NIT INCOME FUND
FUND MANAGER REPORT – 2015-16

NIT Income Fund Objective

The objective of NIT Income Fund (NIT IF) is to generate competitive stream of return with moderate level of risk for its unit holders, by investing primarily in fixed income securities/instruments.

Profile of Investment Manager

National Investment Trust Ltd. (NITL) is the first Asset Management Company of Pakistan, formed in 1962. NITL is the largest asset management company of Pakistan with approximately Rs. 92 billion assets under management. As of 30th June 2016, the family of Funds of NIT comprises of nine funds including 4 equity funds, 2 fixed income funds, 1 money market Fund, 1 conventional pension fund and 1 Islamic pension fund. NIT's tally of nationwide branches is 23, yet another milestone as no Mutual Fund in Pakistan has such a big network of branches. To cater the matters relating to investments in NIT and day to day inquiries / issues of NIT's unit holders, state of the art Investors' Facilitation Centre is also in place. The Board of Directors of NITL consists of top executives from leading financial institutions, prominent industrialists and a nominee of Government of Pakistan. The Company has been assigned an Asset Manager rating of "AM2+" by Pakistan Credit Rating Agency, which reflects the company's very strong capacity to manage the risks inherent in the asset management business and the asset manager meets very high investment management industry standards and benchmarks with noted strengths in several of the rating factors. All Investment decisions are taken by the Investment Committee of NITL.

Fund Information NIT IF

Fund Type	Open-End	**Category**	Income Fund
Launch Date	February 19, 2010	**Listing**	PSX
Management Fee	1.25%	**Front End Load***	1.00%
Back End Load	Nil	**Par Value**	PKR 10.0000
Fund Manager	Shoaib Ahmed Khan	**Risk Profile**	Moderate
Stability Rating	A+ (f) (PACRA)	**AMC Rating**	AM2+ (PACRA) (updated on 18-Aug-2016)
Trustee	Central Depositary Co. (CDC)	**Auditors**	KPMG Taseer Hadi
Registrar	National Investment Trust Ltd.	**Pricing Mechanism**	Forward Pricing
Min Subscription	Rs.5,000 Growth Units		
	Rs. 100,000 Income Units		

*varies as per policy (No Front End Load for walk-in customers).

Rating

The Pakistan Credit Rating Agency (PACRA) assigned stability rating of "A+(f)' (A Plus – fund rating) to NIT Income Fund in January 2016. The fund's rating denotes a strong capacity to manage relative stability in returns and possesses a low exposure to risks.

Fund's Performance at a Glance	2015-16	2014-15
Beginning Net Assets (Rs. Million)	3,673	3,286
Beginning NAV Per Unit (Ex-Dividend)(Rs.)	10.4448	10.2170
Ending Net Assets (Rs. Million)(Interim Dividend Adjusted)	4,128	3,673
Ending NAV Per Unit (Rs.)(Interim Dividend Adjusted)	10.2973	10.4448
Net Income (Rs. Million)	176	290
Distribution Per Unit (Rs.)	0.76**	1.21**
Income Distribution (% of Net Income)	96.21%	96.78%
Annualized Return (%)	5.87%	14.09%
Benchmark Return (%)	6.53%	9.01%
Weighted Average Time to Maturity (Year)	0.90	0.99

