

RATING REPORT

Faysal Asset Management Limited

REPORT DATE:

February 28, 2020

RATING ANALYSTS:

Muniba Khan

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Management Quality	
MQ Rating	AM2	AM3+
Rating Outlook	Stable	Positive
Rating Date	February 18, 2020	June 24, 2019

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 (with stake 5% or more):	Chief Executive Officer: Mr. Khaldoon bin Latif
Faysal Bank Limited – 99.99%	

APPLICABLE METHODOLOGY(IES)

VIS Management Quality Rating Criteria: Asset Management Companies (June, 2019)

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

Faysal Asset Management Limited
OVERVIEW OF THE INSTITUTION
RATING RATIONALE

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, 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

Faysal Asset Management Limited (FAML) underwent a significant change in their ownership and control structure with Faysal Bank Limited (FBL) acquiring 99.99% of interest in FAML, during the last quarter of 2018. Subsequent to this acquisition, FBL injected an additional equity by way of right share issue, amounting to Rs. 280m allowing the asset management company to meet the minimum equity requirement of Rs. 230m. In order to ensure operational and financial viability of the asset management company, FBL plans to inject a further Rs. 500m by end-March 2020; approvals from the regulator are in place.

Key Rating Drivers

Market share increased in the outgoing fiscal year; retail proportion in total AUMs improved slightly but remained on the lower side.

With the aggressive stance of the management, Assets Under Management (AUM) of the company grew significantly from Rs. 9.5b at end-May 2019 to Rs. 19.9b at end-January 2020. With industry AUMs growing at a lower rate in comparison to FAML, market share increased to 2.3% (FY19: 1.7%, FY18: 1.4%) at end-7M20. Growth in AUMs was significantly contributed by income schemes namely Faysal Money Market Fund. FAML currently offers a total of fifteen funds in both conventional and Islamic arena. During 2019, management focused on reactivating its distribution channel through FBL's branches. In order to so, FAML developed dedicated funds for the channel featuring a 2 year lock down period and capital protection in order to ensure stickiness of these funds. During 2019, FAML launched a Shariah Compliant Capital Preservation Plan for clients related to the bank distribution channel. Currently, FBL is not paid any commission for its sales, as per agreed terms with FAML until April 2020. Going forward, management will continue to launch more money market schemes in order to attract greater investments and increase AUMs. Management anticipates its AUM base to increase to Rs. 43.7b at end-December 2020; Rs. 39.7b from funds and Rs. 4.0b from advisory.

(Rs. in m)	Type of Fund	FY18	FY19	Dec'19	Jan'20
FMMF	Money Market	2,246.6	2,768.8	5,234.6	5,674.8
FISGF	Islamic Income	1,013.3	1,643.4	1,789.9	1,748.3
FSGF	Income	2,187.3	1,570.0	1,635.2	1,584.2
FFSOF	Income	110.7	702.4	1,794.2	1,793.1
FMIS	Income	644.3	838.3	1,018.4	1,471.3
FSCPP-II	Islamic Fund of Funds			1,183.9	1,183.4
FFVF	Sector Asset Allocation			192.2	1,007.6
FSCPP-I	Islamic Fund of Funds			1,003.0	975.5
FAPPP	Fund of Funds			715.8	722.5
FIGF	Income	902.3	544.8	563.5	566.4
FHAF	Islamic Money Market		127.9	278.6	554.6
FIDEF	Islamic Dedicated Equity				409.3
FSF	Equity	221.4	116.5	150.2	159.3
FIAAF	Islamic Asset Allocation	428.6	180.0	107.6	111.6
FAAF	Asset Allocation	186.8	95.1	73.2	77.8
Total		7,941.3	8,587.2	15,740.3	18,039.7

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.

With higher retail investments, granularity of its funds improved on account of higher retail proportion.

While proportion of retail investments in relation to total AUMs improved to 35.0% (FY19: 28.1%, FY18: 29%, FY17: 37%) at end-HY20, granularity in AUM base depicts further room for improvement given top 10 investors represent more than two-fifths of AUMs (HY20: 42.0%, FY19: 73.6%, FY18: 68%) at end-December 2019. Nonetheless, concentration levels improved as a result of acquisition by FBL given diverted focus towards strengthening both its retail and corporate investments in the near term. FAML continues to tap into the retail market by expanding outreach through FBL branches and a dedicated sales force. Management also focused on building its Separately Managed Accounts (SMAs) portfolio which was reported higher at Rs. 1.9b (FY19: Rs. 827m, FY18: Rs. 1.1b), at end-January 2020. While the quantum of SMA portfolio increased, number of clients declined from 46 clients reported at end-June 2018 to 29 clients at end-1Q20 depicting lower concentration levels; the same is expected to improve over time.

