

RATING REPORT

HBL Asset Management Limited

REPORT DATE:

January 8, 2020

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2+	AM2+
Rating Outlook	Positive	Positive
Rating Date	December 31, 2019	December 28, 2018

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MQ Rating	AM2+	AM2+
Rating Outlook	Positive	Positive
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COMPANY INFORMATION	
Incorporated in 2006	External auditors: A. F. Fergusons & Co.
Unlisted Public Limited Company	Chairman of the Board: Mr. Atif Bajwa
Key Shareholders:	Chief Executive Officer: Mr. Mir Adil Rashid
Habib Bank Limited – 100%	

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Mutual Funds Rating (March 2016):

<http://www.vis.com.pk/docs/AMC-Methodology-201603.pdf>

HBL Asset Management Limited

OVERVIEW
OF THE
INSTITUTION

HBL Asset Management Limited (HBL AMC) 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. Atif Bajwa has significant experience in the banking sector at various senior management positions. These positions have included President of Abu Dhabi Group (Pakistan), President of Soneri Bank, President MCB Bank and President Bank Al Falah in Pakistan.

Profile of CEO

Mr. Mir Adil Rashid held the CEO office in September 2019. Mr. Rashid possesses rich and diversified experience of approximately 20 years of portfolio management,

RATING RATIONALE

HBL Asset Management Limited (HBL AMC) 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.

Key Rating Drivers:

Market Share declined in the outgoing fiscal year although growth has been witnessed in Assets Under Management (AUMs) in recent months. AUM profile has improved with increase in proportion of retail AUMs and reduction in investor concentration levels. Despite increasing on a timeline basis, proportion of retail AUMs remains low.

AUMs have witnessed a decline since last review and were reported at Rs. 48.7b (June'19: Rs. 42.6b, June'18: Rs. 60b) at end-November'19. With rate of decline in HBL AMC AUMs being higher than industry, market share stood lower at 7.9% (FY18: 9.86%) at end-June 2019. Decline was primarily due to attrition in closed-end funds that were opened in FY18. Around 14% of the total AUM base comprises frozen component of the converted close-end funds. Broad based decline across all categories of funds was noted excluding Islamic income and money market funds category.

Proportion of conventional AUMs increased in the outgoing year contributing more than four-fifth of the total AUM base. Proportion of retail investment in relation to total AUMs remains on the lower side; however the same improved in the outgoing year and was reported at 33% (FY18: 29%) at end-FY19 while proportion of unrelated corporate clients decreased. Granularity in AUM base improved with top 10 investors concentration reported at 42% (FY18: 71%) at end-FY19. 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. Separately Managed Accounts (SMAs) portfolio stood higher at Rs. 1.2b (FY18: Rs. 744m) at end-June'2019. Growing SMA portfolio remains a key focus area, going forward.

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

HBL AMC offers a range of investment solutions on both conventional and Islamic arena. As at end-November 2019 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 (FoF) schemes, pension and balanced funds. HBL AMC launched a Shariah Compliant Dedicated Equity Fund and variant of conventional FoF scheme by the name of "Special Income Plan". Going forward, management will focus on consolidation of similar funds and launching capital preservation plans.

Aggressive sales growth strategy for all channels has been put in place for improving market position. Successful execution of sales strategy is considered important.

During FY19, contribution in sales units from HBL AMC's own branch/head office represented around four-fifth of total sales with remaining sales being generated through HBL Bank. Management has developed an aggressive sales strategy which includes strengthening the sales team, implementation of a revised performance monitoring mechanism with target on net AUMs, focused alignment with HBL Bank in order leverage extensive branch network & HBL app and Kconnect customers and roll-out of digital strategy. Resultantly, customer base has depicted double digit increase in October while proportion of active clients has increased. Sustainability of this trend over a longer time horizon is considered important.

