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786 INVESTMENTS LIMITED



786 SMART FUND

**ANNUAL REPORT
2020**



786 Smart Fund

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CORPORATE INFORMATION

Management Company	786 Investments Limited G-3 Ground Floor, B.R.R. Tower, Hassan Ali Street, Off I.I. Chundrigar Road, Karachi - 74000 Pakistan Tel: (92-21) 32603751-54 Email: info@786investments.com Website: www.786investments.com	
Board of Directors	Ms. Shafqat Sultana Miss Tara Uzra Dawood Ms. Charmaine Hidayatullah Mr. Ahmed Salman Munir Syed Shabahat Hussain Mr. Tahir Mehmood Syed Farhan Abbas	Chairperson Chief Executive Officer Director Director Director Director Director
Chief Financial Officer & Company Secretary	Mr. Noman Shakir	
Audit Committee	Syed Shabahat Hussain Mr. Tahir Mehmood Syed Farhan Abbas	Chairman Member Member
Human Resource Committee	Ms. Shafqat Sultana Miss Tara Uzra Dawood Mr. Tahir Mehmood	Chairperson Member Member
Trustee:	MCB Financial Services Limited 4th Floor, Pardasi House, 2/1 R-Y old Queens Road, Karachi	
Auditors	Grant Thornton Anjum Rahman Chartered Accountants	
Legal Advisor	Rauf & Ghaffar Law Associates (Advocates & Consultants) Suite # 65, 5th Floor, Fareed Chamber, Abdullah Haroon Road, Saddar – Karachi, Pakistan.	
Registrars	F.D. Registrar Services (SMC-Pvt.) Ltd. Office# 1705, 17th Floor Saima Trade Tower. A, I.I. Chundrigar Road, Karachi-74000, Pakistan.	
Banker:	Dubai Islamic Bank Limited BankIslami Pakistan Limited	
Rating	PACRA: AA-(f)	



786 Smart Fund

Mission Statement

To offer our unit holders the best possible return by expertly diversifying the Fund's investment portfolio into minimal risk and high yielding instruments and at all time to be a good corporate citizen.



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REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of 786 Investments Limited. ("786" or the "Company") the Management Company of 786 Smart Fund formerly (Dawood Income Fund) is pleased to present the annual report and the audited financial statements of the Company for the year ended June 30, 2020.

Economic Review:

Pakistan's debt burden used to be already significant, and the post COVID-19 situation has made it nearly impossible for it to service the massive debt comparable to a number of developing countries. So far, Pakistan has managed to attain a loan worth USD 1.4 bn under the Rapid Financing Instrument. Pakistan Institute of Development Economics and the World Bank have estimated large increase in poverty rate. Pakistan's economy is predicted to witness an adverse GDP growth of 0.4% in the current fiscal year as against positive 3.3% in FY19, particularly due to the effect of COVID-19 currency devaluation and inflationary pressures were the primary reason for the negative growth rate. Investment to GDP ratio was 15.4% for third quarter 20 vs 15.6% for the same period last year. National Savings to GDP was 13.9% for 9m20 compared to 10.8% for the same period last year. The reduction in the Saving-Investment Gap was possible due to reduction of trade deficit and increase in workers remittances.

The fine increase in agriculture recorded a strong growth of 2.7% which is considerably higher than the 0.6% achieved in the past year. The crop sector experienced a significant growth of 3.0% due to the increase in the growth of major crops (wheat, rice, maize, sugarcane, cotton) by 2.9%. Agricultural credit as at 9m20 was PKR 912 B which is 13.3% higher than same period last year. The industrial and services sectors has been estimated at -2.6% mainly due to a -8.8% and -7.8% plunge in the mining & quarrying and large-scale manufacturing sectors respectively. The services sector was also significantly impacted due to the lockdown situation in the country, especially the Wholesale & Retail Trade and Transport Sectors, which declined by -3.4% and -7.1% respectively. To stimulate growth, the government has announced a PKR 1.2 trillion fiscal stimulus package and a construction industry related package which includes tax exemptions, an amnesty scheme and PKR 30 B subsidy.

In FY20, the government approved the first-ever E-Commerce (EC) policy framework. SBP states that Pakistan can increase its GDP by USD 36 B and create 4 million jobs by 2025 via an increase in the use of digital financial services alone.

During FY20, the government decided to privatize 33 state owned entities including six public sector enterprises. During FY20, some CPEC projects achieved their commercial operation date. These include the Hubco & Engro Coal Projects, as well as substantial portions of road projects namely the Peshawar- Karachi motorway & KKH Phase-II road. Given the impacts of the COVID-19 pandemic, sustaining the focus and pace on CPEC, in its present state, seems difficult.

Pakistan's current account deficit shrunk to USD 3.3 B in 10m20, as in contrast to USD 11.5 B in the identical period last year, registering a decline of 71%. This contraction is attributable to a reduction in imports by means of 17% and will increase in remittances by means of 5.6%. Over the last five years, remittances have grown by way of a CAGR of approximately 7% providing robust support to current account balance in opposition to trade deficit. During the period 10m20, remittances grew by means of 5.5% to USD 19 B in contrast to USD 18 B in 10m19. The average CPI for 11m20 was 10.9%, as in contrast to the average inflation of 6.7% at some point of the identical period last year. IMF forecasts inflation to reduce to 9% in the following year. Pakistan's total revenue registered a growth of 31% during 9m20, while expenditure increased by 16% resulting in decline in the fiscal deficit from 5.1% in 9m19 to 4% in 9m20.



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Money Market Review:

The average inflation rate in Pakistan stood at approximately 11% for 11m20. The inflation peaked to 14.6% on January 20 which was an end result of energy tariff adjustments and the adoption of the market-based exchange rate. A downward trend was determined in inflation after January, whereby, it reduced in size to 8.2% on May 20 registering a drop of 6% in the closing 4 months due to declining oil prices and falling demand due to pandemic.

The rate of decline, however, decreased on May 20 in contrast to prior months as an end result of a spike in prices of some essential food items offsetting the influence of reduced petroleum product prices. The declining inflation rate has given room to SBP which has aggressively slashed the policy rate to 8%. The policy price was once kept on the greater side at 13.25% from July 19 until March 20 to contain inflation.

The depreciation of PKR for the 11m20 towards USD was 3.2% as compared to 21.7% the identical period last year. On April 20, PKR recorded its historic low of 167.9 towards USD exceptionally reflecting the ongoing COVID-19 crisis and the reduction in the policy rate.

In secondary markets, T-bill 3 months, 6 months and 12 months yields were down in the range of 60bps to 89bps, whereas a mixed trend was witnessed in PIB yields. PIB 3 years was down by 4 bps (7.53%), 5 years yield was up by 20 bps to 8.11% and 10 years PIB yield was also increased by 18 bps to close at 8.69%. In the primary market, two T-bill auctions and PIB oater auctions were conducted closing of the year 2020. In total PKR 390 billion were accepted against a target and maturity of PKR 520 billion & PKR 485 billion respectively. A fixed-rate PIB auction was also conducted in which participation was witnessed at PKR 177 billion against a target of PKR 140 billion; SBP accepted PKR 112 billion across all tenors.

The country's total foreign exchange reserves fell 10% to USD 16.9 billion on May 20 placing extra pressure on the currency due to outflows. Post COVID-19 crisis, remittances being a fundamental support for the CAD of Pakistan are predicted to decline due to the sluggish growth in advanced economies thereby having a negative have an impact on PKR.

Future Outlook

The financial year 2021 is expected to continue to be underneath the shadow of the pandemic. The IMF has anticipated a tremendous increase of 2% but this seems constructive at this stage. Inflation is expected to stay low as given the suppressed demand and falling global commodity prices. SBP policy rate is predicted to be reduced similarly given the decrease inflation blended with the need to jump-start the economy. PKR is expected to depreciate in addition towards the USD. The extent of such depreciation relies upon mainly on debt restructuring initiatives.

Remittances are expected to be lower due to the negative impact on the Pakistani employees in Middle Eastern countries both due to the pandemic as well as declining oil prices. Exports are expected to be extensively impacted in the coming fiscal 12 months on the grounds that Pakistan's main export destinations, China, UK, US, France, Italy, Spain, and Germany, are among the countries most affected through the COVID-19 pandemic. Imports are expected to remain suppressed due to decrease economic undertaking and decreased oil prices. Compliance with FATF conditionalities continues to be an essential factor and whilst the government is confident, all efforts need to be made to obtain most feasible compliance ahead of the evaluation in September 2020.

Fund Performance

As at June 30, 2020, net assets were Rs. 626.50 million as compared to Rs. 445.69 million as at June 30, 2019. Total operating income for the year was Rs. 62.97 million as compared to Rs. 62.02 million for the same period last year. Total expenses during the year were Rs. 12.65 million as compared to Rs. 11.59 million last year. The net profit for the financial year 2020 was Rs. 39.24 million, as compared to Rs. 38.90 million last year. The Net Asset Value per unit was Rs. 81.00 as at June 30, 2020.



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Future Plans:

786IL is building a strategy focused on times of COVID-19, and in anticipation of post COVID-19, with a focus on ease of both operations and customer access to information and our team, during periods of lockdown and with an emphasis on virtual, safer communications and elimination of paper for reasons of health and safety, as well as to be a more sustainable, purpose-driven, eco-friendly role model among asset management companies.

Our objective for the year is to grow Asset under Managements (AUM) through an effective virtual, social media driven sales strategy.

Corporate Governance and Financial Reporting Framework

The Directors are pleased to state as follows:

- The financial statements, prepared by the company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity.
- Proper books of account have been maintained by the company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures there from has been adequately disclosed and explained.
- The system of internal control is sound in design and has been effectively implemented and monitored with ongoing efforts to improve it further.
- There are no significant doubts upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance except as disclosed in the statement of compliance annexed with these financial statements.
- There has been no trading during the year in the units of the Fund carried out by the Directors, Chief Executive Officer, Company Secretary and their spouses and their minor children except as disclosed in the relevant notes to the financial statement.
- There is no statutory payment on account of taxes, duties, levies and charges outstanding.

The Company has complied with the requirement of the Regulation and LISTED COMPANIES (CODE OF CORPORATE GOVERNANANCE) REGULATIONS, 2019 in the following manner.

The total number of directors are seven (7) as per the following:

- a) Male: 4
- b) Female: 3



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The Composition of board is as follows:

Category	Names	Designation
Independent Directors	Ms. Shafqat Sultana Ms. Charmaine Hidayatullah Syed Shabahat Hussain Mr. Ahmed Salman Munir	Chairperson Director Director Director
Executive Director	Ms. Tara Uzra Dawood	Chief Executive Officer
Non - Executive Directors	Syed Farhan Abbas Mr. Tahir Mehmood	Director Director
Female Directors	Ms. Shafqat Sultana Ms. Tara Uzra Dawood Ms. Charmaine Hidayatullah	Chairperson Chief Executive Officer Director

Board of Directors Meetings

During the year, four meetings were held. The attendance of each Director is as follows:

Names	No of Meetings held	No of Meetings attended	Leave granted
Ms. Shafqat Sultana	4	4	-
Ms. Tara Uzra Dawood	4	4	-
Ms. Charmaine Hidayatullah	4	2	2**
Mr. Tahir Mehmood	4	4	-
Syed Farhan Abbas	4	4	-
Syed Shabahat Hussain	4	4	-
Ahmed Salman Munir	4	4	-

**Leave of absence was granted.

Audit Committee Meeting

During the year, Four Meetings were held. The attendance of each Member is as follows:

Names	No of Meetings held	No of Meetings attended	Leave granted
Syed Shabahat Hussain	4	4	-
Mr. Tahir Mehmood	4	4	-
Syed Farhan Abbas	4	4	-

**Leave of absence was granted.

Auditors

The present Auditors, Grant Thornton Anjum Rahman retire and being eligible, have offered themselves for re-appointment. The Board Audit Committee have recommended their re-appointment as statutory auditors for the year ending June 30, 2021 and the Board have endorsed the communication.



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Dividend

The Board of Directors has announced cash dividend to unit holders of PKR 8.2184 per unit for the year ended June 30, 2020 which comes out to be 8.21% of the par value per unit of PKR 100.

Sales and Redemption Units

5,924,775 units worth PKR 501.91 million were issued in the current year (2019: 8,042,818 units worth PKR 665.39 million) and 3,731,328 units worth PKR 322.36 were redeemed in the current year (2019: 6,292,094 units worth PKR 512.84 million). As of June 30, 2020, the total number of outstanding units was 7,734,563 valued as PKR 626.50 million.

Acknowledgement

The Board of Directors of the Management Company is thankful to the Securities and Exchange Commission of Pakistan and the management of the Pakistan Stock Exchange Limited for their continued support and cooperation. The Directors also appreciate the efforts put in by the employees of the Company for their commitment and dedication and shareholders for their confidence in the Company.

Director

Shafqat Sultana
Chairperson

September 28, 2020
Karachi.



