

CHAIRMAN'S REVIEW

TO OUR
UNIT HOLDERS

**Manzoor Ahmed | Acting Managing Director / Chairman
National Investment Trust Limited**

I am pleased to present financial performance of NIT's family of funds for the year ended June 30, 2013.

The year under review has been another difficult year for the economy. Law and order continued to take a tangible toll on the economy and affected the rate of GDP growth, the acute energy shortage further complicated the issues and economic scenario. Agriculture remains the single biggest sector in terms of providing jobs in the economy. During this period LSM and service sector grew by 4.3% and 3.7% respectively, whereas GDP recorded a growth of 3.6%.

Fiscal year ended on June 30, 2013, however it has been one of the best years for Pakistan Capital market where, KSE-100 Index closed at 21,005 level on June 30, 2013 witnessing a 52.20% growth from 13,801 levels on June 30, 2012. Overall, average daily volumes improved to 200mn shares during FY13 as compared to 129mn in FY12, while in value terms they reached to Rs. 5.8 billion against Rs. 4 billion in FY12. During first half, State Bank of Pakistan (SBP) cut the discount rate by 250 bps staggered in 3-stages, while in second half of fiscal year SBP cut further 50 bps to reach the level of 9%. Smooth political transition from one civilian Government to another, 300bps cutoff in policy rate and massive growth in corporate earnings enabled Pakistan equities to record a stellar return in FY13.

NIT actively participated by executing transactions worth Rs. 9.880 billion in equity markets and Rs. 28.796 billion in money market (T-Bills and PIB's) during the year under review.

We at NIT, are ready to tackle the challenges in a positive manner and prepared to take the opportunity skillfully and without hurting the market sentiments to achieve satisfactory results. Briefly, my comments on the performance of the funds are as follows:

It must be noted that the existing accounting policy of recognition and determination of "element of income" causes unnecessary volatility on the bottom line earning of the Fund as it heavily depends upon sale & repurchase of units rather than purely on actual performance of the Portfolio management. It overshadows the core earnings realized through operating activities of the Fund. After a thorough study, the issue of "element of income" was discussed in length in the meeting of the Board of Directors in the presence of Auditors wherein it was decided to resolve this issue once for all across all funds under management of NITL. After approval from Board of Directors, an appropriate policy for "element of income", as per the international accounting standards and worldwide industry practices, has been adopted with effective from 1st July 2013. Thus, in future, the results of the Funds would reflect the core earnings based on quality portfolio management.

1) NATIONAL INVESTMENT (UNIT) TRUST - NI(U)T

During the year, your Fund outperformed the benchmark of KSE-100 Index by a healthy margin of 6.22%. The NAV of the Fund increased from Rs. 26.77 (Ex-dividend) as on June 30, 2012 to Rs. 42.41 on June 30, 2013 giving a remarkable total return of 58.42% against an increase of 52.20% in benchmark KSE 100 Index which increased from 13,801 levels on June 30, 2012 to 21,005 as on June 28, 2013.

In FY13, the Fund has registered a phenomenal growth of 209% in realized capital gains which increased to Rs. 4,448 million during the year ended on 30th June 2013 from Rs. 1,439 million for the year ended June 30, 2012. Furthermore, the dividend income earned also increased by 17% to Rs. 2,822 million in FY13 as compared to Rs. 2,421 million earned in FY12. Consequently, net income from operating activities increased to Rs. 7,129 million during the year under review against Rs. 2,577 million of last year depicting an outstanding increase of 177%. Keeping in view the bullish trend of stock market, unit holders opted to book capital gains, hence units worth Rs. 17,265 million were redeemed which resulted in negative element of income of Rs. (5,736) million on June 30, 2013 as compared to Rs. 2,022 million in the previous year. Ultimately, net income of the fund (excluding unrealized gains and impairment losses) stood at Rs. 1,040 million as on 30th June 2013 against Rs. 5,664 million earned by the Fund during the last financial year. Sale of units aggregated at Rs. 8,974 million (incl. CIPs) during the year under review.

Highlights of the financial performance of the fund is as follows:

Financial Performance of NI(U)T

	FY 2013 (Rs. Million)	FY 2012 (Rs. Million)	Change (%)
Net Income	4,448	1,439	209%
Capital Gains	2,822	2,421	17%
Dividend Income	1,365	4,508	(70)%
Unit holders' Funds	47,297	41,487	14%
NAV (Rs. per Unit) *	42.41	26.77	58%
Earnings per Unit (Rs.)	1.22	3.29	(63)%
Transactions in shares			
Buying - Shares	191	1,584	(88)%
Selling - Shares	7,172	2,400	199%
Gross Sale of Units (excl. CIP)	7,596	5,324	43%

* Ex-Div NAV of June 30, 2012.

