

RATING REPORT

Faysal Asset Management Limited

REPORT DATE:

August 10, 2021

RATING ANALYSTS:

Asfia Aziz

asfia.aziz@vis.com.pk
RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Management Quality	
MQ Rating	AM2+	AM2
Rating Outlook	Stable	Positive
<i>Rating Date</i>	<i>August 10, 2021</i>	<i>December 31, 2020</i>
<i>Rating Action</i>	<i>Upgrade</i>	<i>Maintained</i>

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 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.

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.

Key Rating Drivers:

Market share and retail proportion in AUMs have further improved at end-April'21

Assets Under Management (AUMs) (adjusted for Fund of Funds Schemes) of the company grew significantly from Rs. 8.4b at end-June 2019 to Rs. 57.8b at end-May'21 (June'20: Rs. 30b). As a result, market share increased to 5.7% (FY20: 3.9%, FY19: 1.6%) at end-May'21. Growth in AUMs was significantly contributed by money market and income schemes including new funds launched under the same. FAML has also acquired three new business licenses comprising Pension Fund Management License, Private Fund Management License and REIT Management License. FAML currently offers a total of twenty three funds/plans in both conventional and Islamic arena. On the product development front, management envisages to launch new funds in the ongoing year in the following categories: CPPI plans, income/money market funds, conventional and Shariah pension funds, and private equity/venture capital funds.

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 38% (FY19: 28.1%, FY18: 29%, FY17: 37%) at end-May'21, granularity in AUM base depicts further room for improvement given top 10 investors represent more than two-third of AUMs (Mar'21: 72%, Sep'20: 74.0%, FY19: 73.6%, FY18: 68%). Going forward, management plans to improve concentration levels 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. The company has also set up a separate in-house Retail sales team in 1QCY21 in line with its sales strategy. Management also focused on building its Separately Managed Accounts (SMAs) portfolio which was reported higher at Rs. 2.65b (FY20: Rs. 2.1b, FY19: Rs. 827m, FY18: Rs. 1.1b), at end-Mar'21. Moreover, number of portfolios increased to 30 (FY20: 28).

Fund performance has improved significantly on a timeline basis.

At end-Mar'21, around 39% of the AUM base encompassing three funds (particularly Shariah Compliant Money Market category) and asset allocation strategy) lie in the first quartile, followed by five funds (particularly Shariah Compliant Income Scheme and Equity scheme) lying in the second quartile comprising 11% to the total net asset base. The aforementioned depicts significant improvement in fund performance in the review period in comparison to peers.

Achieved operational profitability during CY2020 on account of higher management fees backed by improvement in AUMs and higher investment income.

Given the increase in AUMs, the total revenues of the company (excluding investment income) have increased in 2020 to Rs.235m (2019: Rs. 69m) with diversification noted. Management fee continues to represent the largest portion of the revenue however proportion of the same has declined to 68% (2019: 91%) in 2020 due to growth observed in sales load and one-off gain on revaluation of investment property. Investment income of the company was also reported higher at Rs. 55m (2019: Rs. 12m) on account of greater dividend income amounting Rs. 14m, capital gains on sales of investments amounting Rs. 17m, unrealized gain on investments of Rs. 17m, and income on GoP securities to the tune of Rs. 4m. As a result, FAML achieved operational profitability of Rs. 97m in 2020 as compared to operational

loss of Rs. 13m in 2019. Equity levels are compliant with minimum regulatory requirement of Rs. 230.0m and were reported higher at Rs. 930m (2019: Rs. 430m) in 2020 owing to issuance of right shares. The company recorded net profit of Rs. 35m in 1Q21. For CY2021, the profit after tax is projected at Rs. 131m.

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	Mar'21
Fund Size (in Rs. millions)	2,246.60	2,768.80	5,244.90	7,157.06
Return (%) (12 Months Return for March)	5.23	8.87	12.57	7.66
Benchmark (%)	5.4	8.7	11.7	7.2
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	16.2	8.3	8.7	7.0
Ranking Against Peers	14/22	10/20	14/21	9/22
Launch date: December 2010				
<u>Faysal Savings Growth Fund</u>				
Fund Size (in Rs. millions)	2,187.30	1,570.00	2,610.90	2,475.06
Return (%) (12 Months Return for March)	4.9	7.59	11.67	7.55
Benchmark (%)	6.4	10.2	12.2	7.6
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	33.5	31.2	21.6	22.0
Ranking Against Peers	18/29	21/31	29/31	16/31
Launch date: May 2007				
<u>Faysal Financial Sector Opportunity Fund</u>				
Fund Size (in Rs. millions)	110.7	702.4	1,082.00	886.14
Return (%) (12 Months Return for March)	4.85	8.81	12.91	7.54
Benchmark (%)	6.4	10.2	12.2	7.6
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	72.7	48.2	69.7	55.0
Ranking Against Peers	19/29	10/31	23/31	10/31
Launch date: July 2013				
<u>Faysal Islamic Savings Growth Fund</u>				
Fund Size (in Rs. millions)	1,013.30	1,643.40	2,241.25	3,596.10
Return (%) (12 Months Return for March)	4.42	7.85	10.67	6.94
Benchmark (%)	2.4	3.7	6.3	4.4
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	34.8	29.6	31.7	53.0
Ranking Against Peers	9/20	11/21	13/21	4/22
Launch date: June 2010				
<u>Faysal Income & Growth Fund</u>				
Fund Size (in Rs. millions)	902.3	544.8	773.5	739.38
Return (%) (12 Months Return for March)	5.15	7.81	11.19	7.74
Benchmark (%)	6.7	10.7	12.3	7.8
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	18.5	16.9	10.7	11.0
Ranking Against Peers	4/7	3/7	5/7	5/7
Launch date: October 2005				
<u>Faysal Asset Allocation Fund</u>				
Fund Size (in Rs. millions)	186.8	95.1	113.7	275.73
Return (%) (12 Months Return for March)	-21.64	-20.96	1.83	97.07
Benchmark (%)	-5.8	-7.3	6.0	44.1
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	47.9	45.7	14.0	65.0
Ranking Against Peers	12/12	13/13	9/15	1/14
Launch date: July 2006				
<u>Faysal Stock Fund</u>				
Fund Size (in Rs. millions)	221.4	116.5	104.9	2,015.09
Return (%) (12 Months Return for March)	-18.31	-28.24	4.57	89.10