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آڈٹ کمیٹی کا اجلاس

سال کے دوران، چار اجلاس منعقد ہوئے۔ ہر ایک ڈائریکٹری حاضری حسب ذیل ہے:

نام	منعقدہ اجلاسوں کی تعداد	تعداد حاضری اجلاس	تعطیل
جناب سید شاہت حسین	4	4	-
جناب طاہر محمود	4	4	-
سید فرحان عباس	4	4	-

** غیر حاضری کی چھٹی دی گئی۔

آڈیٹرز

موجودہ آڈیٹر گرانٹ تھورن انجم رحمان ریٹائر ہو گئے اور اہلیت کی بنیاد پر خود کو دوبارہ تقرری کے لئے پیش کرتے ہیں۔ بورڈ کی آڈٹ کمیٹی نے 30 جون 2021 کو ختم ہونے والے سال کے لئے

قانونی آڈیٹر کی حیثیت سے تقرری کی سفارش کی ہے اور بورڈ نے اس کی منظوری دے دی ہے۔

ڈیپوٹینڈ

بورڈ آف ڈائریکٹرز نے 30 جون 2020 کو ختم ہونے والے سال کے لئے پونٹ ہولڈرز کو 8,218,4 کو روپے فی پونٹ نقد منافع تقسیم کرنے کا اعلان کیا ہے۔ جو 100 روپے کے فی پونٹ مساوی قیمت کا 8.21 فیصد بنتا ہے۔

سیلز اینڈ ریٹرنیشن پونٹ

موجودہ سال میں 501.91 ملین روپے مالیت کے 5,924,775 پونٹ جاری ہوئے (2019: 8,042,818 پونٹ جسکی مالیت 665.39 ملین روپے) اور موجودہ سال میں 322.36 روپے مالیت کے 3,731,328 پونٹ واگزار کرائے گئے (2019: 6,292,094 پونٹ جس کی مالیت 512.84 ملین روپے)۔ 30 جون، 2020 کو، بقایا پونٹس کی کل تعداد 7,734,563 تھی جس کی مالیت 626.50 ملین روپے ہے۔

اظہار تشکر

منجنت کمیٹی کے بورڈ آف ڈائریکٹرز قابل قدر معاونت، مدد اور رہنمائی پر سکورٹرز اینڈ ایگزیکٹو کمیٹی آف پاکستان اور پاکستان اسٹاک ایکسچینج لمیٹڈ کی انتظامیہ کے شکر گزار ہیں۔ ڈائریکٹرز عزم، لگن اور محنت پر کمپنی کے ملازمین اور انتظامیہ کا اور کمیٹی میں اعتماد پر شیئرز ہولڈرز کا بھی شکریہ ادا کرتے ہیں۔

شفقت سلطانہ
چیئر پرسن

ڈائریکٹر

کراچی: 28 ستمبر 2020ء



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- میکسر، ڈیوٹیز، بیوریز اور بنایا چارجز کی مد میں کوئی قانونی ادائیگی نہیں ہے۔
- کمپنی نے درج ذیل انداز میں لسٹ کیپٹیز (کوڈ آف کارپوریت گورنس) ریکولیشنز 2019 اور ریکولیشن کے تقاضوں کی تعمیل کی ہے۔
- ڈائریکٹرز کی کل تعداد سات (7) درج ذیل کے مطابق ہے:

(a) - مرد 4

(b) - خاتون 3

بورڈ کی ترتیب درج ذیل ہے:

کمیٹری	نام	عہدہ
آزاد ڈائریکٹر	محترمہ شفقت سلطانہ مس چارمائن ہدایت اللہ سید شہاب حسین جناب احمد سلمان منیر	چیئر پرسن ڈائریکٹر ڈائریکٹر ڈائریکٹر
ایگزیکٹو ڈائریکٹر	محترمہ تارا عزراد اود	چیف ایگزیکٹو آفیسر
نان ایگزیکٹو ڈائریکٹر	سید فرحان عباس جناب طاہر محمود	ڈائریکٹر ڈائریکٹر
خاتون ڈائریکٹر	محترمہ شفقت سلطانہ محترمہ تارا عزراد اود محترمہ چارمائن ہدایت اللہ	چیئر پرسن چیف ایگزیکٹو آفیسر ڈائریکٹر

بورڈ آف ڈائریکٹرز کے اجلاس

سال کے دوران، چار اجلاس منعقد ہوئے۔ ہر ایک ڈائریکٹر کی حاضری حسب ذیل ہے:

نام	منعقدہ اجلاسوں کی تعداد	تعداد حاضری اجلاس	تعطیل
محترمہ شفقت سلطانہ	4	4	-
محترمہ تارا عزراد اود	4	4	-
محترمہ چارمائن ہدایت اللہ	4	2	**2
جناب طاہر محمود	4	4	-
سید فرحان عباس	4	4	-
سید شہاب حسین	4	4	-
احمد سلمان منیر	4	4	-

** غیر حاضری کی چھٹی دی گئی۔

اعتقاد کیا گیا جس میں 140 ارب روپے کے ہدف کے مقابلہ میں 177 ارب روپے کی شراکت دیکھی گئی؛ اسٹیٹ بینک نے تمام مدتوں میں 112 بلین روپے قبول کئے۔ 20 مئی کو نقدی کے اخراج کے سبب کرنسی پر اضافی دباؤ کی وجہ سے ملک کے زرمبادلہ کے ذخائر 10 فیصد کم ہو کر 16.9 بلین امریکی ڈالر ہو گئے۔ کوویڈ-19 کے بحران کے بعد، ترسیلات زر کی کمی کی پیش گوئی کی جارہی ہے کہ اعلیٰ درجے کی معیشتوں میں کم شرح نمو کی وجہ سے پاکستانی روپیہ پر اثر پڑ سکتا ہے۔

مستقبل کا نظریہ:

توقع کی جارہی ہے کہ مالی سال 2021 و ہائی بیماری کے سائے میں ہی رہے گا۔ آئی ایم ایف نے 2 فیصد زبردست اضافے کی پیش گوئی کی ہے لیکن اس مرحلے پر یہ تعمیری معلوم ہوتا ہے۔ توقع کی جاتی ہے کہ کم طلب اور عالمی اجناس کی گرتی قیمتوں کے پیش نظر مہنگائی کم رہے گی۔ معیشت کو ابھارنے کی ضرورت کے ساتھ مہنگائی کی کمی کے باعث ایس بی پی کی پالیسی شرح میں بھی اسی طرح کمی کی پیش گوئی کی جارہی ہے۔ توقع کی جاتی ہے کہ پاکستانی روپیہ کے علاوہ امریکی ڈالر کی قیمت میں بھی کمی ہوگی۔ اس قدر فرسودگی کی حد بنیادی طور پر قرض کی تنظیم نو کے اقدامات پر منحصر ہے۔

توقع ہے کہ وہائی بیماری کے باعث شرح واصل کے تمام ہماک میں پاکستانی ملازمین پر پائے جانے والے منفی اثرات اور تیل کی قیمتوں میں کمی کی وجہ سے ترسیلات زر کم ہوں گی۔ آئندہ مالی 12 ماہ میں برآمدات پر بڑے پیمانے پر اثر پڑنے کی توقع ہے۔ جس کی بڑی وجہ یہ ہے کہ پاکستان کی برآمدات کی اہم مندرجہ لیں، چین، برطانیہ، امریکہ، فرانس، اٹلی، اسپین اور جرمنی ہیں جو کوویڈ 19 و ہائی بیماری سے سب سے زیادہ متاثر ہونے والے ممالک میں شامل ہیں۔ توقع ہے کہ اقتصادی اقدامات اور تیل کی قیمتوں میں کمی کی وجہ سے درآمدات کم رہیں گی۔ نجی شراکت کی تیل ایک لازمی عنصر ہے اور جب کہ حکومت کا مختار ادارہ ہے کہ، ستمبر 2020 میں تشخیص سے پہلے مہنگائی میں اضافے کی تمام تر کوششوں کی اشد ضرورت ہے۔

فٹڈ کی کارکردگی

30 جون 2019 کو 445.69 بلین روپے کے مقابلے میں 30 جون 2020 میں خالص اثاثے 626.50 بلین روپے رہے۔ گزشتہ سال کی اسی مدت میں 62.02 بلین روپے کے مقابلے میں آپریٹنگ آمدنی 62.97 بلین روپے ہوئی۔ گزشتہ سال کی اسی مدت میں 11.59 بلین روپے کے مقابلے میں اخراجات 12.65 بلین روپے ہوئے۔ گزشتہ سال کی اسی مدت میں 38.90 بلین روپے کے مقابلے میں مالی سال 2020 کے لئے خالص منافع 39.24 بلین روپے ہوا ہے۔ 30 جون 2020 کو نیٹ ویٹ ایٹ قدر 81.00 روپے ہے۔

مستقبل کے منصوبے

786IL کوویڈ 19 کے اوقات پر مرکوز ایک حکمت عملی تیار کر رہی ہے، اور COVID-19 کے بعد کی پیش گوئی کے مطابق، لاگ ڈاؤن کے عرصے کے دوران معلومات اور ہماری ٹیم دونوں تک آپریشنز اور صارفین کو آسانی فراہم کرنے پر مرکوز رکھتے ہوئے صحت اور حفاظت کی وجوہات کی بناء پر محفوظ مواصلات اور کاغذ کے خاتمہ، نیز اثاثہ جات کی انتظامی کمپنیوں میں سب سے زیادہ پائیدار، با مقصد، ماحول دوست رول ماڈل بنانا ہے۔

سال کے لئے ہمارا مقصد ایک مؤثر ورژن چیکل، سوشل میڈیا پر پھیلنے والی فروخت کی حکمت عملی کے ذریعہ ایٹ انڈر مینجمنٹ (AUM) کو بڑھانا ہے۔

کارپوریٹ گورننس اور مالیاتی رپورٹنگ کا دائرہ کار

ڈائریکٹرز، جنٹلمین آف بورڈ کے ہیں کہ:

- کمپنی کی انتظامیہ کی طرف سے تیار کردہ، مالیاتی حسابات، اس کے امور، آپریشنز کے نتائج، نقدی بہاؤ اور ایکویٹی میں تبدیلیوں کو منصفانہ طور پر ظاہر کرتے ہیں۔
- کمپنی کے کھاتے جات بالکل صحیح طور سے بنائے گئے ہیں۔
- مالی حسابات کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کو تسلسل کے ساتھ لاگو کیا گیا ہے اور اکاؤنٹنگ کے تخمینہ جات مناسب اور آئندہ اندازہ فیصلوں پر مبنی ہیں۔
- مالی حسابات کی تیاری میں پاکستان میں لاگو بین الاقوامی مالیاتی رپورٹنگ کے معیارات کی پیروی کی گئی ہے اور کسی انحراف کا واضح انکشاف اور وضاحت کی گئی ہے۔
- اندرونی کنٹرول کے نظام کا ڈیزائن مستحکم ہے اور اسکی مؤثر طریقے سے عملدرآمد اور نگرانی کی جاتی ہے۔
- کمپنی کے گونگ کنسرن ہونے کی صلاحیت پر کوئی قابل ذکر شکوک و شبہات نہیں ہیں۔
- کارپوریٹ گورننس کے بہترین عمل سے کوئی مادی انحراف نہیں کیا گیا ہے سوائے جن مالی گوشواروں کے ساتھ منسلک تقابلی بیان میں انکشاف کیا گیا۔
- فٹڈ کے ہدف میں کسی ڈائریکٹر، چیف ایگزیکٹو آفیسر، کمپنی سیکرٹری اور ان کے زوج اور ان کے نابالغ بچوں کی طرف سے سال کے دوران کوئی تجارت نہیں کی گئی سوائے جن مالی گوشواروں سے متعلقہ نوٹس میں انکشاف کیا گیا۔

میٹجمنٹ کمپنی کے ڈائریکٹرز کی رپورٹ

786 سمارٹ فنڈ (سابقہ داؤد اکھنڈ) کی میٹجمنٹ کمپنی، 786 انویسٹمنٹ لمیٹڈ (786 یادی کمپنی) کے بورڈ آف ڈائریکٹرز 30 جون 2020 کو ختم ہونے والے سال کی سالانہ رپورٹ اور نظر ثانی شدہ مالیاتی گوشوارے پیش کرتے ہوئے خوشی محسوس کرتے ہیں۔

اقتصادی جائزہ

پاکستان پر قرضوں کا بوجھ پہلے ہی قابل ذکر تھا، اور COVID-19 کے بعد کی صورتحال نے متعدد ترقی پذیر ممالک کے مقابلے میں بڑے پیمانے پر قرض کی فراہمی کو تقریباً ناممکن بنا دیا ہے۔ ایک سب سے پاکستان نے ریپڈ فنانسنگ انسٹرومنٹ کے تحت 1.4 بلین ڈالر کا قرض حاصل کیا ہے۔ پاکستان انسٹی ٹیوٹ آف ڈیولپمنٹ اکنامکس اور ورلڈ بینک نے غربت کی شرح میں بڑے پیمانے پر اضافہ کا اندازہ لگا لیا ہے۔ پاکستان کی معیشت میں مالی سال 19 میں مثبت 3.3 فیصد کے مقابلے میں مالی سال 20 میں 0.4 فیصد منفی پیش گوئی کی گئی ہے۔ خاص طور پر کوویڈ 19 کے اثرات کے باعث کرنسی کی قدر میں کمی اور افراط زر کے دباؤ کی وجہ سے منفی شرح نمو تھی۔ گذشتہ سال کی اسی مدت کے لئے 15.6 فیصد کے برعکس تیسری سہ ماہی 20 کے لئے جی ڈی پی تناسب میں سرمایہ کاری 15.4 فیصد تھی۔ جی ڈی پی میں قومی بچت نو ماہی 20 کے لئے 13.9 فیصد رہی جبکہ پچھلے سال کی اسی مدت میں یہ 10.8 فیصد تھی۔ تجارتی خسارے میں کمی اور کارکنوں کی ترسیلات زر میں اضافے کی وجہ سے سیولک انویسٹمنٹ گپ میں کمی ممکن ہوئی۔ زراعت میں زیادہ اضافے نے 2.7 فیصد کی مضبوط نمو ریکارڈ کی جو پچھلے سال کے 0.6 فیصد کے مقابلے میں کافی زیادہ ہے۔ اہم فصلوں (گندم، کھجور، مٹی، برسی، روٹی) کی نمو میں 2.9 فیصد تک اضافہ کی وجہ سے فصل کے شعبے میں 3.0 فیصد کی نمایاں نمو ہوئی ہے۔ 9m20 میں زرعی قرضہ 912 بلین روپے تھا جو پچھلے سال کی اسی مدت سے 13.3 فیصد زیادہ ہے۔ صنعتی اور خدمات کے شعبوں کا تخمینہ فی 2.6 فیصد لگایا گیا ہے جس کی بنیادی وجہ کان کنی اور کھدائی اور بڑے پیمانے پر مینوفیکچرنگ کے شعبوں میں بائرنٹیجنگ کے شعبوں میں بائرنٹیجنگ ہے۔ ملک میں لاک ڈاؤن کی صورتحال کی وجہ سے خدمات کے شعبے پر بھی نمایاں طور پر اثر پڑا، خاص طور پر ٹھوک اور پرچون تجارت اور ٹرانسپورٹ سیکٹرز، جن میں بائرنٹیجنگ 3.4 فیصد اور ٹی 7.1 فیصد کی واقع ہوئی۔ نمونو فروغ دینے کے لئے، حکومت نے 1.2 ٹریلین روپے کے مالیاتی محرک پیکج اور تعمیراتی صنعت سے متعلق پیکج کا اعلان کیا ہے جس میں ٹیکس رعایت، اینسٹی آکسیم اور 30 بلین روپے کی سبسڈی شامل ہے۔

مالی سال 20 میں، حکومت نے بجلی باہاری کامرس (EC) پالیسی فریم ورک کی منظوری دی۔ اسٹیٹ بینک پاکستان کا کہنا ہے کہ پاکستان فنانس ڈیجیٹل مالیاتی خدمات کے استعمال میں اضافے کے ذریعہ اپنے جی ڈی پی کو 36 بلین امریکی ڈالر تک بڑھا اور 2025 تک 40 لاکھ روزگار پیدا کر سکتا ہے۔

مالی سال 20 کے دوران، حکومت نے سرکاری شعبوں کے 33 اداروں کی چنگاری کا فیصلہ کیا جن میں چھ پبلک سیکٹرز پر انڈر شامل ہیں۔ مالی سال 20 کے دوران، یہ ایک کچھ پروڈیکٹس نے اپنے تجارتی آپریشن کی تاریخ حاصل کی۔ ان میں جیکو اور ایئر لائنز کو مل منصوبہ، اور ساتھی سڑک کے منصوبوں کے خاطر خواہ حصے، یعنی پٹا اور کراچی موٹروے اور KKH II روڈ شامل ہیں۔ COVID-19 دہائی مرض کے اثرات کو دیکھتے ہوئے، موجودہ حالت میں، CPEC پروجیکٹ اور اس کی رفتار کو برقرار رکھنا مشکل لگتا ہے۔

