

RATING REPORT

HBL Asset Management Limited

REPORT DATE:

December 31, 2020

RATING ANALYSTS:

Muhammad Tabish

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RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
	MQR	MQR
MQ Rating	AM2++	AM2+
Rating Outlook	Stable	Positive
Rating Action	Upgrade	Reaffirmed
Rating Date	December 31, 2020	December 31, 2019

COMPANY INFORMATION

Incorporated in 2006	External auditors: A. F. Fergusons & Co.
Unlisted Public Limited Company	Chairman of the Board: Mr. Shahid Ghaffar
Key Shareholders:	Chief Executive Officer: Mr. Mir Adil Rashid
Habib Bank Limited – 100%	

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. Shahid Ghaffar has vast experience of working in capital markets including monitoring of projects, the debt/fixed income portfolio, the equity portfolio and trading desk. Previously, he has served as a Managing Director of NIT and been associated with HBL. He has also served as CEO of HBL AMC for over six year 2005-12. Mr. Ghaffar holds an MBA Degree from Gomal University, D.I.Khan, Khyber Pakhtunkhwa (formerly NWFP), Pakistan.

Profile of CEO
Mr. Mir Adil

RATING RATIONALE

Headquartered in Karachi, HBL Asset Management Limited (HBL AMC) is a wholly-owned subsidiary of the largest bank in the country (Habib Bank Limited). The company has been operating in the mutual funds industry for over one and a half decade and has established sound market position as one of the top 6 AMCs in Pakistan with nationwide client services.

Key Rating Drivers:

AUMs registered a healthy growth in outgoing fiscal year and the trend has continued in 1Q'FY21. Outpacing the industry growth, market position also witnessed an improvement. Major growth emanated from money market funds with major contribution from corporate clients. Going forward, further growth may be supported by equity funds in line with expected growth in stock market.

In FY20, AUM of the mutual fund industry after two consecutive years of decline registered a YoY growth of more than 40% primarily on account of improved investor sentiment, positive macroeconomic indicators and better returns from equity based funds; the increasing trend has continued in the 1Q of ongoing fiscal year and total industry's AUMs stood at all-time high of Rs. 880b (FY20: Rs. 772b; FY19: Rs. 539b).

In line with the industry trend, AUMs of HBL AMC observed a healthy growth of ~35% in FY20 while the same further grew by 27% in July-Oct'20 period (outpacing the industry growth of 15%) and amounted at Rs. 72.5b (FY20: 57.7b; FY19: 42.7b) at end-Oct'20. Given the higher growth vis-à-vis industry overall market share increased to 8.3% (FY20: 7.5%) at end-Oct'20 with the share in Islamic segment at 3.5%. Growth in overall AUMs was primarily emanated from four funds; HBL Cash Fund, HBL Money Market Fund, HBL Islamic Money Market Fund and HBL Islamic Asset Allocation Fund Plan I. At end-Oct'20, more than one-half of company's total AUMs were constituted by HBL cash fund and HBL Money Market Fund while the remaining is shared by 18 other funds.

Overall AUM mix since last review has tilted significantly towards fixed income funds while proportion of equities in AUMs has declined by nearly half. Net assets of Separately Managed Accounts (Non-discretionary SMAs) decreased to 69.3m (FY19: Rs. 1.2b; FY18: Rs. 744m) at end-FY20. Growing SMA portfolio remains the focus area of the management, going forward.

Product portfolio is comprehensive catering to investors' diverse needs; variant of Shariah Compliant Asset Allocation Fund launched in FY20. Launch of four

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

capital preservation plans and one fixed income fund planned, going forward.

Over the years, the AMC has expanded its product line in both Conventional and Islamic schemes to meet various investment objectives depending on client's risk absorption appetite. Proportionate share of Conventional AUMs currently contributes more than four-fifth of total AUMs base and since last review has remained unchanged.

