

## RATING REPORT

### HBL Asset Management Limited

**REPORT DATE:**

January 4, 2019

**RATING ANALYSTS:**

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#### RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	<b>MQR</b>	<b>MQR</b>
MQ Rating	AM2+	AM2+
Rating Outlook	Positive	Stable
Rating Date	December 28, 2018	December 29, '17

#### COMPANY INFORMATION

Incorporated in 2006	External auditors: <b>A. F. Fergusons</b>
Unlisted Public Limited Company	Chairman of the Board: <b>Mr. Agha Sher Shah</b>
Key Shareholders:	Chief Executive Officer: <b>Mr. Farid Ahmed Khan</b>
Habib Bank Limited – 100%	

#### APPLICABLE METHODOLOGY(IES)

 Mutual Funds Rating (March 2016): <http://www.jcrvis.com.pk/docs/AMC-Methodology-201603.pdf>

## HBL Asset Management Limited

### OVERVIEW OF THE INSTITUTION

HBL Asset Management Limited (HBL AML) was incorporated in 2006 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. Agha Sher Shah joined HBL AML in December 2017. He is currently Chairman and Chief Executive Officer of Bandhi Sugar Mills. He also holds the position as a Director in Habib Bank Limited, Attock Cement Limited, Thatta Cement Company Limited, and Triton LPG (Private) Limited.

#### Profile of CEO

Mr. Farid Ahmed Khan, CFA has been involved with capital markets for over 23 years. He has previously served in same capacity at other AMCs as well. Mr. Khan serves on the

### RATING RATIONALE

HBL Asset Management Limited (HBL AML) was incorporated in 2006 as an unlisted public limited company. In 2016, HBL AMC acquired 100% shareholding of PICIC Asset Management Company Limited (PICIC AMC) from NIB Bank for a total consideration of Rs. 4.1b which was entirely financed through debt. During the ongoing fiscal year (July 2018), the company successfully converted its two closed-end funds (HBL Growth Fund (HGF) and HBL Investment Fund (HBL IF)) into open-end funds. Each investor in these funds has been issued Class A (frozen) and Class B shares (non-frozen). Around half of the AUMs of the two funds pertain to Class A shares.

#### Key Rating Drivers:

**Market Share increased in the outgoing fiscal year; retail proportion in total AUMs remain low and has declined on a timeline basis. Market share targeted to be increased by 1% each year for the next three years**

Assets under Management (AUMs) excluding Fund of Fund investment have witnessed growth and were reported at Rs. 62.1b (June'18: Rs. 60.8b; Oct'17: Rs. 57.7b) at end-October 2018. With industry AUMs declining by 2% in FY18 and HBL AMC posting growth in AUMs, market share increased to 9.86% (FY17: 9.03%) at end-FY18. Despite opening of HGF and HBL IF, AUMs of the two funds increased by 2% during July 2018 to October 2018. Around 16% of the total AUM base comprises frozen component of the recently converted close-ended funds. AUMs of equity funds declined while growth was manifested in income and money market schemes. With aggressive sales force growth, roll-out of digital strategy and branch expansion, market share is projected to increase, going forward.

Around four-fifth of the total AUM base comprises conventional offerings with the remaining in Shariah compliant schemes. Proportion of retail investment in relation to total AUMs is on the lower side and was reported at 29% (FY17: 33%) at end-FY18 (excluding the recently converted HBL GF and HBL IF) while proportion of unrelated corporate clients increased. Granularity in AUM base has room for improvement given higher concentration of top 10 investors at 71% (FY17: 70%) at end-FY18. Management's focus is directed towards strengthening retail investment proportion by expanding outreach through HBL Bank branches, strengthening in-house sales force and roll-out of digital initiatives. Market share (net of associate investments) is projected to grow by 1% each year for the next three years.

Separately Managed Accounts (SMAs) portfolio stood at Rs. 744m at end-June 2018 and was on the lower side vis-à-vis peers. Significant increase in SMAs has been noted during 5MFY19.

