010 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations).

Formation of the Fund as open end fund was authorized by SECP on 22 April 2010. The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by SECP. During the period, the registered office of the management company shifted to 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 the two companies have merged as of 27th June 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 ). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank. However subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to 30th July 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 Sindh High Court (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.

The Fund is an index tracker scheme and aims to provide investors with a total return that before, expenses closely corresponds to the return of the Dow Jones SAFE Pakistan Titans 15 Index by tracking the return of Dow Jones SAFE Pakistan Titans 15 Index, thus providing exposure to the constituents of Dow Jones SAFE Pakistan Titans 15 Index in a single security.

The Fund invests in local equity stocks in respective weightages of Dow Jones SAFE Pakistan Titans 15 Index to achieve the investment objective. The fund manager monitors the performance of the Fund and the benchmark index on a continuous basis. Upon Rebalancing of the Index the Management Company may also rebalance the portfolio within 21 Dealing Days with the objective to minimize the tracking error.

The Fund shall strive to remain fully invested in accordance with the stated index; however, under no circumstances shall it be invested less than 85% of its net assets in securities covered in the index during the year based on monthly average investment calculated on daily basis. The uninvested amount shall be kept in:

- (a) Cash and / or near cash instruments where near cash instruments include cash in bank account (excluding TDRs); and
- (b) Treasury Bills not exceeding 90 Days maturity.

The duration of the Fund is perpetual. It offers and redeem units on a continuous basis. The initial offering / launch period was from 12 October 2010 to 14 October 2010 (both days inclusive).

The initial offer price of the units was Rs 50 per unit.

Title to the assets of the Fund are held in the name of MCB Financial Services Limited as trustee of the Fund.

#### **2. BASIS OF PRESENTATION**

##### **2.1 Statement of compliance**

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

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

#### **2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention, except that investments are measured at fair value.

#### **2.3 Functional and presentation currency**

These financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund. All financial information presented in Pak Rupees has been rounded off to the thousand of Rupees.

#### **2.4 Use of estimates and judgment**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying 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 the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are as follows:

- Classification and valuation of investments (Note 3.1, 3.10 and 18)
- Workers welfare fund liability (Note 13)
- Taxation (Note 3.8)
- Other assets - Judgment is involved in assessing the realisability of other assets balances.

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

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below:

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Fund's financial statements.
- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). These amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.
- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011) These amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

Apart from above certain other standards, amendments to published standards and interpretations of accounting standards became effective for accounting periods beginning on or after 1 January 2011, however, they do not affect the Fund's financial statements.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

#### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

##### **3.1 Financial instruments**

The Fund classifies its financial instruments in the following categories:

a) *Financial instruments at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss upon initial recognition if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes there in are recognised in Income Statement.

b) *Available-for-sale*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.

c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available-for-sale. This includes receivable against sale of investments and other receivables and are carried at amortised cost using the effective yield method, less impairment losses, if any.

d) *Financial liabilities*

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

#### **Recognition**

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

#### **Measurement**

Financial instruments are measured initially at cost (transaction price) plus, in case of a financial instruments not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instrument at fair value through profit or loss are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as at 'fair value through profit or loss' and available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement.

Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement. Unquoted securities are carried at investment price or break-up value which ever is lower, except for government and debt securities which are stated at fair value.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

#### ***Basis of valuation of Equity Securities***

The fair value of quoted equity securities is based on their price quoted on the Karachi Stock Exchange at the balance sheet date.

#### ***Basis of valuation of Government Securities***

The investment in government securities are valued at their fair values (determined by reference to the quotations obtained from the PKRV rate sheet on the Reuters page), based on the remaining tenor of the security. Mark up accrued on treasury bills are included in the carrying value of these investments.

#### ***Derecognition***

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments; Recognition and Measurement.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

#### ***Derivatives Financial Instruments***

These are measured at fair value. The fair value of a derivative is based on quoted bid price of Stock Exchange ruling at the balance sheet date. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the balance sheet. The resultant gains and losses are included in the income currently. Gain or loss on remeasurement of value of derivative financial instrument is recognised in income statement.

### **3.2 Unit holders' Fund**

Unit holders' Fund represents the units issued by the Fund, carried at the redemption amount representing the investors' right to a residual interest in the Fund assets.

