

RATING REPORT

Al-Meezan Investment Management Limited (AMIML)

REPORT DATE:

January 7, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
MQ Rating	AM1	AM1
Rating Date	December'31, 2019	December'28, 2018
Rating Outlook	Stable	Negative
Rating Action	Maintained	Maintained

COMPANY INFORMATION

Incorporated in February 1995	External auditors: <u>AMC</u> – EY Ford Rhodes Chartered Accountants <u>CIS</u> – A.F. Ferguson and Co. Chartered Accountants <u>VPS</u> – KPMG Taseer Hadi & Co. Chartered Accountants
Unlisted Public Company	Chairman of the Board: Arif-ul-Islam
Key Shareholders (with stake 5% or more): Meezan Bank Limited ~ 65%	Chief Executive Officer: Mohammad Shoab, CFA
Pak Kuwait Investment Company ~ 30%	

APPLICABLE METHODOLOGY(IES)

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

Al-Meezan Investment Management Limited

OVERVIEW OF THE AMC

RATING RATIONALE

Al-Meezan Investment Management Limited (AMIML) was incorporated in 1995 as a private limited company and changed its status to a public unlisted company in 2001.

External auditors are EY Ford Rhodes, A.F. Ferguson & Co. and Deloitte Yousuf Adil & Co. The Shariah Supervisory Board of MBL is authorized to act as the Shariah advisors of AMIML and their funds.

Profile of Chairman

Mr. Arif-ul-Islam has been associated with Meezan group since 1999. Mr. Islam has over 30 years of banking experience and has held several senior management positions. Currently, Mr. Islam is serving as Meezan Bank’s Deputy CEO and an Executive Board member.

Profile of CEO

Mr. Mohammad Shoaib, CFA has over 25 years’ experience of managing investment portfolios and is a founding member of the CFA Association of Pakistan (CFAAP). Moreover, he has served as the Chairman and Director on the Board of Mutual Funds Association of

Headquartered in Karachi, Al-Meezan Investment Management Limited (AMIML) is a subsidiary of Meezan Bank Limited (MBL), the largest Islamic Bank in the country. Other major stake holder of AMIML is Pak Kuwait Investment Company Limited (PKIC). AMIML has a strong brand name and an extensive track record in Shariah compliant asset management business.

Key Rating Drivers

Market leadership position in the asset management industry with the Company having around 45% share (at end-Sep’2019) of the Shariah compliant AUMs reflecting strong Islamic franchise.

AMIML enjoys strong Islamic asset-management franchise as reflected by the Company holding a 45% market share (at end-Sep’2019) in the fast growing Shariah compliant segment while overall market share stands at 18% (at end-Sept’2019). Assets under management (AUM) further increased to Rs. 115.7b at end-November 2019. Over the last decade growth in AUMs in the Shariah compliant segment has outpaced increase in conventional AUMs. Despite entry of a number of players and enhanced focus in the Shariah compliant asset management segment, AMIML has managed to largely retain market share of this growing segment. Overall AUM mix since last review has tilted towards fixed income funds while proportion of equities in AUMs has declined. Net assets of Separately Managed Accounts (SMAs) declined and were reported at Rs. 11.9b (FY18: Rs. 15.1b).

Enhanced focus on strengthening fixed income product portfolio facilitated in improving market share. Shariah compliant product portfolio is comprehensive.

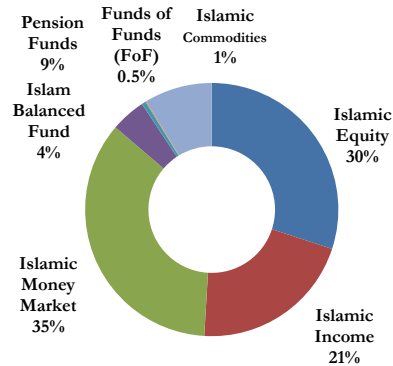
After continued sluggish performance of equity market during FY18, AMIML enhanced focus on increased market penetration in the fixed income (both money market and income) segment in order to sustain market position. In this regard, Meezan Rozana Amdani Fund (MRAF) was launched in Dec 2018. The fund has been specifically designed to target corporate clients in the current high interest rate scenario to allow them to avail tax benefit on returns. AUM of the fund stood at Rs. 24.7b as at end-November 2019. In addition, four additional FoF plans were introduced during outgoing fiscal year. Shariah compliant product portfolio is comprehensive with AMIML being the only asset manager managing a gold fund. Product portfolio includes a wide array of Shariah compliant funds ranging from equity, balanced, asset allocation, fixed income, money market, capital preservation, fund of fund (FoF), commodity and voluntary pension schemes to meet various investment objectives depending on client’s risk appetite. As an investment advisor, AMIML also manages 22 (FY18: 25) discretionary and non-discretionary portfolios for SMAs.

