

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

**ANNUAL  
REPORT  
2018**



## MISSION STATEMENT

To rank in the top quartile  
in performance of  
**NBP FUNDS**  
relative to the competition,  
and to consistently offer  
Superior risk-adjusted returns to investors.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## FUND'S INFORMATION

### Management Company

**NBP Fund Management Limited - Management Company**

### Board of Directors of the Management Company

|                                   |                         |
|-----------------------------------|-------------------------|
| Mr. Mudassir Husain Khan          | Chairman                |
| Dr. Amjad Waheed                  | Chief Executive Officer |
| Mr. Tariq Jamali                  | Director                |
| Mr. Abdul Hadi Palekar            | Director                |
| Mr. Kamal Amir Chinoy             | Director                |
| Mr. Shehryar Faruque              | Director                |
| Dr. Foo Chiah Shiung (Kelvin Foo) | Director                |
| Mr. Humayun Bashir                | Director                |
| Mr. Wajahat Rasul Khan            | Director                |

### Company Secretary & COO

Mr. Muhammad Murtaza Ali

### Chief Financial Officer

Mr. Khalid Mehmood

### Audit & Risk Committee

|                                   |          |
|-----------------------------------|----------|
| Mr. Shehryar Faruque              | Chairman |
| Mr. Tariq Jamali                  | Member   |
| Dr. Foo Chiah Shiung (Kelvin Foo) | Member   |
| Mr. Humayun Bashir                | Member   |

### Human Resource and Remuneration Committee

|                        |          |
|------------------------|----------|
| Mr. Kamal Amir Chinoy  | Chairman |
| Mr. Abdul Hadi Palekar | Member   |
| Mr. Humayun Bashir     | Member   |

### Strategy & Business Planning Committee

|                                   |          |
|-----------------------------------|----------|
| Mr. Humayun Bashir                | Chairman |
| Mr. Tariq Jamali                  | Member   |
| Mr. Shehryar Faruque              | Member   |
| Dr. Foo Chiah Shiung (Kelvin Foo) | Member   |

### Trustee

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

### Bankers to the Fund

Allied Bank Limited  
United Bank Limited  
Dubai Islamic Bank Pakistan Limited

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## **Auditors**

A.F. Ferguson & Co.  
Chartered Accountants  
State Life Building No. 1-C  
I.I. Chundrigar Road,  
P.O.Box 4716  
Karachi.

## **Legal Advisor**

M/s Jooma Law Associates  
205, E.I. Lines, Dr. Daudpota Road,  
Karachi.

## **Head Office:**

7th Floor Clifton Diamond Building, Block No. 4,  
Scheme No. 5, Clifton Karachi.  
UAN: 021 (111-111-632),  
(Toll Free): 0800-20002,  
Fax: (021) 35825329  
Website: [www.nbpfunds.com](http://www.nbpfunds.com)

## **Lahore Office:**

7-Noon Avenue, Canal Bank,  
Muslim Town, Lahore.  
UAN: 042-111-111-632  
Fax: 92-42-35861095

## **Islamabad Office:**

Plot No. 395, 396  
Industrial Area, I-9/3 Islamabad.  
UAN: 051-111-111-632  
Phone: 051-2514987  
Fax: 051-4859031

## **Peshawar Office:**

Opposite Gul Haji Plaza, 2nd Floor  
National Bank Building  
University Road Peshawar,  
UAN: 091-111 111 632  
Fax: 091-5703202

## **Multan Office:**

NBP City Branch, Hussain-a-Gahi, Multan.  
Phone No: 061-4502204  
Fax No: 061-4502203

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## Contents

|   |    |
|---|----|
| DIRECTORS' REPORT                                   | 05 |
| TRUSTEE REPORT TO THE UNIT HOLDERS                  | 11 |
| FUND MANAGER REPORT                                 | 12 |
| STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES | 15 |
| REPORT OF THE SHARIAH ADVISOR                       | 16 |
| INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS    | 17 |
| STATEMENT OF ASSETS AND LIABILITIES                 | 20 |
| INCOME STATEMENT                                    | 21 |
| STATEMENT OF COMPREHENSIVE INCOME                   | 22 |
| STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND         | 23 |
| CASH FLOW STATEMENT                                 | 24 |
| NOTES TO THE FINANCIAL STATEMENTS                   | 25 |
| PERFORMANCE TABLE                                   | 39 |

# Board of Directors



Dr. Amjad Waheed, CFA  
Chief Executive Officer



Mr. Mudassir Husain Khan  
Chairman



Mr. Kamal Amir Chinoy  
Director



Mr. Humayun Bashir  
Director



Mr. Tariq Jamali  
Director



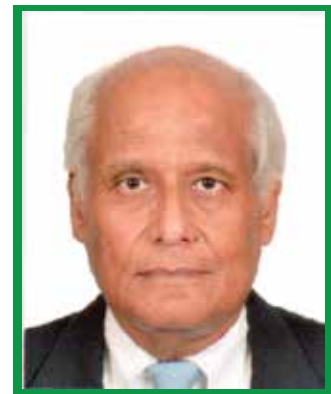
Mr. Shehryar Faruque  
Director



Dr. Foo Chiah Shiung (Kelvin Foo)  
Director



Mr. Abdul Hadi Palekar  
Director



Mr. Wajahat Rasul Khan  
Director

# Senior Management



Mr. Sajjad Anwar, CFA  
Chief Investment Officer



Dr. Amjad Waheed, CFA  
Chief Executive Officer



Mr. M. Murtaza Ali  
Chief Operating Officer  
& Company Secretary



Mr. Khalid Mehmood  
Chief Financial Officer



Mr. Samiuddin Ahmed  
Country Head Corporate  
Marketing



Mr. Ozair Khan  
Chief Technology Officer



Syed Rizwan Aziez  
Country Head Sales Strategy



Mr. Muhammad Ali, CFA, FRM  
Head of Fixed Income



Mr. Taha Khan Javed, CFA  
Head of Equity



Mr. Hassan Raza, CFA  
Head of Research



Syed Ali Azhar Hasani  
Head of Internal Audit



Mr. Salman Ahmed, CFA  
Head of Risk Management



Mr. Zaheer Iqbal - ACA, FPFA  
Head Of Operations



Mr. Raheel Rehman, ACA  
Head of Compliance



Mr. Shahbaz Umer  
Head of Human Resource &  
Administration

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## DIRECTORS' REPORT

This is the First Annual Report for the period ended June 30, 2018, since launch of **NAFA Islamic Active Allocation Fund-III (NIAAF-III)** on June 22, 2018.

The objective of the Fund is to provide investors an opportunity to earn attractive return from an actively managed portfolio of Shari'ah Compliant Equity Fund and Income/Money Market Funds.

NAFA Islamic Active Allocation Fund-III has been constituted in the form of a Trust Scheme that shall invest in following Collective Investment Schemes through five (5) Allocation Plans including NAFA Islamic Capital Preservation Plan-III (NICPP-III).

|                       |   |
|-----------------------|---|
| Islamic Income Fund:  | NAFA Active Allocation Riba Free Savings Fund |
| Islamic Money Market: | NAFA Islamic Money Market Fund                |
| Islamic Equity Fund:  | NAFA Islamic Active Allocation Equity Fund    |

FY2017-18 proved a challenging year for the stock market as the benchmark KMI-30 Index dropped by 9.6%. It was the first negative return for equity investors after eight years. A host of factors can be attributed to this lackluster performance of the stock market. Contrary to the market expectations, continued sell-off by the foreign investors in FY18 despite up-gradation of PSX into a widely followed MSCI Emerging Index from Frontier Market, shook investors' confidence. Adding to investors' angst was elevated uncertainty in the domestic politics linked to disqualification of elected PM in the historic judgments of Panama Leaks Case, who was later on barred from politics for lifetime. Sit-in by some religious parties in the federal capital and the uncertainty surrounding the elections also took its toll on the stock market. Much awaited Afghan Policy was unveiled by US President, Mr. Donald Trump, signaling tough stance of the US towards Pakistan also perturbed market participants. On the economic front, Current Account Deficit (CAD) sprang up to an unprecedented level of USD18bn during FY18 owing to rising crude oil prices and higher oil & LNG imports, rising imports of industrial raw material, transport vehicles, and machinery that remained a cause of grave concern for the market. To rein in aggregate demand pressures, series of steps were undertaken that included a measured PKR devaluation, deepening and broadening of duties on non-essential imported items, and hike in interest rates. In a bid to shore up the dwindling Foreign exchange reserves and documentation of economy, the government also announced a Foreign & Domestic Assets Declaration Schemes that fell below expectations.

In terms of sectoral performance, Oil & Gas Exploration, Fertilizer and Commercial Bank sectors out-performed the market during FY18, while Cement, Refinery, Engineering, and Automobile Parts & Accessories sectors lagged behind. Foreign investors remained net sellers with outflows of USD 289 million during the aforesaid period. Among local investors, Insurance and Companies remained major net buyers, taking fresh equity exposure worth USD 204 million and USD 100 million, respectively. Mutual Funds, on the other hand, remained net sellers, off-loading shares worth USD 35 million.

During FY 2018, State Bank of Pakistan (SBP) held six (06) bi-monthly monetary policies reviews. During the first half, the SBP maintained the policy rate at 5.75% owing to strong likelihood of continued growth momentum; contained inflation; and anticipations of gain in exports due to improvement in domestic energy supplies and incentives given to exporting industry. However, in the latter half, the SBP increased the policy rate by 75 basis points to 6.5% in response to growing pressures on the external front driven by ballooning Current Account Deficit (CAD), preempt overheating of the economy, and rein in inflationary pressures. Sovereign yields responded to increase in the policy rate whereby 3-month, 6-month, and 12-month T-Bills went up by 79 bps, 90 bps, and 116 bps, respectively.