### **3.3 Issue and redemption of units**

Units issued are recorded at the offer price determined by the Management Company for the application received by the distributors during business hours on that date. The offer price represents the net assets value per units as of the close of business day plus the allowable front-end load, provision for transaction cost and any provision for duties and charges, if applicable. The front-end load is payable to the investment facilitator, distributors and the Management Company.

Units redeemed are recorded at the redemption price applicable to units for which the distributors receive redemption requests during the business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load (if any), any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

### **3.4 Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased**

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

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) relating to available-for-sale investments held by the Fund is recorded in a separate reserve account and is recognised in the unit holders' fund account.

### **3.5 Provisions**

A provision is recognised in the balance sheet when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provision are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

#### **3.6 Preliminary expenses and floatation cost**

Preliminary expenses and floatation costs represents expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over the period of five years from 15 October 2010 as per the Trust deed of the Fund approved by Securities and Exchange Commission of Pakistan.

#### **3.7 Net asset value per unit**

The net asset value 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 issue.

#### **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 90% of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

#### **3.9 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 investments classified as financial assets at fair value through profit or loss and derivatives are included in the Income Statement in the period in which they arise.

Unrealised gains / (losses) arising on the revaluation of derivatives to fair value are taken to the Income Statement in the period in which they arise.

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

Income on government securities is recognised on accrual basis using the effective interest rate method.

Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.

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 3.4).

#### **3.10 Impairment**

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial assets is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in income statement.

#### **3.11 Expenses**

All expenses are recognised in the income statement on an accrual basis.

#### **3.12 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprise of balances with the banks and deposits with bank having original maturities of three months or less.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

## **3.13 Offsetting of financial instruments**

Financial assets and liabilities will be offset and the net amount reported in the Statement of Assets and Liabilities when there will be a legally enforceable right to set off the recognised amounts and there will be an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## **3.14 Other assets**

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

## **3.15 Proposed dividend and transfer between reserves**

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

## **4. BANK BALANCES**

**30 June 2011**

**(Rupees in '000)**

In deposit accounts	4.1	1,682
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- 4.1** These balances in saving deposit accounts is maintained with a Habib Metropolitan Bank Limited (a connected person) carrying profit rates ranging from of 5% to 10.5% per annum.

## **5. INVESTMENTS - 'AT FAIR VALUE THROUGH PROFIT OR LOSS' (held for trading)**

**30 June 2011**

**(Rupees in '000)**

Investment in shares listed in Pakistan	5.1	108,713
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# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

## **5.1 Investment in shares listed in Pakistan**

Name of the Investee company	Number of Shares					Balance as at 30 June 2011			Market value as a percentage of net assets	Market value as a percentage of investments	Par value as percentage of issued capital of the investee company
	As at June 30, 2010	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at June 30, 2011	Cost as at	Market value	Appreciation / (Diminution)			
SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise						-----Rupees-----					
Oil and gas producers											
Pakistan State Oil Company Limited	-	24,249	-	1,978	22,271	6,153	5,892	(261)	4.80%	5.42%	0.01%
Pakistan Oilfields Limited	-	20,901	-	1,705	19,196	4,856	6,892	2,036	5.62%	6.34%	0.01%
Pakistan Petroleum Limited	-	49,318	-	4,027	45,291	8,553	9,378	825	7.64%	8.63%	0.00%
Oil and Gas Development Company Limited	-	205,436	-	16,767	188,669	28,789	28,864	75	23.53%	26.55%	0.00%
						48,351	51,026	2,675	41.59%		
Chemicals											
Dawood Hercules Chemicals Limited	-	14,751	36,963	1,441	50,273	2,194	3,269	1,075	2.66%	3.01%	0.01%
Fauji Fertilizer Company Limited	-	73,073	16,761	6,493	83,341	7,466	12,530	5,064	10.21%	11.53%	0.01%
Fauji Fertilizer Bin Qasim Limited	-	57,741	-	4,717	53,024	1,641	2,235	594	1.82%	2.06%	0.01%
Engro Corporation Limited	-	38,943	7,155	3,403	42,695	6,482	6,970	488	5.68%	6.41%	0.01%
			-	-		17,783	25,004	7,221	20.38%		
Construction and Materials											
Lucky Cement Limited	-	43,870	-	3,584	40,286	2,931	2,854	(77)	2.33%	2.63%	0.01%
						2,931	2,854	(77)	2.33%		
Electricity											
Hub Power Company Limited	-	137,081		11,193	125,888	4,288	4,721	433	3.85%	4.34%	0.01%
						4,288	4,721	433	3.85%		
Banks											
Bank AL-Habib Limited	-	115,307	21,187	10,078	126,416	3,465	3,725	260	3.04%	3.43%	0.14%
Habib Bank Limited	-	27,305	-	233	27,072	2,926	3,142	216	2.56%	2.89%	0.00%
MCB Bank Limited	-	123,788	11,402	74,167	61,023	11,184	12,163	979	9.91%	11.19%	0.01%
National Bank of Pakistan	-	64,166	14,349	5,328	73,187	3,860	3,690	(170)	3.01%	3.39%	0.00%
United Bank Limited	-	42,008	-	3,430	38,578	2,110	2,388	278	1.95%	2.20%	0.00%
						23,545	25,108	1,563	20.47%		
Financial Services											
Jahangir Siddiqui and Company Limited	-	65,998	-	65,998	-	-	-	-	-		
Total		1,103,935			997,210	96,898	108,713	11,815	88.61%		

