

RATING REPORT

HBL Asset Management Limited

REPORT DATE:

December 30, 2022

RATING ANALYST:

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RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
	MQR	MQR
MQ Rating	AM1	AM2++
Rating Outlook	Stable	Positive
Rating Action	Upgrade	Maintained
Rating Date	December 30, 2022	December 31, 2021

COMPANY INFORMATION	
Incorporated in 2006	External Auditors: KPMG Taseer & Hadi 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%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Asset Management Companies (June 2019)
<https://docs.vis.com.pk/docs/AMC-Methodology-201906.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 Gbaffar 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. Gbaffar holds an MBA Degree from Gomal University, D.I.Khan, Khyber Pakhtunkhwa (formerly NWFP), Pakistan.

Profile of CEO

Mr. Mir Adil Rashid held the CEO office in

RATING RATIONALE

HBL Asset Management Limited ('HBL AMC' or 'the AMC') is a wholly-owned subsidiary of Habib Bank Limited (HBL) i.e. the largest commercial bank in Pakistan (in terms of its domestic deposit base). HBL AMC has a strong brand name and an extensive track record of around 16 years in asset management business.

Key Rating Drivers:

The rating revision takes into account notable improvement in HBL AMC's market positioning, as AMC emerged as the 3rd largest AMC in the industry as of Oct'22

Table 1: Market Share

<i>AUM's in Million</i>	<i>Jun'21</i>	<i>Jun'22</i>	<i>Oct'22</i>
HBL AMC	72,422	137,851	138,944
Industry	1,051,906	1,252,539	1,356,232
Market Share	6.9%	11.0%	10.2%

- HBL AMC's Assets under Management (AUMs) increased by 90% YoY in FY22, while the industry grew by 19% during the same period, which translated in strong market share gains. During 4M'FY23, AUMs growth was relatively subpar as a result of which we noted some market share attrition. Nevertheless, market share of the AMC has notably improved since our last review. As of Oct'22, HBL AMC was the 3rd largest AMC in the industry, having improved its market positioning from 7th largest as of Jun'21.

Table 2: Segmentation of AUMs

	<i>AUMs in Million</i>			<i>Proportion</i>		
	<i>Jun-21</i>	<i>Jun-22</i>	<i>Oct-22</i>	<i>Jun-21</i>	<i>Jun-22</i>	<i>Oct-22</i>
Money Market Funds	45,884	67,077	82,955	63.4%	48.7%	59.7%
Equity Funds	17,855	11,265	9,446	24.7%	8.2%	6.8%
Income Funds	4,304	55,317	41,959	5.9%	40.1%	30.2%
Others	4,379	4,192	4,584	6.0%	3.0%	3.3%

- The growth in AUMs has largely emanated from Money Market /Income Funds, which comprised 89.9% of the AUMs as of Oct'22 vis-à-vis 69.3% as of Jun'21. In terms of funds, sizable growth was noted in a newly launched fund i.e. the Financial Sector Income Fund Plan I, which was launched in Jan'22 and comprised 33.2% of the AUMs as of Oct'22, reflecting roughly half of the grown in AUMs during the period Jun'21-Oct'22.
- The movement in AUMs from equity asset class to fixed income asset class is aligned with changes noted within AUMs of other industry participants and is attributable to adverse equity class returns.
- During 4M'FY23, the AMC also launched two new funds: HBL Islamic Asset Allocation Fund Plan II and industry first Debt ETF HBL Total Treasury Exchange Trade Fund. HBL AMC had 24 funds in its product portfolio as of Oct'22 increasing from 22 as of Jun'21.
- Given adverse asset class returns on equities, the management is working on introducing alternative asset class based funds in the market to broaden the AMC's product suite.
- Separately Managed Account (SMA) portfolio has increased to 17 clients with AUM's of Rs. 19.92b as at Jun'22 (Jun'21: 14.87b).

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.

