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**Our Vision**

"To set standards of best practices and performance for the industry through efficient selection of Government Securities on a SHARIAH COMPLIANT basis."

**Our Mission**

" To be the leading mutual fund in the industry, providing unitholders, stable and halal income stream generated primarily through investing in SHARIAH COMPLIANT Government Securities."

## FUND INFORMATION

### MANAGEMENT COMPANY

Al Meezan Investment Management Limited  
Ground Floor, Block "B", Finance & Trade Centre  
Shahrah-e-Faisal, Karachi 74400, Pakistan.  
Phone: (9221) 35630722-6, 111-MEEZAN  
Fax: (9221) 35676143, 35630808  
Web site: [www.almeezangroup.com](http://www.almeezangroup.com)  
E-mail: [info@almeezangroup.com](mailto:info@almeezangroup.com)

### BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Chairman
Mr. Aliuddin Ansari	Director
Mr. P. Ahmed	Director
Mr. Rana Ahmed Humayun	Director
Mr. Rizwan Ata	Director
Mr. Mazhar Sharif	Director
Mr. Mohammad Shoaib, CFA	Chief Executive

### CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

### AUDIT COMMITTEE

Mr. Ariful Islam	Chairman
Mr. Aliuddin Ansari	Member
Mr. Mazhar Sharif	Member

### TRUSTEE

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

### AUDITORS

A.F. Ferguson & Co.  
Chartered Accountants  
State Life Building No. 1-C,  
I.I. Chundrigar Road, P.O. Box 4716,  
Karachi-74000, Pakistan.

### SHARIAH ADVISER

Meezan Bank Limited

### BANKERS TO THE FUND

Askari Bank Limited - Islamic Banking  
Bank Alfalah Limited - Islamic Banking  
Bank Al Habib Limited - Islamic Banking  
Habib Bank Limited - Islamic Banking  
Habib Metropolitan Bank Limited - Islamic Banking  
MCB Bank Limited - Islamic Banking  
Meezan Bank Limited  
Royal Bank of Scotland - Islamic Banking  
Standard Chartered Bank (Pakistan) Limited - Islamic Banking  
UBL Ameen Islamic Banking

### LEGAL ADVISER

Bawaney & Partners  
404, 4th Floor, Beaumont Plaza, 6-CL-10  
Beaumont Road, Civil Lines  
Karachi - 75530

### TRANSFER AGENT

Meezan Bank Limited  
SITE Branch  
Plot # B/9-C, Estate Avenue, SITE, Karachi.  
Phone: 32062891  
Fax: 32552771  
Web site: [www.meezanbank.com](http://www.meezanbank.com)

### DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited



## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited, the management company of Meezan Sovereign Fund (MSF) is pleased to present the un-audited financial statements of the fund for the quarter ended September 30, 2010.

### Brief Overview

During the first quarter of fiscal year 2011, Meezan Sovereign Fund (MSF) provided an annualized return of 10.49% to its investors as compared to benchmark return of 8.02%.

### Economic Review

After the consolidating year 2010, the new fiscal year was pinned with hopes of further economic recovery with the GDP target of 4.5%. However, the situation completely changed with the devastating floods in August 2010 in which about one-fifth of the country has been badly affected and 10 percent of the country population has been directly affected. Nearly two million homes have been destroyed or damaged and there is extensive damage to roads, telecom and energy infrastructure, crops and livestock. Precise estimates are not yet available, but it is clear that the costs of humanitarian relief and reconstruction will be in billions of dollars.