**5.1.1** Investments include shares with market value of Rs.45,216,894 which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in term of Circular No. 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

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<b>5.2 Unrealised diminution in the value of investments</b> 'at fair value through profit or loss' (held for trading)	<div style="border: 1px solid black; padding: 2px; display: inline-block;"> <b>30 June 2011</b> </div> (Rupees in '000)
Fair value of investments	108,713
Cost of investments	96,898
Net unrealised diminution in the value of investments at the end of period	11,815
<b>6. DIVIDEND AND PROFIT RECEIVABLE</b>	
Dividend receivable	508
Profit receivable on bank deposit	13
	521
<b>7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>	
Deposit with Central Depository Company of Pakistan Limited	100
Deposit with National Clearing Company of Pakistan Limited	2,500
	2,600
<b>8. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>	
Preliminary expenses and floatation costs	1,000
Amortisation during the period	(142)
	858
<b>8.1</b> This represents expenses incurred on the formation of the Fund. The offering document of the Fund, approved by the Securities and Exchange Commission of Pakistan, permits the deferral of the cost over a period not exceeding five years. Accordingly the said expenses are being amortised over a period of five years effective from 15 October 2010, i.e. after the close of initial public offer of the Fund.	
<b>9. PAYABLE TO THE MANAGEMENT COMPANY</b>	<div style="border: 1px solid black; padding: 2px; display: inline-block;"> <b>30 June 2011</b> </div> (Rupees in '000)
Management fee	9.1 102
Preliminary expenses and floatation costs	9.2 1,000
Other payables	9.3 2,710
	3,812
<b>9.1</b> Under the provisions of NBFC Regulations 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1% per annum. The management fee is monthly paid to the Management Company in arrears.	
<b>9.2</b> This represents expenses incurred by the Management Company in respect of application for registration of the Fund. As per the NBFC Regulations 2008, these expenses are reimbursable by the Fund over a period of not less than five years.	
<b>9.3</b> This includes payable to management company in respect of account opening deposits for bank, Central Depository Company of Pakistan Limited and National Clearing Company of Pakistan Limited amounting to Rs. 2.64 million.	

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**10. PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE**

**30 June 2011**

**(Rupees in '000)**

Trustee fee	10.1	<b>57</b>
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- 10.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the average daily net asset value of the Fund. The remuneration has been paid to the trustee according to the following tariff structure:

<b>Amount of Funds Under Management (Average NAV)</b>	<b>Tariff per annum</b>
On Net Assets upto Rs. 500 million	Rs. 0.7 million or 0.20% per annum of the Net Assets, which ever is higher.
On Net Assets exceeding Rs.500 million to Rs. 1,000 million	Rs.1.0 million plus 0.15% per annum of the amount exceeding Rs.500 million.
On Net Assets exceeding Rs.1,000 million to Rs. 2,000 million	Rs.1.75 million plus 0.08% per annum of the amount exceeding Rs.1,000 million.
On Net Assets over Rs. 2,000 million	Rs.2.55 million plus 0.05% per annum of the amount exceeding Rs.2,000 million.

**11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE**

This represents annual fee payable to SECP in accordance with the NBFC Regulations, whereby the Fund is required to pay SECP fee at the rate of 0.095% of the average daily net assets of the fund in accordance with regulation 62 of NBFC Regulations, 2008.