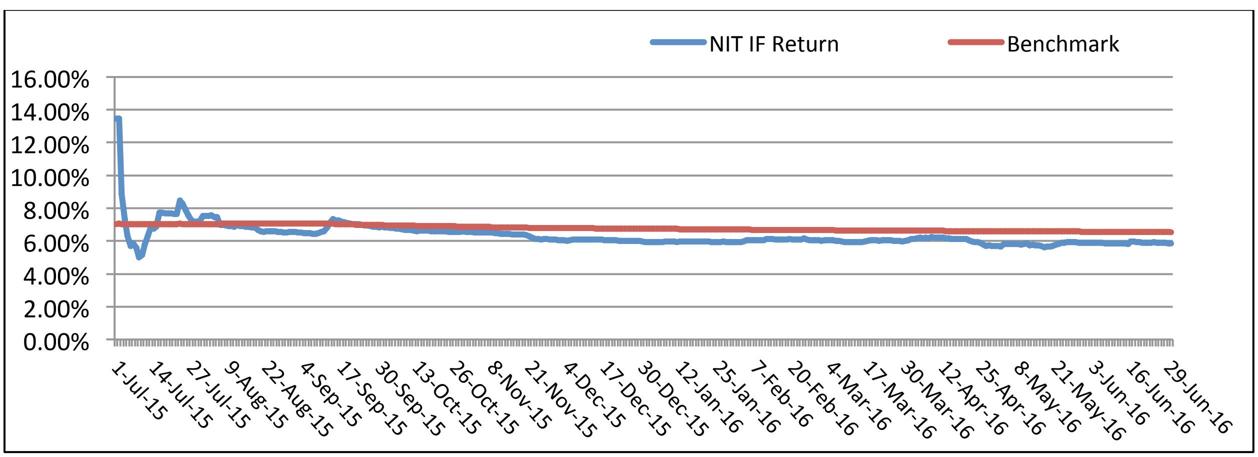
****Interim Distribution**

Benchmark vs. Return

The performance of scheme is compared against average of 6 months KIBOR

Comparison of Fund's return against benchmark

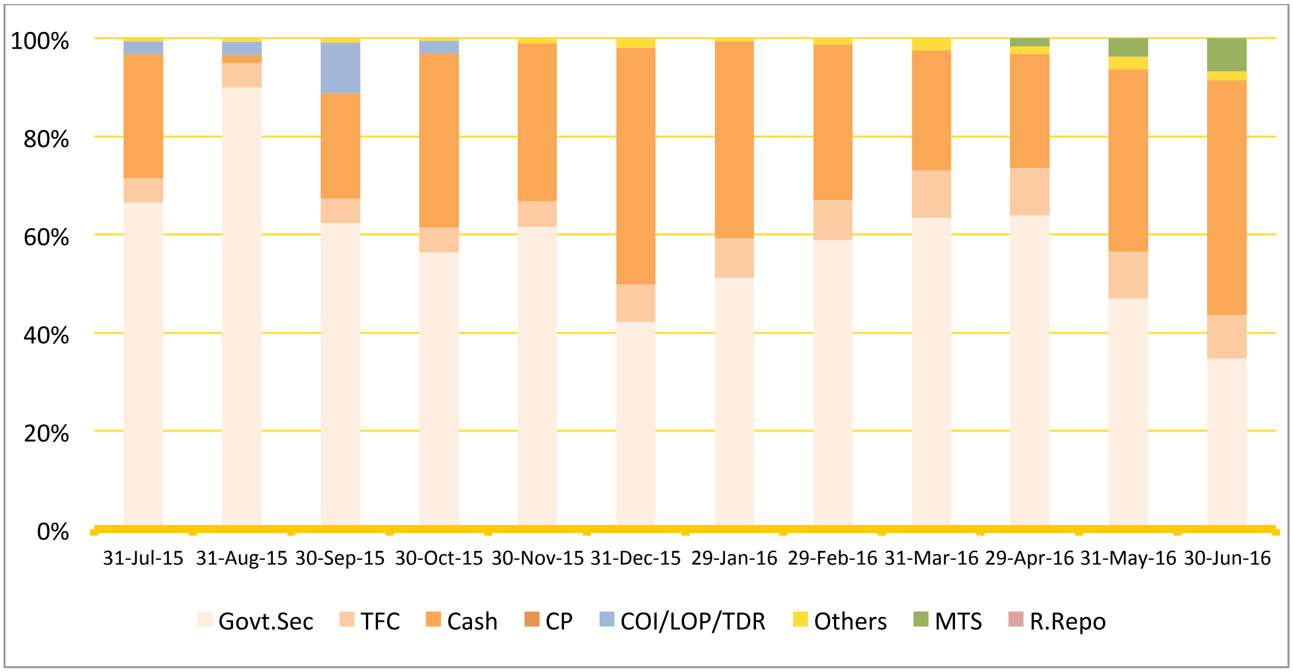
The graph below depicts the comparison of the Fund's return against its benchmark.



Investment Strategy

During FY16 NIT Income Fund yielded a return of 5.87% p.a. as compared to the benchmark return of 6.53% p.a. The Fund's annualized return since inception was 13.29% while its benchmark return was 10.30% p.a. The Fund size as on June 30, 2016 was Rs. 4.13 billion.