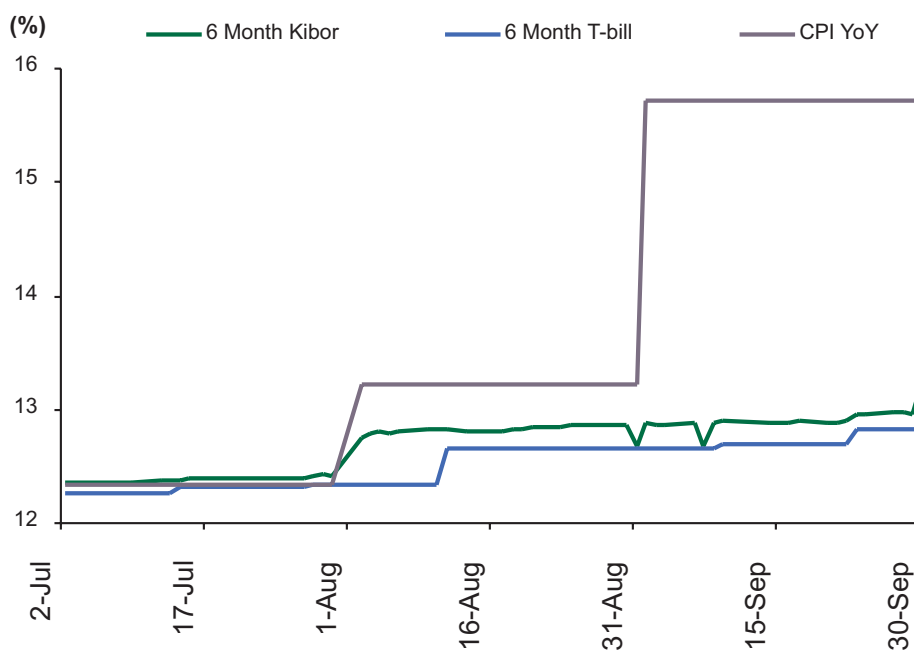
As a result all the macroeconomic targets are expected to be missed. The GDP growth target has already been revised down by 1-2% mainly because of sharply lower agricultural output growth estimates which accounts for 21 percent of GDP and 45 percent of employment. Average annual inflation is projected to rise to 13.5% in current fiscal year compared to 11.7% last year and the balance of payments is expected to weaken by US\$1.6 billion (0.8% of GDP) as compared to the pre-flood forecast.

To finance relief and rehabilitation work, government borrowed Rs. 220 billion from the State Bank of Pakistan (SBP) against International Monetary Fund's (IMF) target of zero net borrowing from the SBP. International aid for flood relief namely US\$ 451 million emergency aid by IMF and remittances helped to build the forex reserves which increased to all time high of US\$ 16.78 billion. The country saw the record monthly remittance inflow of US\$ 933 million during August. On domestic front, the provisional tax collection for the quarter was approximately Rs. 290 billion against a target of Rs. 295 billion.

### Money Market Review

In the first quarter of fiscal year 2011, money market remained highly volatile and to normalize the liquidity situation, SBP regularly conducted Open market operations. With the resurgence of inflation, SBP changed its monetary policy stance after 20 months and increased the policy rate by 50 bps to 13% in its bimonthly monetary policy statement at the end of July 2010.

Expectation of further hike in inflation surfaced with the country hit by one of the worst floods in its history. Thus to curb the inflationary pressures, SBP went for further monetary tightening in September increasing the discount rate by another 50 bps to 13.5%. As a result, KIBOR rates also increased, with six month rate increasing by 90 bps to close the quarter at 13.27%. During the quarter, SBP conducted six T-Bill auctions mopping up Rs. 556 billion against a target of Rs. 535 billion with a maturity of Rs 499 billion. The cut off rate of six month T-Bill increased by 55 bps to close the quarter at 12.82%. Private sector credit growth remains muted, with banking ADR at a low of 64%. The following graph shows the trend of interest rates and inflation during the quarter under review.



### Performance Review

Meezan Sovereign Fund (MSF) earned a total income of Rs. 21.33 million in the period under review. Profits from savings accounts at banks were the prime contributor to the total figure, contributing Rs. 11.08 million. A sum of Rs. 10.16 million was generated from income on sukuk certificates. After accounting for expenses of Rs. 2.6, the net income of the fund was 17.79 million.

The Ex-NAV of the Fund as at June 30, 2010 was Rs. 50.03 during the quarter ended September 30, 2010 the fund distributed Rs. 1.25 per unit. The annualized return of Fund remained at 10.49%.