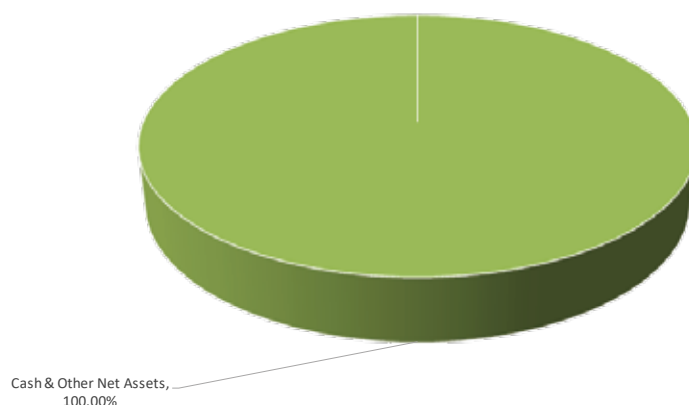
# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## NAFA Islamic Capital Preservation Plan-III (NICPP-III)

This is the first annual report for the period ended June 30, 2018, since launch of NAFA Islamic Capital Preservation Plan-III (NICPP-III) on June 22, 2018. The objective of the Fund is to provide investors an opportunity to earn attractive return from an actively managed portfolio of Shari'ah Compliant Equity Fund and Income Fund.

### Fund's Performance

Since launch of the plan, the unit price of NAFA Islamic Capital Preservation Plan-III (NICPP-III) has increased from Rs. 99.9044 (Ex-Div) on June 22, 2018 to Rs. 100.0005 (Ex-Div) on June 30, 2018, thus showing an increase of 0.10%. The Benchmark return during the same period was decreased by 0.04%. Thus, the Fund has outperformed its Benchmark by 0.06% since its inception on June 22, 2018. This performance is net of management fee and all other expenses. The size of the Fund is Rs. 955 million. The asset allocation of the Fund as on June 30, 2018 is as follows:



### Income Distribution

The Management Company has approved cash dividend of 0.10% of the opening ex-NAV (0.10% of the par value) subsequent to the year end.

### Taxation

As the above cash dividend is more than 90% of the income earned during the period, excluding realized and unrealized capital gains on investments, the Fund is not subject to tax under Clause 99 of the Part I of the Second Schedule of the Income Tax Ordinance, 2001.

### Auditors

The present auditors, Messrs A.F.Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2019.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The detailed pattern of unit holding is disclosed in the note 23 to these financial statements.
11. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 18 to these financial statements.
12. The Company encourages representation of independent non-executive directors on its Board. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2018, the Board included:

| Category                | Names   |
|-------------------------|---|
| Independent Directors   | 1. Mr. Kamal Amir Chinoy<br>2. Mr. Shehryar Faruque<br>3. Mr. Humayun Bashir  |
| Executive Directors     | Dr. Amjad Waheed – Chief Executive Officer  |
| Non-Executive Directors | 1. Mr. Mudassir Husain Khan (Chairman)<br>2. Mr. Tariq Jamali<br>3. Mr. Abdul Hadi Palekar<br>4. Mr. Wajahat Rasul Khan<br>5. Dr. FOO Chiah Shiung (Kelvin Foo) |

### Acknowledgement

The Board takes this opportunity to thank its valued unit-holders for their confidence and trust in the Management Company, and providing the opportunity to serve them. It also offers its sincere gratitude to the Securities & Exchange Commission of Pakistan and State Bank of Pakistan for their patronage and guidance.

The Board also wishes to place on record its appreciation for the hard work, dedication and commitment shown by the staff and the Trustee.

On behalf of the Board of  
**NBP Fund Management Limited**

Chief Executive  
Date: September 05, 2018  
Place: Karachi.

Director

## ڈائریکٹرز رپورٹ

NAFA اسلامک ایکٹیو ایلوکیشن فنڈ III-(NIAAF-III) کی 22 جون 2018 کے اجراء سے اب تک یہ پہلی سالانہ رپورٹ برائے سال تختہ 30 جون 2018ء ہے۔ اس فنڈ کا مقصد سرمایہ کاروں کو عمدہ نظم و نسق والے شریعہ کمپلائنٹ ایکویٹی فنڈ اور انکم / منی مارکیٹ فنڈز سے پرکشش منافع حاصل کرنے کا موقع فراہم کرنا ہے۔

NAFA اسلامک ایکٹیو ایلوکیشن فنڈ III کو ایک ٹرسٹ اسکیم کی شکل میں تیار کیا گیا ہے جو پانچ (5) ایلوکیشنز پلانز کے ذریعے مشترکہ سرمایہ کاری کی اسکیموں میں سرمایہ کاری کرے گا۔ جس میں NAFA اسلامک کیپیٹل پریزرویشن پلان III (NICPP-III) شامل ہے۔

☆ اسلامک انکم فنڈ NAFA ایکٹیو ایلوکیشن ریفاری سیونگ فنڈ

☆ اسلامک منی مارکیٹ فنڈ NAFA اسلامک منی مارکیٹ فنڈ

☆ اسلامک ایکویٹی فنڈ NAFA اسلامک ایکٹیو ایلوکیشن ایکویٹی فنڈ

مالی سال 2017-2018 اسٹاک مارکیٹ کیلئے چیلنج کا سال ثابت ہوا جس میں KMI-30 انڈیکس 9.6% تک گر گیا۔ یہ آٹھ سال کے عرصے میں ایکویٹی سرمایہ کاروں کے منافع میں پہلی کمی تھی۔ اسٹاک مارکیٹ کی اس ناقص کارکردگی کا سبب کئی عوامل تھے۔ مارکیٹ کی توقعات کے برعکس، PSX کی فریئیر مارکیٹ کے MSCI ایمر جگ انڈیکس میں اپ گریڈنگ کے باوجود سرمایہ کاروں کے اعتماد کو دھچکا لگا اور مالی سال 18 میں غیر ملکی سرمایہ کاروں کی جانب سے فروخت کا سلسلہ جاری رہا۔ اس کے علاوہ سرمایہ کاروں کی تشویش میں ملکی سیاست کی بڑھتی ہوئی غیر یقینی کیفیت سے اور اضافہ ہوا جو پانامہ لیکس کیس میں منتخب وزیر اعظم کو نااہل قرار دینے کے تاریخی فیصلے سے پیدا ہوئی اور بعد میں ان کے عمر بھر کیلئے سیاست میں حصہ لینے پر پابندی کا باعث بنی۔ بعض مذہبی جماعتوں کی طرف سے وفاقی دارالحکومت میں دھرنے اور ایکشن کے قریب غیر یقینی کی فضا سے اسٹاک مارکیٹ پر مزید اثر پڑا۔ امریکی صدر مسٹر ڈونلڈ ٹرمپ نے بلاخر کافی عرصہ سے متوقع افغان پالیسی کا اعلان کر دیا جس میں امریکہ کی جانب سے پاکستان پر مزید پابندیاں لگانے کا اشارہ دیا گیا تھا جو مارکیٹ کے شرکاء کے لئے مزید پریشانی کا باعث بنا۔ ادھر معاشی منظر نامہ میں، خام تیل کی بڑھتی ہوئی قیمتیں اور آئل اور ایل این جی کے ساتھ ساتھ صنعتی خام مال، ٹرانسپورٹ گاڑیوں اور مشینری کی بڑھتی ہوئی درآمدات کی بنا پر کرنٹ اکاؤنٹ کا خسارہ غیر روایتی سطح کی حد تک 18 بلین یو ایس ڈالر تک پہنچ گیا جو مارکیٹ میں تشویش کا بڑا سبب بنا۔ وسیع طلب کے دباؤ کو قابو کرنے کیلئے کئی اقدامات اٹھائے گئے جن میں پاکستانی روپے کی قدر میں کمی پر قابو، غیر ضروری درآمد شدہ اشیاء پر زیادہ اور وسیع حد تک ڈیوٹیز کا نفاذ اور شرح سود میں اضافہ شامل تھا۔ گرتے ہوئے غیر ملکی زرمبادلہ اور دستاویزی معیشت کو سہارا دینے کے لئے حکومت نے غیر ملکی اور ملکی اثاثہ جات ظاہر کرنے کی اسکیمیں متعارف کروائیں جو قابل توقع نتائج نہ دے سکیں۔

مالی سال میں 18 شعبہ جاتی کارکردگی کے لحاظ سے مارکیٹ میں آئل اینڈ گیس ایکسپلوریشن، فریٹلائزر اور کمرشل بینک کے شعبہ جات کی کارکردگی بہت عمدہ رہی جب کہ سینٹ، ریفائنری، انجینئرنگ اور آٹوموبائل پارٹس اور ایسیریز کے شعبہ بہت پیچھے رہے۔ غیر ملکی سرمایہ کار خالصتاً فروخت کنندہ رہے اور مذکورہ مدت میں 289 بلین یو ایس ڈالر کا سرمایہ ملک سے باہر گیا۔ مقامی سرمایہ کاروں میں انشورنس اور کینیڈا بڑے خریدار رہے اور انہوں نے بالترتیب 204 بلین یو ایس ڈالر اور 100 بلین یو ایس ڈالر کے نئے حصص حاصل کئے۔ دوسری طرف میوچل فنڈز خالص فروخت کنندہ رہے اور 35 بلین یو ایس ڈالر کے حصص فروخت ہوئے۔

مالی سال 2018 کے دوران میں اسٹیٹ بینک آف پاکستان (ایس بی پی) نے پالیسی کے چھ (06) مرتبہ دوامی جائزے لئے۔ پہلے نصف عرصہ کے دوران، ترقی کی رفتار جاری رہنے کی قوی توقع، افراط زر کی موجودگی، اور ملکی توانائی کی فراہمی میں بہتری اور برآمدات کی صنعت کو دی گئی ترغیبات کے باعث برآمدات میں فروغ کے سلسلے میں پیش رفت کے پیش نظر، ایس بی پی نے 5.75% پالیسی کی شرح کو برقرار رکھا۔ تاہم اگلے نصف عرصہ میں، بیرونی محاذ پر کرنٹ اکاؤنٹ کے خسارے (CAD) میں اضافے کے باعث بڑھتے ہوئے دباؤ، معیشت میں پہلے سے موجود افراط زر اور افراط زر پر قابو کیلئے پانے کے لئے، ایس بی پی نے پالیسی کی شرح میں 75 پیس پوائنٹ کا اضافہ کر دیا اور پالیسی کی شرح 6.5% ہو گئی۔ پالیسی کی شرح میں اضافہ سے اچھے نتائج برآمد ہوئے اور 3 ماہ، 6 ماہ اور 12 ماہ T-Bills کے منافع بالترتیب 79 bps، 90 bps اور 116 bps سے بڑھ گئے۔