**12. ACCRUED EXPENSES AND OTHER LIABILITIES**

**30 June 2011**

**(Rupees in '000)**

Brokerage and FED payable	<b>20</b>
Auditors' remuneration	<b>270</b>
Legal and professional charges	<b>75</b>
Capital gain tax payable	<b>42</b>
Others	<b>90</b>
	<b>497</b>

**13. CONTINGENCIES**

**Contribution to Worker 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. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honourable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

There have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds for the recovery of WWF. On 14 December 2010, the Ministry filed its response contesting the said petition. The legal proceedings in respect of the aforementioned petition are currently in progress.

Based on the advice of the legal counsel handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence no provision of Rs. 0.34 million (Re 0.16 per unit) has been made in respect of WWF.

Recently, the Lahore High Court in a petition filed by an industrial establishment has declared the amendment introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as unconstitutional and have therefore stroke them down. The Management Company is evaluating the implications of the above developments.

## **14. AUDITORS' REMUNERATION**

	<b>30 June 2011</b>
	<b>(Rupees in '000)</b>
Annual audit fee	210
Half yearly review fee	100
Other certifications and services	90
Out of pocket expenses	19
	<b>419</b>

## **15. TAXATION**

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the period to the unit holders in the manner explained above, no provision for taxation has been made in these financial statements.

## **16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertaking and investors holding 10% or more of units of the Fund.

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 Trust Deed respectively. Other transactions are at agreed rates.

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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**16.1 Transactions during the period with connected persons / related parties**

**For the  
period from  
16 August 2010  
to 30 June 2011**

**(Rupees in '000)**

***Arif Habib Investments Limited - Management Company***

Remuneration for the period		846
Front end load for the period		73
Mark-up on core investment		475

***Arif Habib Limited***

Brokerage	16.3	62
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***MCB Financial Services Limited - Trustee***

Remuneration for the period		497
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**16.2 Balance outstanding as at the period end**

***Arif Habib Investments Limited - Management Company***

Remuneration payable		102
Payable against Formation Costs		3,710

***Arif Habib Limited***

Brokerage payable		-
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***MCB Financial Services Limited - Trustee***

Remuneration payable		57
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**Units sold to:**

**Units**

Arif Habib Investments Limited - Management Company	600,000	30,000
Directors and executives of the Management Company	27,452	1,434
National Bank of Pakistan - more than 10% unit holder	600,000	30,000
Habib Metropolitan Bank Limited - more than 10% unit holder	400,000	20,000
Allied Bank Limited - more than 10% unit holder	400,000	20,000

**Units redeemed by:**

Arif Habib Investments Limited - Management Company	-	-
Directors and executives of the Management Company	24,128	1,285

**Units held by:**

Arif Habib Investments Limited - Management Company	600,000	34,817
Directors and executives of the Management Company	3,324	193
National Bank of Pakistan - more than 10% unit holder	600,000	34,818
Habib Metropolitan Bank Limited - more than 10% unit holder	400,000	23,212
Allied Bank Limited - more than 10% unit holder	400,000	23,212

**16.3** 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.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

## **17. 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.

The Fund primarily invests in equity securities of listed companies, 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

### **17.1 Market risk**

Market risk is the risk that the value of the financial instruments may fluctuate as a result of changes in market interest rates or the market price of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

The Fund is passively managed, investing proportionately in the securities present in the underlying benchmark and is exposed to downside risk similar to that of the benchmark. Nevertheless, the Fund holds a diversified portfolio of 15 stocks from different economic sectors, which mitigates stock specific adverse price movement.

Market risk comprises of two types of risk: interest rate risk and other price risk.

#### ***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.

At the reporting date, the interest rate profile of Funds' interest-bearing financial instruments is as follows:

		<b>30 June 2011</b>
		<b>(Rupees in '000)</b>
<b>Variable rate instruments</b>		
Financial assets	4	<u><u>1,682</u></u>

None of the financial liabilities carry any interest rate. In addition, none of the other financial assets bear variable interest rate.

#### ***Fair Value sensitivity analysis for variable rate instruments***

A change of 100 basis points in interest rates at the year end would not have material impact on the loss for the year and unit holders' fund.

The above variable rate financial instruments represent profit and loss sharing bank balances and carry profit rates ranging between 5% to 10.5% per annum. These are withdrawable as demanded.