	Retail		Top 10 Investors	
	FY19	4M20	FY19	4M20
FMMF	8.3%	6.1%	80.4%	80.6%
FISGF	29.6%	38.0%	71.3%	61.4%
FSGF	31.2%	27.9%	79.1%	82.9%
FFSOF	48.2%	32.8%	70.2%	74.2%
FSCPF-II	-	99.2%	-	31.4%
FSCPF-I	-	90.8%	-	33.7%
FMTS	66.8%	80.8%	45.8%	40.7%
FIGF	16.9%	16.3%	83.2%	85.4%
FHAF	-	0.1%	-	100.0%
FSF	26.6%	27.6%	73.9%	78.2%
FIAAF	58.4%	49.1%	58.6%	61.1%
FAAF	45.7%	42.2%	67.8%	73.4%
Overall	28.1%	33.6%	73.6%	68.6%

Fund performance of the asset management company remained in the lower quartiles; however, performance of its equity related funds have improved during the seven months ending January 2020 and compared favorably in comparison to peers. Management has revised its investment methodology to address performance of the remaining funds.

During the period under review, funds having exposure in the equity market depicted improvement in their performance and compared favorably to peers. However, performance of remaining funds remained unchanged. In order to earn superior returns for clients and improve its fund return history, management has revised the investment processes 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.

YTD	AUMs	FY18	FY19	Jan'20	FY18	FY19	Jan'20
FMMF	5,674.80	11/22	9/20	12/21	2nd	2nd	3rd
FFSOF	1,793.10	21/29	10/31	10/30	3rd	2nd	2nd
FISGF	1,748.30	7/18	12/21	16/21	2nd	3rd	4th
FSGF	1,584.20	18/29	24/31	28/30	3rd	4th	4th
FMTS	1,471.30	6/29	8/31	9/30	1st	2nd	2nd
FSCPP-II	1,183.40			30/31			4th

FFVF	1,007.60			14/14			4th
FSCPP-I	975.5			29/31			4th
FAPPP	722.5			4/4			4th
FIGF	566.4	2/7	4/7	6/7	2nd	3rd	4th
FHAF	554.6			2/7			2nd
FSF	159.3	18/21	24/27	8/27	4th	4th	2nd
FIAAF	111.6	5/10	12/13	6/11	2nd	4th	2nd
FAAF	77.8	11/11	13/13	3/14	4th	4th	1st

Operational loss of the company continues; improvement in AUMs along with cost reduction is expected to bring up profitability levels. Equity levels are above the minimum regulatory requirement of Rs. 230m.

Given the historical reduction in AUM base, FAML consistently reported an operating loss which was yielding attrition in equity. Operating loss of the company amounted to Rs. 65m (FY19: 60m, Rs. FY18: Rs. 35m; FY17: Rs. 57m) during the six months period ending December 2019. As per projections, management anticipates to achieve breakeven by end-December 2020. Equity levels of the company amounted to Rs. 248.0m (FY19: Rs. 282.6m) at end-December 2019; growth in equity base was primarily on account of recognition of surplus on its investment property amounting to Rs. 19.7m. Barring employee related costs, a significant cost incurred by the company is rental cost paid to its sponsor. In order to reduce this cost, the company plans to undergo an asset swap agreement with the sponsor where FAML will sell its investment property to FBL. Proceeds from this sale along with a portion of the fresh equity expected, FAML will buy its current premises. This sale is expected to materialize in the coming year.

Income Statement (Rs. in m)	FY17	FY18	FY19	Dec'19	Dec'20 (P)
Revenue	137	123	115	111	200
Core Income	130	119	101		193
Management Income	122	108	92		185
Advisory	4	3	3		8
Load Income	3	7	6		
Investment Income	7	4	13		7
Operating expenses	-187	-154	-162	-176	-192
Operating income	-57	-35	-60	-65	8
Profit/(Loss) (Rs. Mn)	-80	-40	-56	-35	59
Operating expense as a % of Core Income	-144%	-130%	-160%	159%	99%
Balance Sheet (Extract)					
Paid up shares	150	150	430	430	930
Reserves	-51	-92	-147	-182	-123
Equity	99	58	283	248	807

Strong sponsor profile and consistent support is evident 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; these support functions also coordinate with the sponsor's respective functions for guidance. The company has also developed a full-fledged in house research department along with strengthening its investment management team. The company has also employed a Chief Strategy Officer in the management team

for ensuring efficient alignment of strategic direction and functional objectives. Stability in the management team will continue to remain one of the key rating drivers. FAML has also outsourced its back office operations to a third party vendor, IT Minds. This is expected to provide cost efficiencies and support the compliance function in regulatory reporting.