At present, the 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. During the period under review, the AMC launched a variant of shariah compliant asset allocation fund while two FoF schemes completed the two years tenor and were retired. Going forward, the management has plans to launch four new variants of capital preservation plans and one fixed income fund.

Aggressive AUM growth strategy planned to continue through further strengthening of sales team, enhancement of client base through digital initiatives with primary target of growing retail and HNWI segments.

Sales and distribution activities are carried through two distinct channels comprising direct sales force (AMC's own branches/head office) and alternate delivery channel (3rd party distribution, HBL Bank and digital application). Post FY18, direct sales force continues to contribute around four-fifth of total new investments followed by HBL Bank and third party distributors.

Presently, the AMC operates through a branch network of 4 AMC branches and selected bank branches spread nationwide while the total sales force stands at 79 employees. In line with industry trend, majority of AUM generation continues to be through South region. However, during outgoing fiscal year Punjab region has witnessed a healthy growth. Going forward, in order to enhance customer base and overall market share augmentation aggressive sales strategy is planned through strengthening of sales force, training programs for sales team to tap HNWI, leveraging HBL's extensive branch network, HBL mobile app & Konnect customers.

On digital front, the management has enhanced focus towards digitization and plans to improve overall systems and customer experience. Some of the initiatives planned include upgrading of in-house mobile app/investor portal and portfolio management system, develop single source of operational & management data, improvement in real-time investments and in connectivity with alternative delivery channels.

Proportion of retail AUM is lower vis-à-vis peer AMCs. Going forward, the same is expected to increase given the growth plans focused towards retail segment.

As of end-June 2020, total client base stood at more than 51K clients; of which around

three-fourth comprises active clients. In line with the decrease in proportionate share of equities, retail investments in relation to total AUMs declined to 27% (FY20: 35% FY19: 34%) at end-Sept'20 which is on the lower side in comparison with peer AMCs. Barring HBL Money Market Fund and HBL Government Securities fund where retail proportion is high and investor concentration is manageable, remaining funds have high investor concentration with top-10 investors constituting more than one half of AUM in majority of funds.

Exhibit 1
Assets under Management
By Fund Type (as on end-Sept'20)

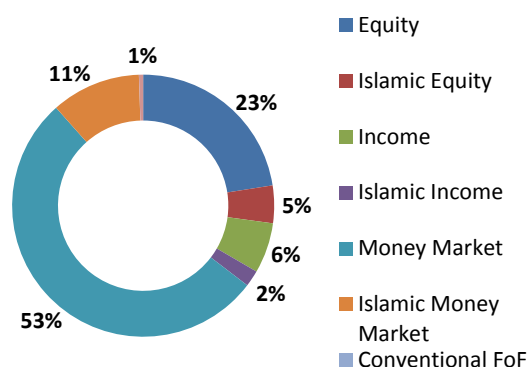
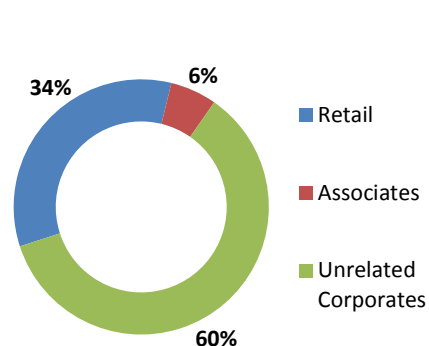


Exhibit 2
Assets under Management
By Investor Type (as on end-June'20)



Going forward, management has enhanced focused towards strengthening retail investment proportion through expanding outreach by HBL Bank branches, strengthening in-house sales force and streamlining online systems and digital platforms.

Investment decision making process is committee-based which is well-structured and formalized. Strong input from research function is valued.