The composition of the Fund's investment portfolio and change in interest rates are expected to change over time. Accordingly, the sensitivity analysis prepared as at 30 June 2011 is not necessarily indicative of the fact on the Funds' net assets of future movement in interest rates.

Nevertheless, the Fund is required to hold at least 85% of net assets in the constituents of the underlying index, which are listed shares in the stock exchanges. These shares are not subject to interest rate risk. During the period under review, the Fund remained, on average, 98% invested in equities.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

Yield / interest rate sensitivity position for on balance sheet financial instruments based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments based on settlement date at period end is as follow:

As at 30 June 2011					
Effective rate of mark-up / return %	Exposed to yield / interest rate risk		Not exposed to yield / interest rate risk	Total	
	Up to three months	Above three months			
------(Rupees in ‘000)-----					
On-balance sheet financial instruments					
Financial assets					
Bank balances	5 to 10.5	1,682	-	-	1,682
Investments		-	-	108,713	108,713
Dividend and profit receivable		-	-	521	521
Receivable against sale of investments		-	-	12,734	12,734
Receivable against sale of units		-	-	25	25
Deposits and other receivables		-	-	2,600	2,600
		1,682	-	124,593	126,275
Financial liabilities					
Payable to Management Company		-	-	3,812	3,812
Payable to MCB Financial Services Limited - Trustee		-	-	57	57
Payable to SECP - Annual Fee		-	-	80	80
Accrued expenses and other liabilities		-	-	497	497
		-	-	4,446	4,446
On-balance sheet gap		1,682	-	120,147	121,829
Off-balance sheet financial instruments					
Off-balance sheet gap		-	-	-	-

## **Other price risk**

Other price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of Karachi Stock Exchange (KSE) and other respective market indices and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund's policy is to manage price risk through diversification within specified limits set by internal risk management guidelines.

The Fund manages those risks arising from local investments by limiting exposure to any single investee company to the extent of the weightage of that security in the tracking index and also maintaining the investment restrictions as prescribed by the NBFC Regulations, 2008. The Fund Manager also manages its exposure to price risk by reviewing portfolio allocation on a continuous basis and also by the investment committee on a regular basis in respect of allocation within industry and individual stock within that allocation.

A summary analysis of local investments by industry sector, the percentage in relation to Fund's own net assets and the issued capital of the investee company is presented in note 5.1.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 30 June 2011. The analysis is based on the assumption that KSE-100 index increased by 5% and decreased by 5%, with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their 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 index of past three years.

At 30 June 2011, the fair value of equity securities exposed to price risk is disclosed in note 5.1.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

The impact below arises from the reasonable possible change in the fair value of listed equity securities.

	<b>30 June 2011</b>
	<b>(Rupees in '000)</b>
Effect on income statement, net assets attributable to unit holders and equity investments due to increase / decrease in the index	<u><u>5,922</u></u>

The sensitivity analysis presented is based upon the portfolio composition as at 30 June 2011 and the historical correlation of the securities comprising the portfolio to the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE and other respective market indices, is expected to change over time. Accordingly, the sensitivity analysis prepared as at 30 June 2011 is not necessarily indicative of the effect on the Fund's net assets attributed to unit holders of future movements in the level of the KSE and other respective market indices.

## **17.2 Credit risk**

### *Credit risk management*

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of placements or other arrangements to fulfil their obligations. There is a possibility of default by participants and of failure of the financial markets, the depositories, the settlements or clearing system etc.

### *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 2011 is as follows:

	<b>2011</b>	
	<b>Statement of Asset and Liabilities</b>	<b>Maximum Exposure</b>
	<b>(Rupees in '000)</b>	
Bank balances (including profit receivable)	1,695	1,695
Dividend receivables	508	508
Investments	108,713	-
Receivable against sale of investments	12,734	12,734
Deposits and other receivables	2,600	2,600
Receivable against sale of units	25	-
	<u><u>126,275</u></u>	<u><u>17,537</u></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. 108.713 million and receivable against sale of units amounting to Rs. 25,000 are not exposed to credit risk.

None of the above financial assets were considered to be past due or impaired as on 30 June 2011



# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

All the deposits with the banks and Central Depository Company of Pakistan Limited - CDC and National Clearing Company of Pakistan Limited are highly rated and risk of default is considered minimal.

