

October 13, 2014

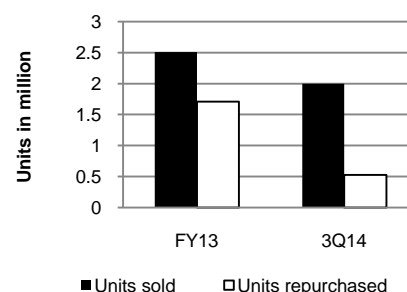
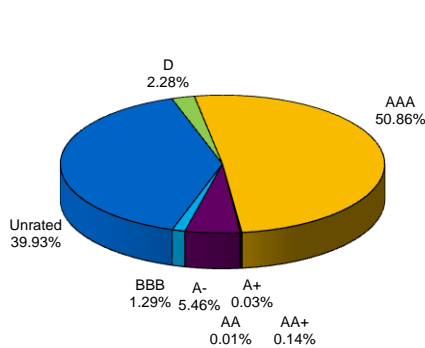
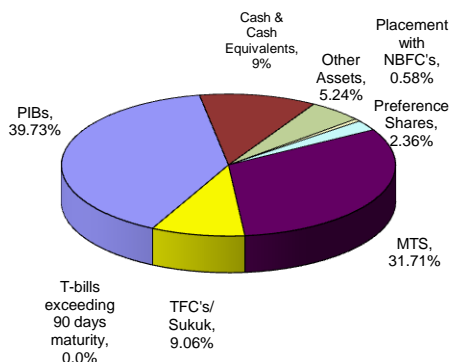
**Analysts:** Talha Iqbal  
Moiz Badshah

**Investment Objective**

The objective of AKDAIF is to offer investors a convenient vehicle to invest in a diversified portfolio of fixed income securities / instruments that provide consistent returns with concern for preservation of capital over the longer term.

AKD Aggressive Income Fund		
Rating Category	Latest	Previous
Fund Stability Rating	<b>BBB(f)</b>	<b>BBB(f)</b>
	Sep 26, '14	Jun 19, '13
Management Company	AKD Investment Management Limited	
Chief Executive	Mr. Imran Motiwala	
Fund Manager	Mr. Muhammad Yaqoob	
External Auditors – Fund	M. Yousuf Adil Saleem and Co. Chartered Accountants	
Trustee	Central Depository Company of Pakistan Limited	
Front-end Load	1%	
Back-end Load	-	
Management Fee	1.5% of daily average net assets of the fund	
Benchmark	1 Year KIBOR	

Asset Class Distribution: June'14	Credit Analysis: June'14	Investor Activity
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Launched in March 2007, AKD Aggressive Income Fund (AKD-AIF) is an open-end fund managed by AKD Investment Management Limited. In August 2011, the fund was converted from an Income Fund to an Aggressive Income Fund. In line with its categorization, the fund's ability to assume risk is on the higher side, with no minimum threshold defined for assuming credit risk in addition to which there is no restriction on time to maturity of a single security. The Weighted Average Maturity (WAM) of net assets however is capped at 5 years.

Within the universe of fixed income instruments, the following limits have been defined in the operational investment policy for FY14:

**Table 1: Operational Investment Policy**

Asset Description	Allocation Limit
Term Finance Certificates / Sukuk	Maximum 50% of net assets
Margin Trading System and Spread transactions	Maximum 60% of net assets
Cash and cash equivalents and T-bills with maturities less than 90 days	Minimum 10% of net assets
Government securities (more than 90 days maturity)	
Money market placements	
Deposits	Maximum 50% of net assets
CODs / COMs	
Term deposit receipts	
Commercial paper	

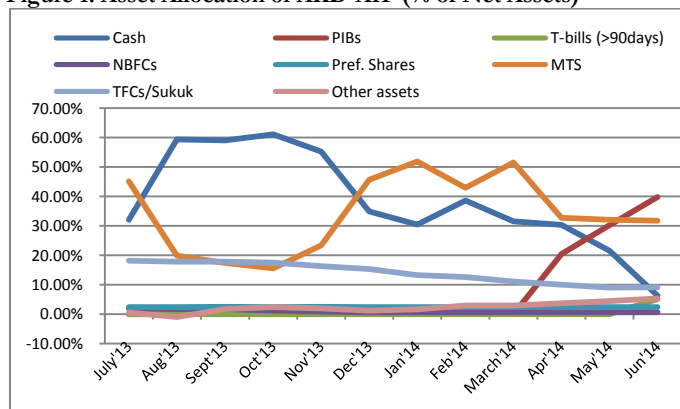
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Reverse repo

As per the investment policy, maximum investment allowed in TFCs/Sukuk and MTS & spread transactions is 50% and 60% of net assets, respectively. Investment in government securities (having more than 90 days maturity) and money market placements is allowed up to 50% of net assets. Exposure to cash and bank balances and T-Bills (with maturity less than 90 days) is required to be maintained at a minimum of 10% at all times.

Asset mix has varied considerably over the course of the last year. During 1H-FY14, majority of fund’s assets were held in bank; as per month end data, the allocation to cash & bank balances peaked at 61.11% at end Oct-13. From this point onwards, the proportion of assets held as cash & bank balances varied inversely with the allocation to MTS (Margin-Trading-System), which reached a high of 51.81% at end Jan-14. The sizeable exposure in MTS has increased the level of risk assumed by the fund, given the underlying leveraged stock positions; the margin requirements and monitoring tools employed by the exchange mitigate this risk to an extent. In addition, an approved list of securities for undertaking MTS transactions is also in place. During FY14, exposure in MTS represented almost one-third of the fund’s assets, as per month end average.