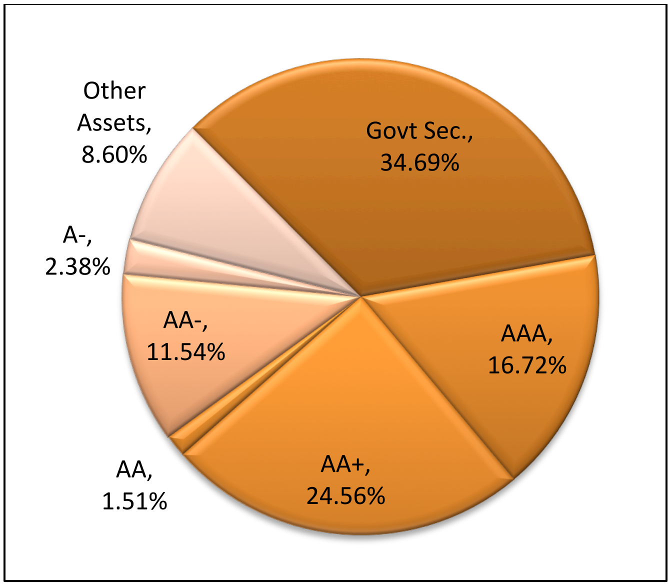
Asset Allocation during FY16:



Asset allocation of NIT Income Fund at the period ended June 30, 2016 had about 35% of its total assets in Government Securities (T-Bills and PIBs), about 9% of total assets were invested in corporate bonds from the banking sector, an exposure of 7% was in Margin Trading System and the remaining 49% of total assets were in the form of cash and other assets. As of June 30, 2016 the weighted average time to maturity of the fund was around 0.90 years.

Credit quality of the portfolio reveals that the fund is invested around 35% of its total assets in Government Securities while around 54% was invested in AA- and above rated instruments/institutions and about 2% was invested in securities having rating of A+ to A-. The remaining exposure was in Margin Trading System and other assets. The TFC holding as on 30 June, 2016 is given in the table below.

TFC Holding (As of Jun 30, 2016)	% of Total Assets
• Summit Bank Ltd.	2.38%



• Habib Bank Ltd.	2.37%
• Bank Al-Habib Ltd. V	1.51%
• Bank Al-Falah Ltd. IV (Fixed)	0.89%
• Standard Chartered Bank	0.76%
• Bank Al-Falah Ltd. IV (Floating)	0.63%
• Faysal Bank Ltd.	0.45%
Total	8.97%

Dividend Declaration by the Fund for FY16

During FY16, the Fund earned a net income of Rs. 176 million as compared to Rs.290 million during the FY15. NIT declared a per unit distribution of Rs. 0.76 for the period ended 30th June 2016.

Pattern of unit holders:

Category	(Units in million) NIT-IF	Percentage of Holding
Institutional Investors	**323**	**80.55%**
Individuals	**78**	**19.45%**
Total	**401**	**100.00%**

WWF Disclosure

The Scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs. 28.97m upto 30th June 2015 and thereafter has stopped provisioning. If the same were not made the NAV per unit/ year to date return of the Scheme would be higher by Rs. 0.0723/ 0.74%.

State Bank of Pakistan reduced its policy (target) rate by 75 bps during the fiscal year to bring the rate to 5.75% p.a. from 6.50% p.a. In the backdrop of decade low inflation levels and comfortable external account position, the SBP adopted for an easing monetary stance and reduced policy rates to bring it down to a 43 year low level of 5.75% p.a. Low levels of interest rates were aimed at rejuvenating the economic cycle and pick private credit growth.CPI inflation, mainly assisted by lower commodity prices, closed FY16 at an average of 2.9% which is a 13 year low level. The country's FX reserves gained significant momentum over the year and reached all time high level of well over US$ 23 billion mark.

Six month KIBOR reduced to 6.06% as compared to last year ending at 7.04% and decrease of 98 bps mainly due to reduction in Policy Rate.

