

RATING REPORT

UBL Fund Managers Limited

REPORT DATE:

December 31, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
MQ Rating	AM1 (Reaffirmed)	AM1 (Reaffirmed)
Rating Date	Dec '31, '20	Dec '31, '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.

Rating Rationale

UBL FM's ratings are underpinned by the company's market positioning as the 4th largest AMC in Pakistan

- UBL FM's AUM's grew by 50% in FY20, amounting to Rs. 78.3 Bn as of Jun'20 (Jun'19: Rs.52.3 Bn). The company's market share inched up to 10.04% as at Jun'20 (Jun'19: 9.55%). Market positioning of the company changes between 3rd and 4th largest, varying over periods, but as of Sep'20, UBL FM stood as the 4th largest AMC in the country in terms of AUMs.
- AUM's growth has been lackluster in Q1'FY21, with market share receding to 9.25% as of Sep'20. However, as per management, in the months following growth in AUM has been very strong.
- During FY20, UBL Liquidity Plus Fund, UBL Government Securities Fund, Al Ameen Islamic Fund & UBL Money Market Fund were major contributors towards growth in AUM's, with the same posting YoY growth of 185%, 106%, 97% and 85%, respectively.
- Separately Managed Accounts (SMAs) portfolio AUM's displayed meager growth of 6% to Rs. 14 Bn as at FY20 (FY19: 13.2 Bn) while the number of portfolios in SMAs declined to 64 from 78.

Ratings incorporate UBL FM's physical and digital outreach

- UBL FM operates via 26 branches and 16 distributor outlets spread across Pakistan. During the outgoing year 2 new branches have been added. The company also maintains a presence in the Middle East.
- The company's sales force (including UBL Funds and Al Ameen) as of Jun'20 stood at 213 (Jun'19: 267).
- Corporate AUM's were the growth driver in FY20, with retail AUMs dropping from 50% to 43%. As per management, apart from this being a factor of corporate driven growth noted across the industry, this was also partly attributable to maturity of active asset allocation plans which were largely retail clientele backed.
- As a result of the corporate driven growth investor concentration has increased, with largest 10 investors constituting 58% of the AUM vis-à-vis 53% as of Jun'19.

Ratings take into account UBL FM's diverse product portfolio

- UBL FM's product portfolio includes a wide array of funds include equity, money market, income, asset allocation, capital protected and funds of funds.
- During FY20, several funds in different categories were launched including Cash Fund, Energy Fund, Income Fund
- The company also introduced an Exchange Traded Fund (ETF) by the name of UBL Pakistan Enterprise ETF.
- The company continues to remain at the fore front in terms of product innovation in the industry with plans in place to introduce systematic investment plans, a possible Floater Bond Fund and a Shariah Compliant ETF.

Ratings incorporate the investment decision making infrastructure in place. Relative performance ranking of equity funds was in top two quartiles while fixed income and money market funds remained mix

- 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), Head of Risk; and respective fund managers all as voting members.
- 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 company has a segregated research division that functions independently to facilitate the investment management and decision making.
- Relative performance ranking of money market funds remain in a tight competition with peers and disbursed in 1st, 2nd and 4th quartile while the newly launched Cash fund came on top in money market category (based on 365 day return as of October 2020).
- Conventional equity funds performance came in at 1st and 2nd quartile relative to industry (based on 365 day return as of October 2020). Meanwhile, Islamic equity funds remained in 1st quartile wherein Al-Ameen Shariah stock fund continued to be on top in Jun'20 and Oct'20.

Ratings incorporate low financial risk profile

- Topline of the company posted a decline during CY19, and the trend continued in 9MCY20 (CY19: Rs. 1,052mn; CY18: Rs. 1,168mn; 9MCY20: Rs. 680mn, 9MCY19: 731mn).
- Core revenues, comprising management income, advisory income and load income declined during the period, due to shift in AUMs towards lower management fee-based money market funds, and also on account of lower performance incentive amidst depressed market performance.
- Given the strong focus on cost rationalization, administrative expenses were curtailed by 2% in 2019. Nevertheless, in line with strategy, management has focused on increasing budgetary allocation of sales and investment team while optimizing back office cost through automation. Resultantly, selling & distribution costs were up by 18%.
- Overall operating expenses increased to Rs. 655mn in 2019 from Rs.619mn a year earlier. As a result, the company's efficiency ratio (operating expenses/core revenues) was reported higher at 76.6% (CY18: 58.8%). The same stood lower in 9MCY20, dropping slightly to 64.8%.
- Overall profitability posted a notable fall to Rs. 270mn (2018: 441mn) while 9MCY20 profitability improved as lower finance cost helped bottom line to grow (9MCY20: Rs. 236mn; 9MCY19: Rs. 161m).
- Total assets of UBL funds stood at Rs. 2.7bn Sep'20. Investment forms the largest proportion of the total assets and represented around three-fourth of the total assets. Equity base of the company stood at Rs. 2.0bn at end Sep'20 and has grown over the years on account of profit retention.

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>		Appendix I	
BALANCE SHEET		FY18	FY19
Paid Up Capital		332	332
Total Equity		1,889	1,995
INCOME STATEMENT			
Total Revenues		1,168	1,052
Profit Before Tax		532	381
Profit After Tax		441	270
RATIO ANALYSIS			
Net Cash Generated from Operating Activities		346	274
Current Ratio (x)		4.00	3.68
Gearing (x)		0.21	0.01

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

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

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'.

REGULATORY DISCLOSURE		Appendix II		
Name of Rated Entity	UBL Fund Managers Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Rating	Outlook	Rating Action
	12/31/2020	AM1	Stable	Reaffirmed
	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			
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Due Diligence Meetings Conducted	Name	Designation	Date	
	Mr. Umair Ahmed	CFO & COO	December 22, 2020	
	Mr. Zeeshan Quddus	Chief Business Development Officer		
	Tanweer Ahmad Haral	Head of Marketing, Customer Services & Business Innovation		