

RATING REPORT

National Investment Trust Limited (NIT)

REPORT DATE:

December 30, 2021

RATING ANALYSTS:

M. Amin Hamdani
amin.hamdani@vis.com.pk

Arsal Ayub, CFA
arsal.ayub@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
MQ Rating	AM1	AM1
Rating Date	Dec'30, 2021	Dec'31, 2020
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Initial

COMPANY INFORMATION

Incorporated in October 1962	External auditors: <u>AMC</u> – EY Ford Rhodes Chartered Accountants <u>CIS</u> – A.F. Ferguson and Co. Chartered Accountants, & EY Ford Rhodes Chartered Accountants <u>CIS/VPS</u> – Grant Thornton Anjum Rahman Chartered Accountants
Unlisted Public Company	Chairman & Managing Director: Mr. Adnan Afridi
Key Shareholders (with stake 5% or more):	Chief Operating Officer: Mr. Manzoor Ahmed
<i>Industrial Development Bank Limited ~ 16.66%</i>	
<i>MCB Bank Limited ~ 16.66%</i>	
<i>Tajammal Foundation ~ 8.33%</i>	
<i>Adamjee Foundation ~ 8.33%</i>	
<i>National Bank of Pakistan ~ 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>Government of Pakistan ~ 7.67%</i>	

APPLICABLE METHODOLOGY(IES)

Asset Management Companies (June 2019): <https://docs.vis.com.pk/docs/AMC-Methodology-201906.pdf>

National Investment Trust Limited

OVERVIEW OF THE AMC

RATING RATIONALE

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 EY Ford Rhodes Chartered Accountants classified in 'A' category by State Bank of Pakistan.

Profile of Managing Director (MD)

Mr. Afridi has 27 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

National Investment Trust Limited ('NIT' or 'the AMC') 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	16.66%
MCB Bank Limited	16.66%
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	9.03%

Key Rating Drivers

Ratings incorporate NIT's market positioning as the 4th largest AMC in Pakistan

- NIT has been the leading AMC in Pakistan remaining among the largest 5, in terms of AUM's. In the latest review, NI sustained its position as at Jun'21, at number 4 in terms of ranking as per AUM's, compared to corresponding period last year.
- Overall AUMs of NIT grew by 31% Y/Y compare to 36% Y/Y growth in industry's AUMs. As a result, some attrition in market share was noted with the same declining from 9.82% as at Jun'20 to 9.43% as at Jun'21.
- Further drop in market share was witnessed in 4M'FY22 to 8.93% as of Oct'21. This was mainly on account of 4% contraction in AUM's in 4M'FY22 trailing industry growth in AUM's of 2% during same period. As per management, this is mainly a result of AUMs moving out of the equity asset class in anticipation of monetary policy rate hikes. With equity asset class being NIT's forte, growth in AUMs tends to have a correlation with equity market movements, as clients tend to withdraw funds when switching to fixed income asset class. Cognizant of this trend, the management has plans to grow its product offerings.
- The management has also made foray in establishing SMA operations. During

Law School.

FY21, a single major public sector client was on boarded. As of Jun'21, NIT was managing SMAs of Rs. 59.5b.

Ratings incorporate NIT's client granularity, growing retail tilt and overall product suite

Table 1: Concentration in AUM

% of AUM	Retail	Associates	Unrelated Corporates	Related Party	Top 10 Clients
Jun'21	31%	15%	53%	1%	49%
Jun'20	29%	13%	49%	17%	51%

- As of Jun'21, top 10 clients comprise 51% of the AUM's. During the year, growth in retail AUMs outpaced growth in corporate AUMs, as a result of which AUMs depict higher tilt towards retail clientele. Investor granularity and retail mix is comparable to peers.
- Over the years, NIT has extended its product offerings in both conventional and Islamic funds as per the investors risk and return needs. Currently the AMC is offering a total product portfolio of 13 funds including two pension funds, two privately managed fund, and an ETF. Nevertheless AUMs are majorly concentrated in NIT's flagship fund i.e. (NIUT), with the same constituting 64% of the aggregate AUMs as of Oct'21.
- Cognizant of the AUM concentration in NIUT, new product offerings are on the anvil. During the period under review, NIT launched an Islamic Money Market Fund. NIT also has plans to launch Social Impact Fund in FY22, which will be a pioneer in its category. The fund's objective is to support the microfinance banks by participating in their capital issuances. Additionally, NIT also has plans to bring two more ETFs with specialized focus on Construction and IT sector.

Ratings incorporate long term fund performance and rankings

- Fund performance review of NIT has an overarching weightage on NIUT's fund performance, as it comprises a significant proportion of NIT's AUMs. In FY21, NIUT's fund performance remained in line with benchmark. Over the 5 & 10 year horizon, NIUT's returns compare favorably to benchmark i.e. KSE-100 return index.
- Performance of remaining funds has posted mixed trends as of Jun'21. In contrast to peers, performance of these funds has weakened compare to peers wherein 4 funds are lying in quartile-2, two in quartile-3 and one in quartile-4.

Ratings incorporate NIT's own business & financial risk profile

- NIT's recurring revenue consists of management fee and returns on portfolio with an average ratio of ~60:40, as noted in the past 2 years. During FY21, NIT's

recurring revenue base grew by 9% on the back of 15% growth in management fee. The growth in management fee stood on the higher side, specifically in contrast to contraction noted in preceding years and is mainly attributable to strong fund performance and addition of an SMA client.