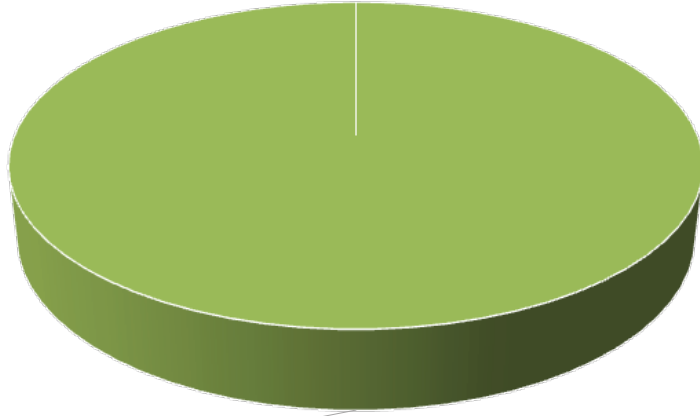
### NAFA اسلامک کیپیٹل پریزرویشن پلان III (NICPP-III)

NAFA اسلامک کیپیٹل پریزرویشن پلان III (NICPP-III) کے اجراء 22 جون 2018 سے اب تک یہ پہلی سالانہ رپورٹ برائے سال تختہ 30 جون 2018ء ہے۔ اس فنڈ کا مقصد سرمایہ کاروں کو عمدہ نظم و نسق والے شریعہ کمپلائنٹ ایکویٹی فنڈ اور انکم / منی مارکیٹ فنڈز سے پرکشش منافع حاصل کرنے کا موقع فراہم کرنا ہے۔

### فنڈ کی کارکردگی

پلان کے اجراء سے NAFA اسلامک کیپیٹل پریزرویشن پلان III (NICPP-III) کے یونٹ کی قیمت 22 جون 2018 کو 99.9044 روپے سے بڑھ کر 30 جون 2018 کو 100.0005 روپے ہو چکی ہے۔ لہذا 0.10% کا اضافہ دیکھنے میں آیا۔ اسی مدت کے دوران بیچ مارک منافع کم ہو کر 0.04% ہو گیا۔ لہذا فنڈ نے 22 جون 2018 کو اپنے قیام کے وقت سے لے کر اب تک اپنے بیچ مارک سے 0.06% بہتر کارکردگی کا مظاہرہ کیا ہے۔ یہ کارکردگی منجنت فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔ فنڈ کا ساٹھ ماہ 955 ملین روپے ہے۔

NICPP-III کی ایسیٹ ایلوکیشن 30 جون 2018 کو برطبق ذیل ہے:



Cash & Other Net Assets,  
100.00%

## آمدنی کی تقسیم

منجھٹ کمپنی نے سال کے اختتام کے بعد اوپننگ ex-NAV کا 0.10% (بنیادی قدر کا 0.10%) نقد ڈیویڈنڈ کی منظوری دی ہے۔

## ٹیکسیشن

درج بالا نقد منافع، سال کے دوران میں حاصل ہونے والی آمدنی میں سے سرمایہ کاری پر حاصل ہونے والے محصول شدہ اور غیر محصول شدہ کیپیٹل گین منہا کرنے کے بعد 90% ہے، اس لئے فنڈ پر ایک ٹیکس آرڈیننس 2001 کے سینڈ شیڈول کے پارٹ 1 کی شق 99 کے تحت ٹیکس لاگو نہیں ہے۔

## آڈیٹرز

موجودہ آڈیٹرز میسرز اے ایف فرگوسن اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، ریٹائر ہو گئے ہیں اور اہل ہونے کی بناء پر انہوں نے خود کو 30 جون 2019 کو ختم ہونے والے سال میں دوبارہ تقرر کیلئے پیش کیا ہے۔

## کوڈ آف کارپوریٹ گورنرنس کی پیروی میں ڈائریکٹرز اسٹیٹمنٹ

1- منجھٹ کمپنی کی طرف سے تیار کردہ مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کیش فلوز اور یونٹ ہولڈرز فنڈ میں تبدیلی کی منصفانہ عکاسی کرتے ہیں۔

2- فنڈ کے اکاؤنٹس کے کھاتے درست انداز میں رکھے ہوئے ہیں۔

3- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیوں کی مسلسل پیروی کی گئی ہے۔ شاریاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔

4- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔

5- انٹرنل کنٹرول کا نظام مستحکم اور موثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔

6- فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔

7- لسٹنگ ریگولیشنز میں تفصیلاً درج کارپوریٹ گورننس کی اعلیٰ ترین روایات سے کوئی پہلو تہی نہیں کی گئی۔

8- پرفارمنس ٹیبل / اہم مالیاتی ڈیٹا اس سالانہ رپورٹ میں شامل ہے۔

9- ٹیکسوں، ڈیویڈنڈز، محصولات اور چارجز کی مدد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔

10- یونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 23 میں ظاہر کیا گیا ہے۔

11- ڈائریکٹرز، CEO، CFO، کمپنی سیکرٹری اور ان کی شریک حیات اور کم عمر بچوں کی طرف سے کی جانے والی فنڈ کے یونٹس کی تمام خرید و فروخت ان مالیاتی گوشواروں کے نوٹ 18 میں ظاہر کی گئی ہے۔

12- کمپنی اپنے بورڈ آف ڈائریکٹرز میں غیر جانبدارانہ ایگزیکٹو ڈائریکٹرز کی نمائندگی کی حوصلہ افزائی کرتی ہے۔ کمپنی ایک غیر فہرست شدہ کمپنی ہونے کے ناطہ کوئی مائٹارٹی انٹرسٹ نہیں

رکھتی۔ 30 جون 2018 کو بورڈ آف ڈائریکٹرز درج ذیل ارکان پر مشتمل ہیں۔

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

| نام  | کیٹیگری                |
|--|------------------------|
| 1- جناب کمال عامر چنائے<br>2- جناب شہریار فاروق<br>3- جناب ہمایوں بشیر   | غیر جانبدار ڈائریکٹرز  |
| ڈاکٹر امجد وحید<br>(چیف ایگزیکٹو آفیسر)  | ایگزیکٹو ڈائریکٹرز     |
| 1- جناب مدر حسمین خان (چیئرمین)<br>2- جناب طارق جمالی<br>3- جناب عبدالہادی بالیکر<br>4- جناب وجاہت رسول خان<br>5- ڈاکٹر فوشیاہ شیونگٹ (کیلون فو) | نان ایگزیکٹو ڈائریکٹرز |

## اعتراف

بورڈ اس موقع کا فائدہ اٹھاتے ہوئے منجمنت کمپنی پر اعتماد، اعتبار اور خدمت کا موقع فراہم کرنے پر اپنے قابل قدر یونٹ ہولڈرز کا شکریہ ادا کرتا ہے۔ یہ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور اسٹیٹ بینک آف پاکستان سے بھی ان کی سرپرستی اور رہنمائی کے لیے پُر خلوص اظہار تشکر کرتا ہے۔  
بورڈ اپنے اسٹاف اور ڈسٹریبیوٹرز کی طرف سے محنت، لگن اور عزم کے مظاہرے پر اپنا خراج تحسین بھی ریکارڈ پر لانا چاہتا ہے۔

منجانب بورڈ آف ڈائریکٹرز

NBP فنڈ منجمنت لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

05 ستمبر 2018ء

مقام: کراچی

## TRUSTEE REPORT TO THE UNIT HOLDERS

### Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Islamic Active Allocation Fund-III (the Fund) are of the opinion that NBP Fund Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from May 04, 2018 to June 30, 2018 in accordance with the provisions of the following:

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

**Aftab Ahmed Diwan**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi, September 18, 2018

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## FUND MANAGER REPORT

NAFA Islamic Asset Allocation Fund -III (NIAAF-III) is an Open-ended Shariah Compliant Fund of Funds.

### Investment Objective of the Fund

The objective of the Fund is to provide investors an opportunity to earn attractive return from an actively managed portfolio of Shari'ah Compliant Equity Fund and Money Market Funds.

NAFA Islamic Active Allocation Fund-III has been constituted in the form of a Trust Scheme that shall invest in following Collective Investment Schemes through five (5) Allocation Plans including NAFA Islamic Capital Preservation Plan-III (NICPP III).

Islamic Income: NAFA Active Allocation Riba Free Savings Fund  
Islamic Money Market: NAFA Islamic Money Market Fund  
Islamic Equity: NAFA Islamic Active Allocation Equity Fund

### Fund performance review

| Plans     | Launch Date | Fund Size (Million) | Cumulative Performance Since Inception |                   |
|-----------|-------------|---------------------|--|-------------------|
|           |             |                     | Plan Return                            | Benchmark* Return |
| NICPP-III | 22-06-2018  | 955                 | 0.10%                                  | 0.04%             |

FY2017-18 turned out to be a challenging year for the stock market with first negative return since 2009, as the benchmark KMI-30 Index dropped by 9.6% on a yearly basis. This lackluster performance, in sharp contrast to FY2010-17 period, in which market surged at a CAGR of 28.4%, is attributable to a host of factors. The upgrade of Pakistan's market to a widely followed MSCI Emerging Index from Frontier Market status failed to live up to expectations and unabated sell-off by the foreign investors during the year shook investors' confidence. Amplified uncertainty in the domestic politics linked to disqualification of elected PM in the historic judgments surrounding Panama Leaks Case, who was later on barred from politics for lifetime also unnerved the investors. Sit-in by some religious parties in the federal capital and uncertainty surrounding the elections also took its toll on the stock market. Market participants were also perturbed by the US Policy toward Afghanistan, signaling challenges for Pakistan.