Sizeable retail client base is a competitive advantage although high concentration in retail AUMs continues to be a risk

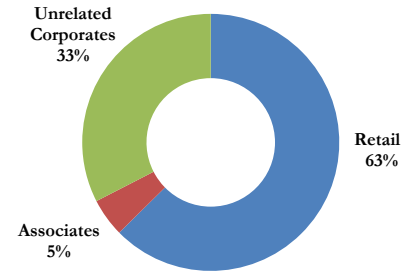
Total client base crossed 100,000 clients as at end-June 2019; out of which two-third are active clients. Proportion of retail investment in relation to total AUMs has increased marginally to 63% (FY18: 62%). However, concentration in retail AUMs continues to be on the higher side.

Pakistan (MUFAP).

**Exhibit 1
Assets Under Management
By Fund Type (as at end-Sept'19)**



**Exhibit 2
Assets Under Management
By Investor Type (as at end-June'19)**



Formalized investment process with sound research is in place. Fund performance has room for improvement.

A well-defined framework to evaluate investment prospects for equity and debt funds is in place. For the equity funds, investment decisions continue to be backed by sound research and fundamentals (primarily comprising blue chips stocks). The Company follows a buy and hold strategy for most of the exposures that are undertaken. For the debt funds, the company currently invests in Islamic commercial papers, Corporate Sukuk, Bai Muajjal placement and placement with Banks & DFIs. Investment Committee (IC) comprises CEO, CIO, Head of Research, Head of Risk Management and relevant fund managers. Composition and functioning of IC is considered adequate. Relative performance ranking of equity funds have room for improvement. Both the major equity funds (Al Meezan Mutual Fund and Meezan Islamic) had a relative performance ranking in the 3rd and 4th quartile based on 365 day return as of November 2019. Meezan Islamic Income Fund ranked in the 2nd quartile during the period while performance of money market funds was mixed (MRAF was amongst the top performing fund in the category while Meezan Cash Fund was the lowest in the category).

Aggressive sales strategy planned to continue through further strengthening of sales team and ADCs, expansion of geographic footprint and enhancement of customer base through digital initiatives.

Sales & Distribution (S&D) activities of AMIML are carried through two distinct channels comprising direct sales force (AMC’s own branches/head office) and alternate delivery channel (MBL/Standard Chartered Bank branches and digital application). Direct sales force contributes around three-fourth of the total new investments. Moreover, mutual fund specialists are placed in different branches across the country and are responsible for the training of sales personnel.

Presently, AMIML operates through a branch network of 24 branches spread nationwide; five of these branches were added in FY19. In line with other large AMC’s, majority of AUM generation continues to be through the South region. However, AUM generation from the central region has witnessed healthy growth during outgoing fiscal year. Overall growth was largely a function of planned expansion of sales force to 450+ employees (including induction of new regional head), entering into new geographical markets through adding new branches and concentrated sales efforts in the region. Going forward, aggressive sales strategy is planned to continue with further expansion

in sales team and addition of 5 new branches.

On digital strategy front, online account opening facility named as 'Sahulat Sarmayakari' has been launched during FY19. The facility has initially been launched for income and money market funds only. Targeted marketing of clients through various digital platforms is also being undertaken by AMIML. Furthermore, management is currently evaluating to upgrade or replace the portfolio management system Temenos T24.

Risk management function is dedicated and independent. Internal audit and compliance functions were segregated in the ongoing year to strengthen control environment. Compliance with KYC and AML guidelines remain the key focus area on the control front.

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. The risk management function also strictly monitors its investments' liquidity positions, market and credit risk for individual as well as sector level exposures. Management expects to clear majority of KYC and AML backlogs by 1Q2020. An external consultant has also been engaged who is undertaking a sample review of the KYC and AML undertaken by AMIML. Internal Audit follows a risk based audit methodology whereby all audit observations are classified into high, medium and low risk category depending on the assessed risk. Quality of internal audit reports is satisfactory.

Profitability profile for FY19 has been impacted due to decline in core income and sizeable unrealized loss on revaluation of investments. Leverage free balance sheet supports assessment of financial profile

Management fee earned declined by 13% during the outgoing fiscal year. Decline was attributable to shift in AUMs towards lower management fee schemes (equity to money market/income funds). Owing to the same, sales load was also reported significantly lower. Dividend income of around Rs. 50m, however, provided some support to operating revenues. Operating expenses registered a growth of ~18% given management's enhanced focus on branch and sales force expansion. Resultantly, core income declined. Overall profit after tax declined by 60% during FY19. Around one-half of bottom line was paid as dividends to sponsors in FY19.