## Outlook

Going forward, investors will be focusing on the macro-economic impact of the floods and on the steps taken by the government for the rehabilitation and rebuilding of country's infrastructure. The determination of losses and the materialization of foreign pledges in this regard will take time to firm up. However, it is anticipated that inflation will remain on the higher side because of supply side shortage and hence State Bank may likely go for further monetary tightening. With a very high percentage of MSF portfolio invested in floating rate instruments, this will positively impact the return on portfolio of MSF.

Our outlook for the coming year is cautiously optimistic. The management of Al Meezan is fully aware of the challenges that lie ahead and is taking all possible measures to face them.

## Acknowledgement

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments and making it the largest Shariah Compliant asset management company in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan, Trustee-Central Depository Company of Pakistan and management of Islamabad Stock Exchange for their support. We would also like to thank the members of the Shariah Supervisory Board of Meezan Bank for their continued assistance and support on Shariah aspects of fund management.

For and on behalf of the Board

**Date: October 19, 2010  
Karachi.**

**Mohammad Shoaib, CFA  
Chief Executive**

## CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2010

	Note	(Unaudited) September 30, 2010	(Audited) June 30, 2010
<b>Assets</b>			
Balances with banks		192,409	646,710
Investments	5	519,216	304,409
Deposits, prepayments and other receivables		10,911	26,091
Preliminary expenses and floatation costs		2,229	2,358
<b>Total assets</b>		<b>724,765</b>	<b>979,568</b>
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited (Al Meezan)		3,372	3,058
- management company of the Fund			
Payable to Central Depository Company of Pakistan Limited (CDC)		121	98
- trustee of the Fund			
Payable to Securities and Exchange Commission of Pakistan (SECP)		140	157
Payable to Meezan Bank Limited (MBL)		3	1
Payable on redemption of units		561	5,034
Accrued expenses and other liabilities		644	324
<b>Total liabilities</b>		<b>4,842</b>	<b>8,672</b>
<b>Net assets</b>		<b>719,923</b>	<b>970,896</b>
<b>Commitments</b>		<b>Number of Units</b>	
<b>Unitholders' funds (as per statement attached)</b>		<b>719,923</b>	<b>970,896</b>
<b>Number of units in issue</b>		<b>14,386,451</b>	<b>18,736,382</b>
		<b>Rupees</b>	
<b>Net asset value per unit</b>		<b>50.04</b>	<b>51.82</b>

The annexed notes 1 to 7 form an integral part of these condensed interim financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

**Chief Executive**

**Director**



## CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE PERIOD ENDED SEPTEMBER 30, 2010

September 30,  
2010  
(Rupees in '000)

### Income

Profit on savings accounts with banks	11,080
Profit on sukuk certificates	10,163
	21,243

Unrealised gain on re-measurement of investments at fair  
value through profit or loss (net)

83

### Total income

21,326

### Expenses

Remuneration to Al Meezan - management company of the Fund	1,868
Remuneration to CDC - trustee of the Fund	374
Annual fee to SECP	140
Auditors' remuneration	92
Fees and subscription	3
Amortisation of preliminary expenses and floatation costs	129
Brokerage	2
Bank and settlement charges	11
Printing expense	35
<b>Total expenses</b>	<b>2,654</b>

### Net income from operating activities

18,672

Element of (loss) and capital (losses) included  
in prices of units sold less those in units redeemed

(879)

### Net income

17,793

The annexed notes 1 to 7 form an integral part of these condensed interim financial statements.

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director

## CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE PERIOD ENDED SEPTEMBER 30, 2010

	September 30, 2010		
	Unrealised	Realised	Total
	Gains		
	----- (Rupees in '000) -----		
Undistributed income brought forward	21	34,056	34,077
Less: Final distribution for the year ended June 30, 2010 - bonus units @ 3.6%	-	(33,725)	(33,725)
Less: Interim distribution for the quarter ended September 30, 2010 - bonus units @ 2.5%	-	(17,545)	(17,545)
Net income	83	17,711	17,793
Undistributed income carried forward	<u>104</u>	<u>497</u>	<u>601</u>

The annexed notes 1 to 7 form an integral part of these condensed interim financial statements.

