

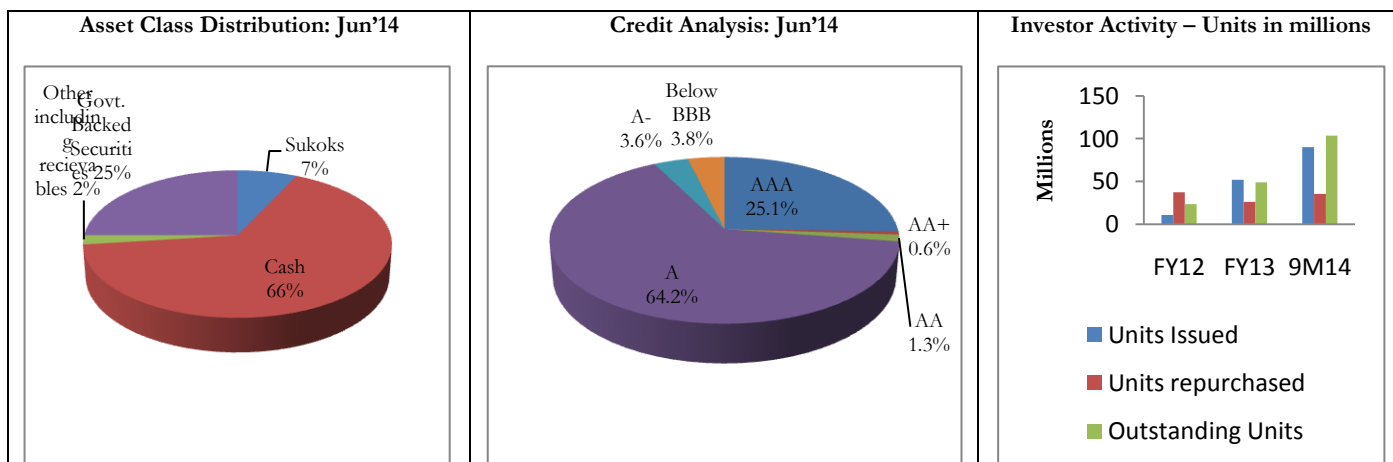
**Date: October 29, 2014**

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Faiq Sattar

**Investment Objective**

To provide investors with high and stable rate of income consistent with long term preservation of capital in a Shariah compliant way. A secondary objective is to take advantage of opportunities to realize capital appreciation.

Meezan Islamic Income Fund		
Rating Category	Latest	Previous
Fund Stability Rating	<b>A-(f)</b>	<b>A-(f)</b>
	Oct 29, 2014	Aug 15, 2013
AMC	Al Meezan Investment Management Ltd.	
External Auditors – Fund	KPMG Taseer Hadi & Co.	
Fund Managers	Zain Malik	
Shariah Advisor	Meezan Bank Limited	
Trustee	Central Depository Company	
Front-end Load	0.50%	
Back-end Load	Contingent load for Type C Investors	
Management Fee	1.5%	
Benchmark	Average rate on deposits of 3 Islamic banks.	



Meezan Islamic Income fund (MIIF) was launched in January 2007 and is categorized as a Shariah-compliant income fund.

The investment policy of the fund, as laid down in the constitutive documents, allows the fund to invest in Islamic instruments such as Sukuk, Musharaka & Murabaha Instruments, Shariah compliant spread transactions, Certificate of Islamic Investments and other Islamic income products.

Salient features of the investment policy are as follows:

- At least 25% of net assets have to remain invested in cash & near cash instruments which include cash

in bank (excluding TDRs) and T-bills with maturity not greater than three months.

- Counterparty/instrument rating of all exposures held in the fund should be investment grade.
- Proportion of net assets invested in non-tradable securities (Reverse Repo, bank deposits, COMs with maturity exceeding 6 months) cannot exceed 15% of net assets.
- Weighted average time to maturity, excluding government securities, shall not exceed 4 years.

Net assets of the fund depicted considerable increase to Rs. 4.9b (FY13: Rs. 2.6b) in FY14. The increase

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was mostly contributed by additional investment by related parties, which held 39.7% of outstanding units at end FY14 (FY13: 10.9%). The largest investor is Al-Meezan Investment Management Limited (Al-Meezan) itself, holding 16.5% of the units. Accordingly, investor concentration has trended upwards, with top 10 investors holding 55.8% (end-Dec'13: 41.2%) of outstanding units at end-Jun'14.

Risk profile of the fund has become conservative on a timeline basis as proceeds realized from maturing investment in corporate Sukuk were re-deployed in GoP Ijarah Sukuk and deposits in banks having a minimum rating in the 'A' band. Asset allocation of the fund is tabulated below:

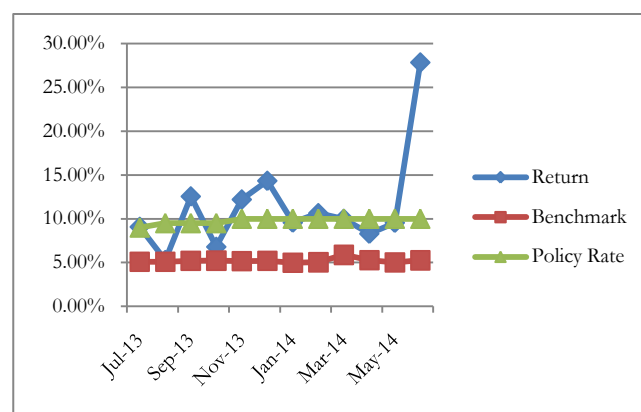
Asset Allocation (MIIF)		
	Avg. FY13	Avg. FY14
Sukuk	26%	10%
GoP Ijarah Sukuk	28%	26%
Cash	34%	62%
Corporate debt Instruments	10%	10%
Others inc. Receivables	5%	3%

Corporate debt instruments in the portfolio include those issued by Engro Fertilizer Limited and Maple Leaf Cement Factory Limited (MLCF), representing 3.6% and 3.8% of total assets, respectively. The MLCF Sukuk was restructured previously and has been declassified in June, 2014. Investment in non performing Sukuk amounted to Rs. 144.1m (FY13: Rs. 486.1m) and is fully provided. Over time, quality of the portfolio has improved. Exposure to assets rated below BBB has come down from 6.2% of total assets at end June 2013 to 3.8% by end June 2014. In view of this, the fund's susceptibility to downside risk

emanating from exposure in instruments with weak credit risk profile has reduced. Given the asset composition, credit risk emanating from the portfolio is manageable.

Exposure to interest rate risk is expected to remain within manageable limits as returns on even long term Shariahdf compliant instruments available in the market are pegged to market benchmark rates. Weighted average time to maturity stood at 0.9 years at end-June '14 (end-June, 13: 1.2 years).

MIIF has continued to generate healthy returns, even though the same have come down in the out-going financial year in line with market benchmark rates. The return of 11.9% reported in FY14 benefited from reversals in provisioning towards the close of the financial year. Given that the fund holds other assets which have been fully provided, any recoveries against the same may also have a positive impact on returns. The volatility in prices of GoP Ijarah Sukuk may also continue to impact returns. Month-wise return of the fund is depicted in the chart below:



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**Rating History**

<b>Rating Type</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Action</b>
<b>Fund Stability</b>	10/29/2014	A-(f)	Reaffirmed
<b>Fund Stability</b>	8/15/2013	A-(f)	Reaffirmed
<b>Fund Stability</b>	3/16/2012	A-(f)	Downgrade
<b>Fund Stability</b>	12/14/2010	A(f)	Downgrade