Experienced management team and sound corporate governance framework

AMIML has a stable and professional senior management team. Overall corporate governance framework is supported by adequate board composition and oversight. Effective functioning of board committee ensures satisfactory control framework and risk related oversight.

Al-Meezan Investment Management Limited
Appendix I

FINANCIAL SUMMARY			
<u>MEEZAN ISLAMIC FUND (MIF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	54,853	39,163	25,740
Return (%)	23%	-17%	-24%
Benchmark (%)	19%	-10%	-24%
Retail Proportion (% of Net assets)	48%	52%	57%
Ranking Against Peers	14 out of 20	16 out of 20	12 out of 17
<u>AL-MEEZAN MUTUAL FUND (AMMF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	9,079	6,880	4,954
Return (%)	23%	-17%	-24%
Benchmark (%)	19%	-10%	-24%
Retail Proportion (% of Net assets)	35%	37%	44%
Ranking Against Peers	13 out of 20	15 out of 20	11 out of 17
<u>KSE-MEEZAN INDEX FUND (KMIF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	1,909	1,686	1,517
Return (%)	16%	-11%	-25%
Benchmark (%)	19%	-10%	-24%
Retail Proportion (% of Net assets)	17%	19%	18%
<u>MEEZAN ISLAMIC INCOME FUND (MIIF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	11,781	9,967	9,471
Return (%)	5%	4%	8%
Benchmark (%)	3%	2%	4%
Retail Proportion (% of Net assets)	47%	44%	71%
Ranking Against Peers	12 out of 17	10 out of 17	10 out of 20
<u>MEEZAN SOVEREIGN FUND (MSF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	4,334	2,074	5,705
Return (%)	7%	3%	7%
Benchmark (%)	5%	5%	7%
Retail Proportion (% of Net assets)	46%	70%	82%
Ranking Against Peers	1 out of 2	2 out of 2	1 out of 2
<u>MEEZAN CASH FUND (MCF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	3,350	9,858	8,851
Return (%)	6%	4%	8%
Benchmark (%)	3%	3%	3%
Retail Proportion (% of Net assets)	53%	43%	91%
Ranking Against Peers	1 out of 4	4 out of 4	4 out of 4

<u>MEEZAN BALANCED FUND (MBF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	9,516	7,814	5,350
Return (%)	15%	-9%	-13%
Benchmark (%)	12%	-4%	-12%
Retail Proportion (% of Net assets)	53%	51%	48%
<u>MEEZAN ASSET ALLOCATION FUND (MAAF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	3,251	2,869	1,854
Return (%)	18%	-13%	-20%
Benchmark (%)	15%	-7%	-19%
Retail Proportion (% of Net assets)	63%	60%	53%
Ranking Against Peers	4 out of 9	6 out of 9	12 out of 12
<u>MEEZAN GOLD FUND (MGF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	457	242	478
Return (%)	-7%	12%	30%
Benchmark (%)	-3%	13%	285
Retail Proportion (% of Net assets)	32%	65%	72%
<u>MEEZAN ENERGY FUND (MEF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	1,139	1,628	599
Return (%)	7%	-1%	-33%
Benchmark (%)	9%	-10%	-24%
Retail Proportion (% of Net assets)	62%	48%	60%
<u>MEEZAN DEDICATED EQUITY FUND (MDEF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	1,857	1,761
Return (%)	-	-3%	-27%
Benchmark (%)	-	4%	-24%
Retail Proportion (% of Net assets)	-	-	-
<u>MEEZAN ROZANA AMDANI FUND (MRAF)</u>	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	-	16,134
Return (%)	-	-	10%
Benchmark (%)	-	-	4%
Retail Proportion (% of Net assets)	-	-	41%
<u>MEEZAN FINANCIAL PLANNING FUND OF FUNDS (MFPF)</u>	FY17	FY18	FY19
<i>Aggressive Plan</i>			
Fund Size (in Rs. millions)	622	497	365
Return (%)	17%	-12%	-17%
Benchmark (%)	14%	-6%	-17%
Retail Proportion (% of Net assets)	42%	34%	36%

