

RATING REPORT

UBL Fund Managers Limited

REPORT DATE:

December 31, 2021

RATING ANALYSTS:

Nisha Ahuja

nisha.ahuja@vis.com.pk

Sara Ahmed

sara.ahmed@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
MQ Rating	AM1 (Reaffirmed)	AM1 (Reaffirmed)
Rating Date	Dec '31, '21	Dec '31, '20

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://docs.vis.com.pk/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 market position as the third largest AMC remained intact at Fiscal Year (FY) 21 end, albeit market share witnessed slight decline during the review period.

In absolute terms, total AUMs (Ex-Funds of Fund) of the Company increased to Rs. 102.16b at end FY21 (FY20: Rs. 78.3b), exhibiting significant growth of 30.5% YoY, albeit less than industry growth of 37.5% in the same period, thereby slightly reducing market share to 9.69% from 10.14% registered in FY20. Post FY21 year end, UBL FM AUMs registered a decline on account of higher redemptions mainly from corporates on account of higher working capital and capex needs, however the same depicts recovery in Dec 2021. Overall AUM mix since last review depicts further shift towards Fixed Income and Money Market funds although contribution of Equity funds also registered an increase over last year. Net assets of Separately Managed Assets (SMAs) decreased to Rs. 11.4b at end Jun'21 (Jun'20: Rs. 14.1b) in a deliberate move to consolidate number of relationships given sizable number of SMA mandates and increased the investment size limit for SMAs. Performance of SMA portfolio remained well above the benchmark return during FY21.

Ratings take note of UBL FM's concerted efforts to seek product innovation offering wide array of products to cater diverse needs of investors. However, client concentration amongst funds remains high and depicts room for improvement.

Product portfolio of UBL FM is comprehensive offering wide array of funds ranging from equity, asset allocation, money market, income, capital preservation, fund of funds and voluntary pension scheme to meet various investment objectives depending on client's risk appetite. At present, the product suite comprises 27 funds; out of which 15 are conventional funds and remaining Shariah compliant; both inclusive of Voluntary Pension Schemes as well. Going forward, management envisages to launch Islamic income funds and evaluating various REIT schemes to market as well.

Concentration in top 3 funds in total AUMS of the Company is considered on the higher side with the same comprising 56.9% of AUMs at end Oct'21 (FY21: 57.8%; FY20: 46.9%), namely UBL Liquidity Plus Fund, Al Ameen Cash Fund including Cash Plan I, and Al Ameen Shariah Stock Fund. During FY21, UBL Liquidity Plus Fund, Al Ameen Cash Plan I, Al Ameen Shariah Stock Fund and UBL Stock Advantage Fund were major contributors towards growth in AUMs. Retail concentration remains low depicting a declining trend 32.8% (FY21: 36.0%; FY20: 43.0%) at end Sep'21 with 19% retail proportion recorded in their leading UBL Liquidity Plus fund. As per management, overall reduction in retail proportion was partly attributable to maturity of certain active asset allocation plans over time which were largely retail clientele backed. Nonetheless, corporate concentration remained the main driver of growth in FY21.

Going forward, management has chalked out a digital marketing and digital on-boarding plan which is aimed at leveraging retail clientele

Digitalization of business will be the modus operandi for UBL FM

At present, UBL FM's operates via 26 branches and 15 distributors spread across Pakistan. Sales and distribution activities are carried out through two distinct channels; direct sales forces and UBL's branch network plus branches where UBL FM's personnel are stationed. Direct sales force represent more than four-fifth of the sales. Lately, a shift has been observed in the modus operandi of UBL FM with more focus on digitalization and automation in business conduct. In the ongoing year, the Company integrated with UBL Digital App to route customers toward investment in UBL FM, relaunched/revamped its UBL App and online portal to enhance the features and its functioning and launched WhatsApp based service to facilitate client with easy access to their investment details. Going forward, the Company is aggressively focusing to enhance customer base through digital on boarding via UBL FM App. Other initiatives to further increase outreach include; partnership with various apps (including Careem, peek-a-boo, Zameen.com and etc) to advertise UBL FM's products, digital onboarding through Emlaak-CDC platform and integration with CDC for RDA accounts. The Company has allocated significant budget for digital marketing and digital onboarding campaign. Given plans for increased digitalization, management has strengthened Information Security resources, erstwhile out-sourced.