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director



**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNITHOLDERS' FUNDS (UN-AUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b>September 30, 2010 (Rupees in '000)</b>
Net assets at the beginning of the period	970,896
Issue of 3,044,468 units	154,009
Redemption of 8,419,323 units	(423,654) (269,645)
Element of (loss) and capital (losses) included in prices of units sold less those in units redeemed	879
Net Income for the period	17,793
Issue of bonus units during the quarter	(51,270)
Net loss for the period less distribution	(33,476)
Issue of 674,240 bonus units for the period ended June 30, 2010	33,725
Issue of 350,683 bonus units for the quarter ended September 30, 2010	17,545
Net assets at the end of the period	719,923
Net assets value per unit at the beginning of the period - Rupees	51.82
Net assets value per unit at the end of the period - Rupees	50.04

The annexed notes 1 to 7 form an integral part of these condensed interim financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

**Chief Executive**

**Director**

## CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE PERIOD ENDED SEPTEMBER 30, 2010

September 30,  
2010  
(Rupees in '000)

### CASH FLOWS FROM OPERATING ACTIVITIES

Net income	17,793
<b>Adjustments for non-cash items</b>	
Profit on savings accounts with banks	(11,080)
Profit on sukuk certificates	(10,163)
Unrealised gain on re-measurement of investments at fair value through profit or loss (net)	83
Amortisation of preliminary expenses and floatation costs	129
Element of loss and capital losses included in prices of units sold less those in units redeemed	879
	<u>(20,153)</u>
<b>Increase in assets</b>	
Investments	(214,890)
Deposits, prepayments and other receivables	(7)
	<u>(214,897)</u>
<b>(Increase)/ decrease in liabilities</b>	
Payable to Al Meezan - management company of the Fund	314
Payable to CDC - trustee of the Fund	23
Payable to SECP	(17)
Payable to MBL	3
Payable on redemption of units	(4,473)
Accrued expenses and other liabilities	320
	<u>(3,830)</u>
Profit received on savings accounts with banks	18,115
Profit paid on purchase of sukuk certificates	18,316
<b>Net cash outflow from operating activities</b>	<u>(184,656)</u>

### CASH FLOWS FROM FINANCING ACTIVITIES

Receipts from sale of units	154,009
Payments against redemption of units	(423,654)
<b>Net cash outflow from financing activities</b>	<u>(269,645)</u>
Net cash inflow during the period	<u>(454,301)</u>
Cash and cash equivalents at the beginning of the period	646,710
Cash and cash equivalents at the end of the period	<u>192,409</u>

The annexed notes 1 to 7 form an integral part of these condensed interim financial statements.

For Al Meezan Investment Management Limited  
(Management Company)

Chief Executive

Director



## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2010

### 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Meezan Sovereign Fund (the Fund) was established under a trust deed executed between Al Meezan Investment Management Limited (Al Meezan) as the management company and Central Depository Company of Pakistan Limited (CDC) as the trustee. The trust deed was executed on May 14, 2009 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The registered office of the management company of the Fund, is situated at Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2 The Fund has been formed to provide the unitholders maximum possible preservation of capital along with Halal and reasonable returns by investing primarily in a portfolio of shariah compliant government securities thus minimizing the credit risk of investments. The Fund shall also keep an exposure in short-term near cash instruments for the purpose of maintaining liquidity and to capitalize on exceptional returns if available at any given point of time. Under the trust deed all conducts and acts of the Fund are based on shariah. MBL acts as its shariah adviser to ensure that the activities of the Fund are in compliance with the principles of shariah. The management company of the Fund is registered with the SECP as a Non-Banking Finance Company under the NBFC Rules.
- 1.3 The Fund is an open-end fund listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4 Title to the assets of the Fund are held in the name of CDC as a trustee of the Fund.