As much of the growth emanated from institutional investment AUMs,

- As growth mainly emanated from institutional investors, proportion of retail AUMs declined to 28% as of Oct'22 vis-à-vis 30% as of Jun'21. Consequently investor granularity has depicted an adverse trend with largest 10 investors comprising 32% of the total AUM's as at Oct'22 vis-à-vis 34% as at Dec'21. Overall investor concentration is viewed to be higher vis-à-vis peers. However, at the same time the AMC has shown notable surge in market share of AUMs held by retail segment as its market share in this segment increased from 5.65% at Jun'21 to 7.63% as at Jun'22.
- Going forward, management has planned to improve investor granularity, on the back of retail sales focus. Management's strategic plans are as follows:
 - o HBL AMC will focus on growing AUMs by way of cross selling through branches. The management envisages the same to increase notably in FY23.
 - o In-house sales team has also been growing and is planned to be increased further. Direct sales head count would increase further from currently 110 persons to 150 persons going forward.

Table 3: Sales Force

	<i>In-house Sales Team</i>	<i>Corporate</i>	<i>Retail</i>	<i>Total</i>
<i>Jun'20</i>		7	75	82
<i>Jun'21</i>		7	118	125
<i>Jun'22</i>		6	132	138

Rating takes into account fund performance

- Fund performance posted mixed results during the period under review. We have noted the above average performance in conventional money market and income fund categories. However, on a 2-year basis (FY21-22), performance of Islamic money market and income funds is viewed as average. Stock fund returns were notably adverse, which also had a negative bearing on asset allocation fund returns.

Table 4: Quartile wise breakup of AUMs (Ex. Fund of funds)

<i>Rs. In Million</i>	<i>Jun-21</i>	<i>Jun-22</i>	<i>Oct-22</i>
Q1	28,713	108,595	115,074
Q2	2,843	712	5,125
Q3	32,038	23,089	1,787
Q4	7,729	4,282	15,379
Total AUMs	71,323	136,678	137,365

HBL AMC standalone risk profile depicted improvement, as financial obligation has been fully paid off

- During 9MPCY22, the sponsoring entity, HBL, injected Rs. 1.4b in HBL AMC, which was used to fully repay the financial obligations of the AMC. As a result of this development, financial risk profile of the AMC has improved, while business risk has also improved given higher profitability projections in the absence of financial charges and strong growth in AUMs.
- Given strong growth in revenue base, efficiency ratio has depicted improvement (9MPCY22: 60.2% CY21: 82.1%).

Table 5: Financial Snapshot

<i>(PKR Mn.)</i>	<i>CY20</i>	<i>CY21</i>	<i>9MPCY22</i>
<i>Profit & Loss</i>			

Total Income	610	583	550
(Loss) / Profit Before Tax	80	(41)	153
(Loss) / Profit After Tax	9	(83)	113
Efficiency (%)	48.2%	82.1%	60.2%

Balance Sheet

	Dec'20	Dec'21	Sep'22
Fixed Assets	3,022	3,034	2,993
Investments	461	50	369
Total Assets	3,641	3,206	3,588
Lease Liabilities*	206	207	188
Long term Loans*	1,600	1,200	-
Total Liabilities**	2,214	1,863	732
Paid Up Capital	600	600	600
Accumulated Profit / (Loss)	825	743	856
Total Equity***	1,425	1,343	2,856
Gearing (x)	1.12	0.89	-
Leverage (x)	1.55	1.39	0.26

