

RATING REPORT

National Investment Trust Limited (NIT)

REPORT DATE:

December 31, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating
MQ Rating	AM1
Rating Date	Dec'31, 2020
Rating Outlook	Stable
Rating Action	Initial

COMPANY INFORMATION

Incorporated in October 1962	External auditors: <u>AMC</u> – KPMG Taseer Hadi & Co. Chartered Accountants <u>CIS</u> – A.F. Ferguson and Co. Chartered Accountants, KPMG Taseer Hadi & Co. Chartered Accountants & EY Ford Rhodes Chartered Accountants <u>VPS</u> – Grant Thornton Chartered Accountants
Unlisted Public Company	Managing Director: Mr. Adnan Afridi
Key Shareholders (with stake 5% or more):	Chief Operating Officer: Mr. Manzoor Ahmed
<i>Industrial Development Bank Limited ~ 16.67%</i>	
<i>MCB Bank Limited ~ 16.67%</i>	
<i>Tajammal Foundation ~ 8.33%</i>	
<i>Adamjee Foundation ~ 8.33%</i>	
<i>United Bank Limited ~ 8.33%</i>	
<i>Habib Bank Limited ~ 8.33%</i>	
<i>Pakistan Reinsurance Company Limited ~ 8.33%</i>	
<i>National Bank of Pakistan ~ 8.33%</i>	
<i>Government of Pakistan ~ 8.33%</i>	

APPLICABLE METHODOLOGY(IES)

Mutual Funds Rating (March 2016): <http://www.vis.com.pk/docs/AMC-Methodology-201603.pdf>

National Investment Trust Limited

OVERVIEW OF THE AMC

National Investment Trust Limited (NIT) was incorporated in 1962 and was the first AMC in Pakistan. Initially, it was formed to manage National Investment Unit Trust (NIUT), Pakistan's first open-end mutual fund introduced by GoP. Over the years, NIT has expanded its product line to over 12 funds including pension schemes. Head office of the AMC is located in Karachi.

External auditor of the AMC is KPMG Taseer Hadi & Co. Chartered Accountants classified in 'A' category by State Bank of Pakistan.

Profile of Managing Director (MD)

Mr. Afridi has 24 years of industry experience and has led a distinguished career in financial services and capital markets. He holds a degree in Economics (A.B, Magna Cum Laude, 1992) from Harvard University and a degree in Corporate Law (JD, Magna Cum Laude in 1995) from Harvard Law School.

RATING RATIONALE

National Investment Trust Limited (NIT) has been operating in the asset management industry for over five decades. The Company is a pioneer in mutual fund industry and is also the oldest AMC in Pakistan. Government of Pakistan (GoP) is the single largest shareholder (direct & indirect stake through various government owned entities) while other shareholders comprise private sector institutions.

Key shareholders (more than 5%)	% ownership
Industrial Development Bank Limited	16.67%
MCB Bank Limited	16.67%
Tajammal Foundation	8.33%
Adamjee Foundation (AF)	8.33%
United Bank Limited	8.33%
Habib Bank Limited,	8.33%
Pakistan Reinsurance Company Ltd	8.33%
National Bank of Pakistan	8.33%
Government of Pakistan	7.67%
Others	9.00%

Key Rating Drivers

Market position has weakened on account of regulatory changes and due to higher concentration in equity AUMs (affected by dismal equity market performance in FY18, FY19 and FY20).

In FY20, AUM of the mutual fund industry after two consecutive years of decline registered a YoY growth of more than 40% primarily on account of improved investor sentiment and higher NAVs for equity based funds; however, AUMs (including two equity funds not listed on MUFAP) of NIT have remained stagnant and was reported at Rs. 76.4b (FY19: Rs. 75.6b).

NIT is among the leading AMCs in the domestic market with a market share of 9.8% (fourth largest AMC) in terms of AUM as on end-June 2020 whereas the flagship product of the AMC - National Investment Unit Trust (NIUT), Pakistan's first open-end mutual fund, is currently the largest equity fund constituting one-fourth of industry's overall equity funds. However, market share of the AMC has dropped from 17.7% at end-June 2016 to 9.9% at end-September 2020. Reduction in market share is primarily on account of regulatory changes (amendment in employees contributory fund regulations) which stipulated investment limits of a single counterparty in an AMC. Moreover, weak equity market performance where a sizeable chunk of AUMs (76% of AUMs concentrated in equity based funds) are concentrated also contributed to the decline in market share.