### 2. BASIS OF MEASUREMENT

The transactions undertaken by the Fund in accordance with the process prescribed under the shariah guidelines issued by the Shariah Adviser are accounted for on substance rather than the form prescribed by the earlier referred guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

### 3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations and the directives issued by the SECP.
- 3.2 Wherever the requirements of the Trust Deed, the NBFC Rules, NBFC Regulations or the said directives differ with the requirements of IFRSs, the requirements of the Trust Deed, NBFC Rules, NBFC Regulations, and the said directives take precedence

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial report are the same as those applied in the preparation of the financial statements for the period January 09, 2010 to June 30, 2010.

#### 5. Held for trading

##### 5.1 Sukuk certificates

Name of the Issuer	Maturity date	Profit rate	As at July 1, 2010	Purchases during the period	Sales during the period	Sale / redemptions during the period	As at September 30, 2010	Number of Certificate		Unrealised Gain	Percentage of total market value of investments.
								As at September 30, 2010	September 30, 2010		
GoP Ijarah Sukuk Certificates - IV (note 5.1.1)	September 17, 2012	12.25%	2,750	2,100	-	-	4,850	495,913	495,913	-	96
Karachi Shipyard & Engineering Works II (note 5.1.2)	February 4, 2016	6 months Kibor plus base rate of 0.4%	4,800	-	-	-	4,800	23,221	23,304	83	4
<b>Total</b>							<u>495,913</u>	<u>519,216</u>	<u>83</u>		
<b>Total cost of investments</b>								<u>519,113</u>			

5.1.1 The nominal value of the sukuk certificates is Rs 100,000 each.

5.1.2 The nominal value of the sukuk certificates is Rs 5,000 each.

#### 6. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

The connected persons include Al Meezan being the management company, CDC being the trustee, MBL being the holding company of the management company, Al Meezan Mutual Fund Limited, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Balanced Fund, Meezan Capital Protected Fund - I and Meezan Cash Fund being the Funds under the common management of the management company and Pakistan Kuwait Investment Company (Private) Limited.

Transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to the management company and the trustee is determined in accordance with the provisions of NBFC Regulations and the trust deed respectively.

Details of transactions with connected persons and balances with them at period end are as follows:

	September 30, 2010	June 30, 2010
	(Rupees in '000)	
<b>Al-Meezan - management company of the Fund</b>		
Remuneration payable	<u>607</u>	<u>490</u>
Sales load payable	<u>210</u>	<u>13</u>
Preliminary expenses and floatation costs payable	<u>2,555</u>	<u>2555</u>
Investments as at September 30, 2010: 1,061,870 units (June 30, 2010: 1,000,000 Units)	<u>53,125</u>	<u>51820</u>



	September 30, 2010	June 30, 2010
	(Rupees in '000)	
<b>MBL</b>		
Sales load payable	<u>3</u>	<u>1</u>
Balances with bank	<u>1,118</u>	<u>14,800</u>
Profit receivable on savings account	<u>87</u>	<u>78</u>
<b>CDC - trustee of the Fund</b>		
Trustee fee payable	<u>121</u>	<u>98</u>
<b>Directors and executives</b>		
Investments as at September 30, 2010: 30,132 units (June 30, 2010: 29,105 Units)	<u>1,507</u>	<u>1508</u>
		<b>Three months period ended September 30, 2010</b>
		(Rupees in '000)
<b>Al-Meezan - management company of the Fund</b>		
Remuneration for the period		1,868
Preliminary expenses and floatation costs		129
Bonus units issued: 61,870 units		3,095
<b>MBL</b>		
Profit on savings accounts		<u>66</u>
<b>CDC - trustee of the Fund</b>		
Remuneration for the period		<u>374</u>
<b>Directors and executives</b>		
Redemptions: 754 units		<u>38</u>
Bonus units issued: 1,781 units		<u>474</u>

## 7. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on October 19, 2010 by the board of directors of the management company.

**For Al Meezan Investment Management Limited  
(Management Company)**

**Chief Executive**

**Director**