

RATING REPORT

Faysal Asset Management Limited

REPORT DATE:

December 31, 2020

RATING ANALYSTS:

Muhammad Ibad

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Management Quality	
MQ Rating	AM2	AM2
Rating Outlook	Positive	Stable
Rating Date	December 31, 2020	February 18, 2020

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
<p>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.</p> <p>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</p>	<p>Faysal Asset Management Limited (FAML) was incorporated in 2003 as an unlisted public limited company. Faysal Funds is a subsidiary of Faysal Bank Limited (FBL). FBL holds 99.99% shares of Faysal Funds. It is licensed to conduct asset management and investment advisory services.</p> <p>Key Rating Drivers:</p> <p>Market share and retail proportion in AUMs have further improved Assets Under Management (AUM) of the company grew significantly from Rs. 8.4b at end-June 2019 to Rs. 29.9b at end-June 2020. As a result, market share increased to 3.8% (FY19: 1.5%) at end-FY20. At end-November 2020, the company closed at 44.1b of AUMs. Growth in AUMs was significantly contributed by income schemes including new funds launched. In 10M2020, the company launched 7 new funds out of which 6 are Islamic funds. It also acquired Pension Fund Management License and has applied for Private Fund Management License. FAML currently offers a total of twenty one funds/plans in both conventional and Islamic arena.</p> <p>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 34.4% (FY19: 28.1%, FY18: 29%, FY17: 37%) at end-Sep'20, granularity in AUM base depicts further room for improvement given top 10 investors represent more than two-fifths of AUMs (Sep'20: 74.0%, FY19: 73.6%, FY18: 68%). 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. 2.1b (FY19: Rs. 827m, FY18: Rs. 1.1b), at end-June 2020. However, number of clients decreased from 28 at end-FY19 to 19 at end-FY20.</p> <p>With revision of investment methodology, fund performance is good for newly launched income funds. Income fund performance of some funds compared favorably to peers during period under review. However, performance of remaining funds remained unchanged. This was the result of revision in the investment processes. Fund performance improved during 3QCY2020 securing No. 1 rank in 4 categories and top quartile ranking in 7 categories; particularly Shariah Compliant Money Market category, hybrid (capital protected) funds and asset allocation / equity categories. On FYTD basis equity and equity related funds remained in top quartile.</p> <p>Achieved operational profitability with improvement in AUMs and reduction in costs while equity levels are above the minimum regulatory requirement. Given the increase in AUMs, the revenues of the company have increased in 3QCY220 to Rs. 80.9m. Equity levels are compliant with minimum regulatory requirement of Rs. 230.0m. In 3QCY20, the company achieved operating profitability with net profit after tax of Rs. 20m. For CY2020, the profit before tax is projected at Rs. 90m.</p> <p>Achieved operational profitability with improvement in AUMs and reduction in costs while equity levels are above the minimum regulatory requirement. Given the increase in AUMs, the revenues of the company have increased in 9MCY2020 to Rs.150 Million. As a result, FAML achieved operational profitability of Rs. 20.8 Million in 9MCY2020 as compared to operational loss of Rs.47m in FY19. Equity levels are compliant with minimum regulatory requirement of Rs. 230.0m. For CY2020, the profit before tax is projected at Rs. 90m.</p>

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.

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	FY20
Fund Size (in Rs. millions)	2,246.6	2,768.8	5,244.9
Return (%)	5.23	8.87	12.57
Benchmark (%)	5.35	8.72	11.65
Retail Proportion (% of Net assets – Sep'20)	16.2	8.3	8.7
Ranking Against Peers	14/22	10/20	14/21
Launch date: December 2010			
<u>Faysal Savings Growth Fund</u>			
Fund Size (in Rs. millions)	2,187.3	1,570.0	2,610.9
Return (%)	4.90	7.59	11.67
Benchmark (%)	6.35	10.21	12.22
Retail Proportion (% of Net assets – Sep'20)	33.5	31.2	21.6
Ranking Against Peers	18/29	21/31	29/31
Launch date: May 2007			
<u>Faysal Financial Sector Opportunity Fund</u>			
Fund Size (in Rs. millions)	110.7	702.4	1,082.0
Return (%)	4.85	8.81	12.91
Benchmark (%)	6.35	10.21	12.22
Retail Proportion (% of Net assets – Sep'20)	72.7	48.2	69.7
Ranking Against Peers	19/29	10/31	23/31
Launch date: July 2013			
<u>Faysal Islamic Savings Growth Fund</u>			
Fund Size (in Rs. millions)	1,013.3	1,643.4	2,241.25
Return (%)	4.42	7.85	10.67
Benchmark (%)	2.44	3.69	6.33
Retail Proportion (% of Net assets – Sep'20)	34.8	29.6	31.7
Ranking Against Peers	9/20	11/21	13/21
Launch date: June 2010			
<u>Faysal Income & Growth Fund</u>			
Fund Size (in Rs. millions)	902.3	544.8	773.5
Return (%)	5.15	7.81	11.19
Benchmark (%)	6.69	10.73	12.26
Retail Proportion (% of Net assets – Sep'20)	18.5	16.9	10.7