On the economic front, twin deficits remained a challenge for the government. Current Account Deficit (CAD) sprang up to an unprecedented level of USD18bn during FY18 owing to rising crude oil prices and higher oil & LNG imports, rising imports of industrial raw material, transport vehicles, and machinery that remained a cause of grave concern for the market. To rein in aggregate demand pressures, series of steps were undertaken of late that included exchange rate adjustment, deepening and broadening of duties on non-essential imported items, and hike in interest rates. In a bid to shore up the dwindling Foreign exchange reserves and documentation of economy, the government also announced a much awaited Foreign & Domestic Assets Declaration Schemes that however, failed to live up to the expectations.

The primary market for Corporate Sukuks remained under-supplied against the large and growing demand. In the secondary market, the trading activity in the Corporate Sukuks remained skewed towards high quality debt issues with cumulative trade value of Rs. 9.6 billion in FY18 compared to Rs. 2.7 billion during the last year. However, the scarcity of primary issuance versus elevated demand squeezed the spread and kept the yields on the high credit quality corporate bonds depressed. During the first half of FY18, the SBP maintained the policy rate at 5.75% owing to strong likelihood of continued growth momentum; contained inflation; and anticipation of gain in exports due to improvement in domestic energy supplies and incentives given to exports industry. However, in the latter half, in response to growing pressures on the external front driven by ballooning Current Account Deficit (CAD) and rein in inflationary pressures, the SBP cumulatively increased the policy rate by 75 basis points from 5.75% to 6.5%. Sovereign yields responded to increase in the policy rate whereby 3-month, 6-month, and 12-month T-Bills yields went up by 79 bps, 90 bps, and 116 bps, respectively. All Sukuks in the Fund are floating rate linked to KIBOR with three to 6-month coupon resetting period.

During the period there has been no significant change in the state of affairs of the Fund, other than stated above. During the year there were no circumstances that materially affected any interests of the unit holders. The Fund does not have any soft commission arrangement with any broker in the industry.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## Asset Allocation of the Fund (% of NAV)

| Plans     | Asset Allocation of Plans            |  |                                     |
|-----------|--------------------------------------|--|-------------------------------------|
|           | NAFA Islamic Active Allocation Funds |  | Cash & Other Net Assets/Liabilities |
|           | Equity                               | Riba Free Savings/NAFA Islamic Money Market Fund |                                     |
| NICPP-III | -                                    | -  | 100%                                |

## NAFA Islamic Capital Preservation Plan-III (NICPP III)

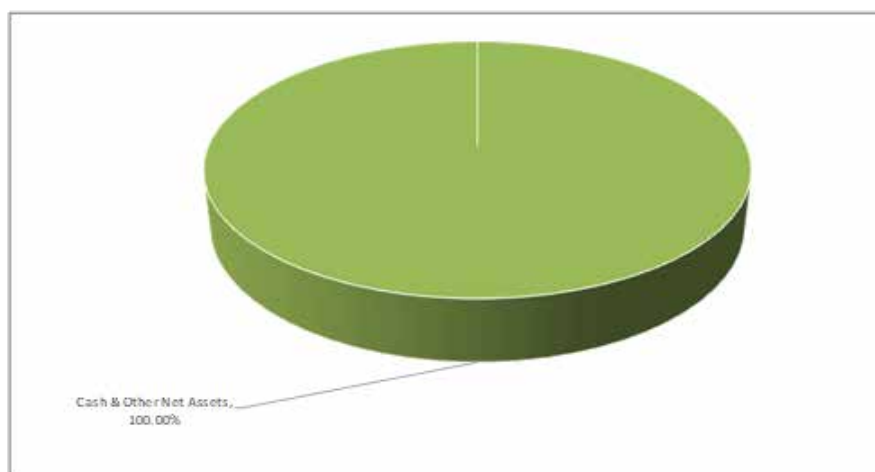
NBP Funds launched its NAFA Islamic Capital Preservation Plan-III (NICPP III) in June 2018 which is the eleventh plan under NAFA Islamic Active Allocation Fund-III. The Active Allocation Plan will be dynamically managed between dedicated equity & Money Market schemes managed by NBP Funds based on the Fund Manager's outlook of the authorized asset-classes. The Plan is presently closed for new subscription. NICPP-III has an initial maturity of two years.

The objective of the Fund is to provide investors an opportunity to earn attractive return from an actively managed portfolio of Shariah Compliant Equity Fund and Money Market Fund.

## Fund's Performance

Since launch of the plan, the unit price of NAFA Islamic Capital Preservation Plan-III (NICPP-III) has increased from Rs. 99.9044 (Ex-Div) on June 22, 2018 (Ex-Div) to Rs. 100.0005 (Ex-Div) on June 30, 2018, thus showing an increase of 0.10%. The Benchmark return during the same period was decreased by 0.04%. Thus, the Fund has outperformed its Benchmark by 0.06% since its inception on June 22, 2018. This performance is net of management fee and all other expenses. The size of the Fund is Rs. 955 million.

The asset allocation of the Fund as on June 30, 2018 is as follows:



## Distribution for the Financial Year 2018

| Interim Period/Quarter | Dividend as % of Par Value (Rs.100) | Cumulative Div. Price/Unit | Ex- Div. Price |
|------------------------|-------------------------------------|----------------------------|----------------|
| Final                  | 0.10%                               | 0.0957                     | 100.0005       |

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## Unit Holding Pattern of NAFA Islamic Stock Fund as on June 30, 2018

| Size of Unit Holding (Units) | # of Unit Holders |
|------------------------------|-------------------|
| 1-1000                       | 234               |
| 1001-5000                    | 417               |
| 5001-10000                   | 204               |
| 10001-50000                  | 168               |
| 50001-100000                 | 20                |
| 100001-500000                | 7                 |
|                              | 1050              |

## Sindh Workers' Welfare Fund (SWWF)

The scheme has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of Rs. 0.02 million. If the same were not made the NAV per unit/FY18 return of scheme would be higher by Rs. 0.0017/0.002%. For details investors are advised to read note 12.1 of the Financial Statement of the Scheme for the year ended June 30, 2018.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

NAFA ISLAMIC ACTIVE ALLOCATION FUND-III (the Fund) has fully complied with the Shari'ah principles specified in the Trust Deed and in the guidelines issued by the Shari'ah Advisor for its operations, investments and placements made during the period from June 22, 2018 to June 30, 2018. This has been duly confirmed by the Shari'ah Supervisory Board of the Fund.

For and behalf of the board

Date: September 05, 2018  
Karachi

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## Report of the Shari'ah Supervisory Board

September 04, 2018/ Dhu Al-Hijjah 23, 1439

**Alhamdulillah**, it is the first year of the operations of NAFA Islamic Active Allocation Fund-III (NIAAF-III). Under this fund, NBP Funds launched its NAFA Islamic Capital Preservation Plan-III (NICPP-III) on June 22, 2018. This report is being issued in accordance with clause 3.7.1 of the Offering Document of the Fund. The scope of the report is to express an opinion on the Shari'ah Compliance of the Fund's activity.

In the capacity of Shari'ah Supervisory Board, we have prescribed criteria and procedure to be followed in ensuring Shari'ah Compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure Shari'ah compliance with the Shari'ah policies & guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. 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 prescribed criteria.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of NIAAF-III in light of Shari'ah guidelines.
- ii. All the provisions of the scheme and investments made on account of NIAAF-III by NBP Funds are Shari'ah Compliant and are in accordance with the criteria established.
- iii. On the basis of information provided by the management, nothing has come to our attention that cause us to believe that all the operations of NIAAF-III for the period ended June 30, 2018 are not in compliance with Shari'ah principles.

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

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**For and on behalf of Meezan Bank Limited**  
*Shar'iah Technical Services & Support Provider*

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**Mufti Muhammad Naveed Alam**  
*Member*  
*Shariah Supervisory Board*

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**Mufti Ehsan Waquar**  
*Shariah Advisor & Member*  
*Shariah Supervisory Board*

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**Dr. Imran Ashraf Usmani**  
*Chairman*  
*Shariah Supervisory Board*

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of NAFA Islamic Active Allocation Fund - III (the Fund), which comprise the statement of assets and liabilities as at June 30, 2018, and the income statement, statement of comprehensive income, statement of movement in unit holders' fund and cash flow statement for the period from June 22, 2018 to June 30, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at June 30, 2018, and of its financial performance, its cash flows and transactions for the period from June 22, 2018 to June 30, 2018 in accordance with the accounting and reporting standards as applicable in Pakistan.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the key audit matters:

| S. No. | Key Audit Matters  | How the matter was addressed in our audit   |
|--------|--|---|
| 1      | <p><b>Amendments to NBFC Regulations, 2008</b><br/>(Refer note 3.11 to the annexed financial statements)</p> <p>During the current period, the Securities and Exchange Commission of Pakistan (the SECP) through its notification [SRO 756 (I) / 2017] dated August 3, 2017 has prescribed a new definition of element of income. As per the notification, the element of income is considered as a "capital contribution" and taken to the Statement of Movement in Unit Holders' Fund. Element of income is explained in note 3.11.</p> <p>The SECP notification also stipulates that the accounting income available for distribution as appearing in the "Income Statement" excludes income already paid on units redeemed during the period. Accordingly, the net amount appearing on the "Income Statement" after deducting the income already paid on units redeemed is to be considered as the distributable amount.</p> <p>In order to avail tax exemption, the Fund has to distribute 90 percent of its accounting income (excluding realised and unrealised capital gains). However, at the time of distribution of income, the element of income contributed on issue of units recognised in the equity during the period is required to be refunded on the units in the same proportion in which income is distributed from the Income Statement i.e. after taking into account the amount of income already paid on units redeemed. Management has developed a system for carrying out the calculations for such distributions. These calculations are important from the point of view of ensuring compliance with the applicable requirements.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"><li>understood the requirements of the SECP notification and made inquiries from the management in respect of their methodology for implementing the requirements with respect to recording of element of income.</li><li>performed walkthrough tests for ensuring compliance with the requirements and in this respect obtained reports of distribution of income and refund of capital by the Fund.</li><li>verified transactions on a test basis with the underlying records of the reports provided by the management to assess their compliance with the regulations.</li><li>recalculated the profit available for distribution taking into account amount already distributed at the time of redemption.</li><li>verified the accuracy of the management report for allocation of distributable amount between "distribution out of income" and "refund of capital". This included testing the parameters of the report.</li><li>verified disclosures to ensure that these are in compliance with the applicable accounting and reporting framework.</li></ul> |