Extensive branch network and formalized sales structure. Further strengthening of sales force and distribution channels would facilitate in augmenting market share, going forward.

NIT has an extensive branch network comprising 27 branches spread nationwide including an investors' facilitation center and a customer care call center located in Karachi. The Company has a structured sales function with separate teams for corporate and retail investors. Overall sales structure is segmented into regional and zonal sales team which reports to the head of corporate/retail sales. Total sales force stands at around 80 employees. Almost entire AUM generation is facilitated through AMC's own branches and head office with limited contribution from other channels (Banks, digital and 3rd party distributors).

Recently, the management has placed significant emphasis towards digitization and plans to increase market penetration through utilization of digital platforms and digital marketing channels. NIT also has in place web portal and mobile application. Further strengthening of sales force and distribution channels would facilitate in augmenting market share, going forward.

Product portfolio caters to basic investor needs; nevertheless, there is significant reliance on single equity fund.

Over the years, the AMC has expanded its product line in both Conventional and Islamic schemes to meet various investment objectives depending on client's risk absorption appetite. Presently, NIT is managing a total of 12 funds belonging to various categories of equity, income, money market along with two voluntary pension schemes. NIUT is the largest fund which constitute over three-fifth of total AUM. Moreover, there are two equity funds, State Enterprise Fund (SEF) and Equity Market Opportunity Fund (EMOF) which have investments only from the management company and sponsors.

In FY20, Pakistan first Exchange Traded Fund (PGETF) and Asset Allocation Fund (AAF) were launched and added in product portfolio. Going forward, enhanced focus on strengthening fixed income (both money market and income) segment would facilitate in overall AUM augmentation, market share improvement and diversification in AUM mix.

Strong focus on product innovation is evident from ongoing work on specials projects and Company being one of the pioneers in launch of exchange traded funds.

In order to strengthen market positioning and given focus on product development, AMC has planned to launch a series social impact funds in collaboration with microfinance sector with the aim of poverty alleviation, women empowerment, youth employment, agriculture value chain and low cost renewable energy. Moreover, setting up a funded pension scheme for Pakistan Post and Hajj Fund are in the pipeline. Alongside, a team is being hired to manage Separately Managed Accounts (SMAs) portfolio.

Proportion of retail AUM is moderate and needs improvement.

As of end-June 2020, total client base stood at 55K+ clients; of which around 12.4% comprises active clients. Proportion of retail investments in relation to total AUMs stands at 31% (FY19: 30%) which is on the lower side in comparison with peer AMCs. Excluding SEF, EMOF and pension funds retail proportion stood at 35% (FY19: 33%) in FY20. Barring NIUT where retail proportion is high and investor concentration is manageable, remaining funds have high investor concentration with top-10 investors constituting more than one half of AUM in majority of funds.

Exhibit 1
Assets under Management
 By Fund Type (as on end-June 2020)

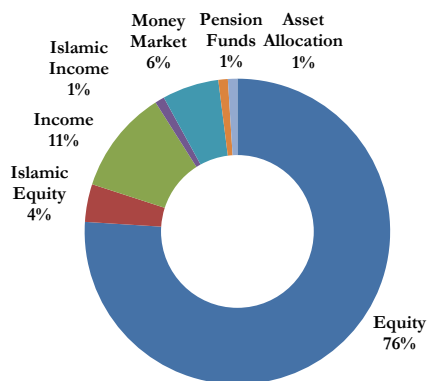
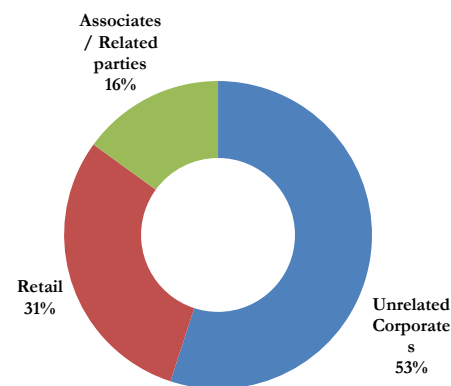


Exhibit 2
Assets under Management
 By Investor Type (as on end-June 2020)



Investment decision making process is well-structured and formalized.

A well-defined framework to evaluate investment prospects is in place while there are separate heads managing equity and fixed income funds. For equity funds, investments primarily comprise blue chips stocks with major asset allocation in Oil & Gas, Banking and Pharmaceutical sectors. NIT follows a buy and hold strategy particularly for the exposures in equity funds. For the debt funds, the company currently invests in commercial papers, TFCs/Sukuk and placement with Banks & DFIs.