Sale/Repurchase of NI(U)T Units:

During the year, Sale of Units worth Rs. 7,596 million was registered (excluding CIP units) against Rs. 5,324 million in the last year. We are focused on increasing the retail base of unit holders and acknowledge the trust and faith of 52,007 unit holders in NI(U)T Fund. Some of the investors opted to book capital gains by redeeming their units to take benefit of remarkable upsurge in the stock market and NAV of the fund. Resultantly, NI(U)T witnessed a huge redemptions of Rs. 17,265 million during the year. Alhamdulillah all redemptions were met in a timely manner to the utmost satisfaction of investors.

Distribution to Unit Holders:

A Cash Dividend @ Rs. 3.75 per unit was declared for the unit holders of NI(U)T for the year ended June 30, 2013 which would involve a huge total payout of Rs. 4,182 million among its unit holders, as compared to cash dividend @ Rs. 3.50 paid for the last year.

2) NIT STATE ENTERPRISE FUND - NIT SEF

The Fund realized capital gains of Rs. 4,589 million for the year under review against Rs. 1,658 million in the last year depicting growth of 177%, whereas dividend income earned by the fund stood at Rs. 1,134 million against Rs. 1,658 million of last year. Net income from operating activities increased by 97% i.e. from Rs. 2,832 million of last year to Rs. 5,591 million this year. In FY13, the Fund earned a net income of Rs. 958 million translating into earning per unit of Rs. 4.67 against Rs. 1,201 million translating into earning per unit of Rs. 4.27 in FY 12. The Net Asset Value of units of NIT-SEF increased by 41% YoY from Rs. 84.67 as on June 30, 2012 (EX-Dividend) to Rs. 119.30 as on June 30, 2013 compared to the benchmark KSE-100 index which increased by 52.19% during the year under review. The major reason for the underperformance is the fact that the Fund is in process of repaying the loans obtained at the time of its launching to support the stock market. However, since inception till 30th June 2013, NIT-SEF has massively outperformed the benchmark index by 33.94%.

Highlights of the financial performance of the fund is as follows:

Financial Performance of NIT SEF

	FY 2013 (Rs. Million)	FY 2012 (Rs. Million)	Change (%)
Net Income	4,589	1,658	177%
Capital Gains	1,134	1,259	(10)%
Dividend Income	958	1,201	(20)%
Unit holders' Funds	17,689	20,830	(15)%
NAV (Rs. per Unit) *	119.30	84.67	41%
Earnings per Unit (Rs.)	4.67	4.27	9%
Transactions in shares			
Buying - Shares	86	722	(88)%
Selling - Shares	8,740	3,076	184%

* Ex-Div NAV of June 30, 2012.

Distribution to Unit Holder

NITL declared bonus @ 12.92% on the face value of Rs. 50/- for unit holder of NIT-SEF for the year ended June 30, 2013.

Repayment of Loan to Financier

NIT State Enterprise Fund (NIT SEF) was established in January 2009 to support the stock market by investing in the eight stocks of State owned/controlled Enterprises. Financing was obtained by NITL from institutions for the purpose of investments in units of NIT SEF pursuant to establishment of NIT SEF.

During the Year ended June 30, 2013, NITL repaid Rs. 8.7 billion principal and interest thereon to all respective lenders from the internally generated cash. It is worth mentioning that till June 30, 2013, NIT has repaid Rs. 13.7 billion to lenders against principal obligations without even hurting the sentiments of the Stock Market. By repayment of Rs. 13.7 billion the principal obligations now stands reduced from Rs. 17.2 billion to Rs. 3.5 billion.

3) NIT EQUITY MARKET OPPORTUNITY FUND - NIT EMOF

The Fund realized capital gains of Rs. 782 million in FY13 against Rs. 433 million last year showing a huge growth of 81%, whereas dividend income earned by the fund stood at Rs. 341 million against Rs. 357 million of last year. Mainly on the back of capital gains; net income from operating activities increased by 220% i.e. from Rs. 347 million last year to Rs. 1,112 million this year. During FY13, the fund earned a net income of Rs. 849 million translating into earning per unit of Rs. 18.81 against Rs. 337 million translating into earning per unit of Rs. 7.10 in FY 12 giving an exceptional growth of 152%. The Net Asset Value of units of NIT-EMOF increased by 42% YoY from Rs. 127.37 as on June 30, 2012 (EX-Dividend) to Rs. 180.68 as on June 30, 2013 compared to the benchmark KSE-100 index which increased by 52.19% during the year under review. However, since inception till 30th June 2013, NIT-EMOF has outperformed its benchmark index by a healthy margin of 21.39%.