The investment decision making process is well-structured with top down view and in-depth fundamental analysis while there are separate heads managing equity and fixed income funds. For equity funds, investments primarily comprise blue chips stocks with major asset allocation in Oil & Gas, Banking, Fertilizer and Cement sectors. For the debt funds, the company currently invests in commercial papers, T-Bills, TFCs/Sukuk and placement with Banks & DFIs.

Investment Committee (IC) comprises CEO, Head of Research, Head of Risk Management, and Head of Equity/Fixed Income; baring Head of Risk all act as voting members. Composition of the committee is sound while meetings are held twice fortnightly. The discussions largely pertain to recent developments and new investments opportunities with focus on portfolio review and asset allocation.

Relative performance ranking of AMC's two largest fixed income funds was in top quartile while equity funds also witnessed improvement in the ongoing year.

Money Market Funds: In relation to peers, return-based ranking of AMC's two largest funds HBL Cash Fund & HBL Money Market Fund which were ranked in 2nd and 4th quartile, respectively in FY20 improved to 1st quartile (as on Oct'20). HBL Islamic Money Market Fund ranked 3rd out of a peer group of 5 shariah compliant money market funds.

Equity Funds: In line with the improvement in equity market performance during the ongoing year, relative ranking of large-sized equity funds (Conventional & Islamic) has improved. As on Oct'20, HBL Growth Fund Class-A and HBL Investment Fund Class-A were ranked 5th (FY19: 26th out of 27) and 2nd (FY19: 27th out of 27) respectively out of 26 funds.

Income Funds: Relative ranking of HBL Income Fund and HBL Islamic Income Fund was in the 1st and 4th quartile, respectively while performance of HBL Government Securities Fund declined on a timeline basis (from 1st quartile in FY19 to 4th quartile as on Oct'20).

Adequate overall control and risk management framework. Compliance with KYC and AML guidelines has been the key focus area on control front.

Board Risk Management Committee (BRMC) and Operation Risk Management Committee (ORMC) are in place for effective risk oversight. Scope extends to development and oversight of risk strategy and policy framework to ensure compliance with applicable SECP regulations and generally accepted risk management practices within the industry. The risk management function also monitors liquidity position, market and credit risk. On compliance front, management has cleared majority of KYC and AML backlogs with some outstanding accounts; continuous active follow-up is being taken with clients to resolve pending accounts. AMC has an in-house Internal Audit (IA) team which administratively reports to the CEO and functionally to Board Audit Committee (BAC). IA follows a risk based audit methodology with all 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.

Profitability profile has depicted weakening on a timeline basis primarily due to decline in management fee earned. Owing to same, cash flows have also remained limited. Nevertheless, comfort is drawn from strong profile and support as extended in the ongoing year.

Core revenue comprises management fee, investment advisory fee, dividend and interest income. Given the shift in AUMs from equity to fixed income funds (or lower management fee funds), total management fee earned declined by ~11% during 9MCY20 resulting in 10% overall revenue decline (vis-à-vis corresponding period last year). Operating overheads along with financial charges registered a decline of ~9% while owing to the same and lower taxation charged, the AMC managed to report a nominal

breakeven profit in 9MCY20 (CY19: Rs. 15m). Going forward, management expects significant growth in management fee on the back of healthy projected AUMs growth. However, expense base would also increase given the plans to strengthen sales team and digital initiatives.

Debt profile of the AMC is long-term in nature which at end-Sept'20 was reported at Rs. 1.8b (including current portion). Given the lower equity base, leverage indicators are reported on higher side. Nonetheless, comfort is drawn from strong sponsor profile and support; as extended through capital injection of Rs. 500m in the ongoing year. Maintaining adequate cushion for debt servicing through AMC's cash flow is considered important.