Details of the credit ratings of balances with banks, deposits and other receivables as at 30 June 2011 are as follows:

Rating	30 June 2011
AA+	10%
Others	90%
	<b>100%</b>

## ***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:

	30 June, 2011	
	(Rupees in '000)	(Percentage)
Commercial banks	1,695	9.67
Brokerage House	12,734	72.61
Others	3,108	17.72
	<b>17,537</b>	<b>100.00</b>

## ***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.

## **17.3 Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund is exposed to daily cash redemptions, if any. Management Company manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets

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 period. 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 request in excess of ten percent of the units in issue or exceed ten percent of the Net Assets of the Fund and such requests would be treated as redemption request 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 Fund did not withhold any redemptions during the period.

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

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The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30 June 2011		
	Carrying amount	Up to three months	Above three months
	----- (Rupees in '000) -----		
Non-derivative liabilities			
Payable to Management Company	3,812	102	3,710
Payable to MCB Financial Services Limited - Trustee	57	57	-
Payable to SECP - Annual Fees	80	80	-
Accrued expenses and other liabilities	497	497	-
	<u>4,446</u>	<u>736</u>	<u>3,710</u>

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

Units of the Fund are redeemable on demand at the holder's option. However, holders of these instruments typically retain them for the medium to long term.

## **17.4 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 its investment objective of generating returns for investors.

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;
- 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.

## **17.5 Unit Holders' Fund risk management**

Management's objective when managing unit holders' funds is to safe guard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Fund manages its investment portfolio and other assets in relation to benchmark index and makes adjustments in the portfolio composition if there is a change in underlying index. The capital structure depends on the issuance and redemption of units and the Fund is not exposed to the externally imposed minimum Fund maintenance requirement.

# **AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND** **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** **FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

## **18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund's accounting policy on fair value measurements of its investments is discussed in note 3.1 to these financial statements.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at 30 June 2011, all the investments of the Fund were classified in level 1.

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

	2011 Percentage
1 Arif Habib Limited	22
2 KASB Securities	14
3 Cassim Investment (Private) Limited	14
4 Taurus Securities Limited	11
5 First Capital Equities Limited	9
6 Invest Capital and Investment Bank Limited	8
7 Elixir Securities Pakistan (Private) Limited	7
8 Topline Securities (Private) Limited	6
9 Invisor Securities (Private) Limited	5
10 Global Securities Pakistan Limited	4
	<u>100</u>

## **20. PATTERN OF UNIT HOLDING**

As at 30 June 2011			
	Number of Unit Holders	Investment amount	Percentage investment
	------(Rupees in '000)-----		
Individuals	28	6,435	5.24%
Associated Companies and Directors	2	34,840	28.40%
Insurance Companies	-	-	0.00%
Banks and DFIs	3	81,239	66.22%
NBFCs	-	-	0.00%
Retirement Funds	1	174	0.14%
Public Limited Companies	-	-	0.00%
Others	-	-	0.00%
	<u>34</u>	<u>122,687</u>	<u>100.00%</u>

# AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011

#### 21. PARTICULARS OF MEMBERS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of investment committee of the Fund upto 27 June 2011 are as follows:

	Designation	Qualification	Experience in years	
1	Mr. Basharat Ullah	Chief Investment Officer	MBA	18
2	Mr. Zeeshan	Chief Financial Officer	ACA	8
3	Mr. Ahsan Mehanti	Director Wealth Management	CPA, ACA, ACMA	14
4	Mr. Muhammad Imran Khan	Head of Research	MBA	9
5	Mr. Zafar Rehman	Head of Debt and Money Market Funds	B.COM	19
6	Mr. Tariq Hashmi	Head of Marketing	MBA	19
7	Ms. Nazia Nauman	Head of Equity Funds	MBA / CFA	11

On 27 June 2011, owing to merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited, the Investment Committee has been reconstituted and recomposed effective from 11 July 2011 as follows:

Name	Designation	Qualification	Experience in years
1 Yasir Qadri	Chief Executive Officer	MBA	16
2 Ahsan Mehanti	Director Wealth Management	CPA, ACA, ACMA	14
3 Kashif Rafi	Fund Manager (Fixed Income)	MBA, CFA (Level 1)	10
4 Muhammad Asim	Fund Manager (Equity)	MBA & CFA	8
5 Syed Akbar Ali	Senior Research Analyst	MBA & CFA	6
6 Mohsin Pervez	Senior Research Analyst	MBA	10
7 Junaid Khalid	Head of Product Development	FRM	10

#### 21.1 Junaid Khalid is the Manager of the Fund. He has obtained a Certification in the Financial Risk Management

Before the merger, Nazia Nauman was the Manager of the Fund. She has obtained a Masters degree in Business Administration and is a Certified Financial Analyst . Other funds being managed by her are as follows:

- a) Pakistan Capital Market Fund
- b) Pakistan Capital Protected Fund - I

During the period from 27 June 2011 to 11 July 2011, the earlier investment committee continued to operate.