پاکستان کا کرنٹ اکاؤنٹ خسارہ مالی سال 20 کے 10 ماہ میں 3.3 بلین امریکی ڈالر کم ہو گیا، جبکہ پچھلے سال کے اسی عرصے میں 11.5 بلین امریکی ڈالر کے مقابلے میں اس میں 71 فیصد کمی ریکارڈ کی گئی۔ یہ امتزاج 17 فیصد تک درآمدات میں کمی سے منسوب ہے اور 5.6 فیصد تک ترسیلات زر میں اضافہ کرے گا۔ پچھلے پانچ سالوں میں، ترسیلات زر میں اضافہ ہوا ہے جس نے تقریباً 7 فیصد CAGR کے ذریعے تجارتی خسارے کی مخالفت میں کرنٹ اکاؤنٹ بیلنس کو مضبوط مدد فراہم کی ہے۔ مالی سال 20 کے 10 ماہ کی مدت کے دوران، ترسیلات زر میں 5.5 فیصد تک بڑھ کر 19 بلین امریکی ڈالر ہو گئے جبکہ مالی سال 19 کے 10 ماہ میں 18 بلین امریکی ڈالر تھیں۔ مالی سال 20 کے 11 ماہ کے لئے اوسط جی ڈی پی 10.9 فیصد تھی، جو کہ پچھلے سال کے اسی عرصے کے اوسط 6.7 فیصد کی افراط زر کے برعکس تھی۔ آئی ایم ایف نے اگلے سال میں افراط زر 9 فیصد تک ہونے کی پیش گوئی کی ہے۔ مالی سال 20 کی نو ماہی کے دوران پاکستان کی کل آمدنی میں 31 فیصد کا اضافہ ریکارڈ ہوا، جبکہ اخراجات میں 16 فیصد اضافہ ہوا جس کے نتیجے میں مالی خسارہ مالی سال 19 کی نو ماہی میں 5.1 فیصد سے کم ہو کر مالی سال 20 کی نو ماہی میں 4 فیصد رہ گیا۔

معنی مارکیٹ کا جائزہ:

مالی سال 20 کے 11 ماہ تک پاکستان میں افراط زر کی اوسط شرح تقریباً 11 فیصد رہی۔ 20 جنوری کو افراط زر کی شرح 14.6 فیصد تک پہنچ گئی جو توانائی کے زخموں میں ایڈجسٹمنٹ اور مارکیٹ پر مبنی شرح تبادلہ کو اپنانے کا نتیجہ تھا۔ افراط زر میں جنوری کے بعد مندی کا رجحان طے کیا گیا تھا، اس کے نتیجے میں، تیل کی قیمتوں میں کمی اور توانائی بھاری کے باعث گرتی ہوئی طلب کی وجہ سے آخری 4 مہینوں میں اس کی شرح 6 فیصد کم ہو کر 8.2 فیصد ہو گئی۔

تاہم، پٹرولیم مصنوعات کی قیمتوں میں کمی کے اثرات سے کچھ ضروری اشیائے خورد و نوش کی قیمتوں میں اضافے کے نتیجے میں گزشتہ مہینوں کے مقابلے میں 20 مئی کو کمی کی شرح کم ہو گئی۔ گرتی ہوئی افراط زر کی شرح نے اسٹیٹ بینک کو موقع دیا جس نے جارحانہ طور پر پالیسی شرح 8 فیصد تک کم کر دیا ہے۔ مہنگائی پر قابو پانے کے لئے 19 جولائی سے 20 مارچ تک پالیسی کی قیمت 13.25 فیصد پر رکھی گئی تھی۔ مالی سال 20 کے 11 ماہ تک امریکی ڈالر کے لحاظ سے پاکستان روپے کی قدر میں کمی 3.2 فیصد ہوئی جبکہ پچھلے سال کی اسی مدت میں 21.7 فیصد کم ہوئی تھی۔ اپریل 20 کو، پاکستان روپے نے اپنی تاریخی کم قیمت 167.9 امریکی ڈالر ریکارڈ کی جو غیر معمولی طور پر جاری COVID-19 بحران اور پالیسی شرح میں کمی کی عکاسی کرتی ہے۔

ٹانوی مارکیٹ میں، ٹی 3 ماہ 6 ماہ 12 ماہ اور ہید اوور 60bps سے 89bps کی حد میں تھی، جبکہ ٹی 1 کی ہید اوور میں مارجن دیکھا گیا۔ ٹی 1 کی سال 3bps (7.53 فیصد) تک کم، 5 سال کی ہید اوور 20bps کے اضافے سے 8.11 فیصد اور ٹی 10 سال کی ہید اوور بھی 18bps کے اضافے سے 8.69 فیصد پر بند ہوئی۔ پرائمری مارکیٹ میں، دو ٹی بل نمایاں اور ٹی 1 کی ہید اوور 20bps کے اختتام پر منعقد کی گئیں۔ 520 بلین اور 485 بلین روپے بالترتیب کے ہدف اور بیچوٹی کی مد میں کل 390 ارب روپے قبول کئے گئے۔ ایک مقررہ شرح ٹی 1 کی بنیاد کا بھی



786 Smart Fund

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED 30 JUNE 2020

Description of Collective Investment Scheme Category and Type:
Income Scheme/Open end

Fund Objective

To preserve the investor's capital while providing a return greater than that offered by other investments of similar risk profile through investments in portfolio of money market instruments.

Explanation as to whether the Collective Investment Scheme Achieved Its Stated Objective

The Collective Investment Scheme achieved its stated objective.

Fund Performance

As of June 30, 2020, net assets were Rs. 626.50 million as compared to Rs. 445.69 million as of June 30, 2019. The total operating income for the year was Rs. 62.97 million as compared to Rs. 62.02 million for the same period last year. Total expenses during the year were Rs. 12.65 million as compared to Rs. 11.59 million last year. The net profit for the financial year 2020 was Rs. 39.24 million, as compared to Rs. 38.90 million last year. The Net Asset Value per unit was Rs. 81.00 as of June 30, 2020.

Fund Return

Fund Bench Mark Six Month average deposit rates of three (3) A-rated schedules Islamic banks or Islamic windows of conventional banks as selected by MUFAP

	YTD Return	YTD Bench Mark
FY 2019	11.12%	10.05%
FY 2020	10.93%	6.41%

Asset Allocation	
TFC / Sukuk	13.24%
Bank Balances	83.75%
Others	3.01%

Asset Quality 2019	
AA	66.54%
AA-	0.17%
A+	30.92%
A1+	2.37%

Changes in Total NAV And NAV Per Unit Since the Last Review Period

Net Assets Value			NAV per unit	
June 30, 2019	June 30, 2020	Change in %	June 30, 2019	June 30, 2020
445,691,772	626,503,738	40.57%	80.43	81.00



786 Smart Fund

INVESTMENT STRATEGY

The Fund's priority is to keep healthy liquidity, making prudent decisions on residual debt, and making risk-averse decisions on future investments. Fund management is actively pursuing the settlement of the residual debt while ensuring the high unit holder protection. Ensuring steady profit while meeting any and all redemption need is the Fund's prime priority.

DIVIDEND

The Board of Directors has announced a cash dividend to unitholders of Rs. 8.2184 per unit for the year ended June 30, 2020, which comes out to be 8.21% of the par value per unit of Rs. 100.

PATTERN OF UNIT HOLDING

Details of Pattern of Holdings (Units)

786 Smart Fund
As at June 30, 2020

Number Of Certificateholders	Certificate Holding			Number Of Certificates
	From		To	
663	0.0001	-	9,999.9999	257,005.95
12	10,000	-	49,999.9999	317,273.32
5	50,000	-	99,999.9999	337,903.58
12	100,000	-	499,999.9999	3,105,374.49
1	5,000,00		999,999.9999	656,443.22
1	10,000,000		1,499,999,999	1,235,156.51
1	15,000,000		1,999,999,999	1,825,405.92
695				7,734,563.00

ECONOMIC REVIEW:

Pakistan's debt burden used to be already significant, and the post COVID-19 situation has made it nearly impossible for it to service the massive debt comparable to a number of developing countries. So far, Pakistan has managed to attain a loan worth USD1.4 bn under the Rapid Financing Instrument. Pakistan Institute of Development Economics and the World Bank have estimated large increase in poverty rate. Pakistan's economy is predicted to witness an adverse GDP growth of 0.4% in the current fiscal year as against positive 3.3% in FY19, particularly due to the effect of COVID-19 currency devaluation and inflationary pressures were the primary reason for the negative growth rate. Investment to GDP ratio was 15.4% for 9m20 vs 15.6% for the same period last year. National Savings to GDP was 13.9% for 9m20 compared to 10.8% for the same period last year. The reduction in the Saving-Investment Gap was possible due to reduction of trade deficit and increase in workers remittances.

The fine increase in agriculture recorded a strong growth of 2.7% which is considerably higher than the 0.6% achieved in the past year. The crop sector experienced a significant growth of 3.0% due to the increase in the growth of major crops (wheat, rice, maize, sugarcane, cotton) by 2.9%. Agricultural credit as at 9m20 was PKR912



786 Smart Fund

bn which is 13.3% higher than same period last year.

The industrial and services sectors has been estimated at -2.6% mainly due to a -8.8% and -7.8% plunge in the mining & quarrying and large-scale manufacturing sectors respectively. The services sector was also significantly impacted due to the lockdown situation in the country, especially the Wholesale & Retail Trade and Transport Sectors, which declined by -3.4% and -7.1% respectively. To stimulate growth, the government has announced a PKR1.2 tn fiscal stimulus package and a construction industry related package which includes tax exemptions, an amnesty scheme and PKR30 bn subsidy.

E-Commerce in FY20 the government approved the first-ever E-Commerce (EC) policy framework. SBP states that Pakistan can increase its GDP by USD36 bn and create 4mn jobs by 2025 via an increase in the use of digital financial services alone. Privatization

During FY20, the government decided to privatize 33 state owned entities including six public sector enterprises. During FY20, some CPEC projects achieved their commercial operation date. These include the Hubco & Engro Coal Projects, as well as substantial portions of road projects namely the Peshawar- Karachi motorway & KKH Phase-II road. Given the impacts of the COVID-19 pandemic, sustaining the focus and pace on CPEC, in its present state, seems difficult.

Pakistan's current account deficit shrunk to USD3.3 bn in 10m20, as in contrast to USD11.5 bn in the identical period last year, registering a decline of 71%. This contraction is attributable to a reduction in imports by means of 17% and will increase in remittances by means of 5.6%. Over the last five years, remittances have grown by way of a CAGR of approximately 7% providing robust support to current account balance in opposition to trade deficit. During the period 10m20, remittances grew by means of 5.5% to USD19 bn in contrast to USD18 bn in 10m19. The average CPI for 11m20 was 10.9%, as in contrast to the average inflation of 6.7% at some point of the identical period last year. IMF forecasts inflation to reduce to 9% in the following year. Pakistan's total revenue registered a growth of 31% during 9m20, while expenditure increased by 16% resulting in decline in the fiscal deficit from 5.1% in 9m19 to 4% in 9m20.

Money Market Review:

The average inflation rate in Pakistan stood at approx.11% for 11m20. The inflation peaked to 14.6% on January 20 which was a end result of energy tariff adjustments and the adoption of the market-based exchange rate. A downward trend was determined in inflation after January, whereby, it reduced in size to 8.2% on May 20 registering a drop of 6% in the closing 4 months due to declining oil prices and falling demand due to pandemic. The rate of decline, however, decreased on May 20 in contrast to prior months as a end result of a spike in prices of some essential food items offsetting the influence of reduced petroleum product prices. The declining inflation rate has given room to SBP which has aggressively slashed the policy rate to 8%. The policy price was once kept on the greater side at 13.25% from July 19 until March 20 to contain inflation.

The depreciation of PKR for the 11m20 towards USD was 3.2% as compared to 21.7% the identical period last year. On April 20, PKR recorded its historic low of 167.9 towards USD exceptionally reflecting the ongoing COVID-19 crisis and the reduction in the policy rate.

In secondary markets, T-bill 3 months, 6 months and 12 months yields were down in the range of 60bps to 89bps, whereas a mixed trend was witnessed in PIB yields. PIB 3 years was down by 4 bps (7.53%), 5 years yield was up by 20 bps to 8.11% and 10 years PIB yield was also increased by 18 bps to close at 8.69%. In the primary market, two T-bill auctions and PIB oater auctions were conducted closing of the year 2020. In total Rs. 390 billion were accepted against a target and maturity of Rs. 520 billion & Rs.485 billion respectively. A Fixed-rate PIB auction was also conducted in which participation was witnessed at Rs. 177 billion against a target of Rs. 140



786 Smart Fund

billion; SBP accepted Rs. 112 billion across all tenors.

The country's total foreign exchange reserves fell 10% to USD16.9 bn on May 20 placing extra pressure on the currency due to outflows. Post COVID-19 crisis, remittances being a fundamental support for the CAD of Pakistan are predicted to decline due to the sluggish growth in advanced economies thereby having a negative impact on PKR.

Future Outlook

The financial year 2021 is expected to continue to be underneath the shadow of the pandemic. The IMF has anticipated a tremendous increase of 2% but this seems constructive at this stage. Inflation is expected to stay low as given the suppressed demand and falling global commodity prices. SBP policy rate is predicted to be reduced similarly given the decrease inflation blended with the need to jump-start the economy. PKR is expected to depreciate in addition towards the USD. The extent of such depreciation relies upon mainly on debt restructuring initiatives.

Remittances are expected to be lower due to the negative impact on the Pakistani employees in Middle Eastern countries both due to the pandemic as well as declining oil prices. Exports are expected to be extensively impacted in the coming fiscal 12 months on the grounds that Pakistan's main export destinations, China, UK, US, France, Italy, Spain, and Germany, are among the countries most affected through the COVID-19 pandemic. Imports are expected to remain suppressed due to decrease economic undertaking and decreased oil prices. Compliance with FATF conditionalities continues to be an essential factor and whilst the government is confident, all efforts need to be made to obtain most feasible compliance ahead of the evaluation in September 2020.

Other Disclosure Under NBFC Regulations 2008:

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

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.

There was no unit split undertaken during the year.