Ranking Against Peers	4/7	3/7	5/7
Launch date: October 2005			
<u>Faysal Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	186.8	95.1	113.7
Return (%)	-21.64	-20.96	1.83
Benchmark (%)	-5.79	-7.32	6.01
Retail Proportion (% of Net assets – Sep'20)	47.9	45.7	14.0
Ranking Against Peers	12/12	13/13	9/15
Launch date: July 2006			
<u>Faysal Stock Fund</u>			
Fund Size (in Rs. millions)	221.4	116.5	104.9
Return (%)	-18.31	-28.24	4.57
Benchmark (%)	-10.00	-19.11	1.53
Retail Proportion (% of Net assets – Sep'20)	45.4	26.6	27.9
Ranking Against Peers	22/24	24/27	8/24
Launch date: April 2004			
<u>Faysal Islamic Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	428.6	180.0	1833.9
Return (%)	-19.77%	-19.46	10.89
Benchmark (%)	-5.24%	-13.17	4.48
Retail Proportion (% of Net assets – Sep'20)	47%	58.4	2.4
Ranking Against Peers	10/12	12/13	1/11
Launch date: September 2015			
<u>Faysal MTS Fund</u>			
Fund Size (in Rs. millions)	644	838.3	1000.6
Return (%)	5.63	9.04	13.04
Benchmark (%)	6.35	10.21	12.22
Retail Proportion (% of Net assets – Oct'19)	59.9	66.8	62.9
Ranking Against Peers	5/29	8/31	22/31
Launch date: April 2016			
<u>Faysal Sharia Capital Preservation Plan Fund</u>			
Fund Size (in Rs. millions)			961.98
Return (%)			5.39

Benchmark (%)			5.91
Retail Proportion (% of Net assets – Sep'20)			98
Ranking Against Peers			10/31
Launch date: July 2019			
<u>Faysal Sharia Capital Preservation Plan Fund-II</u>			
Fund Size (in Rs. millions)			1088.4
Return (%)			3.28
Benchmark (%)			5.28
Retail Proportion (% of Net assets – Sep'20)			99
Ranking Against Peers			13/31
Launch date: September 2019			
<u>Faysal Halal Amdani Fund</u>			
Fund Size (in Rs. millions)			6592
Return (%)			11.75
Benchmark (%)			5.36
Retail Proportion (% of Net assets – Sep'20)			48.4
Ranking Against Peers			3/9
Launch date: October 2019			
<u>Faysal Financial Value Fund</u>			
Fund Size (in Rs. millions)			1691.6
Return (%)			6.57
Benchmark (%)			6.56
Retail Proportion (% of Net assets – Sep'20)			100.0
Ranking Against Peers			4/15
Launch date: December 2019			
<u>Faysal Government Securities Fund</u>			
Fund Size (in Rs. millions)			2,914
Return (%)			10.90
Benchmark (%)			8.73
Retail Proportion (% of Net assets – Sep'20)			0
Ranking Against Peers			31/31
Launch date: March 2020			
<u>Faysal Islamic Dedicated Equity Fund</u>			

Fund Size (in Rs. millions)			995.3
Return (%)			-20.97
Benchmark (%)			-20.38
Retail Proportion (% of Net assets – Sep'20)			0
Ranking Against Peers			n/a
Launch date: January 2020			

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY18	FY19	FY20
Paid Up Capital	150.0	430.0	930.0
Total Equity	58.4	289.7	773.7
<u>INCOME STATEMENT</u>			
Total income	122.9	114.9	192
Profit Before Tax	-31.2	-46.9	-
Profit After Tax	-40.4	-56.4	-52.0
<u>RATIO ANALYSIS</u>			
Net Cash Generated from Operating Activities	-8.1	-78.6	-46.6

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
	31-Dec-20	AM2	Positive	Maintained
	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.			
Due Diligence meetings with	<ul style="list-style-type: none"> • Chief Investment Officer • Head of Business Development and Investment Advisory • Head of Compliance and Internal Audit • Head of Finance 			
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.			