

## RATING REPORT

### UBL Fund Managers Limited

**REPORT DATE:**

January 03, 2020

**RATING ANALYSTS:**

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#### RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM1 (Reaffirmed)	AM1(Reaffirmed)
Rating Date	Dec '31, '19	Dec '27, '19

#### COMPANY INFORMATION

Incorporated in April 2001	External auditors: A.F. Ferguson & Co. Chartered Accountants
	Chairman of the Board: Mr. Azhar Hamid
Key Shareholder:	Chief Executive Officer: Mr. Yasir Qadri
United Bank Limited	

#### APPLICABLE METHODOLOGY(IES)

Asset Management Companies (June 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/AMC-Methodology-201906.pdf>

## UBL Fund Managers Limited

### OVERVIEW OF THE INSTITUTION

UBL Fund Managers Limited was established as a Public Limited Company in 2001. It is wholly owned subsidiary of United Bank Limited (UBL) and holds Asset Management Services, Investment advisory services and Pension Fund Management Services license.

#### Profile of Chairman

Mr. Azhar Hamid is an international banker with a career spanning over 41 years with Grindlays Bank, ANZ Bank and Standard Chartered Bank.

#### Profile of CEO

Mr. Yasir Qadri has been associated with the asset management industry for over 16 years, last serving as CEO of MCB-Arif Habib Savings & investments. He also serves as Chairman of the Mutual Funds Association of Pakistan (MUFAP). He has earned an M.B.A. and a B.B.A. degree from the University of Central Oklahoma, USA.

### RATING RATIONALE

UBL Fund Managers Limited (UBL FM) was incorporated in 2001 as a Non-Banking Finance Company and is a wholly-owned subsidiary of United Bank Limited (UBL). The company is principally engaged in providing investment solutions and advisory services to individual and corporate clients.

#### Market position has weakened since last review due to sizeable maturities of financial planning funds.

Since the onset of the ongoing calendar year 2019 (till November 2019), assets under management (AUMs) of the mutual fund industry have increased by 15%. However, AUMs of UBL Fund Managers have remained around end-December 2018 at around Rs. 62.2b as at end-November 2019. Resultantly, market share has declined since last review. Decline is primarily attributable to sizeable maturities of financial planning funds while new fund launches did not attract the desired response due to adverse market conditions. While an option of 1 year extension was given to investors, most opted for exit while investors that did not respond were also redeemed. AUM profile has witnessed improvement with retail AUMs as a proportion of total AUMs increasing to 49.6% (FY18: 43.9%) while investor concentration levels have depicted reduction. Separately Managed Accounts (SMAs) portfolio stood lower at Rs. 13.2b (FY18: Rs. 14.4b) at end-June 2019. Deepening relationship with select existing clients remains a key focus area in this segment. Given the sizeable number of SMA mandates, consolidation was also undertaken in the number of relationships.

#### Comprehensive product portfolio covering both conventional and Shariah compliant funds.

Ratings are underpinned by management's inclination to increase the breadth and diversity of products portfolio. Product portfolio includes a wide array of funds. Excluding fund of funds, ULPF was the largest fund followed by UBL Stock Advantage Fund and Al-Ameen Shariah Stock Fund. During the outgoing year, UBL FM launched Special Saving Plans which was designed to benefit investors given the prevalent interest rate environment. Whereas, in the ongoing year the management has launched UBL Cash Fund and Energy Fund. Going forward, new funds planned to be launched include theme based funds, an exchange traded fund and an income fund.

#### Sales strategy focused on enhancing sales force efficiency and focused alignment with UBL Bank to strengthen market position.

UBL Funds operates via 25 branches and 15 distributor outlets spread across Pakistan. During the outgoing year, six new branches were added vis-à-vis the preceding year. The company also maintains a presence in the middle-east. Sales force (including UBL Funds and Al Ameen) as of end-FY19 stood at 267 (FY18: 328). Sales force is expected to depict double digit growth in the ongoing year where focus remains on increasing efficiency and productivity of the sales force. For this purpose, improved version of the customer relationship management tool was implemented while sales team has also been equipped with the necessary IT gadgets in order to undertake jobs in an efficient manner. A key pillar of the sales strategy is to translate increase alignment with UBL in to higher AUMs for UBL FM. This includes increasing outreach through UBL branches, targeting UBL corporate and high net worth (of signature branches) customers. Management expects this segment to be an attractive segment given the tax break on profit on debt and adjustment of capital losses vis-à-vis capital gains. Moreover, the retail team has enhanced focus on SME and Commercial clients through which a reasonable amount of AUMs have been generated in the latter half ongoing year. Management is also focusing on increasing quantum and ticket size of AUMs through the digital marketing channel. Similarly, mobilization of funds from Banks other than UBL is also expected given the improved market performance.

**Investment decision making process is well-structured and formalized. Relative performance ranking of equity funds was in the top quartile while performance of most fixed income funds lagged relative to peers**

Investment decision making process is well-structured and formalized. The Investment Committee (IC) comprises Chief Executive Officer, Chief Investment Officer, Head of Research, Head of Investment Strategy, Head of Fixed Income and SMA (in their respective Fixed Income and SMA ICs); and respective fund managers all as voting members, and Head of Risk as non-voting observer. The investment process combines a top down view with fundamental bottom-up analysis. The decision making process is committee based with the participation of the investment team. The overall investment strategy is based on the current and expected economic dynamics of the country coupled with market sentiments. The team takes a forward looking approach and rebalances the portfolio as per its analysis. The company has a segregated research division that functions independently to facilitate the investment management and decision making. Relative performance ranking of equity funds (based on 365 day return as of November 2019) was in the top quartile while performance of most fixed income (Both income and money market funds based on 365 day return as of November 2019) funds lagged relative to peers.