Investments are subject to market risk that may materially affect any interests of unit holders



786 Smart Fund

Details of Pattern of Holdings (Units)
As at June 30, 2020

S. No.	Category	No of Unit Holders	Investment Amount	% of Total
1	Directors	2	53,173,553	8.49%
2	Associated Companies	9	264,902,476	42.28%
3	Individuals	654	233,983,218	37.35%
4	Insurance	3	4,124,437	0.66%
5	Others	27	70,320,054	11.22%
	TOTAL	695	626,503,738	100.00%



786 Smart Fund

**DETAILS OF PATTERN OF HOLDINGS (UNITS)
AS AT JUNE 30, 2020**

S. No.	Category	No of Unit Holders	Unit Held	Amount	% of Total
1	Directors				
	Ms. Tara Uzra Dawood, CEO	1	656,443	53,172,229	8.49
	Ms. Charmaine Hidayatullah	1	16	1,323	0.00
2	Associated Companies				
	786 Investment Limited	1	1,825,406	147,858,793	23.60
	BRR Guardian Modaraba	1	396,776	32,139,018	5.13
	First Dawood Investment Bank Ltd and Others				
	Employees Contributory Provident Fund	1	480,710	38,937,756	6.22
	Dawood Family Takaful Limited	3	428,963	34,746,251	5.55
	Dawood Family Takaful Limited -				
	Employees Contributory Provident Fund	1	58,278	4,720,537	0.75
	BRR Financial Services (Pvt.) Limited	1	28,687	2,323,666	0.37
	Dawood International (Private) Limited	1	109,708	8,886,417	1.42
3	Individuals	654	2,888,664	233,983,218	37.35
4	Insurance Companies	3	50,919	4,124,437	0.66
5	Bank/DFIs	-	-	-	-
6	Modaraba / Mutual Funds	-	-	-	-
7	Others	27	809,992	65,610,093	10.47
	TOTAL	695	7,734,562	626,503,738	100.00



Al-Hilal
— Shariah Advisors —

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

SHARIAH ADVISOR REPORT 2020

September 29, 2020

The purpose of this report is to provide an opinion on the Shariah Compliance of the Fund's investment and operational activities with respect to Shariah guidelines provided.

It is the core responsibility of the Management Company to operate the Fund and invest the amount of money in such a manner which is in compliance with the Shariah principles as laid out in the Shariah guidelines. In the capacity of the Shariah Advisor, our responsibility lies in providing Shariah guidelines and ensuring compliance with the same by review of activities of the fund. We express our opinion based on the review of the information, provided by the management company, to an extent where compliance with the Shariah guidelines can be objectively verified.

Our review of Fund's activities is limited to enquiries of the personnel of Management Company and various documents prepared and provided by the management company.

Keeping in view the above; we certify that:

We have reviewed all the investment and operational activities of the fund including all transactions and found them to comply with the Shariah guidelines. On the basis of information provided by the management company, all operations of the fund for the year ended June 30, 2020 comply with the provided Shariah guidelines. Therefore, it is resolved that investments in 786 Smart Fund managed by 786 Investment Limited are halal and in accordance with Shariah principles.

May Allah (SWT) bless us and forgive our mistakes and accept our sincere efforts in accomplishment of cherished tasks and keep us away from sinful acts.

For and on behalf of Shariah Supervisory Council of Al-Hilal Shariah Advisors (Pvt.) Limited

Faraz Younus Bandukda, CFA
Chief Executive Officer

والله أعلم بالصواب

Mufti Irshad Ahmed Aijaz
Shariah Advisor



MCB FINANCIAL SERVICES LIMITED

REPORT OF THE TRUSTEE TO THE UNIT HOLDERS

786 SMART FUND

Report of the Trustee Pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

786 Smart Fund (Formerly Dawood Income Fund), an open-end Scheme established under a Trust Deed dated April 08, 2003 executed between 786 Investments Limited, as the Management Company and Bank Al Habib Limited (BAHL), as the Trustee. In June 2011, BAHL retired and MCB Financial Services Limited (MCBFSL) was appointed as the new trustee of the fund.

1. 786 Investments Limited, the Management Company of 786 Smart Fund (Formerly Dawood Income Fund) has, in all material respects, managed 786 Smart Fund (Formerly Dawood Income Fund) during the year ended 30th June 2020 in accordance with the provisions of the following:
 - (i) Investment limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
 - (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
 - (iii) the creation and cancellation of units are carried out in accordance with the deed;
 - (iv) and any regulatory requirement

Khawaja Anwar Hussain
Chief Executive Officer
MCB Financial Services Limited

Karachi: September 21, 2020

**INDEPENDENT AUDITOR'S REPORT
TO THE UNIT HOLDERS OF 786 SMART FUND**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **786 Smart Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2020, and the related income statement, statement of comprehensive income, statement of movements in unit holder's fund, statement of cash flow, 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, 2020 and of its financial performance and its cash flows for the year then ended in accordance with approved 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 and the Management Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (the Code)* as adopted by the Institute of Chartered Accountants of Pakistan together with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA 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.

Key audit matter	How our audit addressed the key audit matter
Net assets value (NAV)	
The balances with banks and investments constitute the most significant component of the net assets value (NAV). The	We performed the following audit procedures:

<p>balances with banks and investments as at June 30, 2020 amounted to Rs. 548.13 million and 86.63 million as disclosed in note 7 and 8 respectively.</p> <p>The proper valuation of balances with banks and investments for the determination of NAV of the Fund as at June 30, 2020 was considered as a high risk area and therefore, we consider this as a Key Audit Matter (KAM).</p>	<ul style="list-style-type: none"> • Obtained an understanding of design effectiveness of the key controls on the investment and balances with bank. • Obtained independent confirmations for verifying the existence of the investment portfolio and balances with banks as at June 30, 2020 and reconciled it with the books and records of the Fund. • Re-performed valuation to assess that the investments are carried as per the valuation methodology specified in the accounting policies. • Assessing whether the provision for diminution in the value of debt securities is made as per the requirements of Circular No. 33 of 2012 dated October 24, 2012. • Obtained bank reconciliation statements and tested reconciling items on a sample basis. • Furthermore, we also assessed the adequacy of the respective disclosures and presentation in the financial statements.
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Information Other than the Financial Statements and Auditor's Report Thereon

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 or 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 Company and Board of Directors (the Board) for the Financial Statements

The Management Company is responsible for the preparation and fair presentation of these financial statements in accordance with the approved 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, the 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 the Management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board 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.

As part of an audit in accordance with auditing standards 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 the management;
- Conclude on the appropriateness of the 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 the Board 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 to the Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

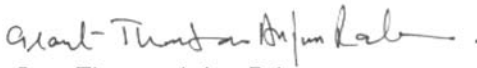
other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board, 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

Further, we report that the Fund's financial statements have been prepared in accordance with the relevant provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The engagement partner on the audit resulting in this independent auditor's report is **Muhammad Khalid Aziz**.



Grant Thornton Anjum Rahman
Chartered Accountants

Karachi

Date: September 28, 2020



786 Smart Fund

**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2020**

	Note	2020 -----Rupees-----	2019
Assets			
Balances with Banks	7	548,128,655	331,391,795
Investments	8	86,625,682	116,722,434
Accrued Income/Profit	9	5,670,500	6,271,592
Security Deposits	10	6,150,000	100,000
Advance Income Tax	19	7,923,448	73,763
Total Assets		654,498,285	454,559,584
Liabilities			
Payable to 786 Investments Limited - Management Company	11	2,308,585	1,183,182
Payable to MCB Financial Services Limited - Trustee	12	85,649	70,640
Payable to Securities and Exchange Commission of Pakistan	13	124,256	354,912
Unclaimed Dividend		5,738,576	369,962
Accrued Expenses and Other Liabilities	14	19,737,481	6,889,115
Total Liabilities		27,994,547	8,867,811
Contingencies and Commitments	15		
Net Assets		626,503,738	445,691,773
Unit Holders' Funds		626,503,738	445,691,773
		(Number)	
Number of Units in Issue	16	7,734,563	5,541,116
		(Rupees)	
Net Assets Value per Unit		81.00	80.43

The annexed notes from 1 to 26 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



786 Smart Fund

**INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2020**

	Note	2020	2019
		-----Rupees-----	
Income			
Net Realized Loss on Sale of Investments		-	(402,965)
Income From Investments and Balances With Banks	17	54,571,445	45,612,417
Reversal of Impairment on Investment at Fair Value			
Through Other Comprehensive Income	8.1.1	8,377,578	16,755,156
Other Income		21,818	58,165
		62,970,841	62,022,773
Expenses			
Remuneration to the Management Company	11.1	7,847,917	7,098,308
Sindh Sales Tax on Remuneration to the Management Company	11.2	1,020,230	922,779
Accounting and Operational Charges	11.3	523,194	453,221
Remuneration to the Trustee	12.1	784,793	719,900
Sindh Sales Tax on Trustee Fee	12.2	102,023	93,590
Annual Fee to Securities & Exchange Commission of Pakistan	13	104,642	354,912
Auditor's Remuneration	18	452,487	455,965
Fees and Subscription		188,090	140,500
Securities Transactions Cost		182,695	68,761
Printing and Related Charges		50,138	70,000
Legal and Professional Charges		278,291	173,100
Provision for Sindh Workers' Welfare Fund	14.2	1,026,880	1,029,233
Withholding Taxes - Written Off		76,500	-
Charity Expense		2,714	
Bank Charges		13,107	10,104
		12,653,701	11,590,373
Net Income for the Year Before Taxation		50,317,140	50,432,400
Taxation	19	-	-
Net Income for the Year After Taxation		50,317,140	50,432,400
Allocation of Net Income for the Year			
Net Income for the Period		50,317,140	50,432,400
Income Already Paid on Units Redeemed		(11,073,236)	(11,529,639)
Accounting Income Available for Distribution:		39,243,904	38,902,761
Relating to Capital Gain		-	-
Excluding Capital Gain		39,243,904	38,902,761
		39,243,904	38,902,761

The annexed notes from 1 to 26 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



786 Smart Fund

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
Note	-----Rupees-----	
Net Income for the Year After Taxation	50,317,140	50,432,400
<i>Items That Have Been Or May Be Re-Classified Subsequently to the Income Statement</i>	-	-
Unrealized Gain on Revaluation of Investments Classified As Fair Value Through Other Comprehensive Income - Net	278,050	54,250
8.4	278,050	54,250
Total Comprehensive Income for the Year	50,595,190	50,486,650

The annexed notes from 1 to 26 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



786 Smart Fund

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	2020				2019			
	Rupees				Rupees			
	Capital Value	(Accumulated Loss)/Undistributed Income	Unrealized (Loss)/Gains on Investment	Total	Capital Value	(Accumulated Loss)/Undistributed Income	Unrealized Gains on Investment	Total
Net Assets at Beginning of the Year	587,946,959	(142,977,620)	722,434	445,691,773	435,397,805	(101,341,693)	668,184	334,724,296
Issue of 5,924,775 Units (2019: 8,042,818 Units)								
- Capital Value (At Net Asset Value per Unit at the Beginning of the Year)	476,550,954	-	-	476,550,954	642,284,559	-	-	642,284,559
- Element of Income	25,363,347	-	-	25,363,347	23,110,503	-	-	23,110,503
Total Proceeds on Issuance of Units	501,914,300	-	-	501,914,300	665,395,062	-	-	665,395,062
Redemption of 3,731,328 Units (2019: 6,292,094 Units)								
- Capital Value (At Net Asset Value per Unit at the Beginning of the Year)	(300,124,124)	-	-	(300,124,124)	(502,278,391)	-	-	(502,278,391)
- Amount Paid out of Element of Income	-	(11,073,236)	-	(11,073,236)	-	(11,529,639)	-	(11,529,639)
- Refund/Adjustment on Units as Element of Income	(11,162,525)	-	-	(11,162,525)	(10,567,517)	-	-	(10,567,517)
Total Payments on Redemption of Units	(311,286,648)	(11,073,236)	-	(322,359,884)	(512,845,908)	(11,529,639)	-	(524,375,547)
Net Income for the Year Before Taxation	-	50,317,140		50,317,140	-	50,432,400		50,432,400
Other Comprehensive Income			278,050	278,050			54,250	54,250
Distribution for the Year								
@ 8.53 per Unit on July 4, 2018	-	-	-	-	-	(32,321,811)	-	(32,321,811)
Distribution for the Year @ 8.22 per Unit on June 26, 2019	-	-	-	-	-	(48,216,877)	-	(48,216,877)
Distribution for the Year @ 8.22 per Unit on June 26, 2020	(12,539,623)	(36,798,019)	-	(49,337,642)	-	-	-	-
	(12,539,623)	13,519,121	278,050	1,257,548	-	(30,106,288)	54,250	(30,052,038)
Net Assets at End of the Year	766,034,989	(140,531,735)	1,000,484	626,503,738	587,946,959	(142,977,620)	722,434	445,691,773
Undistributed (Loss)/Income Brought Forward								
- Realized Loss		(142,977,620)				(101,341,693)		
- Unrealized Income		-				-		
		(142,977,620)				(101,341,693)		
Accounting Income Available for Distribution								
- Relating to Capital Gain		-				-		
- Excluding Capital Gain		39,243,904				38,902,761		
		39,243,904				38,902,761		
Distribution During the Year		(49,337,642)				(80,538,688)		
Undistributed Loss Carried Forward		(153,071,358)				(142,977,620)		
Undistributed (Loss) Carried Forward								
- Realized Loss		(153,071,358)				(142,977,620)		
- Unrealized Income		-				-		
		(153,071,358)				(142,977,620)		
Net Assets Value per Unit at Beginning of the Year		80.43				88.31		
Net Assets Value per Unit at End of the Year		81.00				80.43		

The annexed notes from 1 to 26 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



786 Smart Fund

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
	-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the Year Before Taxation	50,317,140	50,432,400
Adjustments For:		
Net Realized Loss on Sale of Investments	-	(402,965)
Markup/Interest Income on Bank Balances and Investments	(54,571,445)	(45,612,417)
Reversal of Impairment on Investment At Fair Value Through Other Comprehensive Income	(8,377,578)	(16,755,156)
Provision for Sindh Workers' Welfare Fund	1,026,880	1,029,233
Operating Loss Before Working Capital Changes	(61,922,143)	(61,741,305)
(Increase)/Decrease in Assets		
Deposits and Prepayments	(6,050,000)	-
Advance Income Tax	(7,849,685)	(73,763)
	(13,899,685)	(73,763)
Increase/(Decrease) in Liabilities		
Payable to the Management Company	1,125,403	439,147
Payable to the Trustee	15,009	14,625
Annual Fee Payable to Securities and Exchange Commission of Pakistan	(230,656)	111,825
Dividend Payable	5,368,614	-
Accrued Expenses and Other Liabilities	11,821,486	344,534
	18,099,856	910,131
Proceeds From Investments - Net	38,752,380	61,832,221
Markup/Interest Income Received on Investments and Balances With Banks	55,172,537	40,939,664
Net Cash Generated From Operating Activities	86,520,085	92,299,348
CASH FLOWS FROM FINANCING ACTIVITIES		
Amounts Received Against Issue of Units	501,914,300	665,395,062
Payment Made Against Redemption of Units	(322,359,884)	(524,375,547)
Dividend Paid	(49,337,642)	(80,538,688)
Net Cash Generated From Financing Activities	130,216,775	60,480,827
Net Increase in Cash and Cash Equivalents	216,736,860	152,780,175
Cash and Cash Equivalents At Beginning of the Year	331,391,795	178,611,620
Cash and Cash Equivalents At End of the Year	7 548,128,655	331,391,795

The annexed notes from 1 to 26 form an integral part of these financial statements.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Dawood Income Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules). The Fund was constituted under a Trust Deed executed on April 08, 2003 between 786 Investments Limited as Management Company and Bank AL-Habib Limited (BAHL) as Trustee. In June 2011, BAHL retired and MCB Financial Services Limited (MCBFSL) was appointed as the new trustee of the Fund and the name of the Fund was also changed from "Dawood Money Market Fund" to "Dawood Income Fund". These changes, after necessary regulatory approvals, were duly incorporated in the Trust Deed of the Fund by way of First Supplemental Trust Deed. On January 20, 2017, the Management Company has changed its name to 786 Investments Limited after completing regulatory formalities. The registered office of the Management Company is situated at G3, Ground floor, B.R.R Tower, Hassan Ali Street, I.I Chundrigar Road, Karachi, Pakistan.