Benchmark (%)	-10.0	-19.1	1.5	52.5
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	45.4	26.6	27.9	54.0
Ranking Against Peers	22/24	24/27	8/24	3/27
Launch date: April 2004				
<u>Faysal Islamic Asset Allocation Fund</u>				
Fund Size (in Rs. millions)	428.6	180	1833.9	2,515.11
Return (%) (12 Months Return for March)	-19.77%	-19.46	10.89	8.61
Benchmark (%)	-5.2	-13.2	4.5	4.4
Retail Proportion (% of Net assets – Sep'20 in FY20 column)	0.5	58.4	2.4	1.8
Ranking Against Peers	10/12	12/13	1/11	9/12
Launch date: September 2015				
<u>Faysal MTS Fund</u>				
Fund Size (in Rs. millions)	644	838.3	1000.6	4,593.76
Return (%) (12 Months Return for March)	5.63	9.04	13.04	8.66
Benchmark (%)	6.4	10.2	12.2	7.6
Retail Proportion (% of Net assets – Oct'19)	59.9	66.8	62.9	48.0
Ranking Against Peers	5/29	8/31	22/31	1/31
Launch date: April 2016				
<u>Faysal Sharia Capital Preservation Plan Fund</u>				
Fund Size (in Rs. millions)			961.98	770.24
Return (%) (12 Months Return for March)			5.39	20.60
Benchmark (%)			5.9	16.1
Retail Proportion (% of Net assets – Sep'20 in FY20 column)			98.0	96.0
Ranking Against Peers			10/31	6/28
Launch date: July 2019				
<u>Faysal Sharia Capital Preservation Plan Fund-II</u>				
Fund Size (in Rs. millions)			1088.4	938.79
Return (%) (12 Months Return for March)			3.28	20.64
Benchmark (%)			5.3	18.7
Retail Proportion (% of Net assets – Sep'20 in FY20 column)			99.0	98.0
Ranking Against Peers			13/31	2/28
Launch date: September 2019				
<u>Faysal Halal Amdani Fund</u>				
Fund Size (in Rs. millions)			6592	9,189.18
Return (%) (12 Months Return for March)			11.75	735.00
Benchmark (%)			5.4	390.0
Retail Proportion (% of Net assets – Sep'20 in FY20 column)			48.4	83.0
Ranking Against Peers			3/9	2/14
Launch date: October 2019				
<u>Faysal Financial Value Fund</u>				
Fund Size (in Rs. millions)			1691.6	1,720.89
Return (%) (12 Months Return for March)			6.57	10.91
Benchmark (%)			6.6	8.0
Retail Proportion (% of Net assets – Sep'20 in FY20 column)			100.0	100.0
Ranking Against Peers			4/15	12/14
Launch date: December 2019				

<u>Faysal Government Securities Fund</u>				
Fund Size (in Rs. millions)			2,914	1,248.10
Return (%) (12 Months Return for March)			10.9	7.64
Benchmark (%)			8.7	7.5
Retail Proportion (% of Net assets – Sep'20 in FY20 column)			0.0	0.0
Ranking Against Peers			31/31	18/31
Launch date: March 2020				
<u>Faysal Islamic Dedicated Equity Fund</u>				
Fund Size (in Rs. millions)			995.3	3,020.54
Return (%) (12 Months Return for March)			-20.97	47.52
Benchmark (%)			-20.4	62.1
Retail Proportion (% of Net assets – Sep'20 in FY20 column)			0.0	0.0
Ranking Against Peers			n/a	n/a
Launch date: January 2020				
<u>Faysal Islamic Cash Fund</u>				
Fund Size (in Rs. millions)				9,302.76
Return (%) (12 Months Return for March)				6.83
Benchmark (%)				3.5
Retail Proportion (% of Net assets – Sep'20 in FY20 column)				20.0
Ranking Against Peers				1/14
Launch date: August 2020				

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	2019	2020	1Q21
Paid Up Capital	430	930	930
Total Equity	290	929	964
<u>INCOME STATEMENT</u>			
Total income	80	290	92
Profit Before Tax	(17)	91	50
Profit After Tax	(13)	140	35
<u>RATIO ANALYSIS</u>			
Net Cash Generated from Operating Activities	-44.8	-48.8	34.8
Current Ratio (x)	NA	NA	NA
Gearing (x)	NA	NA	NA

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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
	10-Aug-21	AM2+	Stable	Upgrade
	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.			
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			
Due Diligence Meetings	<ul style="list-style-type: none"> • Head of Strategy and HR (Mr. Saad H. Qureshi) on June 03, 2021 • Head of Risk Management (Mr. Imad) on June 03, 2021 			