

RATING REPORT

National Investment Trust Limited (NIT)

REPORT DATE:

December 29, 2022

RATING ANALYSTS:

Asfia Aziz

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
MQ Rating	AM1	AM1
Rating Date	Dec'29, 2022	Dec'30, 2021
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION

Incorporated in October 1962	External auditors: <u>AMC</u> – A.F. Ferguson & Co. Chartered Accountants <u>CIS</u> – A.F. Ferguson and Co. Chartered Accountants, & BDO Ebrahim & Co. 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 14 funds including pension schemes and exchange traded funds. Head office of the AMC is located in Karachi.

External auditor of the AMC is A.F. Ferguson & Co. classified in 'A' category by State Bank of Pakistan.

Profile of Managing Director (MD)

Mr. Afridi possesses

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

Reducing market share on a timeline basis largely due to fall in net assets of the single largest equity fund.

- At end-FY22, the market position of the AMC was lowered to 7.1% (FY21: 8.6%) ranking as the seventh largest in terms of AUMs as compared to fifth largest in the preceding year.
- Market share attrition was on account of decline in overall AUMs to Rs. 88.3b (FY21: Rs. 90.1b) at end-June’22 as compared to industry AUMs growing by 17.9% in the same period. Reduction in the size of the largest equity fund was largely in line with weakening of KSE-100 amidst subdued macroeconomic environment.
- Further drop in market share was witnessed in 4M’FY23 to 5.97% as of Oct’22. This was mainly on account of further contraction in AUMs by 8% against industry’s growth of 8%. As per management, this was mainly a result of declining KSE index and investors pool moving towards income and money market funds. Although AUM mix of the company changed in FY22 and the ongoing year with proportion of income and money market funds growing to 33% (FY21: 22%) and equity funds declining to 65% (FY21: 76%), the AMC was unable to sustain or improve its market share owing to lucrative financial sector funds being offered in the industry. To garner the benefit of the market shift, NIT launched two funds in the outgoing year that caters to interest rate driven returns:

around 28 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.

1. NIT Social Impact Fund
2. NIT Islamic Money Market Fund

- The AMC manages non-discretionary SMA funds for NADRA amounting Rs. 76.6b (FY21: Rs. 59.5b) at end-FY22. The management is currently under internal discussions on applying for re-tendering.

Ratings incorporate room for improvement in terms of retail concentration. Although product suite is considered comprehensive, fund concentration is on the higher side.

Table 1: Concentration in AUM

% of AUM	Retail	Associates	Unrelated Corporates	Related Party	Top 10 Clients
Jun'21	29%	13%	40%	17%	51%
Jun'22	27%	12%	48%	13%	54%

- As of Jun'22, top 10 clients comprise 54% of the total AUM base of the Company. During the year, proportion of corporate investments increased and retail concentration reduced marginally. 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 12 funds including two pension funds, and an ETF. Nevertheless, AUMs are majorly concentrated in NIT's flagship fund i.e. National Investment Unit Trust Fund (NIUT), with the same constituting 62% of the aggregate AUMs as of Oct'22 (FY22: 62%, FY21: 71%). Although the size of NIUT reduced on a timeline basis owing to plunging KSE-100 index, market share of the fund in the equity funds was maintained at 40% in the review period.
- Albeit fund concentration is on the higher side, improvement has been noted in the outgoing year due to growth in income and money market funds.
- 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 and Social Impact Fund. Management's focus going forward is towards Islamic income, money market, pension funds along with Real Estate Funds that takes exposure in REITs.

Ratings incorporate long term fund performance and rankings

- A sizeable weightage lies on the performance of the single largest fund- NIUT. During FY22, the fund generated a return of -11.8% against benchmark of -12.3%. Against peers, the fund ranked 5/26 in FY22 (FY21: 13/27) lying in the first quartile.
- Performance of remaining funds was also placed better comparative to peers in FY22 as compared to the preceding year. Around 93% (FY21: 80%) of the total AUMs were reported in the first and second quartile during FY22.
- However, with the equity fund performing weakly during 4MFY23, around 63% of the AUMs was placed in the last quartile in relative ranking. Improvement in the same over the full year is considered important.