During the year ended June 30, 2020, the name of Dawood Income Fund has been changed to 786 Smart Fund with the approval of SECP vide its letter number SCD/AMCW/786RSF/147/2018, dated October 29, 2018, in compliance of regulation 44(6) of the Non Banking Finance Companies and Notified Entities regulations 2008.

- 1.2 The Fund is an open end mutual Fund and is listed on Pakistan Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering them to the Fund.
- 1.3 The principal activity of the Fund is to make investment in spread transactions and debt based securities including government securities, commercial papers and other money market instruments and placement of Funds.
- 1.4 Title to the assets of the Fund are held in the name of MCBFSL as the Trustee of the Fund (except for term finance certificate of New Allied industries limited as mentioned in note 8.3.1 which is a non-performing term finance certificate hence being unable to be transferred until final settlement, which is held in the name of BAHL being the previous Trustee of the Fund).
- 1.5 The Fund is categorized as "Shariah complaint islamic scheme" in accordance with circular no. 07 of 2009 issued by the Securities and Exchange Commission of Pakistan (SECP).
- 1.6 The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of "AM3" to the Management Company as at December 27, 2019 and stability rating of "AA-(f)" to the Fund as at April 27, 2020.
- 1.7 During the Year, the SECP vide its letter reference No: SCD/AMCW/786IL/153/2019 dated December 02, 2019 granted approval under regulation 58(1)(m) of Non -Banking finance companies and notified entities regulations, 2008 (NBFC Regulations, 2008) read with circular no: 20 of June 23, 2009 for the merger of 786 Rising Star Fund (786RSF), First Dawood Mutual Fund (FDMF) with and into 786 Smart Fund (786SF) surviving scheme in terms of scheme of merger as approved by the board of directors of 786 investments limited and the unit holders of the respective scheme of merger in their general meeting held on September 23, 2019 and October 16, 2019 respectively. The merger, as per the above referred "scheme", is effective as of December 20, 2019.

2 SUMMARY OF SIGNIFICANT TRANSACTIONS AND EVENTS

Merger of the 2 Funds, Rising Star Fund and First Dawood Mutual Fund took place during the year, the details of which are disclosed in the note 2.1 of the financial statements.

2.1 MERGER

The merging schemes stood merged with and into the surviving scheme on the basis of swap ratio calculated on the basis of net asset values (NAV) of the merging and the surviving schemes at the close of the business day on December 19, 2019 (the day immediately preceding the effective date of merger). For one unit of 786 Rising Star Fund (786RSF) 1.256 units of 786 Smart Fund (786SF) were issued and for one unit of First Dawood Mutual Fund (FDMF) 0.2044 units of 786 Smart Fund (786SF) were issued. Assets and liabilities of 786 Rising Star Fund (RSF) and First Dawood Mutual Fund (FDMF) have been recorded/merged at the fair value as of the merging date.

The swap ratios for the merging Funds based on the net assets as of December 19, 2019 for every unit is as follow:

Fund Name	Previous Units	Swap ratio	Units allotted
786 Rising Star Fund	974,266	1.2566	1,224,246
First Dawood Mutual Fund	6,160,807	0.2044	1,259,050

None of the operations, resulting from the business combination are being disposed off. The whole of the undertaking 786 Rising Star Fund (786RSF) and First Dawood Mutual Funds (FDMF) which includes all assets, rights, liabilities, bank balances, obligations, mandates, undertakings, securities, contracts documents, record etc. were transferred to and vested in 786 Smart Fund (786SF) from December 20, 2019 ("Effective Date of Merger"). Accordingly, the balances as of December 19, 2019 for 786 Rising Star Fund (786RSF), First Dawood Mutual Fund (FDMF) are as follows:



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Description	786 Rising Star Fund	First Dawood Mutual Fund
Assets	107,015,830	116,526,613
Less: Liabilities	(2,042,844)	(8,569,389)
Net Assets	104,972,986	107,957,224

The summarised results of the merging Funds before amalgamation for the period from June 30, 2019 to December 19, 2019 included in these condensed interim financial statements as follows:

Fund Name	786 Rising Star Fund	First Dawood Mutual Fund
Realised Income	4,973,231	2,978,495
Unrealised loss on investment - net	(1,646)	-
Total income	4,971,585	2,978,495
Total expenditure	(1,526,379)	(1,861,758)
Net Income	3,445,206	1,116,736

As a result of merger, an appropriate number of units of 786 smart fund (786SF) (based on swap ratio) were issued to those eligible persons whose names appeared in the register of unit holders of 786 Rising Star Fund (786RSF) and First Dawood Mutual Fund (FDMF) as at the close of business day on December 19, 2019 (the day immediately preceding the effective date of merger) without charge of any load by the management. Upon the allotment of units of 786 Smart Fund (786SF) to the eligible persons, all units representing their holding in 786 Rising Star Fund (786RSF) and First Dawood Mutual Fund (FDMF) stood cancelled.

3 BASIS OF PREPARATION

3.1 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprises:

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

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

3.2 Basis of Measurement

These financial statements have been prepared under the historical cost convention except for investments which are valued at fair value as stated in notes 6.1, 6.2 and 6.3 below.

3.3 Functional and Presentation Currency

These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency. All amount have been rounded off to the nearest rupees unless otherwise indicated.

4 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires 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 and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgements about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The estimates and judgements that have a significant effect on the financial statements are in respect of the following:

	Notes
Investments (Financial assets)	6.1
Provisions	6.5
Element of income/loss and capital gains/losses in prices of units issued less those in units redeemed - net	6.9
Contingencies and commitments	15

5 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS

5.1 Standards, amendments and interpretations to the published standards that may be relevant to the fund and adopted in the current year

The Fund has adopted the following new standards, amendments to published standards and interpretations of IFRSs which became effective during the current year.

Standard or Interpretation	Effective Date (Annual periods beginning on or after)
IFRS 14 'Regulatory Deferral accounts'	July 1, 2019
IFRS 16 'Leases'	January 1, 2019
IAS 12 'Income tax consequences of payments on financial instruments classified as equity'	January 1, 2019
IAS 23 Borrowing costs eligible for capitalization	January 1, 2019
IFRS 3 Previously held interest in a joint operation	January 1, 2019
IFRS 9 Prepayment features with negative compensation	January 1, 2019
IFRS 11 Previously held interest in a joint operation	January 1, 2019
IFRIC 23 'Uncertainty over Income Tax Treatments'	January 1, 2019
IAS 28 'Long-term Interests in Associates and Joint Ventures' (Amendments to IAS 28)	January 1, 2019
IAS 19 'Plan Amendment, Curtail or Settlement' (Amendments to IAS 19)	January 1, 2019
Annual improvements to IFRSs 2015 - 2017 Cycle	January 1, 2019

The Fund is in the process of assessing the impact of these Standards, amendments and interpretations to the published standards on the financial statements of the Fund.

5.2 Standards, amendments and interpretations to the published standards that may be relevant but not yet effective and not early adopted by the fund

The following new standards, amendments to published standards and interpretations would be effective from the dates mentioned below against the respective standard or interpretation.

Standard or Interpretation	Effective date (Annual periods beginning on or after)
IFRS 3 'Definition of a business' Amendment to IFRS 3	January 1, 2020
IAS 1/IAS 8 'Definition of Material' (Amendments to IAS 1 and IAS 8)	January 1, 2020
IFRS 7, IFRS 9, and IAS 39 - Interest Rate Benchmark Reform	January 1, 2020
Various Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The fund is in the process of assessing the impact of these Standards, amendments and interpretations to the published standards on the financial statements of the fund.

5.3 Standards, amendments and interpretations to the published standards that are not yet notified by the Securities and Exchange Commission of Pakistan (SECP)

Following new standards have been issued by the International Accounting Standards Board (IASB) which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard or Interpretation	IASB effective date (Annual periods beginning on or after)
IFRS 17 'Insurance Contracts'	January 1, 2022
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	July 1, 2009

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

6.1 Financial Assets

6.1.1 Classification and Measurement

The fund classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI). The classification depends on the business model in which the financial asset is managed and its contractual cash flows. The management determines the appropriate classification of its financial assets at initial recognition and it evaluates this classification on a regular basis.

The assessments have been made on the basis of the facts and circumstances that existed at the date of initial application about the determination of business model within which a financial asset is held and the designation and revocation of previous designation of certain financial assets as measured at FVTPL.

The financial assets are categorized as follows:

Financial asset at amortized cost

Financial asset is held within a business model whose objective is to collect the contractual cash flows, and the contractual terms give rise to cash flows that are solely payments of principal and interest (SPPI) are classified as financial asset at amortized cost.

Financial asset at fair value through other comprehensive income

Debt investment

Debt investment where the contractual cash flows are SPPI and the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets are classified as financial asset at fair value through other comprehensive income.

Equity investment

Equity investment which are not held for trading, and which has irrevocably elected at initial recognition to recognize as fair value through other comprehensive income (generally strategic investment) are classified as financial asset at fair value through other comprehensive income.

Financial asset at fair value through profit or loss

Debt investment

Debt investments that do not qualify for measurement at either amortized cost or FVOCI are classified as financial asset at fair value through profit or loss.

Equity investment

Equity investments that are held for trading, and equity investments for which the entity has not elected to recognize fair value gains and losses through OCI are classified as financial asset at fair value through profit or loss.

6.1.2 Regular Way Contracts

Regular purchases and sale of financial assets are recognized on the trade dates that reflects the date on which the Fund commits to purchase or sell the asset.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

6.1.3 Initial Recognition and Measurement

Financial assets are initially recognized 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 recognized at fair value while the related transaction cost are expensed out in income statement.

6.1.4 Subsequent Measurement

Financial asset at amortized cost

Subsequent to initial recognition, financial assets classified as amortized cost are carried at amortized cost using the effective interest method.

Gains or losses are also recognized in the income statement when financial assets carried at amortized cost are derecognized or impaired.

Financial asset at fair value through other comprehensive income

Subsequent to initial recognition, financial assets classified as fair value through other comprehensive income are carried at fair value using valuation methodology (note 6.1.5).

Net gains and losses arising from changes in the fair value and on sale of financial assets at fair value through other comprehensive income are taken to the statement of other comprehensive income.

Financial asset at fair value through profit or loss

Subsequent to initial recognition, financial assets classified as fair value through profit or loss are carried at fair value using valuation methodology (note 6.1.5).

Net gains and losses arising from changes in the fair value and on sale of financial assets at fair value through profit or loss are taken to the income statement.

6.1.5 Basis of Valuation of Debt Investments

The investment of the Fund in the debt instruments (comprising any securities issued by the government, a company or a body corporate for the purpose of raising funds in the form of market treasury bill, redeemable capital and includes term finance certificates, bonds, debentures, sukuk and commercial papers etc.) is valued on the basis of rates determined and published by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the SECP for valuation of debt securities. In determination of the rates the MUFAP takes in account the holding pattern of these securities and categorized them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

6.1.6 Impairment

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment loss in respect of investment classified as FVTOCI (other than debt securities) is recognized based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. The determination of what is significant or prolonged requires judgment.

Provision for diminution in the value of debt securities is made as per the requirements of Circular No. 33 of 2012 dated October 24, 2012 (which is essentially the same as contained in Circular No. 1 of 2009 previously issued by the SECP) and based on management's assessment made in line with its provisioning policy approved by the Board of Directors of the Management Company pursuant to the requirements of the SECP's above referred circular.

In case of impairment of financial assets at FVOCI, the cumulative loss that has been recognized directly in statement of comprehensive income is taken to the income statement.

Other individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the income statement.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. However, SECP through its SCD/AMCW/RS/MUFAP/2017-148 dated November 21, 2017 have deferred the applicability of above impairment requirements in relation to debt securities for mutual funds.

6.1.7 Derecognition

Financial assets are derecognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Any gain or loss on derecognition of the financial assets is taken to income currently.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

6.2 Financial Liability

6.2.1 Classification and Measurement

Financial liability at amortized cost

All financial liabilities are subsequently measured at amortized cost, except for those measured at fair value through profit or loss.

Financial liability at fair value through profit or loss

Financial liabilities designated as at fair value through profit or loss requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

6.2.2 Initial Recognition and Measurement

Financial liabilities are initially recognized at fair value less transaction cost except for financial liabilities carried at fair value through profit or loss. Financial liabilities carried at fair value through profit or loss are initially recognized at fair value while the related transaction cost are expensed out in income statement. Financial liabilities are not recognized unless one of the parties has performed its part of the contract or the contract is a derivative product.

6.2.3 Subsequent Measurement

Financial liability at amortized cost

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

Gains or losses are also recognized in the income statement when financial liabilities carried at amortized cost are derecognized.

Financial liability at fair value through profit or loss

Subsequent to initial recognition, financial liabilities classified as fair value through profit or loss are carried at fair value using market rate of interest.

Net gains and losses arising from changes in the fair value due to change in credit risk are taken in to other comprehensive income and other change in fair value and on sale of financial liabilities at fair value through profit or loss are taken to the income statement.

6.2.4 Derecognition

Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of the financial liabilities is taken to income currently.

6.3 Derivatives

These are initially recognized at cost and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealized gains) are included in other assets and derivatives with negative fair values (unrealized losses) are included in other liabilities in the statement of assets and liabilities. The resultant gain and loss is included in the income currently.

6.4 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are only 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 recognized amount and the Fund intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

6.5 Provisions

Provisions are recognized when the Fund has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of assets and liabilities date and are adjusted to reflect the current best estimates.

6.6 Issue and Redemption of Units

Units are allocated at the offer price prevalent on the day of realization of cheques. The offer price represents the net assets value at the end of the day plus allowable sales load (if any).

Units are redeemed at offer price prevalent on the date on which application for redemption is received. The redemption price represents the net assets value at the end of the day.

6.7 Revenue Recognition

Dividend income is recognized when right to receive dividend is established.

Gain or loss on sale of securities and settlement of derivatives is accounted for in the period in which the sales/settlement occur.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Interest on debt and government securities is recognized at the rate of return implicit in the instrument on a time proportionate basis.

Profit on bank balances and term deposits is recognized on accrual basis in accordance with the contractual terms.

6.8 Taxation

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income as reduced by the realized and unrealized capital gain for the year is distributed amongst the Fund's unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, no provision for taxation has been made in these financial statements.