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

| S. No. | Key Audit Matters   | How the matter was addressed in our audit   |
|--------|---|---|
|        | The above matters are significant accounting and regulatory developments / events for the mutual fund industry affecting the financial statements for the current period and therefore we considered these developments as key audit matter.  |   |
| 2      | <p><b>Net Asset Value</b></p> <p>(Refer note 4 to the annexed financial statements)</p> <p>The bank balances constitute the most significant component of the net asset value (NAV). The bank balances of the Fund as at June 30, 2018 aggregated to Rs 978.45 million.</p> <p>The proper valuation of bank balances for the determination of NAV of the Fund as at June 30, 2018 was considered a significant area and therefore we considered this as a key audit matter.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▪ obtained independent confirmations for verifying the existence of the investment portfolio and bank balances as at June 30, 2018 and reconciled it with the books and records of the Fund. Where such confirmations were not available, alternate audit procedures were performed.</li> <li>▪ obtained approval of the Board of Directors of the management company in relation to opening of bank accounts.</li> <li>▪ obtained bank reconciliation statements and tested reconciling items on a sample basis.</li> </ul> |

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Board of Directors of the Management Company for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Board of directors of the management company is responsible for overseeing the Fund's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with board of directors of the management company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide board of directors of the management company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with board of directors of the management company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The engagement partner on the audit resulting in this independent auditor's report is **Noman Abbas Sheikh**.

A.F. Ferguson & Co.  
Chartered Accountants  
Karachi  
Date: September 26, 2018

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2018

|   | Note | <b>June 30, 2018</b><br><b>Rupees in '000</b><br><b>NICPP-III</b> |
|---|------|---|
| <b>Assets</b>   |      |   |
| Bank balances   | 4    | 978,453   |
| Profit receivable   | 5    | 1,291   |
| Other receivable  | 6    | 104   |
| Preliminary expenses and floatation costs                               | 7    | 3,878   |
| <b>Total assets</b>   |      | <b>983,726</b>  |
| <b>Liabilities</b>  |      |   |
| Payable to NBP Fund Management Limited - Management Company             | 9    | 28,913  |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | 10   | 20  |
| Payable to the Securities and Exchange Commission of Pakistan           | 11   | 18  |
| Accrued expenses and other liabilities                                  | 12   | 165   |
| <b>Total liabilities</b>  |      | <b>29,116</b>   |
| <b>NET ASSETS</b>   |      | <b>954,610</b>  |
| <b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>                   |      | <b>954,610</b>  |
| <b>CONTINGENCIES AND COMMITMENTS</b>                                    | 13   |   |
|   |      | <b>Number of units</b>  |
| <b>NUMBER OF UNITS IN ISSUE</b>   | 8    | <b>9,536,930</b>  |
|   |      | <b>--- Rupees ---</b>   |
| <b>NET ASSET VALUE PER UNIT</b>   |      | <b>100.0962</b>   |

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

For NBP Fund Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## INCOME STATEMENT FOR THE PERIOD ENDED JUNE 30, 2018

|  | Note | For the period<br>from June 22,<br>2018 to June 30,<br>2018<br>Rupees in '000<br>NICPP-III |
|--|------|--|
| <b>Income</b>  |      |  |
| Profit on bank deposits  |      | 1,291  |
| <b>Total Income</b>  |      | <u>1,291</u>   |
| <b>Expenses</b>  |      |  |
| Remuneration of NBP Fund Management Limited - Management Company             | 9.1  | 184  |
| Sindh Sales Tax on remuneration of the Management Company                    | 9.2  | 24   |
| Accounting and operational expenses  | 9.3  | 18   |
| Remuneration of the Central Depository Company of Pakistan Limited - Trustee | 10.1 | 18   |
| Sindh Sales Tax on remuneration of the Trustee                               | 10.2 | 2  |
| Annual fees to the Securities and Exchange Commission of Pakistan            | 11.1 | 18   |
| Auditors' remuneration   | 14   | 115  |
| Amortisation of floatation costs   | 7    | 43   |
| Shariah advisor fee  |      | 11   |
| Printing charges   |      | 8  |
| Legal and professional charges   |      | 10   |
| Bank charges   |      | 32   |
| <b>Total operating expenses</b>  |      | <u>483</u>   |
| <b>Net income from operating activities</b>                                  |      | <u>808</u>   |
| Provision for Sindh Workers' Welfare Fund                                    | 12.1 | (16)   |
| <b>Net income for the period before taxation</b>                             |      | <u>792</u>   |
| Taxation   | 16   | -  |
| <b>Net profit for the period after taxation</b>                              |      | <u><u>792</u></u>  |
| <b>Earnings per unit</b>   | 17   |  |
| <b>Allocation of net income for the period</b>                               |      |  |
| Net income for the period after taxation                                     |      | 792  |
| Income already paid on units redeemed  |      | (1)  |
|  |      | <u>791</u>   |
| <b>Accounting income available for distribution</b>                          |      |  |
| - Relating to capital gains  |      | -  |
| - Excluding capital gains  |      | 791  |
|  |      | <u><u>791</u></u>  |

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

For NBP Fund Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2018

|  | <b>For the period<br/>from June 22,<br/>2018 to June 30,<br/>2018<br/>Rupees in '000<br/>NICPP-III</b> |
|--|--|
| <b>Net profit for the period after taxation</b>    | 792  |
| Other comprehensive income / (loss) for the period | -  |
| <b>Total comprehensive income for the period</b>   | <u>792</u>   |

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

For NBP Fund Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE PERIOD ENDED JUNE 30, 2018

|  | 'For the period from June 22, 2018 to June 30, 2018 |                         |  |                 |
|--|---|-------------------------|--|-----------------|
|  | NICPP-III   |                         |  |                 |
|  | ----- Rupees in '000 -----                          |                         |  |                 |
|  | Value<br>Capital                                    | Undistributed<br>income | Unrealised<br>appreciation /<br>(diminution) on<br>'available for<br>sale' investments | Total           |
| Issue of 9,547,321 units   |   |                         |  |                 |
| - Capital value (at net asset value per unit at the beginning of the period) | 954,732   | -                       | -  | 954,732         |
| - Element of income  | 126   | -                       | -  | 126             |
| Total proceeds on issuance of units  | 954,858   | -                       | -  | 954,858         |
| Redemption of 10,391 units   |   |                         |  |                 |
| - Capital value (at net asset value per unit at the beginning of the period) | (1,039)   | -                       | -  | (1,039)         |
| - Element of loss  | -   | (1)                     | -  | (1)             |
| Total payments on redemption of units  | (1,039)   | (1)                     | -  | (1,040)         |
| Total comprehensive income for the period                                    | -   | 792                     | -  | 792             |
| Distribution during the period   | -   | -                       | -  | -               |
| Net income for the period less distribution                                  | -   | 792                     | -  | 792             |
| <b>Net assets at end of the period</b>                                       | <b>953,819</b>                                      | <b>791</b>              | <b>-</b>   | <b>954,610</b>  |
| Accounting income available for distribution                                 |   |                         |  |                 |
| - Relating to capital gains  |   |                         | -  |                 |
| - Excluding capital gains  |   |                         | 791  |                 |
|  |   |                         | 791  |                 |
| Distribution for the period  |   |                         | -  |                 |
| Undistributed income carried forward   |   |                         | 791  |                 |
| Undistributed income carried forward   |   |                         |  |                 |
| - Realised income  |   |                         | 791  |                 |
| - Unrealised income  |   |                         | -  |                 |
|  |   |                         | 791  |                 |
|  |   |                         |  | (Rupees)        |
| Net assets value per unit at end of the period                               |   |                         |  | <u>100.0962</u> |

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

For NBP Fund Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## CASH FLOW STATEMENT FOR THE PERIOD ENDED JUNE 30, 2018

|   | Note | For the period<br>from June 22,<br>2018 to June 30,<br>2018<br><u>Rupees in '000</u><br>NICPP-III |
|---|------|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |      |   |
| Net income for the period before taxation                               |      | 792   |
| <b>Adjustments for:</b>   |      |   |
| Profit on bank deposits   |      | (1,291)   |
| Amortisation of floatation costs  | 7    | 43  |
|   |      | (1,248)   |
| <b>(Increase) in assets</b>   |      |   |
| Other receivable  |      | (104)   |
|   |      | (104)   |
| <b>Increase in liabilities</b>  |      |   |
| Payable to NBP Fund Management Limited - Management Company             |      | 28,913  |
| Payable to the Central Depository Company of Pakistan Limited - Trustee |      | 20  |
| Payable to the Securities and Exchange Commission of Pakistan           |      | 18  |
| Accrued expenses and other liabilities                                  |      | 165   |
|   |      | 29,116  |
|   |      | <u>28,556</u>   |
| Floatation cost paid during the period                                  |      | (3,921)   |
| <b>Net cash generated from operating activities</b>                     |      | <u>24,635</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |      |   |
| Net receipts from issuance of units                                     |      | 954,858   |
| Net payments against redemption of units                                |      | (1,040)   |
| <b>Net cash generated from financing activities</b>                     |      | 953,818   |
| <b>Net increase in cash and cash equivalents</b>                        |      | <u>978,453</u>  |
| Cash and cash equivalents at the beginning of the period                |      | -   |
| <b>Cash and cash equivalents at the end of the period</b>               | 4    | <u><u>978,453</u></u>   |

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

For NBP Fund Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM JUNE 22, 2018 TO JUNE 30, 2018

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Active Allocation Fund-III (the Fund) is an open ended mutual fund constituted under a Trust Deed entered into on March 30, 2018 between NBP Fund Management Limited as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 7th floor, Clifton Diamond Building, Block 4, Scheme No. 5, Clifton, Karachi. The Management Company is a member of the Mutual Funds Association of Pakistan (MUFAP).