**Comprehensive product portfolio; focus on consolidation of similar funds and launch of financial plans projected, going forward**

HBL AML offers a range of investment solutions on both conventional and Islamic arena. As on October 2018 product suite comprises a total of 20 open-ended funds encompassing 4 conventional money market & income schemes, 5 conventional equity schemes, 2 Islamic money market & income schemes, 3 Islamic equity schemes, and the remaining include fund of fund schemes, pension and balanced funds. During 2018, HBL AMC launched a Shariah Compliant Dedicated Equity Fund and an Islamic Capital Preservation Plan. Going forward, management will focus on consolidation of similar funds and launching financial planning funds.

**Strong focus towards aggressive increment in sales force and enhancement of customer base through digital initiatives**

During FY18, contribution in sales units from HBL AMC's own branch/head office further increased while contribution from HBL Bank branches declined. In order to improve retail fund

Board of various organizations. mobilization from HBL Bank Branches, target for AUMs generated in 2019 from HBL Bank Branches have now been set on net basis as opposed to gross basis previously. Customer base of the AMC witnessed a growth of 11% during FY18. Active clients represent around one half of the total client base.

Region-wise breakup of sales depict around three-fourth of the total units sold in FY18 have been generated from the southern market. The sales team personnel increased to 83 (FY17: 66). However, size of the sales force is on the lower side vis-à-vis industry peers. The sales team has been equipped with state of the art IT gadgets in order to optimize performance. Moreover, Customer Relationship Management (CRM) system-MS Dynamics 365 was implemented in February'2018 which provides live information on performance of the sales team and facilitates in performance evaluation. Risk profiler is also being rigorously implemented and evaluated in order to avoid instances of mis-selling. Going forward, management envisages doubling of sales force, opening of four new investment centers (4 branches currently), and significant focus on client generation through digital initiatives. These initiatives include targeted marketing to potential clients through integration of HBL AML's funds on HBL Bank's online web banking and mobile applications as well as development of HBL AML's own mobile application. Management will also focus on Sahulat Sarmaya accounts of SECP to tap mass markets. Digital marketing initiatives are at an advanced stage with roll-out expected shortly. Going forward, other initiatives include opening of online accounts and launch of ATM cards. Translation of these initiatives into increase in client base and growth in retail AUMs are important from a rating perspective.

#### **Improved Investment Decision Making Process**

The investment decision making process is well-structured with top down view along with in-depth fundamental analysis. The decision making process is committee based with the participation of key senior management personnel. Investment Committee (IC) comprises CEO, CIO, Head of Research, Head of Risk Management, and respective fund managers. Composition and functioning of IC is considered adequate with IC being convened on a weekly basis. IC now includes separate research based (discussion on new ideas and recent developments) and portfolio management IC (focused on portfolio review and asset allocation). Strength and experience of the investment management team is consistent with the assets being managed, backed by adequate analytical resources and clear segregation of responsibilities. Changes in the department during the outgoing year include enhanced synergies between fund management and research team, increased reliance on in-house research team consequently reducing reliance on sell-side research and frequent corporate client meetings in order keep the investment team abreast with industry dynamics of various sectors.

#### **Strong Fund Performance in CY18**

Relative ranking of funds vis-à-vis peers has depicted broad based improvement across most investment schemes in the ongoing calendar year. Five out of six equity funds reported returns in the first quartile vis-à-vis peers. For money market funds (representing around 45% of AUMs as at end-October'2018), relative ranking of funds was maintained with HBL Cash Fund ranking 5/19 while HBL Money Market Fund ranked 10/19. Performance ranking of income funds were in the 1<sup>st</sup> and 2<sup>nd</sup> quartile while HBL Islamic asset allocation fund ranked 2/9 funds.