The Fund is exempt from provisions of section 113 (Minimum Tax) under the clauses IIA of Part IV of the second schedule of the Income Tax Ordinance, 2001.

6.9 Element of income/loss and capital gains/losses in prices of units sold less those in units redeemed - net

Element of income has been determined as the difference between net assets value on the issuance and redemption date, as the case may be, of units and the net assets value at the beginning of the accounting period.

Income paid on redemption of units (element of income) made during the year shall be on gross basis and calculated on First In First Out (FIFO) basis.

Element of income shall be disclosed in the statement of movement in unitholder's fund as distributable income and allocation of net income available for distribution relating to capital gain excluding capital gains.

6.10 Distribution to Unit Holders

Distribution to unit holders is recognized upon declaration and approval by the board of directors of the Management Company.

6.11 Net Asset Value per Unit

The net asset value per unit disclosed in the statement of assets and liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

6.12 Collaterals

Cash collaterals provided by the Fund are identified in the statement of assets and liabilities as margin and are not included as a component of cash and cash equivalents. For collaterals other than cash, if the party to whom the collaterals are provided has a right by contract or custom to sell or re-pledge the collaterals, the Fund classifies those collaterals in the statement of assets and liabilities separately from other assets and identifies the assets as pledged collaterals. Where the party to whom the collaterals are provided does not have the right to sell or re-pledge, a disclosure of the collaterals provided is made in the notes to the financial statements.

6.13 Earnings Per Unit

Earnings per unit has not been disclosed as in the opinion of the Management Company, the determination of the cumulative weighted average number of outstanding units is not practicable.

6.14 Cash and Cash Equivalent

Cash and cash equivalent comprise of balances with banks and term deposits receipts having maturity up to 3 months or less.

		2020	2019
7 BALANCES WITH BANKS	Note	-----	-----
		Rupees	
-Saving Accounts	7.1	<u><u>548,128,655</u></u>	<u><u>331,391,795</u></u>

7.1 Profit rates on PLS saving accounts ranges from 4.5% to 11% as at June 30, 2020 (June 30, 2019: 3% to 11%) per annum.

		2020	2019
8 INVESTMENTS	Note	-----	-----
		Rupees	
At Fair Value through Other Comprehensive Income			
Listed - Term finance certificates	8.1	-	-
Unlisted - Sukuk certificates	8.2	<u><u>86,625,682</u></u>	<u><u>116,722,434</u></u>
		<u><u>86,625,682</u></u>	<u><u>116,722,434</u></u>



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

		As at July 01, 2019	Acquired as a Result of Merger	Matured/ Disposed During the Year	As at June 30, 2020	Cost/ Carrying Value	Market Value	% of Total Investment
8.1 At Fair Value through Other Comprehensive Income	Note	-----Number of certificates-----			-----Rupees-----			
Listed - Term Finance Certificates								
Face Value of Rs. 5,000/- Each								
<i>Construction and Material</i>								
Dewan Cement Company Limited	8.1.1	15,917	-	1,675	14,242	71,209,413	-	-
Provision Held	8.3					(71,209,413)		
						<u>-</u>	<u>-</u>	

8.1.1 Dewan cement limited (DCL) is classified as non-performing by MUFAP. Accordingly, the security has been fully provided in accordance with the requirements of SECP's circular No. 1 of 2009 and the board's approved provisioning policy. The Fund has entered into a compromise agreement with DCL on May, 09 2016 whereby the remaining debt will be paid in thirty one equal quarterly installments in arrears. The Fund has recognized reversal of impairment amounting to Rs. 8.38 millions on receipt basis in current period. The Fund has suspended mark-up there against.

8.2 At Fair Value through Other Comprehensive Income

		As at July 01, 2019	Acquired as a Result of Merger	Matured/ Disposed During the Year	As at June 30, 2020	Cost/ Carrying Value	Market Value	% of Total Investment
Unlisted - Term Finance Certificates		-----Number of Certificates-----			-----Rupees-----			
Face Value of Rs. 2,207/-each								
<i>Cable and electric goods</i>								
New Allied Industries Limited	8.3.1	11,523	-	-	11,523	25,433,190	-	-
Provision held	8.3					(25,433,190)		
New Allied Industries Limited	8.3.2	-	3,417	-	3,417	7,222,749	-	-
Provision held	8.3					(7,222,749)		
						<u>-</u>	<u>-</u>	

		As at July 01, 2019	Acquired as a result of merger	Matured/ Disposed During the Period	As at June 30, 2020	Cost/ Carrying Value	Market Value	% of Total Investment
At Fair Value through Other Comprehensive Income	Note	-----Number of certificates-----			-----Rupees-----			
Unlisted - Sukuk Certificates								
Face Value of Rs. 1,000,000/-each								
<i>Cable and Electric Goods</i>								
TPL Corporation Limited	8.3.3	5	10	-	15	11,836,906	11,250,000	13%



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

	As at July 01, 2019	Acquired as a result of merger	Matured/ Disposed During the year	As at June 30, 2020	Cost/ Carrying Value	Market Value	% of Total Investment	
Note	-----Number of certificates-----			-----Rupees-----				
Commercial Bank								
Dubai Islamic Bank Limited	8.3.4	26	-	26	26,486,304	26,682,088	31%	
Engineering								
Agha Steel Industries Limited	8.3.5	15	-	15	15,000,000	15,000,000	17%	
Face value of Rs. 100,000/-each								
Fertilizers								
Dawood Hercules Corporation Limited	8.3.6	300	100	-	400	31,908,500	32,583,158	38%
Fatima Fertilizer Company Limited	8.3.7	736	-	-	736	1,115,922	1,110,436	1%
Face value of Rs. 5,000/-each								
Power Generation & Distribution								
Hub Power Company Limited	8.3.8	8,000	-	8,000	-	-	-	
Face value of Rs. 2,933/-each								
Eden Housing Limited	8.3.9	2,933	-	-	2,933	2,887,171	-	
Provision held	8.3				(2,887,171)			
Face value of Rs. 5,000/-each								
Amtex limited	8.3.10	-	6,000	-	6,000	22,500,000	-	
Provision held	8.3				(22,500,000)			
					-	-		
<i>balance carried forward</i>					86,347,632	86,625,682		
<i>balance brought forward</i>					86,347,632	86,625,682		
Face value of Rs. 5,000/-each								
New Allied Electronics Industries (Private) Limited	8.3.11	-	1,000	-	1,000	5,027,500	-	
Provision held	8.3				(5,027,500)			
					-	-		
					86,347,632	86,625,682		

8.3 Details of Non-Compliant Investments

The Securities & Exchange Commission of Pakistan (SECP), vide its circular No. 16 dated July 07, 2010, has prescribed certain disclosures for non-compliances, either with the minimum investment criteria specified for the category assigned to the Collective Investment Schemes or with the investment requirements of their constitutive documents.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Name of Non Compliant Investment	Note	Type of Investment	Value of Investment before provision	Provision held if any	Value of Investment after provision	% of net assets	% of Gross Assets
-----Rupees-----							
Dewan Cement Limited - Restructured	8.1.1	Pre-IPO Investment	71,209,413	(71,209,413)	-	-	-
New Allied Industries Limited	8.3.1	Term Finance Certificates	25,433,190	(25,433,190)	-	-	-
New Allied Industries Limited	8.3.2	Term Finance Certificates	7,222,749	(7,222,749)	-	-	-
New Allied Industries Limited	8.3.11	Sukuk Certificates	5,027,500	(5,027,500)	-	-	-
Eden Housing Limited	8.3.9	Sukuk Certificates	2,887,171	(2,887,171)	-	-	-
Amtex Limited	8.3.10	Sukuk Certificates	22,500,000	(22,500,000)	-	-	-

- 8.3.1** New Allied Electronics Industries Limited defaulted on its payment of principal and mark-up due on December 25, 2008. Consequently, the security was classified as non-performing by MUFAP on January 09, 2009 and accrual on the same was suspended. This security has been fully provided in accordance with the provisioning circulars of SECP and the Board's approved provisioning policy. These TFCs are held in CDC investor account of the previous trustee and will only be transferred upon final settlement.
- 8.3.2** New Allied Electronics Industries (Private) Limited defaulted on its payment of principal and mark-up due on 25 December 2008. Consequently, the security was classified as non-performing by MUFAP on 9 January 2009 and accrual of income on the same was suspended. This security has been fully provided in accordance with the provisioning circulars issued by the SECP and the Board's approved provisioning policy.
- 8.3.3** These sukuk certificates carry profit equal to 1 year KIBOR plus 3% receivable quarterly in arrears and will mature in April 2021. The principal amount is redeemable in four six monthly installments of Rs. 0.25 million per certificate Each commencing from October 2019. These sukuk certificates are secured by hypothecation charge over the hypothecated assets of Rs. 625 million and pledge of shares of TPL Properties Limited in favour of the Trustee of the issuer for the benefit of the certificate holders.
- 8.3.4** These sukuk certificates are unsecured and carry profit equal to 6 month KIBOR plus 0.50% receivable half-yearly in arrears and will mature in July 2027.
- 8.3.5** This is the Pakistan's 1st over the counter listed sukuk issue, priced through competitive bidding process by Agha Steel Industries Limited backed by diminishing musharaka and carry profit equal to 3 month KIBOR plus 0.8% and will completely mature in October 2024. Pak Brunei Limited is appointed as trustee and the issue agent of the sukuk. These sukuk certificates are secured by hypothecation charge over the present and future fixed assets of the issuer in favour of the Trustee of the issuer for the benefit of the certificate holders.
- 8.3.6** These sukuk certificates carry profit equal to 3 month KIBOR plus 1% receivable quarterly in arrears and will mature in February 2023. The instrument is structured to redeem 60% of the issue amount during the first 4 years and remaining 40% in last two equal semi-annual installments of 20% Each. The instrument is secured against pledge of shares of Engro Corporation Limited, inclusive of 50% margin, in a designated CDC account. In the event of any sale and repurchase of security, the trustee will have a lien over subsequent cash, which is to be deposited in a specified bank account and further, floating or hypothecation charge on all present and future assets of the Company inclusive of 25% margin security.
- 8.3.7** These sukuk certificates carry profit equal to 6 month KIBOR plus 1.1% receivable semi-annually in arrears and will mature in 5 years from 28 November 2016. The principal amount is redeemable in ten equal semi-annual instalments from the Ijarah commencement date. These certificates are secured by 1st ranking hypothecation charge of all present and future fixed assets excluding land and building of the issuer with a minimum 25% margin, 1st ranking mortgage over land and building of the issuer with a minimum 25% margin, establishment of and assignment of a Debt Payment Account, assignment over all rights and benefits of the issuer under any and all project insurances and cut-through agreements for reinsurance.
- 8.3.8** These sukuk certificates are unsecured and carry profit equal to 3 month KIBOR plus 1% receivable quarterly in arrears and will mature in November 2019.
- 8.3.9** Eden Housing Limited defaulted on its payment of principal and mark-up due on April 21, 2011. Consequently, the security was classified as non-performing by MUFAP on May 06, 2011 and accrual on the same was suspended. This security has been fully provided in accordance with the provisioning circulars of SECP and the Board's approved provisioning policy. These sukuk are held in CDC investor account of the Fund.
- 8.3.10** Amtex Limited (Sukuk) defaulted on its payment of principal and mark-up due on December 22, 2010. Consequently, the security was classified as non-performing by MUFAP non January 6, 2011 and accrual of income on the same was suspended. Accordingly, the security has been fully provided in accordance with the provisioning circulars issued by SECP and the board's approved provisioning policy.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

8.3.11 New Allied Electronics Industries (Private) Limited defaulted on its payment of principal and mark-up due on 27 October 2008. Consequently, the security was classified as non-performing by MUFAP on 9 January 2009 and accrual on the same was suspended. Management has recognised full provision there against and the accrual of income has been suspended in line with provisioning policy of the Fund duly approved by the Board as per applicable SECP provisioning circulars.

8.4 Unrealized Gain on Revaluation of Investments Classified as Fair Value through Other Comprehensive Income - Net

	Note	2020 -----Rupees-----	2019
Fair Value of Investments	8.2	86,625,682	116,722,434
Less: Cost/Carrying Value of Investment		(86,401,882)	(116,257,250)
		223,800	465,184
Less: Net Unrealized Gain in Fair Value of Investments - Opening		54,250	(410,934)
		278,050	54,250

9 ACCRUED INCOME/PROFIT

Income form:

- Profit and Loss Sharing (PLS) Accounts		2,936,634	3,577,346
- Sukuk Certificates		2,733,866	2,694,246
		5,670,500	6,271,592

10 SECURITY DEPOSITS

Deposits - Central Depository Company

- Deposits - Central Depository Company 786SF		100,000	100,000
- Deposits - Central Depository Company FDMF		50,000	-
		150,000	100,000

Deposits - National Clearing Company of Pakistan

- Deposits - National Clearing Company 786RSF		2,500,000	-
- Deposits - National Clearing Company FDMF		3,500,000	-
		6,000,000	-
		6,150,000	100,000

11 PAYABLE TO 786 INVESTMENTS LIMITED - MANAGEMENT COMPANY

Management Remuneration	11.1	757,933	627,856
Sindh Sales Tax Payable	11.2	119,016	102,105
Accounting and Operational Charges			
-786 Smart Fund	11.3	523,195	453,221
-First Dawood Mutual Fund	11.3	731,382	-
-786 Rising Star Fund	11.3	177,059	-
		1,431,636	453,221
		2,308,585	1,183,182

11.1 According to the provisions of the Trust Deed of the Fund, the Management Company has charged its remuneration at the rate of 1.5% (June 2019: 1.5%) per annum on the average annual net assets of the Fund calculated on a daily basis.

11.2 The Sindh Provincial Government has levied Sindh Sales tax at the rate of 13% (June 2019: 13%) on Management Company's remuneration.

11.3 In accordance with the provisions of the NBFC Regulations amended vide S.R.O 1160(I)/2015 dated November 25, 2015, the Management Company of the Fund is entitled for reimbursement of fee and expenses incurred by the Management Company in relation to registrar service, accounting, operation and valuation services related to the Fund maximum up to 0.1% of average annual net assets of the scheme or actual which ever is less. Accordingly, the Management Company has charged accounting and operating expenses to the Fund at a rate of 0.1% per annum of the average annual net assets of the Fund for the year ended June 30, 2020.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

		2020	2019
12 PAYABLE TO MCB FINANCIAL SERVICES LIMITED- TRUSTEE	Note	-----Rupees-----	
Trustee Remuneration	12.1	75,795	62,511
Sindh Sales Tax Payable on Trustee Remuneration	12.2	9,854	8,129
		85,649	70,640

12.1 According to the provisions of the Trust Deed of the 786 Smart Fund, the Trustee is entitled to monthly remuneration for services rendered to the Fund as follows:

On net assets:

- Up to Rs.1 billion Rs.0.6 million or 0.15% per annum of the net assets of the Fund computed on a daily basis whichever is higher.