The Fund has been categorised as an open ended shariah compliant fund of funds by the Board of Directors of the Management Company pursuant to the provisions contained in Circular 7 of 2009 and is listed on the Pakistan Stock Exchange Limited. The units of the Fund were initially offered for public subscription at a par value of Rs 100 per unit. Thereafter, the units are being offered for public subscription on a continuous basis from June 22, 2018 and are transferable and redeemable by surrendering them to the Fund.

The objective of NAFA Islamic Active Allocation Fund-III is to earn a potentially high return through dynamic asset allocation between Shariah Compliant Dedicated Equity and Money Market based Collective Investment Schemes, while providing Capital Preservation of the Initial Investment Value including sales load at completion of twenty four months and beyond. The investment objectives and policies are explained in the Fund's offering document. NICPP-III has an initial maturity of two years.

The Pakistan Credit Rating Agency (PACRA) has assigned an Asset Manager Rating of AM 1 as at June 30, 2018 (2017: AM1) to the Management Company. The Fund has not yet been rated.

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

As per the offering document approved by the SECP, the accounting period, in case of the first such period, shall commence from the date on which the trust property is first paid or transferred to the Trustee. Accordingly these financial statements have been prepared from June 22, 2018 to June 30, 2018.

This is the first accounting period of the Fund and hence there are no comparative figures.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017 along with part VIIIA of the repealed Companies Ordinance, 1984; and
- the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and the requirements of the Trust Deed.

Where provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance 1984, the NBFC Rules, the NBFC Regulations and the requirements of the Trust Deed differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance 1984, the NBFC Rules, the NBFC Regulations and the requirements of the Trust Deed have been followed.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## 2.2 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current period.

There are certain amended standards and interpretations that are mandatory for the Fund's accounting period for the current period but are considered not to be relevant or do not have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

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

The following standards have been adopted in Pakistan and would be effective from the dates mentioned below against the respective standards:

| Standard  | Effective date (accounting periods beginning on or after) |
|---|---|
| - IFRS 9 - Financial Instruments                  | 01 July 2018  |
| - IFRS 15 - Revenue from Contracts with Customers | 01 July 2018  |
| - IFRS 16 - Leases                                | 01 January 2019   |

These standards may impact the financial statements of the Fund on adoption. The Management is currently in the process of assessing the full impact of these standards on the financial statements of the Fund.

## 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the accounting and reporting standards requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates, judgments and associated assumptions are based on historical experience and various other factors including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities. 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 revision and future periods if the revision affects both current and future periods.

The estimates and judgments that have a significant effect on the financial statements of the Fund relate to classification, valuation and impairment of financial assets (notes 3.3) and provision for taxation (notes 3.14 and 16).

## 2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except that investments have been carried at fair values.

## 2.6 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates. These financial statements are presented in Pakistan Rupee, which is the Fund's functional and presentation currency.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.2 Cash and cash equivalents

These comprise balances with banks in savings and current accounts, cheques in hand and other short-term highly liquid investments with original maturities of three months or less.

#### 3.3 Financial assets

##### 3.3.1 Classification

The management determines the appropriate classification of the financial assets of the Fund in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement' at the time of the purchase of the financial assets and re-evaluates this classification on a regular basis. The classification depends on the purpose for which the financial assets are acquired. The financial assets of the Fund are categorised as follows:

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## a) Financial assets at fair value through profit or loss

These are acquired principally for the purpose of generating profits from short-term fluctuations in prices.

## b) Loans and receivables

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

## c) Available-for-sale

These are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, or (b) loans and receivables. These are intended to be held for an indefinite period of time which may be sold in response to the needs for liquidity or change in price.

### 3.3.2 Regular way contracts

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Fund commits to purchase or sell the asset. Regular way purchases / sales of assets require delivery of securities within two days from the transaction date as per the stock exchange regulations.

### 3.3.3 Initial recognition and measurement

Financial assets are recognised at the time the Fund becomes a party to the contractual provisions of the instruments. These are initially recognised at fair value plus transaction costs except for financial assets carried 'at fair value through profit or loss'. Financial assets carried 'at fair value through profit or loss' are initially recognised at fair value and transaction costs are recognised in the Income Statement.

### 3.3.4 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

#### a) 'Financial assets at fair value through profit or loss' and 'available-for-sale financial assets'

##### Basis of valuation of debt securities

Investments in the units of mutual funds are valued by reference to the net asset values (redemption prices) declared by the respective funds.

Net gains and losses arising from changes in the fair value of financial assets carried 'at fair value through profit or loss' are taken to the Income Statement.

Net gains and losses arising from changes in the fair value of financial assets classified as available for sale are taken to the 'statement of comprehensive income' until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised directly in the 'statement of comprehensive income' is transferred to the Income Statement.

#### b) Loans and receivables

These are carried at amortised cost using the effective interest method.

Gains or losses are recognised in the Income Statement through the amortisation process or when the financial assets carried at amortised cost are derecognised or impaired.

### 3.3.5 Impairment

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds the recoverable amount.

A provision for impairment is established when there is an objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The provision against these amounts is made as per the provisioning policy duly formulated and approved by the Board of Directors of the Management Company in accordance with the requirements of the Securities and Exchange Commission of Pakistan.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## 3.3.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership. Any gain or loss on derecognition of financial assets is taken to the Income Statement.

## 3.4 Financial liabilities

Financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instruments. These are initially recognised at fair values and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Any gain or loss on derecognition of financial liabilities is taken to the Income Statement.

## 3.5 Offsetting of financial assets and financial liabilities

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

## 3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund. These costs are amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund.

## 3.7 Provisions

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

## 3.8 Net asset value per unit

The Net Asset Value (NAV) per unit as disclosed in the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

## 3.9 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the Management Company / distributed during business hours on that day. The offer price represents the Net Asset Value (NAV) per unit as of the close of the business day, plus the allowable sales load and provision of any duties and charges if applicable. The sales load is payable to the Management Company / distributors.

Units redeemed are recorded at the redemption price applicable to units for which the Management Company / distributors receive redemption applications during business hours of the day. The redemption price is equal to NAV as of the close of the business day, less an amount as the Management Company may consider to be an appropriate provision of duties and charges.

## 3.10 Distributions to unit holders

Distributions to the unit holders are recognised upon declaration and approval by the Board of Directors of the Management Company. Based on the Mutual Funds Association of Pakistan's (MUFAP) guidelines duly consented by the SECP, distribution for the period also includes a portion of income already paid on units redeemed during the period.

Distributions declared subsequent to the period end reporting date are considered as non-adjusting events and are recognised in the financial statements during the period in which such distributions are declared and approved by the Board of Directors of the Management Company.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## 3.11 Element of income

Element of income represents the difference between net assets value per unit on the issuance or redemption date, as the case may be, of units and the net assets value per unit at the beginning of the relevant accounting period. The element of income is a transaction of capital nature and the receipt and payment of element of income shall be taken to unit holders' fund. However, to maintain the same ex-dividend net asset value of all units outstanding on the accounting date, net element of income contributed on issue of units lying in unit holders fund shall be refunded on units in the same proportion as dividend bears to accounting income available for distribution. MUFAP, in consultation with the SECP, has specified methodology of determination of income paid on units redeemed during the year under which such income is paid on gross element received and is calculated from the latest date at which the Fund achieved net profitability during the year. Furthermore, the revised regulations also require certain additional disclosures with respect to 'Income Statement' (relating to allocation of net income for the year) and 'Statement of Movement in Unit Holders' Fund', whereas disclosure with respect to 'Distribution Statement' has been deleted in the revised regulations.

## 3.12 Revenue recognition

- Profit income on bank balances is recognised on an accrual basis.

## 3.13 Expenses

All expenses including management fee and trustee fee are recognised in the Income Statement on an accrual basis.

## 3.14 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed as cash dividend to the unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of the Second Schedule to the Income Tax Ordinance, 2001.

## 3.15 Earnings per unit

Earnings per unit is calculated by dividing the net income / loss of the period before taxation of the Fund by the weighted average number of units outstanding during the period.

## 3.16 Foreign currency translation

Transactions denominated in foreign currencies are accounted for in Pakistan Rupees at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates for monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

|   | Note | June 30, 2018<br>Rupees in '000 |
|---|------|---------------------------------|
| <b>4 BANK BALANCES</b>  |      |                                 |
| Balances with banks in:   |      |                                 |
| Savings accounts  | 4.1  | <u>978,453</u>                  |
| 4.1 These carry profits at rates ranging from 2.75% to 6.45% per annum. |      |                                 |
| <b>5 PROFIT RECEIVABLE</b>  |      |                                 |
| Profit accrued on bank balances   |      | <u>1,291</u>                    |
| <b>6 OTHER RECEIVABLE</b>   |      |                                 |
| Advance tax   | 6.1  | <u>104</u>                      |
|   |      | <u>104</u>                      |

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

- 6.1 As per clause 47(B) of part IV of the Second Schedule to the Income Tax Ordinance, 2001, payments made to collective investment schemes (CISs) are exempt from withholding tax under section 151 and 150. However, during the period ended June 30, 2018, withholding tax on profit on bank deposit paid to the Fund was deducted by various withholding agents based on the interpretation issued by FBR vide letter C. No. 1(43) DG (WHT)/2008-VOL.II-66417-R dated 12 May 2015 which requires every withholding agent to withhold income tax at applicable rates in case a valid exemption certificate under section 159(1) issued by the concerned Commissioner of Inland Revenue (CIR) is not produced before him by the withholder. The tax withheld on profit on bank deposit amounts to Rs 0.104 million.