Region-wise breakup of sales depict around four-fifth of the total units sold in FY19 have been

brokerage along with managing retail & institutional client relationships and investment portfolios. He has previously served as Chief Executive Officer of erstwhile PICIC Asset Management Company Limited for 6 years

generated from the southern market. The sales team personnel increased to 105 (FY18: 83). The sales team has been equipped with IT gadgets in order to optimize performance. Moreover, Customer Relationship Management (CRM) system- MS Dynamics 365 was implemented in FY18 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 significant focus on client generation through digital initiatives. These initiatives include targeted marketing to potential clients through integration of HBL AMC's funds on HBL Bank's online web banking and mobile applications as well as development of HBL AMC's own mobile application. Moreover, during the outgoing year, the company launched opening of online accounts. Management will also focus on Sahulat Sarmaya accounts of SECP to tap mass markets. Translation of these initiatives in to improved market position and increase in proportion of retail AUMs is considered important.

Formalized investment process with strong focus on research based decision making. Relative performance ranking of equity funds was in the top quartile while performance of fixed income funds has room for improvement.

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 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.

Relative ranking of equity funds (conventional and Islamic) vis-à-vis peers has depicted improvement in the outgoing and ongoing calendar year. Relative performance ranking of equity funds (based on 365 day return as of November 2019) was in the top quartile. For money market funds, relative ranking of HBL Cash Fund and HBL Money Market Fund ranked in the 2nd and 4th quartile, respectively while HBL Islamic Money Market Fund ranked 3rd in terms of return in a peer group of 4 funds. For income funds, relative ranking of HBL Income Fund and HBL Islamic Income Fund was in the 3rd and 4th quartile, respectively while HBL Government Securities Fund ranked 4th in terms of return in a peer group of 10 funds.

Adequate Control Framework

All responsibilities of the internal audit function have been delegated to an 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. 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 staff strength of the compliance department doubled during FY19 comprising six personnel including the head of the department. 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. Furthermore, HBL AMC actively works in collaboration with HBL Bank to strengthen KYC related controls. During the outgoing year, enhanced activity to identify and update list of politically exposed person was undertaken while beneficial ownership issues are also being actively followed up with corporate clients. 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 was subdued in the ongoing calendar year due to lower management and investment advisory fee. 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 14% during 1HCY19. Decline was attributable to lower AUMs and shift in AUMs towards lower management fee funds. Consequently, overall revenues declined by 17%. Operating profitability weakened on account of subdued topline. Going forward, management fee is projected to increase over the rating horizon on the back of healthy projected growth in AUMs. However, expense base is also expected to increase given sizeable cost being incurred on IT and sales infrastructure including strengthening human resources. Maintaining adequate cushion for debt servicing is considered important. Comfort is drawn from strong sponsor profile and expected sponsor support, if needed.

HBL Asset Management Limited

FINANCIAL SUMMARY (AUMs are reported as gross)		Appendix I	
<u>HBL Money Market Fund</u>		FY18	FY19
Fund Size (in Rs. millions)		7,249	6,253
Return (%)		5.32%	8.47%
Benchmark (%)		5.35%	8.70%
Retail Proportion (% of Net assets)		50%	55%
Ranking Against Peers		10 out of 22	17 out of 20
<u>HBL Islamic Money Market Fund</u>		FY18	FY19
Fund Size (in Rs. millions)		957	1050
Return (%)		4.32%	8.11%
Benchmark (%)		2.58%	3.35%
Retail Proportion (% of Net assets)		38%	59%
Ranking Against Peers		2 out of 3	3 out of 4
<u>HBL Cash Fund</u>		FY18	FY19
Fund Size (in Rs. millions)		12,040	8,809
Return (%)		5.49%	8.89%
Benchmark (%)		5.35%	8.70%
Retail Proportion (% of Net assets)		12%	12%
Ranking Against Peers		4 out of 22	9 out of 20
<u>HBL Income Fund</u>		FY18	FY19
Fund Size (in Rs. millions)		2,456	1,511
Return (%)		4.98%	8.82%
Benchmark (%)		6.35%	10.21%
Retail Proportion (% of Net assets)		43%	52%
Ranking Against Peers		12 out of 20	8 out of 20
<u>HBL Government Securities Fund</u>		FY18	FY19
Fund Size (in Rs. millions)		314	2,116
Return (%)		4.74%	9.35%
Benchmark (%)		6.20%	10.01%
Retail Proportion (% of Net assets)		54%	79%
Ranking Against Peers		7 out of 9	1 out of 10
<u>HBL Islamic Income Fund</u>		FY18	FY19
Fund Size (in Rs. millions)		4,042	3,103
Return (%)		5.18%	7.85%
Benchmark (%)		2.44%	3.65%
Retail Proportion (% of Net assets)		13%	18%
Ranking Against Peers		1 out of 18	12 out of 20
<u>HBL Stock Fund</u>		FY18	FY19
Fund Size (in Rs. millions)		5,958	2,147
Return (%)		-11.85%	-16.20%
Benchmark (%)		-10.03%	-18.18%
Retail Proportion (% of Net assets)		4%	11%
Ranking Against Peers		9 out of 21	3 out of 20

