

RATING REPORT

Faysal Asset Management Limited

REPORT DATE:

July 3, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Management Quality	
MQ Rating	AM3+	AM3
Rating Outlook	Positive	Rating Watch - Developing
Rating Date	June 24, 2019	March 19, 2018

COMPANY INFORMATION

Incorporated in August 2003	External auditors: M/s A. F. Ferguson & Co., Chartered Accountants
Unlisted Public Limited Company	Chairman of the Board: Mr. Salman Ahmed Usmani
Key Shareholders:	Chief Executive Officer: Mr. Khaldoon bin Latif
Faysal Bank Limited – 99.99%	

APPLICABLE METHODOLOGY(IES)

Asset Management Companies (June 2019)

<http://vis.com.pk/kc-meth.aspx>

Faysal Asset Management Limited
**OVERVIEW
OF THE
INSTITUTION**

Faysal Asset Management Limited (Faysal AML) was incorporated in 2003 as an unlisted public limited company under Companies Ordinance, 1984. It is licensed to conduct asset management and investment advisory services.

**Profile of
Chairman**

Mr. Salman Usmani has an extensive experience of over three decades in the local as well as multinational banking sector. His broad expertise covers Treasury and Risk Management, Asset and Liability Management, Strategic Planning, Corporate Restructuring, Strategic Negotiations, Acquisitions and Strategic Alliances and International Operations. Presently, he is associated with Faysal Bank Limited as Head of Treasury. Prior to joining Faysal Bank Limited, he was also associated with MCB Bank Limited as Global Treasurer and Head Investment Banking Group. His past experience has been with organizations such as ANZ Grindlays, American Express, Bank of America,

RATING RATIONALE

Faysal Asset Management Limited (FAML) was incorporated in 2003 as an unlisted public limited company. During 2018, FAML underwent a significant change in their ownership and control structure with Faysal Bank Limited (FBL) acquiring 99.99% of interest in FAML; FBL purchased entire holdings of Islamic Investment Company of the Gulf (Bahamas) Limited & Mr Razi ur Rahman Khan having 50.00% & 19.97% shares, respectively. Furthermore, it injected an additional equity by way of right share issue, amounting to Rs. 280m. This has allowed the asset management company to meet the minimum equity requirement of Rs. 230m.

Key Rating Drivers
Strong sponsor profile and consistent support in the form of technical assistance

Given FAML's conversion into a wholly owned subsidiary of FBL, all strategic plans and decision making now emanate from a single dedicated sponsor. Subsequently, there were significant amendments in the organizational structure and control framework along with inductions in management team. Various qualitative aspects such as risk management and compliance are also being focused upon. The company also plans to develop a full-fledged in house research department along with strengthening its investment management team. Corporate governance framework is also considered sound with adequate Board oversight. The rating also draws comfort from the requisite support of FBL for ensuring operational and financial viability of the asset management company in the form of fresh capital injection.

Trend in AUMs has depicted an increasing trend with market share marginally increasing, management may need to focus on improving granularity in AUMs

Total Assets Under Management (AUMs) amounted to Rs. 9.5b (FY18: Rs. 7.9b; FY17: Rs. 7.8b) at end-May 2019. With industry AUMs growing at a lower rate in comparison to FAML, market share increased to 1.7% (FY18: 1.4%) at end-9M2019. Growth in AUMs was significantly contributed by income schemes namely Faysal Money Market Fund while AUMs of equity funds declined in the backdrop of capital market volatility.

	Type of Fund	FY17	FY18	Dec'19	May'19
FMMF	Money Market	783.2	2,246.6	2,619.8	4,145.4
FSGF	Fixed Income	3,148.5	2,187.3	1,997.3	1,619.7
FISGF	Islamic Income	1,253.8	1,013.3	1,078.8	1,420.6
FFSOF	Income	102.1	110.7	422.2	548.4
FMTS	Income	172.6	644.3	494.4	755.9
FIGF	Fixed Income	1,003.5	902.3	856.7	590.2
FIAAF	Islamic Asset Allocation	374.4	428.6	283.3	198.8
FSF	Equity	311.2	221.4	161.2	151.2
FAAF	Asset Allocation	702.2	186.8	141.4	100.1
Total		7,851.3	7,941.3	8,055.0	9,530.3

Proportion of retail investments in relation to total AUMs is on the lower side at 29% (FY17: 37%) at end-FY18. Granularity in AUM base depicts further room for improvement given top 10 investors represent almost three-fourths of AUMs (FY18: 68%) at end-Dec'18. Increase in concentration levels was a result of acquisition by FBL given diverted focus towards strengthening corporate investments in the near term. FAML plans to tap into the retail market

Mashreq Bank, United Bank Limited & MCB Bank Limited. He holds an MBA Degree from Grand Valley State University, USA.

Profile of CEO

Mr. Latif has extensive experience in brokerage, open and close-end mutual funds management, equity brokerage. Mr. Latif has served at a number of Asset management companies of Pakistan, including BMA Asset management as CEO, JS Investments Ltd as CIO, KASB Funds as CEO.

by expanding outreach through FBL branches and a dedicated sales force. Separately Managed Accounts (SMAs) portfolio stood at Rs. 735.9m (FY18: Rs. 1.1b) at end-March'2019, depicting a decline on account of lower than expected returns. FAML currently offers a total of nine funds in both conventional and Islamic arena. During 2019, FAML launched a Shariah Compliant Capital Preservation Plan. Going forward, management will continue to launch more money market schemes in order to attract greater investments and increase AUMs.