For this purpose, the Mutual Funds Association of Pakistan (MUFAP) on behalf of various mutual funds (including the Funds being managed by the Management Company) had filed a petition in the Honourable Sindh High Court (SHC) challenging the above mentioned interpretation of the Federal Board of Revenue (FBR) which was decided by the SHC in favour of FBR. On January 28, 2016, the Board of Directors of the Management Company passed a resolution by circulation, authorising all CISs to file an appeal in the Honourable Supreme Court through their Trustees, to direct all persons being withholding agents, including share registrars and banks to observe the provisions of clause 47B of Part IV of the Second Schedule to the Income Tax Ordinance, 2001 without imposing any conditions at the time of making any payment to the CISs being managed by the Management Company. Accordingly, a petition was filed in the Supreme Court of Pakistan by the Funds together with other CISs (managed by the Management Company and other Asset Management Companies) whereby the Supreme Court granted the petitioners leave to appeal from the initial judgement of the SHC. Pending resolution of the matter, the amount of withholding tax deducted on profit received by the Fund on dividends and profit on debt has been shown as other receivables as at June 30, 2018 as, in the opinion of the management, the amount of tax deducted at source will be refunded.

| 7 | <b>PRELIMINARY EXPENSES AND FLOATATION COSTS</b>   | <b>Note</b> | <b>June 30, 2018<br/>Rupees in '000</b> |
|---|--|-------------|---|
|   | Preliminary expenses and floatation costs incurred |             | 3,921                                   |
|   | Less: amortisation during the period               |             | 43                                      |
|   | At the end of the period                           | 7.1         | <u>3,878</u>                            |

- 7.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are amortised over a period of two years in accordance with the requirements set out in the Trust Deed of the Fund and the Non-Banking Finance Companies and Notified Entities Regulation, 2008.

| 8 | <b>NUMBER OF UNITS IN ISSUE</b>               | <b>June 30, 2018<br/>Number of Units</b> |
|---|---|--|
|   | Units issued during the period                | 9,547,321                                |
|   | Less: units redeemed during the period        | 10,391                                   |
|   | Total units in issue at the end of the period | <u>9,536,930</u>                         |

| 9 | <b>PAYABLE TO NBP FUND MANAGEMENT LIMITED - MANAGEMENT COMPANY</b> | <b>Note</b> | <b>June 30, 2018<br/>Rupees in '000</b> |
|---|--|-------------|---|
|   | Management fee payable   | 9.1         | 184                                     |
|   | Sindh Sales Tax payable on remuneration of the Management Company  | 9.2         | 24                                      |
|   | Accounting and operational charges payable                         | 9.3         | 18                                      |
|   | Sales load payable   |             | 21,904                                  |
|   | Sindh Sales Tax payable on sales load payable                      |             | 2,847                                   |
|   | Other payable  |             | 3,936                                   |
|   |  |             | <u>28,913</u>                           |

- 9.1 As per the amendments made in the NBFC Regulations, 2008 vide SRO 1160(1)/2015 dated 25 November 2015, the Management Company is entitled to a remuneration equal to an amount not exceeding 1.5% of the average annual net assets in case of fund of funds schemes. Keeping in view the maximum allowable threshold, the Management Company has charged its remuneration at the rate of 1% per annum of the average net assets of the plan after deducting market value of investment in collective investments during the period ended June 30, 2018. The remuneration is payable to the Management Company monthly in arrears.

- 9.2 During the period, an amount of Rs. 0.024 million was charged on account of sales tax on management fee levied through Sindh Sales Tax on Services Act, 2011.

- 9.3 In accordance with Regulation 60 of the NBFC Regulations, the Management Company has charged expenses at the rate of 0.1% of the average net assets of the Fund being lower than actual expenses chargeable to the Fund for the period.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

| 10          | <b>PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>   | <b>Note</b>  | <b>June 30, 2018<br/>Rupees in '000</b> |
|-------------|--|--|---|
|             | Trustee fee payable  | 10.1   | 18                                      |
|             | Sindh Sales Tax payable on trustee fee   | 10.2   | 2                                       |
|             |  |  | <u>20</u>                               |
| <b>10.1</b> | The Trustee is entitled to monthly remuneration for services rendered to the Fund under the provisions of the trust deed as follows:   |  |   |
|             | On net assets:   |  |   |
|             | - up to Rs 1,000 million   | 0.1% per annum of net assets.  |   |
|             | - over Rs 1,000 million  | Rs 1 million plus 0.075% per annum of net assets exceeding Rs 1,000 million. |   |
| <b>10.2</b> | During the period, an amount of Rs 0.002 million was charged on account of sales tax on remuneration of the Trustee levied through Sindh Sales Tax on Services Act, 2011.  |  |   |
| 11          | <b>PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>   | <b>Note</b>  | <b>June 30, 2018<br/>Rupees in '000</b> |
|             | Annual fee payable   | 11.1   | <u>18</u>                               |
| <b>11.1</b> | In accordance with the NBFC Regulations, 2008, a collective investment scheme classified as a shariah compliant scheme is required to pay to the Securities and Exchange Commission of Pakistan an amount equal to 0.095% of the average annual net assets of the Fund as annual fee.  |  |   |
| 12          | <b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>  | <b>Note</b>  | <b>June 30, 2018<br/>Rupees in '000</b> |
|             | Auditors' remuneration payable   |  | 115                                     |
|             | Printing charges payable   |  | 8                                       |
|             | Legal and professional charges payable   |  | 10                                      |
|             | Provision for Sindh Workers' Welfare Fund  | 12.1   | 16                                      |
|             | Shariah advisor fee payable  |  | 11                                      |
|             | Bank Charges   |  | 5                                       |
|             |  |  | <u>165</u>                              |
| <b>12.1</b> | As a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the Government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, was required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies and their CISs whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP had taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF. In view of the above developments regarding the applicability of SWWF on CISs / mutual funds, the MUFAP recommended that as a matter of abundant caution provision in respect of SWWF should be made on a prudent basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from May 21, 2015). |  |   |

In the repealed Companies Ordinance, 1984 and the now applicable Companies Act, 2017, mutual funds have not been included in the definition of "financial institutions". The MUFAP has held the view that SWWF is applicable on asset management companies and not on mutual funds.

Had the provision for SWWF not been recorded in the financial statements of the Fund for the period from June 22, 2018 to June 30, 2018, the net asset value per unit of the Fund as at June 30, 2018 would have been higher by insignificant amount.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## 13 CONTINGENCIES AND COMMITMENTS

### 13.1 Contingencies

There were no contingencies outstanding as at June 30, 2018.

## 14 AUDITORS' REMUNERATION

**For the period  
from June 22,  
2018 to June  
30, 2018  
Rupees in '000**

|                        |       |
|------------------------|-------|
| Annual audit fee       | 90    |
| Out of pocket expenses | 25    |
|                        | <hr/> |
|                        | 115   |

## 15 TOTAL EXPENSE RATIO

The Total Expense Ratio (TER) of the Fund as at June 30, 2018 is 0.06% which includes 0.01% representing government levies on the Fund such as provision for sales taxes, federal excise duties, annual fee to the SECP, etc. This ratio is within the maximum limit of 2.5% prescribed under the NBFC Regulations for a collective investment scheme categorised as a shariah compliant fund of funds scheme.

## 16 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 the accounting income for the period as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders as cash dividend. Furthermore, as per Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute not less than 90% of its accounting income for the period derived from sources other than capital gains as reduced by such expenses as are chargeable thereon to the unitholders. Since the management intends to distribute the required minimum percentage of income earned by the Fund for the period ended June 30, 2018 to the unit holders in the manner as explained above, no provision for taxation has been made in these financial statements during the period.

The Fund is also exempt from the provisions of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

## 17 EARNINGS PER UNIT

Earnings per unit (EPU) has not been disclosed as, in the opinion of the management, the determination of cumulative weighted average number of outstanding units for calculating EPU is not practicable.

## 18 TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

**18.1** Connected persons include NBP Fund Management Limited being the Management Company, the Central Depository Company of Pakistan Limited being the Trustee and National Bank of Pakistan (NBP) being the sponsors, other collective investment schemes managed by the Management Company, any entity in which the Management Company, its CISs or their connected persons have material interest, any person or company beneficially owning directly or indirectly ten percent or more of the capital of the Management Company or the net assets of the Fund, directors and their close family members and key management personnel of the Management Company.

**18.2** Transactions with connected persons are executed on an arm's length basis and essentially comprise sale and redemption of units, fee on account of managing the affairs of the Fund, sales load, other charges and distribution payments to connected persons. The transactions with connected persons are in the normal course of business, at contracted rates and at terms determined in accordance with market rates.

**18.3** Remuneration to the Management Company of the Fund is determined in accordance with the provisions of the NBFC Regulations, 2008 and the Trust Deed.

**18.4** Remuneration to the Trustee of the Fund is determined in accordance with the provisions of the NBFC Regulations, 2008 and the Trust Deed.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## 18.5 Details of the transactions with related parties / connected persons during the period are as follows:

For the period  
from June 22,  
2018 to June  
30, 2018  
Rupees in '000  
NICPP-III

### NBP Fund Management Limited - Management Company

|  |       |
|--|-------|
| Remuneration for the period                                  | 184   |
| Sindh Sales Tax on remuneration of Management Company        | 24    |
| Expense paid by the Management Company on behalf of the Fund |       |
| - Preliminary expenses and floatation costs                  | 3,921 |
| - Initial deposit on opening of bank accounts                | 15    |
| Preliminary expenses and floatation costs - amortisation     | 43    |
| Accounting and operational charges                           | 18    |

### Central Depository Company of Pakistan Limited - Trustee

|                                 |    |
|---------------------------------|----|
| Remuneration for the period     | 18 |
| Sindh Sales Tax on remuneration | 2  |

### Employees of NBP Fund

|  |     |
|--|-----|
| Units issued during the period 2,015 units | 202 |
|--|-----|

## 18.6 Amounts outstanding as at period end

June 30, 2018  
Rupees in '000

### NBP Fund Management Limited - Management Company

|   |        |
|---|--------|
| Remuneration payable to the Management Company        | 184    |
| Sindh Sales Tax on remuneration of Management Company | 24     |
| Sales load payable                                    | 21,904 |
| Sindh Sales Tax payable on sales load payable         | 2,847  |
| Other payable   |        |
| - Preliminary expenses and floatation costs           | 3,921  |
| - Initial deposit on opening of bank accounts         | 15     |
| Accounting and operational charges payable            | 18     |

### Central Depository Company of Pakistan Limited - Trustee

|                     |    |
|---------------------|----|
| Trustee fee payable | 18 |
|---------------------|----|

### Employees of NBP Fund

|                        |     |
|------------------------|-----|
| Units held 2,105 units | 202 |
|------------------------|-----|

## 18.7 Other balances due to / from related parties / connected persons are included in the respective notes to the financial statements.



# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## b) Sensitivity analysis for fixed rate instruments

As at 30 June 2018, the Fund does not hold any fixed rate instrument that may expose the Fund to fair value profit rate risk.

The composition of the Fund's investment portfolio, KIBOR rates and the rates announced by the Financial Markets Association of Pakistan are expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2018 is not necessarily indicative of the impact on the Fund's net assets of future movements in profit rates.

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

The Fund's profit rate sensitivity related to financial assets and financial liabilities as at June 30, 2018 can be determined as follows:

| June 30, 2018             |                                     |   |                    |   |       |
|---------------------------|-------------------------------------|---|--------------------|---|-------|
| Effective profit rate (%) | Exposed to yield / profit rate risk |   |                    | Not exposed to yield / profit rate risk | Total |
|                           | Up to three months                  | More than three months and up to one year | More than one year |   |       |

Rupees

### Financial assets

|                   |               |         |   |   |       |         |
|-------------------|---------------|---------|---|---|-------|---------|
| Bank balances     | 2.75% - 6.55% | 978,453 | - | - | -     | 978,453 |
| Profit receivable |               | -       | - | - | 1,291 | 1,291   |
|                   |               | 978,453 | - | - | 1,291 | 979,744 |

### Financial liabilities

|   |  |   |   |   |        |        |
|---|--|---|---|---|--------|--------|
| Payable to NBP Fund Management Limited - Management Company             |  | - | - | - | 28,913 | 28,913 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee |  | - | - | - | 20     | 20     |
| Accrued expenses and other liabilities                                  |  | - | - | - | 149    | 149    |
|   |  | - | - | - | 29,082 | 29,082 |

### On-balance sheet gap

|         |   |   |          |         |
|---------|---|---|----------|---------|
| 978,453 | - | - | (27,791) | 950,662 |
|---------|---|---|----------|---------|

### Total profit rate sensitivity gap

|         |   |   |
|---------|---|---|
| 978,453 | - | - |
|---------|---|---|

### Cumulative profit rate sensitivity gap

|         |   |   |
|---------|---|---|
| 978,453 | - | - |
|---------|---|---|

#### (ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Fund does not have any financial instruments in foreign currencies and hence is not exposed to such risk.

#### (iii) Price risk

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

Equity price risk is the risk that the fair value of equity instruments decreases as a result of changes in the level of equity indices and the value of individual stocks. The Fund does not have any investment in equity securities as of June 30, 2018.

## 20.2 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous to the Fund.

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

The Fund is exposed to daily redemptions at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions. The Fund's policy is, therefore, to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

As per the NBFC Regulations, 2008, the Fund can borrow in the short-term to ensure settlement the maximum limit of which is fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any redemptions during the period.

The table below summaries the maturity profile of the Fund's financial instruments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates. However, the assets and liabilities that are receivable / payable on demand including bank balances have been included in the maturity grouping of one month:

| ----- June 30, 2018 -----                                       |   |  |  |                   |  |                |
|---|---|--|--|-------------------|--|----------------|
| Within 1 month  | More than one month and upto three months | More than three months and upto one year | More than one year and upto five years | More than 5 years | Financial instruments with no fixed maturity | Total          |
| ----- Rupees -----  |   |  |  |                   |  |                |
| <b>Financial assets</b>   |   |  |  |                   |  |                |
| Bank balances   | 978,453                                   | -  | -                                      | -                 | -  | 978,453        |
| Profit receivable   | 1,291                                     | -  | -                                      | -                 | -  | 1,291          |
|   | 979,744                                   | -  | -                                      | -                 | -  | 979,744        |
| <b>Financial liabilities</b>                                    |   |  |  |                   |  |                |
| Payable to NBP Fund Management Limited - Management Company     | 28,913                                    | -  | -                                      | -                 | -  | 28,913         |
| Payable to the Central Depository Company of Pakistan - Trustee | 20  | -  | -                                      | -                 | -  | 20             |
| Accrued expenses and other liabilities                          | 149                                       | -  | -                                      | -                 | -  | 149            |
|   | 29,082                                    | -  | -                                      | -                 | -  | 29,082         |
| <b>Net assets</b>   | <b>950,662</b>                            | <b>-</b>                                 | <b>-</b>                               | <b>-</b>          | <b>-</b>                                     | <b>950,662</b> |

## 20.3 Credit risk

**20.3.1** There is a possibility of default by participants or failure of the financial market / stock exchanges, the depositories, the settlements or clearing systems, etc. The Fund's policy is to enter into financial contracts in accordance with internal risk management policies and instruments guidelines approved by the Investment Committee.

### 20.3.2 Credit quality of financial assets

The Fund's significant credit risk arises mainly on account of its placements in banks and mark-up accrued thereon. The credit rating profile of balances with banks are as follows:

| Rating | % of financial assets exposed to credit risk 2018 |
|--------|---|
| AAA    | 47.26   |
| AA+    | 52.61   |
|        | <u>100.00</u>                                     |

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## 21 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of assets and liabilities date. The estimated fair value of all other financial assets and liabilities is considered not to be significantly different from the respective book values.

### Fair value hierarchy

International Financial Reporting Standard 13, 'Fair Value Measurement' requires the Fund to classify assets using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: 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); and

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

As at June 30, 2018, the carrying value of all the assets approximate their fair values.

## 22 UNIT HOLDERS' FUND RISK MANAGEMENT

The unit holders' fund is represented by redeemable units. These units are entitled to dividends and to payment of a proportionate share based on the Fund's Net Asset Value per unit on the redemption date. The relevant movements are shown on the 'Statement of Movement in Unit Holders' Fund'.

The Fund has no restriction on the subscription and redemption of units. As required under the NBFC Regulations, 2008 every open end scheme shall maintain fund size (i.e. net assets of the Fund) of Rs 100 million at all times during the life of the scheme. The Fund has historically maintained and complied with the requirement of minimum fund size at all times.

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

In accordance with the risk management policies as stated in note 20, the Fund endeavours to invest the subscriptions received in appropriate investment avenues while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of investments or short-term borrowings, where necessary.

## 23 UNIT HOLDING PATTERN OF THE FUND

| Category         | ----- June 30, 2018 ----- |                                    |               |
|------------------|---------------------------|------------------------------------|---------------|
|                  | Number of unit holders    | Investment amount (Rupees in '000) | Percentage    |
| Individuals      | 1,035                     | 848,164                            | 88.85         |
| Retirement funds | 4                         | 21,751                             | 2.28          |
| Others           | 11                        | 84,695                             | 8.87          |
|                  | <u>1,050</u>              | <u>954,610</u>                     | <u>100.00</u> |

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## 24 DETAILS OF MEMBERS OF THE INVESTMENT COMMITTEE

Following are the details in respect of members of the Investment Committee of the Fund:

| Name               | Designation              | Qualification                                    | Overall experience |
|--------------------|--------------------------|--|--------------------|
| Dr. Amjad Waheed   | Chief Executive Officer  | MBA / Doctorate in Business Administration / CFA | 30                 |
| Sajjad Anwar       | Chief Investment Officer | CFA / MBA  | 18                 |
| Muhammad Ali Bhaba | Head of Fixed Income     | CFA / MBA / FRM / MS                             | 23                 |
| Hassan Raza        | Head of Research         | ACCA / BSC / CFA                                 | 7                  |
| Taha Khan Javed    | Fund Manager             | MBA / CFA  | 12                 |

## 25 NAME AND QUALIFICATION OF THE FUND MANAGER

| Name | Designation | Qualification | Other Funds managed by the Fund Manager |
|------|-------------|---------------|---|
|------|-------------|---------------|---|

Saiiad Anwar Fund Manager CFA / MBA NISF. NIPPF-II. NIAAF-I. NIAAF-II. NIPF and NPF

## 26 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

Subsequent to the year end, the Management Company of the fund has declared cash dividend of Re 0.0957 per unit on the face value of Rs 100.0000 each (i.e. 0.0957%) amounting to Rs 787,179. The financial statements of the Fund for the period ended June 30, 2018 do not include the effect of this distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2019.

## 27 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 05, 2018.

## 28 GENERAL

Figures have been rounded off to the nearest thousand Rupee unless otherwise stated.

For NBP Fund Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC ACTIVE ALLOCATION FUND-III

## PERFORMANCE TABLE








| Particulars  | For the period<br>from June 22,<br>2018 to June 30, 2018 |
|--|--|
| Net assets at the year / period ended (Rs '000)  | 954,610  |
| Net income for the year / period ended (Rs '000)   | 792  |
| Net Asset Value per unit at the year / period ended (Rs)   | 100.0962   |
| Offer Price per unit   | N/A  |
| Redemption Price per unit  | 100.0962   |
| Ex - Highest offer price per unit (Rs.)  | N/A  |
| Ex - Lowest offer price per unit (Rs.)   | N/A  |
| Ex - Highest redemption price per unit (Rs.)   | 100.0962   |
| Ex - Lowest redemption price per unit (Rs.)  | 100.0000   |
| Opening Nav of Fiscal Year   | 100.0000   |
| Total return of the fund   | 0.10%  |
| Capital growth   | 0.00%  |
| Income distribution as a % of e x nav  | 0.10%  |
| Income distribution as a % of par value  | 0.10%  |
| <b>Distribution</b>  |  |
| Interim distribution per unit  | -  |
| Final distribution per unit  | 0.0957   |
| <b>Distrubution Dates</b>  |  |
| Interim  |  |
| Final  | 4-Jul-18   |
| Average annual return of the fund (launch date January 09, 2015)   |  |
| (Since inception to June 30, 2018)   | 0.10%  |
| (Since inception to June 30, 2017)   |  |
| (Since inception to June 30, 2016)   |  |
| (Since inception to June 30, 2015)   |  |
| Portfolio Composition ( Please see Fund Manager Report)  |  |
| <i>Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up</i> |  |



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