- NIT's efficiency ratio remains adequately low at 51% for FY21 (FY20: 52%). The Company's operating profit (adjusted for unrealized gain on re-measurement) grew by 1.3x in FY21, with the increase emanating mainly from realized capital gains on investment portfolio of Rs. 97m. Inclusive of unrealized gains on investment, bottom line was up 3.3x at Rs. 2.4b for FY21.
- Financial risk profile of the entity is sound with 96% of the asset base comprising liquid investments, which are mainly invested in NIT's own funds. The AMC has almost no debt on its balance sheet, as indicated by gearing of 0.02 as of Jun'21.

Ratings incorporate NIT's long operational history, physical outreach, experienced management team and corporate governance infrastructure

- 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 AMC has an organized sales team of 65 employees, with an addition of 10 during the period under review. The management has also added 2 sales teams in Karachi.
- NIT has its web portal and mobile application (both android & ios) in place for smooth account opening and investment & redemption processing. Further, the AMC has appointed product manager to pursue growth in digitization in coming years.
- A well-defined framework to evaluate investment prospects is in place where in every fund has separate Investment Committee consisting of 7-8 members including fund manager and a person from each research and risk department along with MD, COO and CFO. All members in the IC committee are voting members. Frequency of IC meetings is on as and when required basis.
- Currently, Board of directors comprises 10 members representing all major sponsors while nomination from Pak Reinsurance Company Limited is vacant. Baring Chairman/MD, all other directors are non-executive. Inclusion of independent representation on the Board is recommended in CG best practices.
- NIT has three Board Committees in place namely, Audit Committee (AC), Human Resource & Remuneration Committee (HRRC) and Risk Management Committee (RMC).
- Internal control functions include Internal Audit, Compliance and Risk Management. In line with CG best practices Internal Audit functionally reports to

the Board Audit Committee.

FINANCIAL SUMMARY		Appendix I	
<u>National Investment Unit Trust Fund (NIUT)</u>		FY20	FY21
Fund Size (in Rs. millions)		50,300	64,861
Return (%)		6.4%	37.14%
Benchmark (%)		1.5%	37.58%
Retail Proportion (% of Net assets)		38.6%	37.9%
Ranking Against Peers		2 out of 24	13 out of 27
<u>NIT – Islamic Equity Fund (NIT IEF)</u>		FY20	FY21
Fund Size (in Rs. millions)		2,961	3,380
Return (%)		2.8%	33.33%
Benchmark (%)		1.6%	39.32%
Retail Proportion (% of Net assets)		37.2%	34.1%
Ranking Against Peers		6 out of 15	11 out of 18
<u>NIT – Income Fund (NIT IF)</u>		FY20	FY21
Fund Size (in Rs. millions)		3,761	3,672
Return (%)		12.6%	6.37%
Benchmark (%)		12.2%	7.43%
Retail Proportion (% of Net assets)		12.4%	12.6%
Ranking Against Peers		12 out of 19	16 out of 31
<u>NIT – Islamic Income Fund (NIT IIF)</u>		FY20	FY21
Fund Size (in Rs. millions)		990	818
Return (%)		10.4%	6.32%
Benchmark (%)		6.3%	3.56%
Retail Proportion (% of Net assets)		65.5%	64.7%
Ranking Against Peers		15 out of 21	9 out of 21
<u>NIT – Money Market Fund (NIT MMF)</u>		FY20	FY21
Fund Size (in Rs. millions)		4,824	12,304
Return (%)		12.5%	6.80%
Benchmark (%)		11.6%	6.70%
Retail Proportion (% of Net assets)		29.3%	16.0%
Ranking Against Peers		14 out of 19	16 out of 21

<u>NIT – Government Bond Fund (NIT GBF)</u>	FY20	FY21
Fund Size (in Rs. millions)	4,355	3,417
Return (%)	16.0%	4.99%
Benchmark (%)	12.1%	7.28%
Retail Proportion (% of Net assets)	17.1%	12.9%
Ranking Against Peers	7 out of 14	24 out of 31
<u>NIT – Asset Allocation Fund (NIT AAF) (Launched in April 2020)</u>		
	FY20	FY21
Fund Size (in Rs. millions)	524	668
Return (%)	2.1%	20.78%
Benchmark (%)	3.1%	24.36%
Retail Proportion (% of Net assets)	11.7%	18.1%
Ranking Against Peers	5 out of 12	6 out of 14
<u>NIT – Pakistan Gateway Exchange Traded Fund (NIT PGETF) (Launched in March 2020)</u>		
	FY20	FY21
Fund Size (in Rs. millions)	50	53
Return (%)	7.2%	19.71%
Benchmark (%)	8.8%	24.10%
<u>NIT – Pension Fund (NIT PF)</u>		
	FY20	FY21
Fund Size (in Rs. millions)	440	496
<u>NIT – Islamic Pension Fund (NIT IPF)</u>		
	FY20	FY21
Fund Size (in Rs. millions)	361	402

FINANCIAL SUMMARY (Rs. in millions)		Appendix II	
<u>BALANCE SHEET</u>		FY20	FY21
Paid Up Capital		95.0	95.0
Total Equity		10,285.8	12,039.4
<u>INCOME STATEMENT</u>			
Total income		1,615.7	1,764.7
Profit Before Tax		1,098.9	2,882.0
Profit After Tax		566.1	2,438.7
<u>RATIO ANALYSIS</u>			
Net Cash Generated from Operating Activities		172.8	(70.7)
Current Ratio (x)		0.43	11.67
Gearing (x)		0.02	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
	12/30/2021	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 2021 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	December 09, 2021	
	Mr. Raza Ali Jaffri	Head of Equity		
	Mr. Shoaib	Head of Fixed Income		