#### **Adequate Control Framework**

Subsequent to the decision of the BoD to discontinue the services of M/s Ernst & Young, Chartered Accountants (EY), all responsibilities of the internal audit function have been delegated to a three member in-house internal audit (IA) team. Scope of IA includes assessment of operational risk, evaluation of internal control framework for identification of potential risks along with recommendations for improvement. IA is also responsible to fulfill pre-audit functions of functions including settlements, payments and Cheques. A risk based audit methodology is followed with all audit observations being classified into high, medium and low risk category depending on the magnitude of impact on the business objective and its likelihood of occurrence. Going forward, the department plans to enhance its scope to include branch audits.

The compliance department of the company comprises three personnel including the head of the

department. No changes were noted in the department structure during FY18. KYC and AML compliance remains the key focus area of the department with frequent monitoring of high risk clients. The department continues to actively resolve outstanding discrepancies related to KYC backlogs. During the outgoing year, enhanced activity to identify and update list politically exposed person was undertaken. Furthermore, HBL AMC actively works in collaboration with HBL Bank to strengthen investment trading practices and overall controls. The company has also implemented a call recording policy with compliance regularly listening to call recordings as part of predefined criteria. Moreover, the department provides semi-annual trainings to related functions of the company for AML activities.

**Operating profitability witnessed growth in the ongoing year due to lower expenses. Maintaining adequate cushion for debt servicing, as projected, is considered important.**

**Comfort is drawn from strong profile and expected support of the Sponsor, if needed**

Management fee earned declined by 3.3% during 9MCY18. Decline was attributable to shift in AUMs towards lower management fee schemes. Resultantly, management fee generated from equity & income funds declined which was largely offset by increase in fee earned on money market funds. Despite decline in management fee earned, overall revenues increased by 4% due to lower unrealized loss on investments. Operating profitability increased on account of lower expenses during the period. Going forward, management fee is projected to double over the next three years on the back of healthy growth in AUMs. However, expense base is also projected to depict increase given sizeable cost being incurred on IT infrastructure, expansion of branches and sales team. Maintaining adequate cushion for debt servicing, as projected, is considered important. Comfort is drawn from strong profile and expected support of the Sponsor, if needed.

# JCR-VIS Credit Rating Company Limited

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

## HBL Asset Management Limited

FINANCIAL SUMMARY (AUMs are reported as gross)		Appendix I	
<b><u>HBL Money Market Fund</u></b>		<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)		3,942	7,250
Return (%)		6.45%	5.32%
Benchmark (%)		5.26%	5.35%
Retail Proportion (% of Net assets)		49%	50%
Ranking Against Peers		13 out of 22	11 out of 22
<b><u>HBL Islamic Money Market Fund</u></b>		<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)		835	957
Return (%)		4.19%	4.32%
Benchmark (%)		3.22%	2.58%
Retail Proportion (% of Net assets)		29%	38%
Ranking Against Peers		3 out of 3	2 out of 3
<b><u>HBL Cash Fund</u></b>		<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)		5,954	12,040
Return (%)		7.18%	5.49%
Benchmark (%)		5.00%	5.35%
Retail Proportion (% of Net assets)		11%	12%
Ranking Against Peers		6 out of 22	3 out of 22
<b><u>HBL Income Fund</u></b>		<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)		4,490	2,456
Return (%)		4.64%	4.98%
Benchmark (%)		6.10%	6.35%
Retail Proportion (% of Net assets)		49%	43%
Ranking Against Peers		28 out of 29	16 out of 29
<b><u>HBL Government Securities Fund</u></b>		<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)		1,370	314
Return (%)		5.54%	4.74%
Benchmark (%)		5.88%	6.20%
Retail Proportion (% of Net assets)		28%	54%
Ranking Against Peers		17 out of 29	23 out of 29
<b><u>HBL Islamic Income Fund</u></b>		<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)		4,461	4,042
Return (%)		5.52%	5.18%
Benchmark (%)		3.37%	2.44%
Retail Proportion (% of Net assets)		40%	13%
Ranking Against Peers		8 out of 17	2 out of 18
<b><u>HBL Stock Fund</u></b>		<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)		6,355	5,958
Return (%)		23.89%	-11.85%
Benchmark (%)		20.79%	-10.03%
Retail Proportion (% of Net assets)		5%	4%
Ranking Against Peers		15 out of 20	10 out of 23