*Includes current portion

**Excluding Advance Against Issue of right issue

***Includes Advance Against Issue of right issue

HBL Asset Management Limited

FINANCIAL SUMMARY (AUMs are reported as gross)		Appendix I		
<u>HBL Money Market Fund</u>		FY20	FY21	FY22
Fund Size (in Rs. millions)		12,837	12,837	15,599
Return (%)		6.84%	6.84%	10.26%
Benchmark (%)		6.71%	6.71%	9.28%
Retail Proportion (% of Net assets)		69%	69%	67%
Ranking Against Peers		14 out of 22	14 out of 22	16 out of 21
<u>HBL Islamic Money Market Fund</u>		FY20	FY21	FY22
Fund Size (in Rs. millions)		8,422	6,640	15,540
Return (%)		11.38%	6.47%	9.99%
Benchmark (%)		5.37%	3.41%	3.68%
Retail Proportion (% of Net assets)		18%	31%	30%
Ranking Against Peers		3 out of 5	6 out of 14	3 out of 14
<u>HBL Cash Fund</u>		FY20	FY21	FY22
Fund Size (in Rs. millions)		17,972	26,539	36,066
Return (%)		12.86%	6.97%	10.97%
Benchmark (%)		11.63%	6.71%	9.28%
Retail Proportion (% of Net assets)		13%	10%	17%
Ranking Against Peers		4 out of 21	5 out of 22	6 out of 21
<u>HBL Income Fund</u>		FY20	FY21	FY22
Fund Size (in Rs. millions)		1,544	2,273	4,246
Return (%)		13.28%	7.10%	11.43%
Benchmark (%)		12.22%	7.42%	10.81%
Retail Proportion (% of Net assets)		62%	61%	51%
Ranking Against Peers		10 out of 19	7 out of 19	2 out of 31
<u>HBL Financial Sector Income Fund Plan-I</u>		FY20	FY21	FY22
Fund Size (in Rs. millions)		-	-	45,830
Return (%)		-	-	13.26%
Benchmark (%)		-	-	13.11%
Retail Proportion (% of Net assets)		-	-	8%
Ranking Against Peers		-	-	1 out of 31
<u>HBL Government Securities Fund</u>		FY20	FY21	FY22
Fund Size (in Rs. millions)		3,509	1,071	631
Return (%)		16.02%	5.10%	7.89%
Benchmark (%)		12.07%	7.28%	10.67%
Retail Proportion (% of Net assets)		77%	84%	82%

Ranking Against Peers	8 out of 11	8 out of 12	30 out of 31
<u>HBL Islamic Income Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	1,418	1,020	4,671
Return (%)	10.31%	5.45%	11.14%
Benchmark (%)	6.33%	3.56%	3.34%
Retail Proportion (% of Net assets)	56%	61%	41%
Ranking Against Peers	17 out of 21	21 out of 22	2 out of 21
<u>HBL Stock Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	1,841	951	236
Return (%)	-3.77%	29.83%	-35.84%
Benchmark (%)	-0.52%	36.49%	-10.44%
Retail Proportion (% of Net assets)	15%	29%	63%
Ranking Against Peers	22 out of 26	21 out of 26	24 out of 26
<u>HBL Energy Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	571	775	431
Return (%)	-9.98%	19.73%	-17.70%
Benchmark (%)	-0.52%	36.49%	-10.44%
Retail Proportion (% of Net assets)	35%	36%	37%
<u>HBL Equity Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	423	2,270	818
Return (%)	7.61%	39.47%	-45.08%
Benchmark (%)	1.53%	37.58%	-12.28%
Retail Proportion (% of Net assets)	26%	28%	26%
Ranking Against Peers	1 out of 26	6 out of 26	26 out of 26
<u>HBL Growth Fund (Class A)</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	5,126	6,844	5,500
Return (%)	5.74%	33.50%	-19.63%
Benchmark (%)	1.53%	37.58%	-12.28%
Retail Proportion (% of Net assets)	34%	62%	58%
Ranking Against Peers	5 out of 26	17 out of 26	13 out of 26
<u>HBL Growth Fund (Class B)</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	1,505	1,861	1,047
Return (%)	-2.62%	30.86%	-35.22%
Benchmark (%)	1.53%	37.58%	-12.28%
Ranking Against Peers	17 out of 26	20 out of 26	23 out of 26