HBL Asset Management Limited

FINANCIAL SUMMARY (AUMs are reported as gross)			Appendix I
<u>HBL Money Market Fund</u>	FY18	FY19	FY20
Fund Size (in Rs. millions)	7,249	6,253	9,975
Return (%)	5.32%	8.47%	12.38%
Benchmark (%)	5.35%	8.70%	11.63%
Retail Proportion (% of Net assets)	42%	55%	57%
Ranking Against Peers	11 out of 21	18 out of 20	16 out of 21
<u>HBL Islamic Money Market Fund</u>	FY18	FY19	FY20
Fund Size (in Rs. millions)	957	1,050	8,422
Return (%)	4.32%	8.11%	11.38%
Benchmark (%)	2.58%	3.35%	5.37%
Retail Proportion (% of Net assets)	25%	61%	18%
Ranking Against Peers	2 out of 3	3 out of 4	3 out of 5
<u>HBL Cash Fund</u>	FY18	FY19	FY20
Fund Size (in Rs. millions)	12,040	8,809	17,972
Return (%)	5.49%	8.89%	12.86%
Benchmark (%)	5.35%	8.70%	11.63%
Retail Proportion (% of Net assets)	11%	13%	13%
Ranking Against Peers	3 out of 21	6 out of 20	4 out of 21
<u>HBL Income Fund</u>	FY18	FY19	FY20
Fund Size (in Rs. millions)	2,456	1,511	1,544
Return (%)	4.98%	8.82%	13.28%
Benchmark (%)	6.35%	10.21%	12.22%
Retail Proportion (% of Net assets)	42%	53%	62%
Ranking Against Peers	11 out of 19	6 out of 19	10 out of 19
<u>HBL Government Securities Fund</u>	FY18	FY19	FY20
Fund Size (in Rs. millions)	314	2,116	3,509
Return (%)	4.74%	9.35%	16.02%
Benchmark (%)	6.20%	10.01%	12.07%
Retail Proportion (% of Net assets)	52%	75%	77%
Ranking Against Peers	7 out of 10	1 out of 10	8 out of 11
<u>HBL Islamic Income Fund</u>	FY18	FY19	FY20
Fund Size (in Rs. millions)	4,042	3,103	1,418
Return (%)	5.18%	7.85%	10.31%
Benchmark (%)	2.44%	3.65%	6.33%
Retail Proportion (% of Net assets)	13%	18%	56%

Ranking Against Peers	3 out of 19	13 out of 21	17 out of 21
<u>HBL Stock Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	5,958	2,147	1,841
Return (%)	-11.85%	-16.20%	-3.77%
Benchmark (%)	-10.03%	-18.18%	-0.52%
Retail Proportion (% of Net assets)	4%	12%	15%
Ranking Against Peers	10 out of 23	4 out of 27	22 out of 26
<u>HBL Energy Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	1,061	734	571
Return (%)	-2.33%	-24.28%	-9.98%
Benchmark (%)	-10.03%	-18.18%	-0.52%
Retail Proportion (% of Net assets)	36%	37%	35%
<u>HBL Equity Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	294	246	423
Return (%)	-11.38%	-15.46%	7.61%
Benchmark (%)	-10.00%	-19.11%	1.53%
Retail Proportion (% of Net assets)	38%	35%	26%
Ranking Against Peers	8 out of 23	3 out of 27	1 out of 26
<u>HBL Growth Fund (Class A)</u>			
	FY19	FY20	
Fund Size (in Rs. millions)	4,848	5,126	
Return (%)	-32.96%	5.74%	
Benchmark (%)	-19.11%	1.53%	
Retail Proportion (% of Net assets)	34%	34%	
Ranking Against Peers	26 out of 27	5 out of 26	
<u>HBL Growth Fund (Class B)</u>			
	FY19	FY20	
Fund Size (in Rs. millions)	4,463	1,505	
Return (%)	-16.21%	-2.62%	
Benchmark (%)	-19.11%	1.53%	
Ranking Against Peers	5 out of 27	17 out of 26	
<u>HBL Investment Fund (Class A)</u>			
	FY19	FY20	
Fund Size (in Rs. millions)	1,722	1,845	
Return (%)	-33.34%	7.61%	
Benchmark (%)	-19.11%	1.53%	
Retail Proportion (% of Net assets)	36%	36%	
Ranking Against Peers	27 out of 27	2 out of 26	
<u>HBL Investment Fund (Class B)</u>			
	FY19	FY20	