- Exceeding Rs.1 Billion Rs.0.6 million plus 0.09% per annum of the net assets of the Fund computed on a daily basis exceeding Rs.1 billion.

12.2 The Sindh Provincial Government has levied sindh sales tax at the rate of 13% (June 2019: 13%) on trustee's remuneration.

13 ANNUAL FEE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to SECP in accordance with SRO 714(I)/2019 dated July 1, 2019 as amended in clause "c" of Schedule II of NBFC Regulation 2008, read with regulation 62 of NBFC Regulation 2008, applicable from July 1, 2019 whereby the Fund is required to pay SECP an amount equal to 0.02% of the average daily net assets. Earlier this fee was 0.085% of the average daily net assets.

		2020	2019
14 ACCRUED EXPENSES AND OTHER LIABILITIES	Note	-----Rupees-----	
Federal Excise Duty on Remuneration	14.1	6,513,679	1,797,106
Provision for Sindh Workers' Welfare Fund	14.2	7,458,609	3,267,015
Accrued Expenses	14.3	561,380	657,443
Other Liabilities		557,809	-
Capital Gain Tax Payable		261,552	1,155,931
Zakat Payable and Withholding Tax		4,384,452	11,620
		19,737,481	6,889,115

14.1 The Finance Act, 2013 enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) with effect from June 13, 2013. As the asset management services rendered by the Management Company of the Fund were already subject to provincial sales tax levied by Sindh Revenue Board, which is being charged to the Fund, the Management Company was of the view that further levy of FED was not justified. On September 04, 2013, a Constitutional Petition was filed in the Honorable Sindh High Court (SHC) jointly by various asset management companies, together with their representative collective investment schemes.

The SHC while disposing the Constitutional Petition relating to levy of FED on mutual funds has declared the said provisions to be ultra vires and as a result no FED is payable with effect from July 01, 2011 (i.e. the date on which Sindh Sales Tax on Services Act, 2011 came into force). In response to this, the Deputy Commissioner Inland Revenue has filed a Civil Petition for leave to appeal in the Honorable Supreme Court of Pakistan (SCP). Thereafter, during the pendency of the present civil petition, SCP has suspended the operation of the impugned judgement of the SHC. The matter is still pending adjudication. With effect from July 01 2016, FED on services provided or rendered on non-banking financial institutions dealing in services which are subject to provincial sales tax has been withdrawn by the Finance Act, 2016.

In view of the above, the Fund has discontinued making further provision in respect of FED on remuneration of Management Company with effect from July 01, 2016. However, as a matter of abundant caution the provision made for FED for the period from June 13, 2013 till June 30, 2016 aggregating to Rupees.1.797 million (June 30, 2019: Rupees. 1.797 million) is being retained in the financial statements of the Fund as the matter is pending before the SCP. Had the said provision of FED not been recorded in the financial statements of the Fund, the net asset value per unit of the Fund as at June 30, 2020 would have been higher by Rs. 0.91 (June 30, 2019: Rs. 0.32) per unit.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

14.2 Provision for Sindh Workers' Welfare Fund (SWWF) is being made on a daily basis going forward pursuant to MUFAP's recommendation to all its members on January 12, 2017 against the backdrop of the Sindh Revenue Board (SRB) letter to mutual funds in January 2016 whereby SRB directed the mutual funds to register and pay SWWF for the accounting year closing on or after December 13, 2013. This is on the premise that mutual funds are included in definition of financial institutions in the Financial Institutions (Recovery of Finance) Ordinance, 2001 hence WWF is payable by them. Though MUFAP has taken up the matter with the Sindh Finance Ministry to have mutual funds excluded from the applicability of SWWF but as a matter of abundant caution the Management has recorded SWWF with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from May 21, 2015).

Furthermore, on November 10, 2016, SCP passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments have been struck down by the SCP. The Federal Board of Revenue has filed a petition with the SCoP against the said judgment, which is pending. While the petitions filed by the Collective Investment Schemes (CISs) on the matter are still pending before the SHC, the Mutual Funds Association of Pakistan (MUFAP) (collectively on behalf of the asset management companies and their CISs) have taken legal and tax opinions on the impact of the SCP's judgement on the CISs petition before the SHC. Both the legal and tax advisors consulted were of the view that the SCP's judgment has removed the very basis on which the demands were raised against the CISs. Therefore, there was no longer any liability against the funds under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgement of the SCP.

Above decision was communicated to the SECP and the Pakistan Stock Exchange Limited on January 12, 2017 and the SECP vide its letter dated February 1, 2017 has advised MUFAP that the adjustments relating to the above should be prospective. Accordingly, the Fund has recorded the adjustment in its books on January 12, 2017.

As the matter of applicability of SWWF on mutual funds is pending before Sindh Finance Ministry, however; as a matter of prudence Management Company has recognized SWWF charge for the period from May 21, 2015 to June 30, 2019. Had the SWWF not been provided, the net asset value of the Fund as at June 30, 2020 would have been higher by Rs 1.04 per unit (June 30, 2019: Rs 0.59 per unit).

	2020	2019
	-----Rupees-----	
14.3 Accrued Expenses		
Auditors' Remuneration Payable	317,888	340,601
Rating Fee Payable - PACRA	-	226,000
Printing and Related Expenditure Payable	32,140	40,000
Shariah and Tax Advisors Fee Payable	211,352	49,172
Other Payable	-	1,670
	561,380	657,443

15 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments as at June 30, 2020 and June 30, 2019.

	2020	2019
	-----Number of Units-----	
16 NUMBER OF UNITS IN ISSUE		
Total Outstanding as of July 01	5,541,116	3,790,392
Issued During the Period	5,924,775	8,042,818
Redemption During the Period	(3,731,328)	(6,292,094)
Closing Units	7,734,563	5,541,116

17 INCOME FROM INVESTMENTS AND BALANCES

	2020	2019
WITH BANKS	-----Rupees-----	
Income from:		
- Sukuk Certificates	13,669,698	8,801,742
- Government Securities	-	10,782,685
- Commercial Papers	-	1,804,712
- Profit and Loss Sharing (PLS) Account	40,901,747	24,042,374
- Term Deposits Receipts (TDR)	-	180,904
	54,571,445	45,612,417



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
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	2020	2019
	-----Rupees-----	
18 AUDITORS' REMUNERATION		
Annual Audit Fee	245,000	245,000
Half Yearly Review of financial Statements	90,000	90,000
Other Services	25,000	25,000
Out of Pocket Expenses	58,969	62,190
	418,969	422,190
Sindh Sales Tax	33,518	33,775
	452,487	455,965

19 ADVANCE INCOME TAX

Advance income tax pertains to one of the fund which has merged during the period (786 Rising Star Fund). The Management Company has filed return of income of the Fund for the years ended 30 June 2013, 2014 and 2015 claiming exemption from income under clause 99 of Pan I to the Second Schedule of the Income Tax Ordinance, 2001 (the Ordinance). The Additional Commissioner Inland (CIR) initially raised notices and then ordered to pay tax for the above referred years by making certain addition to income of the Fund and exemption under clause 99 is available to only those collective investment schemes, which distribute not less than 90% of its accounting income year amongst unit holders on year to year basis. Further, an amount of Rs 7.9 million was withheld by tax department from the bank the Fund which is included in advance income tax on the statement of asset and liabilities. The Management Company of the Fund filed an appeal to Commissioner Inland Revenue (Appeals) (CIR Appeals) claiming that the additions made to the income by the Commissioner were erroneous and the fund has distributed more than 90% of its income for each of the three years after finalization of financial statements of the Fund after removal of suspension of the operations of the Fund, The CIR Appeals decided the appeal in favor of Management Company and remanded back the case to CIR on the grounds that income tax officer has passed impugned orders in haste without objective appreciation of relevant provisions of law and drew adverse inference on irrelevant assertions and directed CIR re-examine the case after giving appellants opportunity of being heard.

During the year ended 30 June 2018 amended tax orders under section 124(1) of the Income Tax Ordinance, 2001, for the tax years 2013, 2014 and 2015 respectively were issued by the Commissioner Inland Revenue raising Nil tax demand in respect of said years. Further, the management is pursuing the relevant authorities for the recovery of the aforementioned seized amount of Rs 7.9 million.

20 TOTAL EXPENSE RATIO

The total expense ratio (TER) of the Fund for the year ended June 30, 2020 is 2.47% which includes 0.45% representing government levies on the Fund such as federal excise duties and sales taxes, Workers' Welfare Fund, annual fee payable to the SECP, etc. This ratio is within the maximum limit of 2.5% prescribed under the NBFC Regulations for a collective investment scheme categorized as an "Islamic Income Scheme".

21 TRANSACTIONS WITH RELATED PARTIES/CONNECTED PERSONS

Related party/connected person include 786 Investments Limited being the Management Company, other collective investment schemes managed by the Management company, MCB Financial Services Limited being the Trustee of the Fund, Directors and Officers of the Management Company, other associated undertakings and unit holder's holding more than 10% units in the Fund or any other connected person.

Remuneration payable to the Management Company and Trustee is determined in accordance with the provisions of the NBFC Regulations 2008 and the Trust Deed respectively.

The transactions with related parties are in the normal course of business and at contracted rates and terms determined in accordance with market rates.



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Aggregate transactions and balances with related parties, associated undertakings and connected person which are not disclosed elsewhere in the notes are as follows:

21.1 Transactions During the Period Ended	Note	2020 -----Rupees-----	2019
786 Investments Limited - Management Company			
Remuneration of the Management Company	11.1	<u>7,847,917</u>	<u>7,098,308</u>
Sales Tax on Remuneration to the Management Company	11.2	<u>1,020,230</u>	<u>922,779</u>
Accounting and Operational Charges	11.3	<u>523,194</u>	<u>453,221</u>
Issue of Units: 1,002,084 (2019: 1,267,921)		<u>85,143,724</u>	<u>100,865,358</u>
Redemption of Units: 548,779 (2019: 244,208)		<u>45,000,000</u>	<u>20,000,000</u>
MCB Financial Services Limited - Trustee			
Remuneration of the Trustee	12.1	<u>784,793</u>	<u>719,900</u>
Sales Tax on Trustee fee	12.2	<u>102,023</u>	<u>93,590</u>
BRR Guardian Modaraba (Connected Person Due to Group Company)			
Issue of Units: 408,162 (2019: Nil)		<u>34,864,260</u>	<u>-</u>
Redemption of Units: 11,386 (2019: Nil)		<u>1,000,000</u>	<u>-</u>
BRR Investment Limited (Connected Person Due to Group Company)			
Issue of Units: 392 (2019: 822,516)		<u>31,581</u>	<u>65,372,484</u>
Redemption of Units: 385,132 (2019: 939,031)		<u>32,445,621</u>	<u>78,457,282</u>
Dawood Family Takaful Limited (Connected Person Due to Group Company)			
Issue of Units: 428,963 (2019: Nil)		<u>36,590,937</u>	<u>-</u>
Dawood Family Takaful Limited -Employees Contributory			



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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
Note	-----Rupees-----	
Provident Fund- Associate of Management Company		
Issue of Units: 58,278 (2019: Nil)	<u>4,971,152</u>	<u>-</u>
First Dawood Investment Bank Limited (Connected Person Due to Group Company)		
Issue of Units: 1,991 (2019: 3,698,076)	<u>160,223</u>	<u>301,201,673</u>
Redemption of Units: 1,991 (2019: 3,698,076)	<u>161,617</u>	<u>306,966,759</u>
First Dawood Investment Bank Limited -Employees Contributory Provident Fund - Employee Benefit Fund of Group Company		
Issue of Units: 181,195 (2019: 41,415)	<u>15,323,012</u>	<u>2,074,545</u>
Redemption of Units: 173,604 (2019: Nil)	<u>15,000,000</u>	<u>-</u>
BRR Financial Services (Private) Limited (Connected Person Due to Group Company)		
Issue of Units: 306,878 (2019: Nil Units)	<u>26,708,027</u>	<u>-</u>
Redemption of Units: 278,191 (2019: Nil Units)	<u>24,500,000</u>	<u>-</u>
Dawood International (Private) Limited (Connected Person Due to Group Company)		
Issue of Units: 137,777 (2019: Nil Units)	<u>11,942,371</u>	<u>-</u>
Redemption of Units: 28,068 (2019: Nil Units)	<u>2,500,000</u>	<u>-</u>
Directors and Key Management Personnel of the Management Company		
Issue of Units: 58,770 (2019: 144,382)	<u>4,787,789</u>	<u>11,018,443</u>
Redemption of Units: 34,255 (2019: 132,084)	<u>2,856,000</u>	<u>10,964,546</u>



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

		2020	2019
	Note	-----Rupees-----	
Other Connected Persons			
Issue of Units: 2,926,708 (2019: 517,389)		<u>246,614,009</u>	<u>41,421,839</u>
Redemption of Units: 2,205,775 (2019: Nil)		<u>193,374,854</u>	<u>-</u>
21.2 Balance as at Period Ended			
786 Investments Limited - Management Company			
Remuneration Payable to the Management Company	11	<u>757,933</u>	<u>627,856</u>
Sales Tax Payable on Management Company's Remuneration	11	<u>119,016</u>	<u>102,105</u>
Accounting and Operational Charges			
-786 Smart Fund	11	<u>523,195</u>	<u>453,221</u>
-First Dawood Mutual Fund	11	<u>731,382</u>	<u>-</u>
-786 Rising Star Fund	11	<u>177,059</u>	<u>-</u>
FED Payable on Management Company's Remuneration		<u>6,513,679</u>	<u>1,797,106</u>
Units Held: 1,825,406 (June 2019: 1,372,100)		<u>147,858,793</u>	<u>110,362,959</u>
MCB Financial Services Limited - Trustee			
Remuneration Payable to the Trustee	12	<u>75,795</u>	<u>62,511</u>
Sales Tax Payable on Trustee Fee	12	<u>9,854</u>	<u>8,129</u>
BRR Guardian Modaraba (Connected Person Due to Group Company)			
Units Held: 396,776 (June 2019: Nil)		<u>32,139,018</u>	<u>-</u>
BRR Investment Limited (Connected Person Due to Group Company)			
Units Held: Nil (June 2019: 384,739)		<u>-</u>	<u>30,945,909</u>



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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
Note	-----Rupees-----	
First Dawood Investment Bank Limited -Employees Contributory Provident Fund- Employee Benefit Fund of Group Company		
Units Held: 480,710 (June 2019: 473,120)	<u>38,937,756</u>	<u>38,054,757</u>
Dawood Family Takaful Limited (Connected Person Due to Group Company)		
Units Held: 428,963 (June 2019: Nil)	<u>34,746,251</u>	<u>-</u>
Dawood Family Takaful Limited - Employees Contributory Provident Fund - Associate of Management Company		
Units Held: 58,278 (June 2019: Nil)	<u>4,720,537</u>	<u>-</u>
BRR Financial Services (Private) Limited (Connected Person Due to Group Company)		
Units Held: 28,687 (June 2019: Nil)	<u>2,323,666</u>	<u>-</u>
Dawood International (Private) Limited (Connected Person Due to Group Company)		
Units Held: 109,708 (June 2019: Nil)	<u>8,886,417</u>	<u>-</u>
Directors and Key Management Personnel of the Management Company		
Units Held: 656,460 (June 2019: 631,945)	<u>53,173,552</u>	<u>50,829,625</u>
Other Connected Persons		
Units Held: 1,451,711 (June 2019: 858,661)	<u>117,589,284</u>	<u>69,065,176</u>

21.3 The transactions with related parties/connected persons are in the normal course of business at contracted rates and terms, determined in accordance with market rates.