The Fund continued to give money back to the four institutional investors who had invested in the Fund to support the stock market. During the year under review, another 15% redemption of unit holding were offered and a redemption amount of Rs. 894 million was paid to unit holders. Thus, so far unit holders have been offered 65% redemptions of their respective unit holding since inception of the Fund.

Highlights of the financial performance of the fund is as follows:

Financial Performance of NIT EMOF

	FY 2013 (Rs. Million)	FY 2012 (Rs. Million)	Change (%)
Net Income	782	433	81%
Capital Gains	341	357	(4)%
Dividend Income	849	337	152%
Unit holders' Funds	7,555	6,068	25%
NAV (Rs. per Unit) *	180.68	127.37	42%
Earnings per Unit (Rs.)	18.81	7.10	165%
Transactions in shares			
Buying – Shares	409	904	(55)%
Selling – Shares	1,926	1,195	61%

* Ex-Div NAV of June 30, 2012.

Distribution to Unit Holder

NITL declared final bonus @ 20% on the face value of Rs. 100/- for unit holder of NIT-EMOF for the year ended June 30, 2013.

4) NIT GOVERNMENT BOND FUND - NIT GBF

Net income of the Fund stood at Rs. 385 million as compared to Rs. 315 million in the last year showing a growth of 22%. During the year under review, The NAV of NIT-GBF increased from Rs. 9.9729 (Ex dividend) as on June 30, 2012 to Rs. 10.9636 as on June 30, 2013, thus yielding an annualized return of 9.93% compared to the benchmark return of 8.80%, hence outperformed by a good margin of 1.13%. Since inception, the Fund earned an annualized return of 11.85% against the benchmark return of 10.28%, thus outperformed by 1.57%. As of June 30, 2013 the Net Assets of the Fund have increased by 53% in the current financial year and stood at 4.796 billion.

The Fund is currently invested around 99% of the total assets in Government Securities mainly comprising of Treasury Bills, while the remaining is in the form of cash and other assets.

The Fund has continued investing in short and medium tenor treasury bills to generate superior returns and suitably manage risk for its unit holders.

Highlights of the financial performance of the fund is as follows:

Financial Performance of NIT GBF

	FY 2013 (Rs. Million)	FY 2012 (Rs. Million)	Change (%)
Net Income	385	315	22%
Unit holders' Funds	4,796	3,145	52%
NAV (Rs. per Unit) *	10.9636	9.9729	10%
Earnings Per Unit (Rs.)	0.9817	1.2100	(19)%
Transactions in Government Securities			
Purchases	10,718	3,814	181%
Sales	4,670	923	406%
Gross Sale of Units	4,632	2,212	109%

* Ex-Div NAV of June 30, 2012.

Distribution to Unit Holder

NITL declared distribution of Rs. 0.8033 per unit (100% of the earnings) for unit holders of NIT Government Bond Fund for the year ended June 30, 2013.

5) NIT INCOME FUND - NIT IF

Net income of the Fund stood at Rs. 346 million as compared to Rs. 283 million for the last year. During the year under review, The NAV of NIT-IF increased from Rs. 10.2901 (Ex-Dividend) as on 30th June 2012 to Rs. 11.2743 as on June 30, 2013, thus, yielding an annualized return of 9.56% compared to the benchmark return of 9.92%. While since its inception, NIT-IF has earned an annualized return of 12.71% against the benchmark return of 11.94% thus outperformed by 0.77%. As of June 30, 2013 the Net Assets of the Fund have increased by 40% in the current financial year and stood at 3.680 billion.

NIT IF has its exposure in TFCs to the extent of 15% of its total assets, while around 77% of total assets are invested in Government Securities and 5% of its exposure in COIs and LOP. The remaining assets are in the form of cash and others. NIT IF will continue to build a portfolio within the investment avenues available while remaining cautious of quality of assets and interest rate scenario.

Highlights of the financial performance of the fund is as follows:

Financial Performance of NIT IF

	FY 2013 (Rs. Million)	FY 2012 (Rs. Million)	Change (%)
Net Income	346	283	22%
Unit holders' Funds	3,680	2,622	40%
NAV (Rs. per Unit) *	11.2743	10.2901	10%
Earnings Per Unit (Rs.)	1.1614	1.4655	(21)%
Transactions in Government Securities			
Purchases	6,886	3,101	122%
Sales	737	669	10%
Gross Sale of Units	1,785	1,282	39%

* Ex-Div NAV of June 30, 2012.

Distribution to Unit Holder

NITL declared a distribution of Rs. 1.0590 per unit (100% of the earnings) for unit holders of NIT Income Fund for the year ended June 30, 2013.