Return against Benchmark		FY21			FY22		
		YTD	Benchmark	Ranking	YTD	Benchmark	Ranking
National Investment Unit Trust Fund	NIUT	37.1%	37.6%	13 out of 27	-11.8%	-12.3%	6 out of 26
NIT Islamic Equity Fund	NIT IEF	33.3%	39.3%	11 out of 18	-18.3%	-10.3%	10 out of 19
NIT Government Bond Fund	NIT GBF	5.0%	7.3%	24 out of 31	9.3%	5.0%	16 out of 30
NIT Income Fund	NIT IF	6.4%	7.4%	16 out of 31	10.6%	10.8%	4 out of 30
NIT Islamic Income Fund	NIT IIF	6.3%	3.6%	9 out of 21	9.7%	3.3%	4 out of 21
NIT Social Impact Fund	NIT SIF	0.0%	0.0%	NA	14.9%	15.2%	1 out of 31
NIT Money Market Fund	NIT MMF	6.8%	6.7%	16 out of 21	10.8%	9.3%	9 out of 21
NIT Islamic Money Market Fund	NIT IMMF	0.0%	0.0%	NA	10.2%	3.8%	2 out of 15
NIT Asset Allocation Fund	NIT AAF	20.8%	24.4%	6 out of 14	-5.7%	1.0%	4 out of 12
NIT Pakistan Gateway ETF	NIT PG ETF	19.7%	24.1%	NA	-12.6%	-11.0%	NA

Business and Financial Risk profile of the AMC

- NIT's recurring revenue consists of management fee, dividend income and return on PLS bank balances with an average ratio of ~60:40, as noted in FY20 and FY21. During the review period (FY22) recurring revenue base reduced by 7% on account of lower AUM base with management fee contributing 68% of the total recurring revenue and dividend income comprising 30%. Advisory income continue to be on the lower side, despite huge quantum of SMAs because of lower fee charged.
- NIT's efficiency ratio remains adequately low at 51% for FY22 (FY21: 51%). The Company's operating profit before accounting for unrealized gains/ (losses) reduced to Rs. 804.6m (FY21: Rs. 870.6m) i.e. -8% YoY. Capital gains on investments have historically supported the profitability profile of the Company. Due to unrealized capital losses on investments, the AMC's net profitability was reported in losses during FY22.
- Financial risk profile of the entity is sound with 92% 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'22.

Ratings factor in 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. Region-wise investment break-up depicts concentration in three regions comprising Sindh, Punjab and Federal contributing 63%, 20% and 14% of the AUMs, respectively.

