

UBL Fund Managers Limited

Date: May 14, 2013

Chairman: Mr. Tariq Kirmani; Chief Executive: Mr. Mir Muhammad Ali, CFA

Analysts: Hina Saleem Mesjya, CFA
M. Omar Hussain

	Latest	Previous
Rating	AM2	AM2
	April 3, '13	May 2, '12
Outlook	Stable	Stable

Rating Rationale

Investment strategies for money market and even income funds launched by UBL Fund Managers Limited ('UBL Funds' or 'the AMC') since 2009 have largely been skewed towards government securities as risk-adjusted yields on government paper were fairly competitive. This strategy was in line with that of other market participants and driven by the low risk appetite of investors at large. With limited differentiation in investment strategies, fund management skills going forward will be all the more critical. Introduction of CPPI based structure and launch of commodity fund (gold) by UBL Funds is considered positively in terms of product diversification. The ability of the AMC to manage these investment mandates will be tested over time.

Around half of the AUMs of the AMC comprise the money market fund under management, UBL Liquidity Plus Fund. On the money market and low-risk fixed income side, relative performance ranking of funds against peers has witnessed varying trends, with relative rankings of the funds ranging from top to lower quartile. Aggressive income funds continue to underperform the benchmark; though quantum of high risk assets has reduced considerably and most of these assets have been performing post-restructuring. Stability in investment by United Bank Limited (UBL) in the aggressive income funds has provided the liquidity cushion to meet redemption pressure in a period where returns of the funds were volatile. On the equities side, performance of conventional equity fund managed by the AMC has been in the mid-range in the peer group. Low holding in second and third tier stocks by the fund translated into mid-range ranking in the peer group, given that these stocks led the upward rally in KSE-100 index in the past one year. The Islamic stock fund, which was previously categorized as a balanced fund, has depicted a mid-range relative ranking for 1HFY13 owing to less than 90% exposure in equities on an average.

UBL Funds was the fourth-largest AMC in terms of its adjusted market share in open-end collective investment schemes, which was slightly higher at 11.7%* (FY11: 11.3%*) as at end-Jun'12. During FY12, growth in AUMs of AMC was 21%, higher than industry growth rate of 17%. While concentration in investor profile in some funds features on the higher side, share of retail investors in total AUMs was 16% at end-Jun'12. Elimination of management-fee sharing arrangements with clients and tax arbitrage for banks in recent months has leveled the playing field for AMCs to some extent. Nevertheless, AMCs owned by large banks continue to have some competitive edge by virtue of shared-franchise. An important aspect of the future strategy of the company is to grow its retail base. The AMC is also managing eight administrative plans and thirteen separately managed accounts.

There have been few changes in the management. The position of CFO had witnessed turnover in the past two years; Mr. Hasnain Raza Nensey, previously CIO, has been appointed as Chief Operating and Chief Financial Officer. Position of CIO is currently vacant and as per the management, the position will be filled in the near future. Head of Marketing has resigned recently and a resource has been identified for the position. Risk Management and internal audit processes at UBL Funds are superior in relation to most industry players. Over time investment risk management processes at the institution have been strengthened; the department has undertaken assessment of operational risk in 2012. Scope laid down by Internal Audit is comprehensive and is covered in-depth by the team as reflected in the periodic reports. The IT department has completed the first phase of system upgrade on implementation of four core modules. The new system is expected to enhance controls and facilitate improved management reporting.

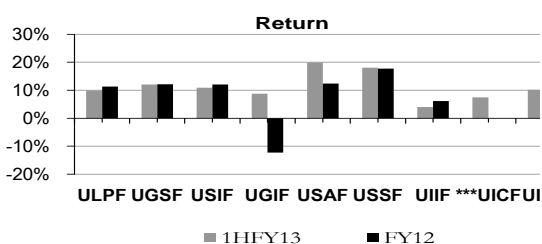
*market share is adjusted for investment by associated companies.

***UICF was launched in Sep'12.

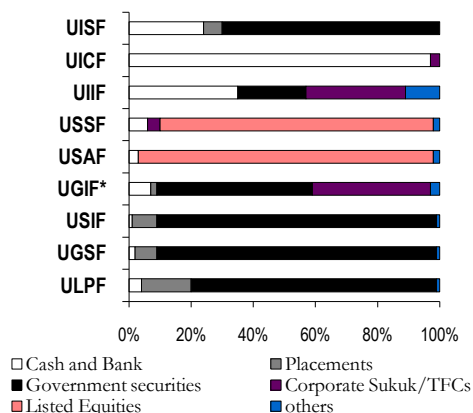
Overview of the Institution

UBL Funds is a wholly owned subsidiary of UBL, which is amongst the leading commercial banks of Pakistan. The AMC has the license to undertake asset management and investment advisory services; additionally, Voluntary Pension Schemes are also managed by the institution. Presently, the company is managing open-end collective investment schemes, voluntary pension schemes, separately managed accounts and administrative plans

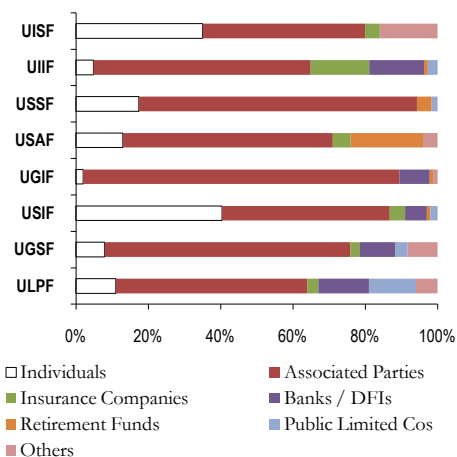
JCR-VIS



Average Asset Allocation - 1HFY13



Unitholding pattern June 30, 2012



JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Management Quality</u>				
03-Apr-13	AM2	Stable		Reaffirmed
02-May-12	AM2	Stable		Reaffirmed
20-Apr-11	AM2	Stable		Reaffirmed
04-Feb-10	AM2	Stable		Upgrade