Fund Size (in Rs. millions)	2,340	1,156	
Return (%)	-16.26%	-2.94%	
Benchmark (%)	-19.11%	1.53%	
Ranking Against Peers	6 out of 27	18 out of 26	
<u>HBL Islamic Stock Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	2,542	635	555
Return (%)	-13.99%	-18.36%	2.95%
Benchmark (%)	-9.59%	-23.84%	1.62%
Retail Proportion (% of Net assets)	6%	19%	52%
Ranking Against Peers	7 out of 15	3 out of 15	5 out of 15
<u>HBL Islamic Equity Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	1,318	265	229
Return (%)	-12.32%	-16.97%	1.15%
Benchmark (%)	-9.59%	-23.84%	1.62%
Retail Proportion (% of Net assets)	6%	16%	43%
Ranking Against Peers	4 out of 15	2 out of 15	9 out of 15
<u>HBL Islamic Asset Allocation Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	2,470	1,131	310
Return (%)	-0.78%	-1.15%	6.42%
Benchmark (%)	-0.28%	-4.31%	5.60%
Retail Proportion (% of Net assets)	44%	31%	48%
Ranking Against Peers	3 out of 12	2 out of 12	7 out of 11
<u>HBL Pension Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	577	462	545
Return (%) - Debt	3.99%	7.79%	19.69%
Return (%) – Money market	4.38%	7.78%	11.86%
Return (%) - Equity	-10.24%	-13.94%	2.89%
<u>HBL Islamic Pension Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	357	248	247
Return (%) - Debt	2.89%	7.36%	7.38%
Return (%) – Money market	3.41%	6.73%	8.06%
Return (%) - Equity	-12.02%	-16.60%	6.05%
<u>HBL Multi Asset Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	324	203	194
Return (%)	-6.28%	-8.95%	2.41%
Benchmark (%)	-4.08%	-8.23%	5.48%
Retail Proportion (% of Net assets)	52%	49%	55%

Ranking Against Peers	4 out of 5	2 out of 5	4 out of 4
<u>HBL Financial Planning Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	673	339	251
Return (%) – Active Allocation Plan	2.65%	-5.52%	3.85%
Return (%) – Conservative Allocation Plan	3.76%	2.71%	10.69%
Return (%) – Strategic Allocation Plan	2.52%	-3.40%	-
<u>HBL Islamic Financial Planning Fund</u>			
	FY18	FY19	FY20
Fund Size (in Rs. millions)	4,566	2,309	451
Return (%) – Active Allocation Plan	0.40%	-7.06%	6.21%
Return (%) – Conservative Allocation Plan	1.40%	2.07%	9.86%
Return (%) – Strategic Allocation Plan	1.36%	-0.71%	-
Return (%) – Islamic Capital Protection Plan	NA	-0.52%	12.5%

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	2018	2019	9M2020	
Paid Up Capital	100	100	100	
Total Equity	898	816	817	
<u>INCOME STATEMENT</u>				
Total income	865	694	440	
Profit Before Tax	366	99	37	
Profit After Tax	154	15	1	
<u>RATIO ANALYSIS</u>				
Net Cash Generated from Operating Activities	384	291	285	
Current Ratio (x)	1.91	0.71	0.52	
Gearing (x)	2.23	2.43	2.19	

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 '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	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
	12/31/2020	AM2++	Stable	Upgrade
	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			
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. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			
Due Diligence Meeting	Name	Designation	Date	
	Mr. Mir Adil Rashid	CEO	December 17, 2020	
	Mr. Noman Qurban	CFO & Company Secretary		
	Mr. Muhammad Qasim	Senior Manager Finance		