**Resolving outstanding discrepancies related to KYC backlogs remains the key focus on the compliance front.**

UBL FM is pursuing a risk based approach for resolving outstanding discrepancies related to KYC backlogs where accounts with majority of AUMs are being reviewed and remediated. Management expects to review and remediate majority of high risk accounts before year-end. The exercise is being completed in coordination with an external consultant. Moreover, increased automation is being used to speed up the process. As a matter of policy, high risk accounts will be reviewed on a shorter frequency compared to low risk accounts which will be reviewed on a higher frequency UBL FM has realigned itself in various controls with its parent UBL including the monitoring of political exposed personnel. Remaining accounts with low balances (over 40% of the total exposures) are expected to be reviewed and remediated by end- Sept 2020. The management is in the process of revising employee trading policy which is expected to be made more stringent.

**Profitability profile compares favorably to peers. Liquidity and capitalization indicators remain strong.**

Topline of the company has witnessed a decline during CY18 and 1HCY19. Core revenue which comprises management income, advisory and load income declined during the period primarily due to lower AUMs and partly due to shift in AUMs towards lower fee generating funds. Given the strong focus on cost rationalization, administrative expenses declined during 2018 and in the ongoing year. As part of a deliberate strategy management has focused on increasing budgetary allocation of sales and investment team while optimizing back office cost through automation. Overall profitability remained around prior year level during calendar year 2018 while declining by 29% during 1HCY19.

Balance sheet footing of UBL Funds stood at Rs. 2.0b at end-June 2019. Investment forms the largest proportion of the total assets and represented around three-fourth of total assets. Equity base of the company stood at Rs. 1.9b at end-June 2019 and has grown over the years on account of profit retention.

FINANCIAL SUMMARY <span style="float: right;">Appendix I</span>		
<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>FY17</b>	<b>FY18</b>
Paid Up Capital	332	332
Total Equity	1632	1889
<b>INCOME STATEMENT</b>		
Total Revenues	1260	1,168
Profit Before Tax	557	532
Profit After Tax	443	441
<b>RATIO ANALYSIS</b>		
Net Cash Generated from Operating Activities	342	346
Current Ratio (x)	8.83	4.00
Gearing (x)	NA	0.21

REGULATORY DISCLOSURE <span style="float: right;">Appendix II</span>				
Name of Rated Entity	UBL Fund Managers Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	<b>Rating Date</b>	<b>Rating</b>	<b>Outlook</b>	<b>Rating Action</b>
	12/31/2019	AM1	Stable	Reaffirmed
	12/27/2018	AM1	Stable	Reaffirmed
	12/29/2017	AM1	Stable	Upgrade
	12/30/2016	AM2++	Stable	Reaffirmed
	5/4/2016	AM2++	Stable	Harmonized
	12/31/2015	AM2+	Stable	Reaffirmed
	12/31/2014	AM2+	Stable	Upgrade
	4/3/2013	AM2	Stable	Reaffirmed
	5/2/2012	AM2	Stable	Reaffirmed
4/20/2011	AM2	Stable	Reaffirmed	
Instrument Structure	N/A			
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) mentioned herein. This rating is an opinion on management quality only and is not a recommendation to buy or sell any securities.			
Probability of Default	N/A			
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			

## VIS Credit Rating Company Limited

### RATING SCALE & DEFINITIONS: MUTUAL FUNDS

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be solely determined by investors.

#### MANAGEMENT QUALITY RATINGS

##### AM1:

Asset manager exhibit Excellent management characteristics

##### AM2+, AM2+, AM2:

Asset manager exhibit Very Good management characteristics

##### AM3+, AM3+, AM3:

Asset manager exhibit Good management characteristics

##### AM4+, AM4+, AM4:

Asset manager exhibit Adequate management characteristics

##### AM5:

Asset manager exhibit Weak management characteristics

*For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.*

*For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by VIS.*

*For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by VIS.*

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

#### FUND PERFORMANCE RANKINGS

**MFR 5-Star** (top 10%) Very good performance

**MFR 4-Star** (next 22.5%) Good performance

**MFR 3-Star** (next 35%) Average performance

**MFR 2-Star** (next 22.5%) Below average performance

**MFR 1-Star** (last 10%) Weak performance

*Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.*

#### FUND STABILITY RATINGS

##### AAA(f)

Highest degree of stability in Net Asset Value; Risk is negligible with very low sensitivity to changing economic conditions.

##### AA+(f), AA(f), AA-(f)

High degree of stability in Net Asset Value; Risk is modest but may vary slightly from time to time because of changing economic conditions.

##### A+(f), A(f), A-(f)

Moderate degree of stability in Net Asset Value; Risk factors may vary with possible changes in the economy.

##### BBB+(f), BBB(f), BBB-(f)

Adequate degree of stability in Net Asset Value; Risk factors are considered variable if changes occur in the economy.

##### BB+(f), BB(f), BB-(f)

Low degree of stability in Net Asset Value; Risk factors are sensitive to changes in the economy.

##### B(f)

Very low degree of stability in Net Asset Value; Risk factors are capable of fluctuating widely if changes occur in the economy.

*The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.*

*While no outlook is assigned to the fund stability rating, the same may be placed under 'Rating Watch' if VIS views that the status of the assigned rating is uncertain and there are conditions present that necessitate reevaluation of the assigned rating. VIS also designates direction, Positive, Negative or Developing, to ratings placed under 'Rating Watch'. This shows VIS's opinion regarding the likely direction of a rating. Developments in factors other than those that necessitated the 'Rating Watch' may result in a rating change, while the rating continues to be placed under 'Rating Watch'.*