**Figure 1: Asset Allocation of AKD-AIF (% of Net Assets)**



From March'14, the fund has built substantial holding in Pakistan Investment Bonds, reaching 39.73% at end Jun-14. Allocation to corporate debt instruments has steadily declined from 17.85% at end June 2013 to 9.06% at end June 2014 on account of principal repayments and provisions against non-performing exposures.

**Table 2: Asset Allocation of AKD-AIF (% of Total Assets)**

	Average FY14	Jun'14	Dec'13	July'13
Cash	38.78%	11.32%	34.90%	32.03%
PIBs	7.53%	39.73%	0%	0%
T-Bills*	0%	0%	0%	0%
NBFCs	0.95%	0.58%	0.58%	1.95%
Pref. Shares	2.38%	2.36%	2.37%	2.35%
MTS	34.13%	31.71%	45.7%	45.11%
TFCs/ Sukuk	13.96%	9.06%	15.28%	18.08%
Other assets	2.27%	5.24%	1.17%	0.48%

No fresh exposure in TFCs/Sukuk has been taken during FY14. The fund has 2.28% exposure in instrument issued by Worldcall Telecom Limited (WTL), which is in 'Default'. Around 84% of the said exposure has been provided for while the management expects to fully provide the same by Feb'15. Management has also undertaken provisions against exposure in Summit Bank Limited (SBL) and around 45% of the same has been provided for. Exposure in Maple Leaf Cement has increased on account of reversals recorded against the same in June'14. Details of TFCs/Sukuk held by AKD-AIF are presented below.

**Table 3: TFCs/Sukuk Portfolio of AKD-AIF**

Issuer	Rating (Latest)	% of net assets		
		Jun'14	Dec'13	July'13
Worldcall Telecom Limited*	D	2.28%	4.41%	5.30%
Avari Hotels Limited	A-	2.11%	2.79%	2.76%
JDW Sugar Mills Limited	A+	-	1.20%	2.36%
Summit Bank Limited	A-	3.35%	4.70%	5%
Al-Abbas Sugar Mills Limited*	A+	-	0.00%	1.20%
Kohat Cement	Unrated	-	0.37%	0.8%
Maple Leaf Cement Factory Limited*	BBB	1.29%	0.61%	0.63%
PACE Pakistan Ltd	Unrated	-	0.00%	0.01%
ENGRO Fertilizer	A+	0.03%	0.03%	0.03%

\* Ratings by PACRA

AKD-AIF also carries preference shares to the tune of 2.36% of total assets, which had been issued by Security Leasing Corporation Limited; aggressive income funds are not allowed to hold preference shares. This investment has been classified as non-performing, with no further provisions in FY14 held against it. Some other non-performing assets held by the fund have been fully provided, including Rs. 100m and Rs. 30m exposure in instruments issued by Dewan Cement Limited and New

Allied Electronics Industries (Private) Limited, respectively.

Weighted average time to maturity (excluding government securities) of net assets was reported at 1.86 years at end-June'14 and was at its highest at this time. Given the increased exposure towards PIBs, duration (overall portfolio) of the fund has increased significantly in the last quarter and was at its highest at 3.27 years at end-June'14. In view of this, the fund's exposure to interest rate risk has heightened considerably.

The fund's returns depicted significant volatility during FY14, as depicted in the chart below. Overall return posted by the fund for the year was the lowest amongst peers. Performance has been affected on account of provisions undertaken against TFCs of WTL and SBL. After adjusting for provisions, returns would have been slightly above benchmark.

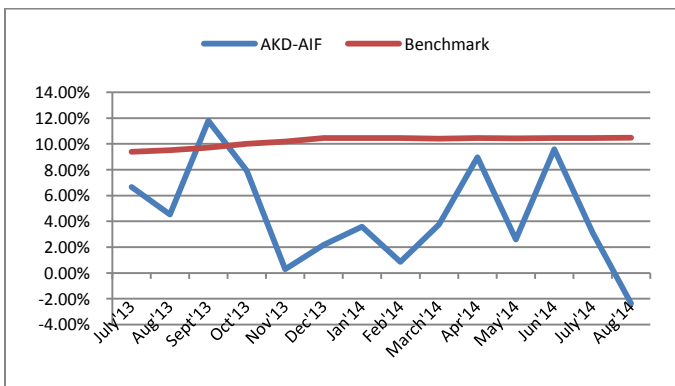
**Table 4: Performance Summary of AKD-AIF**

	FY14	FY13
<b>Return*</b>	5.41%	6.58%
<b>Benchmark**</b>	10.16%	10.23%
<b>Peer Max.*</b>	22.18%	17.59%
<b>Peer Avg.*</b>	10.52%	9.66%
<b>Peer Ranking*</b>	8/9	8/9

\* WWT provisioning in case of all funds has been reversed for comparability

\*\*Benchmark of the fund was changed from 6M KIBOR to 1Y KIBOR subsequent to year-end 2011

**Figure 2: Monthly Returns of AKD-AIF**



Net assets of AKD-AIF stood at Rs. 471m at end June 2014, marginally lower from Rs. 487m at the end of the preceding year. Investor concentration level in the fund continue to be on the higher side with top 10 investors holding 98.8% of net assets at end-June'14; in view of this, liquidity risk is considered on the higher side [JCR-VIS]

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Fund Stability</u>				
26-Sep-14	BBB(f)			Reaffirmed
19-Jun-13	BBB(f)			Reaffirmed
27-Mar-12	BBB(f)			Reaffirmed
15-Dec-10	BBB(f)			Reaffirmed