<u>HBL Investment Fund (Class A)</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	1,845	2,492	1,998
Return (%)	7.61%	35.08%	-19.83%
Benchmark (%)	1.53%	37.58%	-12.28%
Retail Proportion (% of Net assets)	36%	47%	51%
Ranking Against Peers	2 out of 26	14 out of 26	15 out of 26
<u>HBL Investment Fund (Class B)</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	1,156	1,387	713
Return (%)	-2.94%	29.66%	-36.76%
Benchmark (%)	1.53%	37.58%	-12.28%
Ranking Against Peers	18 out of 26	22 out of 26	25 out of 26
<u>HBL Islamic Stock Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	555	760	411
Return (%)	2.95%	32.38%	-28.67%
Benchmark (%)	1.62%	39.32%	-10.25%
Retail Proportion (% of Net assets)	52%	57%	53%
Ranking Against Peers	5 out of 15	14 out of 16	18 out of 19
<u>HBL Islamic Equity Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	229	625	146
Return (%)	1.15%	35.46%	-33.40%
Benchmark (%)	1.62%	39.32%	-10.25%
Retail Proportion (% of Net assets)	43%	51%	98%
Ranking Against Peers	9 out of 15	7 out of 16	19 out of 19
<u>HBL Islamic Asset Allocation Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	310	388	202
Return (%)	6.42%	11.59%	-3.92%
Benchmark (%)	5.60%	12.81%	-1.46%
Retail Proportion (% of Net assets)	48%	41%	64%
Ranking Against Peers	7 out of 11	7 out of 12	6 out of 12
<u>HBL Islamic Asset Allocation Fund Plan I</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	-	2,474	2,423
Return (%)	-	7.42%	9.09%
Benchmark (%)	-	2.33%	2.34%
Retail Proportion (% of Net assets)	-	-	-
Ranking Against Peers		12 out of 12	3 out of 12
<u>HBL Islamic Dedicated Equity Fund</u>	FY20	FY21	FY22
Fund Size (in Rs. millions)	27	-	-

Return (%)	4.43%	-	-
Benchmark (%)	1.62%	-	-
Retail Proportion (% of Net assets)	-	-	-
<u>HBL Pension Fund</u>			
	FY20	FY21	FY22
Fund Size (in Rs. millions)	545	665	831
Return (%) – Debt	19.69%	4.69%	9.67%
Return (%) – Money market	11.86%	5.25%	10.13%
Return (%) – Equity	2.89%	33.60%	-27.86%
<u>HBL Islamic Pension Fund</u>			
	FY20	FY21	FY22
Fund Size (in Rs. millions)	247	348	343
Return (%) - Debt	7.38%	5.28%	8.84%
Return (%) – Money market	8.06%	4.34%	8.75%
Return (%) - Equity	6.05%	35.57%	-24.16%
<u>HBL Multi Asset Fund</u>			
	FY20	FY21	FY22
Fund Size (in Rs. millions)	194	202	104
Return (%)	2.41%	21.99%	-17.52%
Benchmark (%)	5.48%	26.94%	-5.42%
Retail Proportion (% of Net assets)	55%	49%	61%
Ranking Against Peers	4 out of 4	3 out of 4	4 out of 4
<u>HBL Financial Planning Fund</u>			
	FY20	FY21	FY22
Fund Size (in Rs. millions)	251	197	165
Return (%) – Active Allocation Plan	3.85%	20.65%	-35.98%
Return (%) – Conservative Allocation Plan	10.69%	6.37%	-3.04%
Return (%) – Strategic Allocation Plan	-	2.82%	-
<u>HBL Islamic Financial Planning Fund</u>			
	FY20	FY21	FY22
Fund Size (in Rs. millions)	451	105	124
Return (%) – Active Allocation Plan	6.21%	21.53%	-24.74%
Return (%) – Conservative Allocation Plan	9.86%	5.11%	-20.91%
Return (%) – Strategic Allocation Plan	-	-	-
Return (%) – Islamic Capital Protection Plan	12.50%	-	-
FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>			
	2019	2020	2021
Paid Up Capital	100	600	600
Total Equity	916	1,425	1,343
<u>INCOME STATEMENT</u>			
Total income	694	610	583
Profit Before Tax	99	80	(41)
Profit After Tax	15	9	(83)
<u>RATIO ANALYSIS</u>			
Net Cash Generated from Operating Activities	291	325	212
Current Ratio (x)	0.71	1.02	0.26
Gearing (x)	2.18	1.12	0.89

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 III		Appendix		
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
	12/30/2022	AM1	Stable	Upgrade
	12/31/2021	AM2++	Positive	Maintained
	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 2022 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	
	Muhammad Ali Ansari	Country Head Retail	November 18, 2022	
	Muhammad Ali Bhabha	Chief Investment Officer		