#### 22. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year; 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th & 88th Board meetings were held on 05 July 2010, 03 August 2010, 04 August 2010, 22 October 2010, 25 October 2010, 12 November 2010, 20 December 2010, 30 December 2010, 17 February 2011, 19 February 2011, 16 April 2011, 21 April 2011, 23 April 2011, 15 June 2011 & 27 June 2011 respectively.

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM AUGUST 16, 2010 TO JUNE 30, 2011**

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Mr. Shafi Malik *	15	15	-	
Mr. Nasim Beg	15	15	-	
Mr. Muhammad Akmal Jameel *	15	15	4	74th, 77th, 87th & 88th meeting
Mr. Muhammad Kashif *	15	11	2	74th & 88th meeting
Mr. Syed Ajaz Ahmed *	15	13	11	74th to 83rd & 88th meeting
Mr. Sirajuddin Cassim *	15	4	2	75th & 76th meeting
Mr. S. Gulrez Yazdani *	15	13	-	
Mr. Samad A Habib **	5	5	-	
Mr. Mian Mohammad Mansha ***	1	1	-	
Mr. Yasir Qadri ***	1	1	-	
Mr. Syed Salman Ali Shah ***	1	1	-	
Mr. Haroun Rashid ***	1	1	-	
Mr. Ahmed Jahangir ***	1	1	-	
Mr. Mirza Mahmood Ahmad ***	1	1	-	

\* The above directors retired in the 88th meeting held on 27 June 2011.

\*\* Mr. Samad A Habib was appointed as director on 07 February 2011 and approved by SECP on 31 March 2011.

\*\*\* These were appointed as directors on 27 June 2011 but not yet have been approved by SECP.

**23. NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company in its meeting held on 04 July 2011 has proposed a Rs 2.20 distribution in respect of the period from 16 August 2010 to 30 June 2011 amounting to Rs. 4.65 Million. The financial statements for the year ended 30 June 2011 does not include the effect of the above appropriation.

**24. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorized for issue on September 20, 2011 by the Board of Directors of the Management Company.

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

Chief Executive

Director

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND  
PATTERN OF HOLDING AS PER REQUIREMENT OF  
CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2011**

<b>Category</b>	<b>No. of Unit Holders</b>	<b>Units</b>
<b>Associated Company, Undertakings, and Related Parties</b>		
Arif Habib Investments Limited	1	600,000
	1	600,000
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>	3	1,400,000
<b>Director, CEO and their spouses and minor children</b>		
NASIM BEG	1	400
<b>Trust</b>	1	3,002
<b>Individuals</b>	28	110,888
	<b>34</b>	<b>2,114,290</b>

**AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND**  
**PATTERN OF UNIT HOLDING (SIZE)**  
**AS AT JUNE 30, 2011**

No. of Unit Holders	Units Holdings	Total Units Held
25	1 - 10000	33,251
5	10001 - 100000	81,039
4	1000001 - onwards	2,000,000
<u>34</u>		<u>2,114,290</u>

## AH DOW JONES SAFE PAKISTAN TITANS 15 INDEX FUND PERFORMANCE TABLE

Performance Information	2011
Total Net Assets Value - Rs. in million	123
Net Assets value per unit - Rupees	58.03
Highest offer price per unit	60.92
Lowest offer price per unit	49.91
Highest Redemption price per unit	59.70
Lowest Redemption price per unit	48.91
Distribution per unit (Annual) - Rs. (30 Jun-11)	2.2000
Net Assets Value before distribution	58.0300
Net Assets Value after distribution	55.8300
<b>Average Annual Return - %</b>	
One year (Inception Date: Aug 16, 2010)	16.1
Net Income for the period - Rs. in million	16.993
Income Distribution - Rs. in million (July 04, 2011)	4.65
Accumulated Capital Growth - Rs. in million	12.323

### 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.