Rating reflect funds sound investment decision making infrastructure. Relative performance ranking of funds showcased improvement during FY21.

The investment decision making is well-structured incorporating top-down and bottom-up view with in depth fundamental analysis. There are separate heads managing equity and fixed income funds. The company has a segregated research division that functions independently to facilitate the investment management and decision making. Investment Committee (IC) comprises CEO, CIO, 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 and Head of Risk and Compliance, all as voting members.

In terms of AUM proportion during FY21, ULPF was the largest fund (29.9%), followed by AA Islamic Cash Fund; including Plan I (18.5%), AA Shariah Stock fund (9.4%), UBL Stock Advantage fund (8.0%), and UBL Cash Fund (5.6%).

In FY21, money market and Income funds of the Company have outperformed their respective benchmarks. In addition, money market funds remain well placed amongst their peers. The leading money market funds UBL Cash Fund and UBL Liquidity plus fund were placed in 1st quartile in FY21.

Major equity funds' (UBL Stock Advantage Fund and AA Shariah Stock Fund) relative performance ranking weakened in FY21. Increased activity in equity markets in FY21 was witnessed in mostly speculative scrips while UBL's investment portfolio remained vested in fundamentally strong scrips that continue to remain stable. As such, performance of the equity funds depicts improvement in the ongoing year relative to peers. Going forward, equity funds will continue to be parked within heavyweights like Banks, Power, Oil and Gas, and Fertilizers.

Overall control environment and risk management framework is adequate.

Some changes were noted at board level, addition of one independent and one non-executive director.. Increasing independent representation on the Board may strengthen the overall governance structure. At present, there are three committees namely; Audit, Human Resource and Compensation and Risk and Compliance. Increasing the Board size may assist in formation of independently represented Board committees.

Income from core operation witnessed improvement in the ongoing year

Profitability has improved in ongoing year in comparison to same period last year on account of growth in core income. Cost rationalization measures undertaken also contributed towards higher profitability during ongoing calendar year -CY (9MCY21: Rs. 243.3m; 9MCY20: Rs. 235.8m), although selling and distribution expenses were higher. In the next year, Company plans to spend on digitalization and other digital marketing initiatives mainly aimed at enhancing customer base.

Total assets of UBL funds stood at Rs. 3,379.2m at Sep'21. Investment continues to form the largest proportion of the total assets and represented around four-fifth of the total assets. Equity base of the Company declined to 2,039.8m (CY20: Rs. 2,137.3m) at end Sep'21 on account of higher dividend payout. Over the years, the Company has maintained conservative capital structure with small quantum of debt on its balance sheet which lends support to the financial risk profile of the Company.

Financial Summary- Appendix I			
<i>(amounts in PKR millions)</i>			
	2019	2020	9M'21
<u>BALANCE SHEET</u>			
Paid Up Capital	332	332	332
Total Equity	1,996	2,137	2,040
<u>INCOME STATEMENT</u>			
Total Revenues	1,052	930	752
Profit Before Tax	381.3	444.0	353.1
Profit After Tax	269.8	340.8	243.3
<u>RATIO ANALYSIS</u>			
Current Ratio (x)	3.8	3.6	2.4
Gearing (x)	0.21	0.22	0.47

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
	12/31/2021	AM1	Stable	Reaffirmed
	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			
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. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			
Due Diligence Meetings Conducted	Name	Designation	Date	
	Mr. Umair Ahmed	CFO & COO	December 15, 2021	
	Mr. Zeeshan Quddus	Chief Business Development Officer		
	Tanweer Ahmad Haral	Head of Marketing, Customer Services & Business Innovation		
	Syed Suleman Akhtar	Chief Investment Officer		

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'.