During FY16, SBP conducted a total of 26 T-bill auctions (two auctions per month and 3 auctions in Mar-16 and Sep-15). Treasury Bills auction cut off held in Jun-16 for the 3M, 6M and 12M tenors reduced to 5.90% p.a., 5.92% p.a. and 5.96% p.a. from 6.93% p.a. , 6.95% p.a. and 6.97% p.a. respectively held in June-15. The cut-off yield on the 3 years, 5 years and 10 years PIB closed at 6.40% p.a., 6.90% p.a. and 8.02% p.a decreasing from the previous year's closing rate of 8.09% p.a., 8.99% p.a. and 9.25% p.a. for the 3 years, 5 years and 10 years bond.

Economic Review:

Pakistan's economy continues to maintain its growth momentum for the 3rd year in a row with real GDP growing at 4.7% in FY 2015-16 which is the highest in eight years. Economic growth is showing signs of sustained recovery aided by falling commodity and fuel prices, increased energy availability and improved security conditions. A strong performance from the industry and services sector led this growth in GDP. Agriculture, on the other hand, suffered particularly due to decline in agricultural growth (-0.19) % mainly due to decrease in production of cotton, rice and maize. Industrial growth accelerated on the back of higher activity in large-scale manufacturing and construction, the latter being driven primarily by initiation of China Pakistan Economic Corridor (CPEC) infrastructure and energy projects.

Agriculture sector is a vital component of Pakistan's economy as it contributes 19.8 % in GDP and it remains the largest employer absorbing 43.70% of the country's total labor force. During FY 2015-16, the performance of agriculture sector as a whole remained dismal as it witnessed a growth of (-0.19) % against 2.9% growth during the same period last year. According to the economic Survey of Pakistan, the growth of sub Sector of crops included important crops, other crops and cotton ginning remained negative while the other sub component of Agriculture sector like Livestock, Forestry and Fishing posted positive growth of 3.63 %, 8.84 % and 3.25 %, respectively.

Manufacturing is the second largest sector of the economy accounting for 13.6 % of Gross Domestic Product (GDP). This sector provides employment opportunities of 15.3 % to the total labor force. On average during FY 2015-16, Industrial growth is recorded at6.8% as compared to 3.6% in the comparable period of last year. This growth was achieved due to the robust domestic demand that helped the industry to post strong growth in FY2015-16. From the supply side, continued low prices of key raw materials (POL, coal, palm oil), low financing cost, better law and order, and improved energy supplies supported growth in the industrial sector.

Services sector also met the planned target and has emerged as the most significant driver of economic growth. The share of the services sector has increased from 56.6 % of GDP in FY 2009 to 59.16 % in FY 2015-16. Services sector has witnessed a growth of 5.7 % in this fiscal year as compared to 5% last year. Services sector performance remained broad based, as all components of services contributed positively.

During FY 2015-16net foreign direct investments was recorded at US$ 1.9 billion with growth of 5.4 %. The major inflow of FDI is from US, Hong Kong, UK, Switzerland and UAE. Oil & gas exploration, financial business, power, communications and Chemicals remained major sectors for foreign investors.

FY2015-16 has witnessed growth of 6% in Worker's remittances over last year. During the period, the remittances reached to US$ 19.9 billion as compared to US$ 18.7 billion last year.

Inflation during FY 2015-16 has been contained at 2.9%, which is the lowest in 13 years. Food and non-food inflation have been estimated at 2.1% and 3.4%. The slower increase in food inflation over the last year is due to moderate increase in prices of major consumable food items. The core inflation has also been anchored through appropriate fiscal and monetary measures.

Export competitiveness continued to suffer, with exports declining to USD 22 billion in FY16, as against USD 24 billion in FY15. Despite reduction in petroleum imports by USD 4.5 billion, mainly due to lower oil prices, overall import bill only reduced marginally to USD 40.5 billion in FY16, relative to USD 41.3 billion in FY15. Trade deficit deteriorated to USD 18.5 billion in FY16, mainly due to lower exports.

(Economic data source: Economic Survey of Pakistan, PBS& SBP Website)

Other Disclosures under NBFC Regulations 2008:

The Fund Manager hereby makes the following disclosures as required under the NBFC Regulations 2008;

a. The Management Company or any of its delegates did not receive any soft commission (goods & services) from any of its brokers / dealers by virtue of transactions conducted by the Fund.

b. There was no unit split undertaken during the year.