<u>HBL Energy Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	1,061	734
Return (%)	-2.33%	-24.28%
Benchmark (%)	-10.03%	-18.18%
Retail Proportion (% of Net assets)	36%	37%
<u>HBL Equity Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	294	246
Return (%)	-11.38%	-15.46%
Benchmark (%)	-10.00%	-19.11%
Retail Proportion (% of Net assets)	38%	35%
Ranking Against Peers	7 out of 21	2 out of 20
<u>HBL Growth Fund</u>	FY19 (Class A)	FY19 (Class B)
Fund Size (in Rs. millions)	4,848	4,463
Return (%)	-32.96%	-16.21%
Benchmark (%)	-19.11%	-19.11%
Retail Proportion (% of Net assets)	34%	
<u>HBL Investment Fund</u>	FY19 (Class A)	FY19 (Class B)
Fund Size (in Rs. millions)	1,722	2,340
Return (%)	-33.34%	-16.26%
Benchmark (%)	-19.11%	-19.11%
Retail Proportion (% of Net assets)	36%	
<u>HBL Islamic Stock Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	2,542	635
Return (%)	-13.99%	-18.36%
Benchmark (%)	-9.59%	-23.84%
Retail Proportion (% of Net assets)	6%	18%
Ranking Against Peers	11 out of 20	4 out of 17
<u>HBL Islamic Equity Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	1,318	265
Return (%)	-12.32%	-16.97%
Benchmark (%)	-9.59%	-23.84%
Retail Proportion (% of Net assets)	6%	16%
Ranking Against Peers	6 out of 20	2 out of 17
<u>HBL Islamic Asset Allocation Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	2,470	1,131
Return (%)	-0.78%	-1.15%
Benchmark (%)	-0.28%	-4.31%
Retail Proportion (% of Net assets)	45%	31%
Ranking Against Peers	1 out of 10	1 out of 12
<u>HBL Pension Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	577	462
Return (%) - Debt	3.99%	7.79%
Return (%) – Money market	4.38%	7.78%

Return (%) - Equity	-10.24%	-13.94%
<u>HBL Islamic Pension Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	357	248
Return (%) - Debt	2.89%	7.36%
Return (%) – Money market	3.41%	6.73%
Return (%) - Equity	-12.02%	-16.60%
<u>HBL Multi Asset Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	324	203
Return (%)	-6.28%	-8.95%
Benchmark (%)	-4.08%	-8.23%
Retail Proportion (% of Net assets)	52%	49%
<u>HBL Financial Planning Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	673	339
Return (%) – Active Allocation Plan	2.65%	-5.52%
Return (%) – Conservative Allocation Plan	3.76%	2.71%
Return (%) – Strategic Allocation Plan	2.52%	-3.40%
<u>HBL Islamic Financial Planning Fund</u>	FY18	FY19
Fund Size (in Rs. millions)	4,566	2,309
Return (%) – Active Allocation Plan	0.40%	-7.06%
Return (%) – Conservative Allocation Plan	1.40%	2.07%
Return (%) – Strategic Allocation Plan	1.36%	-0.71%
Return (%) – Islamic Capital Protection Plan	NA	-0.52%

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	2017	2018	1H2019
Paid Up Capital	100	100	100
Total Equity	745	898	927
<u>INCOME STATEMENT</u>			
Total income	837	865	374
Profit Before Tax	215	366	77
Profit After Tax	70	154	29
<u>RATIO ANALYSIS</u>			
Net Cash Generated from Operating Activities	457	384	127
Current Ratio (x)	2.43	1.91	0.96
Gearing (x)	3.44	2.23	2.16

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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 'A' 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	HBL 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
	12/31/2019	AM2+	Positive	Reaffirmed
	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	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	N/A			
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