Investment Committee (IC) comprises the Managing Director, Chief Operating Officer, respective Fund Manager, Head of Research, Head of Trading (for Equities and Pension funds), Head of Compliance, Head of Finance, and Manager Risk Management; all as voting members. The investment process is initiated through investment proposals from a segregated research division that functions independently. The proposal is subsequently put up in IC for evaluation while decisions made are based on consensus. Frequency of IC meetings are on as and when required basis. Composition and functioning of IC is considered sound.

Relative performance ranking of equity funds was in the top quartile while performance of most fixed income funds lagged relative to peers.

Relative performance rankings of equity funds have witnessed considerable improvement over the course of FY20. In relation to peers, NIUT’s relative ranking improved from 4th quartile (during FY19) to 1st quartile (during FY20) based on 365 day return. The fund ranked 2nd out of a peer group of 21 conventional equity funds despite its large size (as per management the fund’s large size is a disadvantage vis-à-vis smaller funds where trading

contributes a sizeable chunk of the returns). Moreover, NIUT has significantly outperformed vis-à-vis its benchmark over a longer time horizon. On the flipside, performance of income funds have room for improvement as most of them (except government bond fund which ranked in 2nd quartile) were ranked in 3rd and 4th quartiles based on 365 day return as on June 2020.

Adequate overall control framework

Internal audit, compliance and risk management departments are functioning independently and are headed by Mr. Asim Rafiq, Mr. Faisal Aslam and Mr. Attique-ur-Rehman Shaikh, respectively.

Compliance:

Compliance function is responsible for monitoring all regulatory guidelines and limits as specified in the NBFCs and corporate regulations. As per management, compliance department is actively involved in resolving outstanding KYC backlogs to ensure compliance requirement of KYC and AML with the applicable SECP regulations. However, the AMC has sizeable legacy clientele who have remained inactive therefore the process is still ongoing. Besides KYC and AML, compliance function is also involved in ensuring compliance with regulatory guidelines, listening to call recordings and monitoring of compliance with personnel investment policy.

Internal Audit:

Internal Audit (IA) function reports administratively to the Managing Director and functionally to the Board Audit Committee. IA department conducts regular audits and the scope of internal audit includes identification and assessment of overall risks and evaluation of internal control framework. Moreover, IA follows a risk based audit methodology whereby all audit observations are classified into high, medium and low risk category depending on the assessed risk.

Risk Management:

Board Risk Management Committee (BRMC) is in place for effective risk oversight. Composition and functioning of the department is considered adequate. Scope extends to development and oversight of risk strategy, policy, framework, and methodology for ensuring compliance with the applicable SECP regulations and generally accepted risk management practices within the mutual funds industry.

Adequate IT Infrastructure

NIT has deployed 'Asset Connect' as the core management software outsourced to Softech Systems which is fully integrated with Unit Management System (UMS) for client reporting.

Strong balance sheet and efficient operations. Financial profile compares favorably to most peers.

Core revenue comprises management fee, dividend income and return on bank deposits. Management fee earned declined by ~16% during the outgoing fiscal year. However, dividend income of around Rs. 646.8m (FY19: Rs. 490.9m) provided considerable support to operating revenues. Operating expenses registered a growth of ~14% largely on account significant increase in financial charges (due to applicability of IFRS 16 – Lease effective for annual period beginning on or after Jan'19). Moreover, due to significant revaluation gain on investment, NIT's bottom line turned positive reporting at Rs. 529.1m (FY19: Loss after tax of Rs. 1,273.2m).

Balance sheet footing of stood at Rs. 12.2b at end-June 2020 while investment comprises the largest proportion of total assets. Equity base of the AMC stood at Rs. 9.9b and is the highest amongst peer AMCs. Dividends payout ratio stood at 126% in FY20.

Adequate Board composition and governance oversight. Senior management team comprises seasoned professionals.

At present, Board of Directors (BoD) comprises 10 members representing all major sponsors including GoP. The Board is chaired by Mr. Adnan Afridi who is appointed by GoP and is also serving as Managing Director (MD) of the AMC. All the board members comprise qualified personnel. Baring Chairman/MD, all other directors are non-executive. NIT has three Board Committees in place namely, Audit Committee (AC), Human Resource And Remuneration Committee (HRRC) and Risk Management Committee (RMC). Adequate board composition and effective functioning of three board committees ensures satisfactory control framework and risk related oversight. However, presence of independent director on BoD and the same chairing BAC would enhance the governance level and is in line with best governance practices.