CORPORATE GOVERNANCE

Over the years, Corporate Governance has assumed a pivotal role internationally in establishing best corporate practices in the Corporate sector. NIT has also followed the same approach with prime focus on best Corporate Governance. The directors are being encouraged to attend useful workshops/ seminars to update their knowledge on Corporate Governance and best corporate practices.

The following specific statements are being given in compliance with the requirement of Code of Corporate Governance:

- i) The financial statements prepared by the management present fairly its affairs and the results of its operations, cash flows and movement in unit holders' fund;
- ii) The fund has maintained proper books of accounts during the year;
- iii) Appropriate accounting policies have been constantly applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- iv) International Financial Reporting standards, as applicable in Pakistan, provisions of Non-Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non-Banking Finance Companies (NBFC) Regulations 2008, requirements of Trust Deed and directives of Securities & Exchange Commission of Pakistan have been followed in preparation of Financial Statements;
- v) The system of internal control is sound in design and has been effectively implemented and monitored; and
- vi) There are no significant doubts upon funds' ability to continue as going concern.
- vii) There has been no material departure from the best practices of corporate governance as detailed in listing regulations;
- viii) Pattern of share holding of units is given in annexure of funds;
- ix) Key financial data for the year ended 30 June 2013 is given in respective annexure of the annual report;
- x) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in Financial Statements;
- xi) Profile of members of Investment Committee is given in annexure of the annual report;
- xii) The details of Board of Directors meeting is disclosed in respective notes to the attached financial statements.

EXTERNAL AUDITORS

As recommended by the Audit Committee, the Board of Directors of the Management Company has appointed M/s Anjum Asim Shahid Rehman & Company Chartered Accountants as the auditors of NI(U)T Fund and M/s KPMG Taseer Hadi & Company Chartered Accountants as the auditors of NIT-SEF, NIT-EMOF, NIT-IF & NIT-GBF for the year ending June 30, 2014.

GOLDEN JUBILEE OF NIT

It is indeed a matter of great pleasure for me to inform that NIT has completed fifty years of its establishment and hence celebrated golden jubilee this year. On this occasion, I would like to highlight few important achievements made during this period of 50 years.

- Today NIT is the largest asset management company of Pakistan. It is managing five funds, three equity and two fixed income category funds, with total funds under management at Rs. 81 billion as on June 30, 2013 which is 21% of the entire mutual funds industry. Equity Funds under management of NITL constitutes 77% in Equity Funds under management of NITL of open end equity funds. NIT has the largest number of investors which stands at 55,109 as on June 30, 2013.
- It is matter of great pleasure to inform that since its launch in 1962, NIT has never missed dividend for a single year.
- In Mutual Fund Industry, NI(U)T holds and maintains the largest equity portfolio not only in terms of size but also in terms of number of companies.
- NIT has always valued its unit holders and endeavored to take lead in extending modern services to them. NIT became pioneer of yet another value added innovative facility of NIT/Summit Bank Co-Branded ATM card for its unit holders with collaboration of Summit Bank as NIT is celebrating Golden Jubilee celebrations this year. This card allows the unit holders to withdraw cash, round the clock, against instant redemption of their electronic holding, through Summit Bank and I Link ATM network anywhere within Pakistan. This offers a technology driven service, for providing a paperless redemption. Further, the number of days to meet redemption requests has also significantly been reduced.

FUTURE PROSPECTS

There has been many stiff challenges as far as overall economic prospects is concerned. Apart from energy problem, the other is of promoting savings and generating investment in the economy, crucial driver of the economic growth. In the past five years, investment as a percentage of GDP has fallen quite sharply. There are several factors like eroding purchasing power, law and order, lack of education and awareness etc responsible for this decline.

Hopefully the situation is expected to improve in the period ahead. . Of course, much of it will depend on implementation of key measures relating to economic policy making and management of the economy.

NIT being the largest Mutual Fund in the industry envisages to continue playing a dominating role in promoting a broad based participation in the country's equity and money markets in the years to come. I remain optimistic that NIT will continue to play its significant role in the further development of capital markets in the country and also to provide superior returns to its investors in future as well.

CONCLUSION

I would like to thank our unit holders for demonstrating their unshakable trust and faith in us. I am also thankful to the NIT employees for their hard work and dedication. I would also like to thank our Trustees - National Bank of Pakistan & Central Depository Company of Pakistan Limited, the Securities Exchange Commission of Pakistan, State Bank of Pakistan and the Ministry of Finance for their continued guidance, cooperation and support.

Yours truly,

Chairman
Date: August 06, 2013

Continuing Traditions... NIT Annual Lunch 2013