22 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

22.1 RISK MANAGEMENT FRAMEWORK

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the Management Company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

of the risk that Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund. The Fund is exposed to market risk, credit risk and liquidity risk arising from the financial instruments it holds.

The board's audit committee (BAC) oversees how management monitors compliance with the Fund's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The BAC is assisted in its oversight role by internal audit. Internal audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the BAC.

Asset purchases and sales are determined by the Fund's Investment Manager, who has been authorized to manage the distribution of the assets to achieve the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio is monitored by the Investment Committee. In instances where the portfolio has diverged from target asset allocations, the Fund's Investment Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

22.2 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

(i) Interest Rate Risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. As of June 30, 2019, the Fund is exposed to such risk in respect of balances with banks and investment in debt investments. The balances with banks are subject to interest rates as declared by the respective bank on periodic basis. Debt investments are subject to floating interest rates. The sensitivity of the income/(loss) for the year is the effect of the assumed changes in interest rates on:

- the net interest income for one year, based on the floating rate financial assets held at the year end; and
- changes in fair value of investments for the year, based on revaluing fixed rate financial assets at the year end.

The following table demonstrates the sensitivity of Fund's income/(loss) for the year to a reasonably possible change in interest rates, with all other variables held constant. In practice, the actual results may differ from the sensitivity analysis.

Change in Basis Point	Effect on Income	
	2020	2019
	-----Rupees-----	
+ 100	63,475,434	44,811,423
- 100	(63,475,434)	(44,811,423)

Yield/interest 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.



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
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June 30, 2020

Yield/Effective Interest Rate (%)	Exposed to Yield/Interest Rate Risk			Not Exposed to Yield/Interest Rate Risk	Total
	Up to Three Months	More than Three Months and Up to One Year	More than One Year		

(Rupees)

On-Balance Sheet

Financial Assets

Balances with Banks	4.5 - 11	548,128,655	-	-	-	548,128,655
Investments	11 - 15	-	11,250,000	75,375,682	-	86,625,682
Accrued Income/Profit		-	-	-	5,670,500	5,670,500
Security Deposits		-	-	-	6,150,000	6,150,000
		<u>548,128,655</u>	<u>11,250,000</u>	<u>75,375,682</u>	<u>11,820,500</u>	<u>646,574,837</u>

Financial Liabilities

Payable to 786 Investment Limited - Management Company		-	-	-	2,189,569	2,189,569
Payable to MCB Financial - Services Limited - Trustee		-	-	-	75,795	75,795
Payable to Securities and Exchange Commission of Pakistan		-	-	-	124,256	124,256
Unclaimed Dividend		-	-	-	5,738,576	5,738,576
Accrued Expenses and Other Liabilities		-	-	-	1,119,189	1,119,189
		-	-	-	<u>9,247,385</u>	<u>9,247,385</u>

On-Balance Sheet Gap

		<u>548,128,655</u>	<u>11,250,000</u>	<u>75,375,682</u>	<u>2,573,115</u>	<u>637,327,452</u>
--	--	--------------------	-------------------	-------------------	------------------	--------------------

There is no off-balance sheet financial instrument that exist as at year ended June 30, 2020

June 30, 2019

Yield/Effective Interest Rate (%)	Exposed to Yield/Interest Rate Risk			Not Exposed to Yield/Interest Rate Risk	Total
	Up to Three Months	More than Three Months and Up to One Year	More than One Year		

(Rupees)

On-Balance Sheet

Financial Assets

Balances with Banks	3 - 11	331,391,795	-	-	-	331,391,795
Investments	6 - 10	-	40,000,000	76,722,434	-	116,722,434
Accrued Income/Profit		-	-	-	6,271,592	6,271,592
Security Deposits		-	-	-	100,000	100,000
		<u>331,391,795</u>	<u>40,000,000</u>	<u>76,722,434</u>	<u>6,371,592</u>	<u>454,485,821</u>

Financial Liabilities

Payable to 786 Investment Limited - Management Company		-	-	-	1,081,077	1,081,077
Payable to MCB Financial - Services Limited - Trustee		-	-	-	62,511	62,511
Payable to Securities and Exchange Commission of Pakistan		-	-	-	354,912	354,912
Unclaimed Dividend		-	-	-	369,962	369,962
Accrued Expenses and Other Liabilities		-	-	-	657,443	657,443
		-	-	-	<u>2,525,905</u>	<u>2,525,905</u>

On-Balance Sheet Gap

		<u>331,391,795</u>	<u>40,000,000</u>	<u>76,722,434</u>	<u>3,845,687</u>	<u>451,959,916</u>
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There is no off-balance sheet financial instrument that exist as at year ended June 30, 2019



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because 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 at the year end.

(iii) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities.
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

(iv) Unit Holder's Fund Risk Management

The capital of the Fund is represented by the net assets attributable to holders of redeemable units. The capital structure depends on the issuance and redemption of units. The Fund's objective when managing unit holders' fund is to safeguard the Fund's ability to continue as a going concern in order to seek maximum preservation of unit holders' fund and an optimum rate of return by investing in avenues having good credit rating and liquidity and to maintain a strong capital base to support the development of the investment activities of the Fund.

The Fund has no restrictions or specific capital requirements on the subscription and redemption of units.

In accordance with the risk management policies, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

Under the NBFC regulations 2008, the minimum size of an open end scheme shall be one hundred million rupees at all the times during the life of the scheme.

22.3 Liquidity Risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its redeemable units on a regular basis. Units are redeemable at the unit holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive documents.

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 date. However, for equity securities at fair value through income statement, the period in which those assets are assumed to mature is taken as the expected date on which these assets will be realized.



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

2020

Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
----------------	---------------	----------------	--------------	-------------------	-------

(Rupees)

Financial Liabilities

Payable to 786 Investment Limited - Management Company	2,189,569	-	-	-	-	2,189,569
Payable to MCB Financial - Services Limited - Trustee	75,795	-	-	-	-	75,795
Payable to Securities and Exchange Commission of Pakistan	-	124,256	-	-	-	124,256
Unclaimed Dividend	5,738,576	-	-	-	-	5,738,576
Accrued Expenses and Other Liabilities	1,119,189	-	-	-	-	1,119,189
	9,123,129	124,256	-	-	-	9,247,385

2019

Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
----------------	---------------	----------------	--------------	-------------------	-------

(Rupees)

Financial Liabilities

Payable to 786 Investment Limited - Management Company	1,081,077	-	-	-	-	1,081,077
Payable to MCB Financial - Services Limited - Trustee	62,511	-	-	-	-	62,511
Payable to Securities and Exchange Commission of Pakistan	-	354,912	-	-	-	354,912
Unclaimed Dividend	369,962	-	-	-	-	369,962
Accrued Expenses and Other Liabilities	657,443	-	-	-	-	657,443
	2,170,993	354,912	-	-	-	2,525,905

22.4 Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Fund by failing to discharge its obligation. The Fund's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines, offering document and regulatory requirements. The table below analyses the Fund's maximum exposure to credit risk:

	2020	2019
	(Rupees)	
Balances with banks *	548,128,655	331,391,795
Investments	86,625,682	116,722,434
Accrued income/profit	5,670,500	6,271,592
Security deposits	6,150,000	100,000

* These balances are placed with Commercial Banks having credit rating between A1+ and A1 in accordance with the offering document as approved by SECP.

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The table below analyses the Fund's concentration of credit risk by industrial distribution:



786 Smart Fund

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019
	% of Instruments	
Amortized Cost		
Balances with Banks	86.35%	73.95%
Fair Value Through Other Comprehensive Income		
Cable and Electric Goods	1.77%	1.18%
Commercial Bank	4.20%	5.91%
Engineering	2.36%	3.35%
Fertilizers	5.31%	6.68%
Power Generation & Distribution	0.00%	8.93%
	100%	100%

Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates:

Name of Bank	Rating agency	Latest published rating		Percentage of bank balance
		Short-Term	Long-Term	
Bank Islami Pakistan Limited	PACRA	A1	A+	27.02%
Dubai Islamic Bank Limited	JCR-VIS	A1+	AA	72.98%
JS Bank Limited	PACRA	A1+	AA-	0.00%
Habib Metropolitan Bank Ltd	PACRA	A1+	AA+	0.00%
Albaraka Bank Limited	JCR-VIS	A1	A+	0.00%

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods are used to estimate the fair values of instruments:

Debt Securities

These are valued at the rates notified by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the SECP's Circular 1 of 2009. The said circular prescribes a valuation methodology which in case of currently traded securities, is based on weighted average prices during the 15 days preceding the valuation date and in case of thinly or non-traded securities, on the basis of discount coupon method which takes into consideration credit risk and maturities of the instruments.

Government Securities

These are valued by reference to the quotations obtained from the PKRV rate sheet on the Reuters page.

The fair value of other assets and liabilities of the Fund approximate their carrying amount largely due to short term maturities of these instruments.

23.1 Fair Value Hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices in active markets for identical assets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

As at June 30, 2020, the Fund held the following financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
	(Rupees)			
2020				
Fair value through other comprehensive income	-	71,625,682	15,000,000	86,625,682
	-	71,625,682	15,000,000	86,625,682
	-	71,625,682	15,000,000	86,625,682
	Level 1	Level 2	Level 3	Total
	(Rupees)			
2019				
Fair value through other comprehensive income	-	101,722,434	15,000,000	116,722,434
	-	101,722,434	15,000,000	116,722,434
	-	101,722,434	15,000,000	116,722,434

24 SUPPLEMENTARY NON FINANCIAL INFORMATION

24.1 Pattern of Unit Holding

	As at 30 June 2020			As at 30 June 2019		
	Number of Unit Holders	Investment Amount	Percentage Investment	Number of Unit Holders	Investment Amount	Percentage Investment
		Rupees			Rupees	
Individuals	654	233,983,218	37.35%	218	168,725,386	37.86%
Associated Companies & Directors	11	318,076,030	50.77%	7	230,088,754	51.63%
Insurance Companies	3	4,124,437	0.66%	1	2,807,685	0.63%
Retirement Funds	8	38,552,208	6.15%	9	34,164,342	7.67%
Others	19	31,767,847	5.07%	5	9,905,606	2.22%
	695	626,503,739	100%	240	445,691,773	100%

24.2 Details of Brokers

		2020	2019
	Note	(Rupees)	
BROKERS			
Adam Securities Limited		16,209	-
Alfalah Securities Limited		23,810	-
Axis Global Limited		31,748	-
Foundation Securities		17,490	-
Habib Metropolitan Financial Securities Limited		1,031	-
IGI Financial Securities		24,145	-
JS Global Capital Limited		-	7,074
Pearl Securities		3,377	-
BIPL Securities Limited		20,988	-
		138,797	7,074

The current year brokerage expense are paid to the brokers of FDMF and 786RSF due to Merger of the fund.



786 Smart Fund

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

24.3 Details of Investment Committee

Name of Member	Designation	Qualification	Experience
Ms. Tara Uzra Dawood	Chief Executive Officer	Doctorate of Juridical Science	16 years
Mr. Noman Shakir	Chief Financial Officer and Company Secretary	ACMA	10 years
Mr. Talal Ismail Pasha*	Chief Financial Officer and Company Secretary	ACMA	15 years
Mr. Muhammad Abbas	AVP Finance	MBA Finance	20 years

*Mr. Talal Ismail Pasha resigned on November 21, 2019.

24.4 Details of Fund Manager

Mr. Abbas is working as AVP Finance and in addition, has been designated as acting Fund Manager. He is managing the 786 Smart Fund which is the surviving fund after the merger of 786 Rising Star Fund (786RSF), First Dawood Mutual Fund (FDMF) with and into 786 Smart Fund (786SF).

24.5 Details of Board of Director's meetings

Name of Director	September 23 2019	October 22, 2019	February 28, 2020	April 23, 2020
Ms. Shafqat Sultana	Present	Present	Present	Present
Ms. Tara Uzra Dawood	Present	Present	Present	Present
Ms. Charmaine Hidayatullah *	Present	Absent	Absent	Present
Mr. Tahir Mehmood	Present	Present	Present	Present
Syed Farhan Abbas	Present	Present	Present	Present
Syed Shabhat Hussain	Present	Present	Present	Present
Ahmed Salman Munir	Present	Present	Present	Present

*Leave of absence has been granted to absentees of meetings held during the year.

25 IMPACT OF COVID-19 (CORONA VIRUS)

The pandemic of COVID-19 that has rapidly spread all across the world has not only endangered human lives but has also impacted the economy. On March 24, 2020, the Government announced a temporary lock down as a measure to reduce the spread of the COVID-19. The Fund's operations were not affected as it were operated under all necessary Standard Operating Procedures (SOPs) issued by the Government to ensure safety of employees and smooth and adequate continuation of its business. Due to this, management has assessed the accounting implications of these developments on these financial statements, however, according to management's assessment, there is no significant accounting impact of the effects of COVID-19 on these financial statements.

26 GENERAL

26.1 Figures have been rounded off to the nearest rupee.

26 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the board of directors of the Management Company on September 28, 2020.

**For 786 Investments Limited.
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director



786 Smart Fund

PERFORMANCE TABLE / KEY FINANCIAL DATA

	Year					
	2020	2019	2018	2017	2016	2015
Net assets (Rs in million)	626.50	445.69	334.72	247.74	155.98	428.17
Net Asset Value per units (Rs.)	81.00	80.43	88.31	78.93	75.98	82.29
Offer price per unit	81.81	81.23	89.19	79.72	76.74	83.11
Redemption price per unit	81.00	80.43	88.31	78.93	75.98	82.29
Number of units	7,734,563	5,541,116	3,790,392	3,138,834	2,052,882	5,203,406
Net Profit / (loss) for the year (Rs in million)	50.32	50.43	35.11	35.00	38.20	27.50
<i>Income Distribution (Rs in million)</i>						
Final	49.34	80.54	-	26.87	31.97	24.77
Interim	-	-	-	-	-	-
<i>Average annual return (%)</i>						
	10.93%	11.12%	11.89%	16.32%	32.68%	6.41%



786 Smart Fund

PROXY ISSUED BY THE FUND

The proxy voting policy of Fund, duly approved by Board of Directors of the Management Company, is available on the website of 786 Investments Limited i.e. <http://www.786investments.com> A detailed information regarding actual proxies voted by the Management Company in respect of the fund is also available without charge, upon request, to all unit holders.

The details of summarized proxies voted are as follows:

Resolutions	For	Against	Abstain
Number (%ages)	NIL	NIL	NIL

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