FINANCIAL SUMMARY		Appendix I
<u>National Investment Unit Trust Fund (NIUT)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	51,916	50,300
Return (%)	-23.9%	6.4%
Benchmark (%)	-19.1%	1.5%
Retail Proportion (% of Net assets)	38.0%	38.6%
Ranking Against Peers	19 out of 23	2 out of 24
<u>NIT – Islamic Equity Fund (NIT IEF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	3,046	2,961
Return (%)	-25.4%	2.8%
Benchmark (%)	-23.8%	1.6%
Retail Proportion (% of Net assets)	25.5%	37.2%
Ranking Against Peers	14 out of 17	6 out of 15
<u>NIT – Income Fund (NIT IF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	4,130	3,761
Return (%)	7.25%	12.6%
Adjusted Return (Adjusted for advance tax) (%)	7.4%	12.8%
Benchmark (%)	10.2%	12.2%
Retail Proportion (% of Net assets)	13.6%	12.4%
Ranking Against Peers	26 out of 30	12 out of 19
Ranking Against Peers (Adjusted for advance tax)	26 out of 30	12 out of 19
<u>NIT – Islamic Income Fund (NIT IIF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	651	990
Return (%)	8.2%	10.4%
Benchmark (%)	3.7%	6.3%
Retail Proportion (% of Net assets)	44.4%	65.5%
Ranking Against Peers	9 out of 20	15 out of 21
<u>NIT – Money Market Fund (NIT MMF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	3,484	4,824
Return (%)	8.9%	12.5%
Benchmark (%)	8.7%	11.6%
Retail Proportion (% of Net assets)	21.3%	29.3%
Ranking Against Peers	6 out of 20	14 out of 19
<u>NIT – Government Bond Fund (NIT GBF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	3,540	4,355

Return (%)	8.0%	16.0%
Adjusted Return (Adjusted for advance tax) (%)	8.2%	16.3%
Benchmark (%)	10.0%	12.1%
Retail Proportion (% of Net assets)	10.6%	17.1%
Ranking Against Peers	15 out of 30 (Income funds ranking)	7 out of 14
Ranking Against Peers (Adjusted for advance tax)	13 out of 30 (Income funds ranking)	6 out of 14
<u>NIT – Asset Allocation Fund (NIT AAF)</u> (Launched in April 2020)		
	FY19	FY20
Fund Size (in Rs. millions)	-	524
Return (%)	-	2.1%
Benchmark (%)	-	3.1%
Retail Proportion (% of Net assets)	-	11.7%
Ranking Against Peers	-	5 out of 12
<u>NIT – Pakistan Gateway Exchange Traded Fund (NIT PGETF)</u> (Launched in March 2020)		
	FY19	FY20
Fund Size (in Rs. millions)	-	50
Return (%)	-	7.2%
Benchmark (%)	-	8.8%
<u>NIT – Equity Market Opportunity Fund (NIT EMOF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	6,176	6,259
<u>NIT – State Enterprise Fund (NIT SEF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	1,937	1,544
<u>NIT – Pension Fund (NIT PF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	380	440
<u>NIT – Islamic Pension Fund (NIT IPF)</u>		
	FY19	FY20
Fund Size (in Rs. millions)	335	361

FINANCIAL SUMMARY (Rs. in millions)		Appendix II	
<u>BALANCE SHEET</u>		FY19	FY20
Paid Up Capital		95.0	95.0
Total Equity		9,995.3	9,969.4
<u>INCOME STATEMENT</u>			
Total income		1,619.1	1,604.8
Profit Before Tax		(1,371.8)	1,061.9
Profit After Tax		(1,273.2)	529.1
<u>RATIO ANALYSIS</u>			
Net Cash Generated from Operating Activities		120.2	120.8
Current Ratio (x)		0.7	0.4
Gearing (x)		-	0.02

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 IV		
Name of Rated Entity	National Investment Trust Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Outlook	Rating Action
	12/31/2020	AM1	Stable	Initial
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 credit 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 Meeting Conducted	Name	Designation	Date	
	Mr. Aamir Amin	CFO	August 27, 2020	
	Mr. Raza Ali Jaffri	Head of Equity		
	Mr. Shoaib	Head of Fixed Income		
	Mr. Faisal Aslam	Head of Compliance		