FINANCIAL SUMMARY			Appendix I
<u>Faysal Money Market Fund</u>	FY18	FY19	5M20
Fund Size (in Rs. millions)	2,246.6	2,768.8	5,488.1
Return (%)	5.23	8.87	12.61
Benchmark (%)	5.35	8.72	12.66
Retail Proportion (% of Net assets – Oct'19)	16.2	8.3	6.1
Ranking Against Peers	11/22	9/20	12/21
Launch date: December 2010			
<u>Faysal Savings Growth Fund</u>			
Fund Size (in Rs. millions)	2,187.3	1,570.0	1,630.3
Return (%)	4.90	7.59	10.30
Benchmark (%)	6.35	10.21	13.74
Retail Proportion (% of Net assets – Oct'19)	33.5	31.2	27.9
Ranking Against Peers	18/29	24/31	28/31
Launch date: May 2007			
<u>Faysal Financial Sector Opportunity Fund</u>			
Fund Size (in Rs. millions)	110.7	702.4	1,536.8
Return (%)	4.85	8.81	13.31
Benchmark (%)	6.35	10.21	13.74
Retail Proportion (% of Net assets – Oct'19)	72.7	48.2	32.8
Ranking Against Peers	21/29	10/31	11/31
Launch date: July 2013			
<u>Faysal Islamic Savings Growth Fund</u>			
Fund Size (in Rs. millions)	1,013.3	1,643.4	1,775.9
Return (%)	4.42	7.85	11.12
Benchmark (%)	2.44	3.69	6.01
Retail Proportion (% of Net assets – Oct'19)	34.8	29.6	38.0
Ranking Against Peers	7/18	12/21	14/20
Launch date: June 2010			
<u>Faysal Income & Growth Fund</u>			
Fund Size (in Rs. millions)	902.3	544.8	559.9
Return (%)	5.15	7.81	9.35
Benchmark (%)	6.69	10.73	13.91
Retail Proportion (% of Net assets – Oct'19)	18.5	16.9	16.3

Ranking Against Peers	2/7	4/7	6/7
Launch date: October 2005			
<u>Faysal Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	186.8	95.1	102.3
Return (%)	-21.64	-20.96	13.15
Benchmark (%)	-5.79	-7.32	10.47
Retail Proportion (% of Net assets – Oct'19)	47.9	45.7	42.2
Ranking Against Peers	11/11	13/13	2/13
Launch date: July 2006			
<u>Faysal Stock Fund</u>			
Fund Size (in Rs. millions)	221.4	116.5	186.0
Return (%)	-18.31	-28.24	21.76
Benchmark (%)	-10.00	-19.11	15.89
Retail Proportion (% of Net assets – Oct'19)	45.4	26.6	27.6
Ranking Against Peers	18/21	24/27	4/26
Launch date: April 2004			
<u>Faysal Islamic Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	428.6	180.0	159.4
Return (%)	-19.77%	-19.46	10.05
Benchmark (%)	-5.24%	-13.17	9.01
Retail Proportion (% of Net assets – Oct'19)	47%	58.4	49.1
Ranking Against Peers	5/10	12/13	5/12
Launch date: September 2015			
<u>Faysal MTS Fund</u>			
Fund Size (in Rs. millions)	644	838.3	800.8
Return (%)	5.63	9.04	12.59
Benchmark (%)	6.35	10.21	13.74
Retail Proportion (% of Net assets – Oct'19)	59.9	66.8	80.8
Ranking Against Peers	6/29	8/31	16/31
Launch date: April 2016			
<u>Faysal Sharia Capital Preservation Plan Fund</u>			
Fund Size (in Rs. millions)			1,069.8
Return (%)			4.43

Benchmark (%)			2.50
Retail Proportion (% of Net assets – Oct'19)			90.8
Ranking Against Peers			26/28
Launch date: July 2019			
<u>Faysal Sharia Capital Preservation Plan Fund-II</u>			
Fund Size (in Rs. millions)			1,181.4
Return (%)			1.99
Benchmark (%)			1.12
Retail Proportion (% of Net assets – Oct'19)			99.2
Ranking Against Peers			28/28
Launch date: September 2019			
<u>Faysal Halal Amdani Fund</u>			
Fund Size (in Rs. millions)			190.8
Return (%)			11.47
Benchmark (%)			5.76
Retail Proportion (% of Net assets – Oct'19)			0.1
Ranking Against Peers			6/7
Launch date: October 2019			

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY18	FY19	HY20
Paid Up Capital	150.0	430.0	430.0
Total Equity	58.4	282.6	248.0
<u>INCOME STATEMENT</u>			
Total income	122.9	114.9	111.0
Profit Before Tax	-31.2	-46.9	-
Profit After Tax	-40.4	-56.4	-35.0
<u>RATIO ANALYSIS</u>			
Net Cash Generated from Operating Activities	-8.1	-78.6	-
Leverage	0.98	0.17	-
Current Ratio	-	-	-

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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 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	
	18-Feb-20	AM2	Stable	Upgrade	
	25-Jun-19	AM3+	Positive	Upgrade	
	19-Mar-18	AM3	Rating Watch- Developing	Downgrade	
	4-May-16	AM3++	Stable	Reaffirmed	
	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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		Name	Designation	Meeting Date	
	1	Mr. Khaldoon Bin Latif	Chief Executive Officer	January 20, 2020	
	2	Mr. Saad H. Qureshi	Head of Strategy	January 20, 2020	
	3	Mr. Faisal Ali Khan	Chief Financial Officer and Company Secretary	December 9, 2019	
	4	Mr. Ayub Khuhro	Chief Investment Officer	December 9, 2019	
	5	Mr. Omer Bin Javaid	Chief Distribution Officer	December 9, 2019	
	6	Mr. Khurram Salman	Head of Compliance and Internal Audit	December 9, 2019	
	7	Mr. Umair A. Khan	Head of Advisory	December 9, 2019	
	8	Mr. Mohammad Qasim	Head of Risk Management	December 9, 2019	