<i>Moderate Plan</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	408	308	203
Return (%)	13%	-7%	-9%
Benchmark (%)	12%	-3%	-11%
Retail Proportion (% of Net assets)	69%	66%	66%
<i>Conservative Plan</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	413	290	222
Return (%)	10%	-2%	-1%
Benchmark (%)	8%	0%	-4%
Retail Proportion (% of Net assets)	81%	70%	71%
<i>Meezan Asset Allocation Plan-I</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	1,251	829	593
Return (%)	19%	-6%	-19%
Benchmark (%)	17%	-5%	-16%
Retail Proportion (% of Net assets)	44%	39%	33%
<u>MEEZAN STRATEGIC ALLOCATION FUND (MSAF)</u>			
<i>Meezan Strategic Allocation Plan I</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	2,629	1,946	1,067
Return (%)	9%	-13%	-17%
Benchmark (%)	8%	-7%	-16%
Retail Proportion (% of Net assets)	63%	58%	57%
<i>Meezan Strategic Allocation Plan II</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	1,662	1,289	731
Return (%)	-1%	-13%	-16%
Benchmark (%)	-3%	-10%	-16%
Retail Proportion (% of Net assets)	48%	44%	40%
<i>Meezan Strategic Allocation Plan III</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	1,766	1,423	896
Return (%)	-3%	-13%	-16%
Benchmark (%)	-5%	-7%	-16%
Retail Proportion (% of Net assets)	70%	68%	63%
<i>Meezan Strategic Allocation Plan IV</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	1,973	1,666	1,008
Return (%)	-3%	-12%	-16%
Benchmark (%)	-7%	-6%	-16%
Retail Proportion (% of Net assets)	66%	64%	55%
<i>Meezan Strategic Allocation Plan V</i>	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	521	318

Return (%)	-	-3%	-16%
Benchmark (%)	-	3%	-16%
Retail Proportion (% of Net assets)	-	69%	66%
<i>Meezan Capital Preservation Plan III</i>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	1,365	1,441
Return (%)	-	0%	-6%
Benchmark (%)	-	0%	-1%
Retail Proportion (% of Net assets)	-	70%	66%
<u>MEEZAN STRATEGIC ALLOCATION FUND - II (MSAF-II)</u>			
<i>Meezan Capital Preservation Plan IV</i>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	2,115	1,553
Return (%)	-	0%	1%
Benchmark (%)	-	-1%	-3%
Retail Proportion (% of Net assets)	-	68%	65%
<i>Meezan Capital Preservation Plan V</i>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	733	474
Return (%)	-	0%	0%
Benchmark (%)	-	0%	-3%
Retail Proportion (% of Net assets)	-	81%	85%
<i>Meezan Capital Preservation Plan VI</i>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	-	384
Return (%)	-	-	0%
Benchmark (%)	-	-	-3%
Retail Proportion (% of Net assets)	-	-	82%
<i>Meezan Capital Preservation Plan VII</i>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	-	207
Return (%)	-	-	0%
Benchmark (%)	-	-	-4%
Retail Proportion (% of Net assets)	-	-	98%
<i>Meezan Capital Preservation Plan VIII</i>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	-	131
Return (%)	-	-	-2%
Benchmark (%)	-	-	-2%
Retail Proportion (% of Net assets)	-	-	92%
<u>MEEZAN STRATEGIC ALLOCATION FUND - III (MSAF-III)</u>			
<i>Meezan Capital Preservation Plan IX</i>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	-	26
Return (%)	-	-	-4%

Benchmark (%)	-	-	-2%
Retail Proportion (% of Net assets)	-	-	95%
MEEZAN TAHAFUZZ PENSION FUND (MTPF)			
Equity sub-fund	FY17	FY18	FY19
Fund Size (in Rs. millions)	5,806	5,418	4,070
Return (%)	20%	-17%	-24%
Debt sub-fund	FY17	FY18	FY19
Fund Size (in Rs. millions)	2,511	2,750	2,790
Return (%)	5%	3%	7%
Money market sub-fund	FY17	FY18	FY19
Fund Size (in Rs. millions)	663	1,008	2,067
Return (%)	4%	3%	7%
Gold sub-fund	FY17	FY18	FY19
Fund Size (in Rs. millions)	43	50	81
Return (%)	-9%	12%	28%

FINANCIAL SUMMARY (Rs. in millions)	Appendix II	
BALANCE SHEET	2018	2019
Paid Up Capital	500.0	500.0
Total Equity	2,878.4	2,997.3
INCOME STATEMENT		
Total income	1,807.8	1,522.1
Profit Before Tax	931.6	453.4
Profit After Tax	524.9	210.8
RATIO ANALYSIS		
Net Cash Generated from Operating Activities	698.0	534.0
Current Ratio (x)	3.14	5.49
Gearing (x)	-	-

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	Al-Meezan Investment Management 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
	12/31/2019	AM1	Stable	Maintained
	12/28/2018	AM1	Negative	Maintained
	12/29/2017	AM1	Stable	Reaffirmed
	3/17/2017	AM1	Stable	Upgrade
	5/4/2016	AM2++	Stable	Harmonized
	12/31/2015	AM2+	Stable	Reaffirmed
	12/3/2014	AM2+	Stable	Upgrade
	5/14/2013	AM2	Stable	Reaffirmed
	3/8/2012	AM2	Stable	Reaffirmed
4/15/2011	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 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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