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<b><u>HBL Energy Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	795	1,061
Return (%)	30.12%	-2.33%
Benchmark (%)	20.79%	-10.03%
Retail Proportion (% of Net assets)	54%	36%
Ranking Against Peers	8 out of 20	3 out of 23
<b><u>HBL Equity Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	469	294
Return (%)	27.67%	-11.38%
Benchmark (%)	23.24%	-10.00%
Retail Proportion (% of Net assets)	26%	38%
Ranking Against Peers	11 out of 20	8 out of 23
<b><u>HBL Growth Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	14,583	12,676
Return (%)	25.36%	-8.23%
Benchmark (%)	23.24%	-10.00%
Retail Proportion (% of Net assets)	35%	34%
<b><u>HBL Investment Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	6,331	5,435
Return (%)	23.18%	-8.54%
Benchmark (%)	23.24%	-10.00%
Retail Proportion (% of Net assets)	36%	36%
<b><u>HBL Islamic Stock Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	1,044	2,542
Return (%)	24.51%	-13.99%
Benchmark (%)	18.80%	-9.59%
Retail Proportion (% of Net assets)	12%	6%
Ranking Against Peers	8 out of 15	7 out of 15
<b><u>HBL Islamic Equity Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	790	1,318
Return (%)	24.42%	-12.32%
Benchmark (%)	18.80%	-9.59%
Retail Proportion (% of Net assets)	21%	6%
Ranking Against Peers	9 out of 15	4 out of 15
<b><u>HBL Islamic Asset Allocation Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	2,623	2,470
Return (%)	9.83%	-0.78%
Benchmark (%)	7.63%	-0.28%
Retail Proportion (% of Net assets)	57%	45%
Ranking Against Peers	9 out of 10	1 out of 10
<b><u>HBL Pension Fund</u></b>	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	575	577
Return (%) - Debt	4.37%	3.99%

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Return (%) – Money market	4.50%	4.38%
Return (%) - Equity	27.33%	-10.24%
<b><u>HBL Islamic Pension Fund</u></b>		
	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	382	357
Return (%) - Debt	5.06%	2.89%
Return (%) – Money market	4.15%	3.41%
Return (%) - Equity	27.56%	-12.02%
<b><u>HBL Multi Asset Fund</u></b>		
	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	967	324
Return (%)	18.40%	-6.28%
Benchmark (%)	16.21%	-4.08%
Retail Proportion (% of Net assets)	18%	52%
<b><u>HBL Financial Planning Fund</u></b>		
	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	0	673
Return YTD (%) – Active Allocation Plan	NA	2.65%
Return YTD (%) – Conservative Allocation Plan	NA	3.76%
Return YTD (%) – Strategic Allocation Plan	NA	2.52%
<b><u>HBL Islamic Financial Planning Fund</u></b>		
	<b>FY17</b>	<b>FY18</b>
Fund Size (in Rs. millions)	4,478	4,566
Return (%) – Active Allocation Plan	0.17%	0.40%
Return (%) – Conservative Allocation Plan	0.34%	1.40%
Return (%) – Strategic Allocation Plan	0.51%	1.36%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**RATING SCALE - 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 JCR-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 JCR-VIS.*

**Rating Watch:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)



## JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	HBL Asset Management Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Outlook</b>	<b>Rating Action</b>
	12/28/2018	AM2+	Positive	Maintained
	12/29/2017	AM2+	Stable	Upgrade
	12/30/2016	AM2	Positive	Maintained
	5/4/2016	AM2	Stable	Harmonized
	1/14/2016	AM2-	Stable	Reaffirmed
	3/13/2015	AM2-	Stable	Reaffirmed
	10/21/2013	AM2-	Stable	Upgrade
	12/26/2012	AM3+	Positive	Reaffirmed
10/20/2011	AM3+	Positive	Maintained	
Instrument Structure	N/A			
Statement by the Rating Team	JCR-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	Not Applicable			
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