Plans to utilize its parent’s branch network in order to attract new clients; developments in this regard will materialize over time

FAML has developed a revised marketing strategy for expanding its distribution outreach; this expansion is expected to result in significant growth in AUMs; the same will be tested over time. FAML’s access to its sponsor’s branch network and resource utilization will also play a vital role in this regard. These initiatives are expected to grow AUMs to a sustainable level in order to achieve breakeven. Stickiness of these funds to FAML will remain one of the key rating drivers.

Fund performance deteriorated during the ongoing period; management has revised investment policies to address the same

During the period under review, funds’ performance compared favorably to peers for its larger funds. However, given the downward trend in the stock market and increasing interest rate scenario, performance of smaller funds was adversely impacted. In order to earn superior returns for clients and improve its fund return history, management has revised the investment policies for its funds, impact of which will be seen in the coming years. With changes at senior management level, improvement in performance metrics is expected, going forward.

Fund	FY17	FY18	January rank	February rank	March rank	April rank
FMMF	8/22	11/22	8/20	4/20	10/20	9/20
FSGF	8/29	18/29	28/30	28/30	30/31	31/31
FISGF	10/17	7/18	14/21	13/21	14/21	14/21
FFSOF	12/29	21/29	15/30	8/30	17/31	16/31
FMTS	13/29	6/29	9/30	9/30	8/31	9/31
FIGF	3/7	2/7	4/7	5/7	4/7	5/7
FIAAF	6/10	5/10	7/13	11/13	11/13	12/13
FSF	6/7	18/21	25/27	23/28	23/27	24/27
FAAF	12/12	11/11	13/13	13/13	13/13	13/13

Operational loss of the company continues; improvement in AUMs along with cost reduction is expected to bring up profitability levels

FAML would need to build up AUMs to achieve operational breakeven which is currently yielding an attrition in equity. Operating loss of the company amounted to Rs. 43m (FY18: Rs. 40m; FY17: Rs. 80m) during the nine months period ending March 31, 2019. The company may require recapitalization if operational breakeven is not achieved this year.

Faysal Asset Management Limited

FINANCIAL SUMMARY			Appendix I
<u>Faysal Money Market Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	4,044	2,246	783
Return (%)	8.13%	5.23%	7.14%
Benchmark (%)	8.01%	5.35%	5.25%
Retail Proportion (% of Net assets)	-	16%	19%
Ranking Against Peers	10/20	11/22	7/22
Launch date: December 2010			
<u>Faysal Savings Growth Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	1,633	2,187	3,148
Return (%)	6.53%	4.90%	5.99%
Benchmark (%)	9.58%	6.35%	6.10%
Retail Proportion (% of Net assets)	-	33%	35%
Ranking Against Peers	30/31	18/29	13/29
Launch date: May 2007			
<u>Faysal Financial Sector Opportunity Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	788	111	102
Return (%)	7.74%	4.85%	5.27%
Benchmark (%)	9.58%	6.35%	6.10%
Retail Proportion (% of Net assets)	-	73%	56%
Ranking Against Peers	17/31	21/29	17/29
Launch date: July 2013			
<u>Faysal Islamic Saving Growth Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	973	1,013	1,254
Return (%)	7.05%	4.42%	5.30%
Benchmark (%)	3.27%	2.44%	3.11%
Retail Proportion (% of Net assets)	-	35%	34%
Ranking Against Peers	14/21	7/18	10/16
Launch date: June 2010			
<u>Faysal Income & Growth Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	657	902	1,003

Return (%)	6.90%	5.15%	4.56%
Benchmark (%)	10.12%	6.69%	6.40%
Retail Proportion (% of Net assets)	-	19%	19%
Ranking Against Peers	4/7	2/7	6/7
Launch date: October 2005			
<u>Faysal Asset Allocation Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	118	187	702
Return (%)	-10.38%	-21.64%	4.67%
Benchmark (%)	-1.81%	-5.79%	2.07%
Retail Proportion (% of Net assets)	-	48%	63%
Ranking Against Peers	13/13	11/11	9/11
Launch date: July 2006			
<u>Faysal Stock Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	151	221	311
Return (%)	-13.01%	-18.31%	14.30%
Benchmark (%)	-7.78%	-10.00%	17.32%
Retail Proportion (% of Net assets)	-	45%	48%
Ranking Against Peers	23/27	18/21	6/7
Launch date: April 2004			
<u>Faysal Islamic Asset Allocation Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	263	429	374
Return (%)	-9.13%	-19.77%	23.04%
Benchmark (%)	-5.24%	-5.24%	15.40%
Retail Proportion (% of Net assets)	-	47%	63%
Ranking Against Peers	11/13	5/10	
Launch date: September 2015			
<u>Faysal MTS Fund</u>	Mar'19	FY18	FY17
Fund Size (in Rs. millions)	731	644	173
Return (%)	8.36%	5.63%	6.14%
Benchmark (%)	9.58%	6.35%	6.10%
Retail Proportion (% of Net assets)	-	60%	53%
Ranking Against Peers	8/31	6/29	
Launch date: April 2016			

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

RATING SCALE - 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.

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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. https://s3-us-west-2.amazonaws.com/backupsqvis/docs/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 https://s3-us-west-2.amazonaws.com/backupsqvis/docs/criteria_outlook.pdf

REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	Faysal Asset 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
	24-Jun-19	AM3+	Positive	Upgrade
	19-Mar-18	AM3	Rating Watch – Developing	Downgrade
	12-Oct-17	AM3+	Stable	Downgrade
	4-May-16	AM3++	Stable	Harmonized
	25-Mar-16	AM3+	Stable	Reaffirmed
	11-Jun-15	AM3+	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.			
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