- The AMC has an organized sales team of 66 employees, with consistent additions planned going forward. Digital team is separately managed.
- NIT has its web portal and mobile application (both android & ios) in place for smooth account opening and investment & redemption processing. At end-Oct'22, the AMC has significant active users on the digital platform comprising web-portal and mobile app. Currently on monthly average more than 20% of the transactions are being performed digitally. In Order to facilitate our clients and prospects, NIT has also extended its reach through social media platforms like Facebook, LinkedIn, Instagram, etc.
- Currently NIT is an only AMC who is offering VPS through digital platform.
- 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, risk and compliance 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 11 members representing all major sponsors. During FY22, Pak Reinsurance Company Limited nominated Mr. Farmanullah Zarkoon. Barring CEO/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	FY22	
Fund Size (in Rs. millions)	50,300	64,861	54,679	
Return (%)	6.40%	37.14%	-11.84%	
Benchmark (%)	1.50%	37.58%	-12.28%	
Retail Proportion (% of Net assets)	38.60%	37.90%	34.94%	
Ranking Against Peers	2 out of 24	13 out of 27	6 out of 26	
<u>NIT – Islamic Equity Fund (NIT IEF)</u>	FY20	FY21	FY22	
Fund Size (in Rs. millions)	2,961	3,380	2,574	
Return (%)	2.80%	33.33%	-18.31%	
Benchmark (%)	1.60%	39.32%	-10.25%	
Retail Proportion (% of Net assets)	37.20%	34.10%	32.39%	
Ranking Against Peers	6 out of 15	11 out of 18	10 out of 19	
<u>NIT – Income Fund (NIT IF)</u>	FY20	FY21	FY22	
Fund Size (in Rs. millions)	3,761	3,672	3,716	
Return (%)	12.60%	6.37%	10.64%	
Benchmark (%)	12.20%	7.43%	10.81%	
Retail Proportion (% of Net assets)	12.40%	12.60%	12.62%	
Ranking Against Peers	12 out of 19	16 out of 31	4 out of 30	
<u>NIT – Islamic Income Fund (NIT IIF)</u>	FY20	FY21	FY22	
Fund Size (in Rs. millions)	990	818	830	
Return (%)	10.40%	6.32%	9.67%	
Benchmark (%)	6.30%	3.56%	3.34%	
Retail Proportion (% of Net assets)	65.50%	64.70%	70.46%	
Ranking Against Peers	15 out of 21	9 out of 21	4 out of 21	
<u>NIT – Money Market Fund (NIT MMF)</u>	FY20	FY21	FY22	
Fund Size (in Rs. millions)	4,824	12,304	18,583	
Return (%)	12.50%	6.80%	10.79%	
Benchmark (%)	11.60%	6.70%	9.28%	
Retail Proportion (% of Net assets)	29.30%	16.00%	19.68%	
Ranking Against Peers	14 out of 19	16 out of 21	9 out of 21	
<u>NIT – Government Bond Fund (NIT GBF)</u>	FY20	FY21	FY22	
Fund Size (in Rs. millions)	4,355	3,417	3,008	
Return (%)	16.00%	4.99%	9.32%	
Benchmark (%)	12.10%	7.28%	4.99%	
Retail Proportion (% of Net assets)	17.10%	12.90%	11.74%	
Ranking Against Peers	7 out of 14	24 out of 31	16 out of 30	
<u>NIT – Asset Allocation Fund (NIT AAF)</u> <i>(Launched in April 2020)</i>	FY20	FY21	FY22	
Fund Size (in Rs. millions)	524	668	564	
Return (%)	2.10%	20.78%	-5.69%	
Benchmark (%)	3.10%	24.36%	1.01%	
Retail Proportion (% of Net assets)	11.70%	18.10%	17.18%	
Ranking Against Peers	5 out of 12	6 out of 14	4 out of 12	
<u>NIT – Social Impact Fund (NIT SIF)</u> <i>(Launched in May 2022)</i>	FY20	FY21	FY22 (YTD)	
Fund Size (in Rs. millions)	NA	NA	735	
Return (%)	NA	NA	14.93%	
Benchmark (%)	NA	NA	15.22%	
Retail Proportion (% of Net assets)	NA	NA	6.92%	

Ranking Against Peers	NA	NA	2 out of 33
<u>NIT – Islamic Money Market Fund (NIT IMMF)</u> <i>(Launched in September 2023)</i>	FY20	FY21	FY22 (YTD)
Fund Size (in Rs. millions)	NA	NA	2,604
Return (%)	NA	NA	10.23%
Benchmark (%)	NA	NA	3.78%
Retail Proportion (% of Net assets)	NA	NA	26.97%
Ranking Against Peers	NA	NA	16 out of 17
<u>NIT – Pakistan Gateway Exchange Traded Fund (NIT PGETF)</u> <i>(Launched in March 2020)</i>	FY20	FY21	FY22
Fund Size (in Rs. millions)	50	53	38
Return (%)	7.20%	19.71%	-12.56%
Benchmark (%)	8.80%	24.10%	-11.00%
<u>NIT – Pension Fund (NIT PF)</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	440	496	546
<u>NIT – Islamic Pension Fund (NIT IPF)</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	361	402	383

FINANCIAL SUMMARY (Rs. in millions)		Appendix II		
<u>BALANCE SHEET</u>	FY20	FY21	FY22	
Paid Up Capital	95	95	95.04	
Total Equity	10,285.80	12,039.40	10,922.77	
<u>INCOME STATEMENT</u>				
Total income	1,615.70	1,764.70	1,649.71	
Profit Before Tax	1,098.90	2,882.00	-398.88	
Profit After Tax	566.1	2438.7	-199.14	
<u>RATIO ANALYSIS</u>				
Net Cash Generated from Operating Activities	172.8	-70.7	164.8	
Current Ratio (x)	0.43	11.67	9.47	
Gearing (x)	0.02	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
	12/29/2022	AM1	Stable	Reaffirmed
	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			
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Due Diligence Meeting Conducted	Name	Designation	Date	
	Mr. Aamir Amin	CFO	November 18, 2022	
	Mr. Raza Abbas Jaffri	Head of Equity		
	Mr. Shoaib	Head of Fixed Income		
	Mr. Faisal Aslam	Head of Compliance		
	Mr. Ali Raza Bukhari	Head of SMA		
Mr. Abdul Majid	AVP Marketing			