

## RATING REPORT

### JS Investments Limited

**REPORT DATE:**

January 7, 2019

**RATING ANALYSTS:**

Narendar Shankar Lal

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
<b>MQ Rating</b>	AM2	AM2
<b>Rating Date</b>	December 31, '18	January 04, '18
<b>Outlook</b>	Positive	Stable

#### COMPANY INFORMATION

<b>Incorporated in February 1995</b>	<b>External auditors:</b> AMC – E&Y Ford Rhodes Sidat Hyder, Chartered Accountants Funds – A. F. Ferguson & Co. KPMG Taseer Hadi & Co. Grant Thornton Anjum Rahman & Co. Deloitte Yousuf Adil & Co.
<b>Key Shareholders: (above 5%)</b>	<b>Chairman of the Board:</b> Mr. Basir Shamsie <b>Chief Executive Officer:</b> Mr. Hasnain Raza Nensey
JS Bank Limited – 65%	
Individuals – 16%	

#### APPLICABLE METHODOLOGY(IES)

**MQR - Investment Advisers (August 2018):** <http://jcrvis.com.pk/docs/MQR-Mehtodology-201808.pdf>

## JS Investments Limited<sup>1</sup>

### OVERVIEW OF THE AMC

*JS Investments Limited (JSIL) was incorporated in 1995 as a public listed company under the Companies Ordinance 1984. The company is a subsidiary of JS Bank Limited. JSIL has obtained required licensing for offering asset management, pension fund management and investment advisory services*

#### **Profile of Chairman**

*Mr. Basir Shamsie has been associated with JS Group since 1994 and is presently serving as the President and CEO of JS Bank. Mr. Shamsie has received his Bachelor in Business Administration with a major in Accounting from University of Texas at Austin, USA. He is a graduate of Program for Leadership Development from Harvard Business School, USA*

#### **Profile of CEO**

*Mr. Hasnain Raza Nensey has an aggregate work experience of 23 years out of which 15 years belongs to the Financial Industry in Pakistan. Prior to joining JSIL, he spent 11 years at UBL Fund Managers Ltd in multiple capacities namely Chief Operating Officer, Chief Financial Officer & Chief Investment Officer. Prior to 2005, Mr. Nensey was associated with the JS Group in various roles including Chief Investment Officer at JS Abamco Limited. Mr. Nensey has a BSBA Degree with a concentration in Finance and Marketing from Boston University in Massachusetts, USA. He is also an MBA from Babson College in Massachusetts, USA.*

### RATING RATIONALE

JS Investments Limited (JSIL) is engaged in provision of asset management, pension fund management and investment advisory services for more than two decades. The company has also acquired Private Equity and Venture Capital Fund Management Services License in 2018. JSIL is a subsidiary of JS Bank Limited, which in turn is a subsidiary of Jahangir Siddiqui & Co Limited (JSCL), the ultimate parent.

#### **Key Rating Drivers**

**Assets under Management (AUMs) of the JSIL witnessed modest increase in FY18 despite decrease in overall industry AUMs, resulting in nominal growth in market share**

Total Assets Under Management (AUMs) increased by 13.3% to 15.3b (FY17: Rs. 13.5b) at end-FY18 in comparison to the industry decline of 2.0%. Resultantly, market share of JSIL witnessed an increase to 2.6% (FY17: 2.2%) at end-FY18. Growth in AUMs of the company was facilitated by launch of Islamic Hybrid Fund of Funds, specifically capital preservation and active allocation plans. Total AUMs as at end-Oct'2018 stood at Rs. 17.8b. Net assets of SMAs slightly decreased to Rs. 910.5m (FY17: Rs.953.0m) at end-FY18. Subsequently, due to sizeable redemption by one large mandate, SMA's witnessed considerable decline to 593.0m at-end October 2018. Going forward, management has set aggressive growth targets in a bid to increase its market share; however, given the prevalent macroeconomic uncertainty, the entire mutual funds industry is expected to face challenges in AUMs growth.

**Development of sales team, addition of alternate distribution channels, and focus on improving customer service quality are expected to aid growth in customer base going forward. As observed across the entire industry, high turnover in sales team remains an issue for JSIL**

The sales function is categorized into two distinct channels comprising direct sales force and alternate delivery channel (ADC). The in-house sales team is segregated into separate corporate and retail units. A separate head of the corporate and retail team is in place in each of the three regions: North, South and Central. Total strength of the in-house sales team stood at 58 (FY18: 59; FY17: 55) at end-Oct'18. Considerable turnover was witnessed in the sales team during the outgoing year, which was an impediment in the achievement of AUMs targets. On the other hand, the performance of the ADC exceeded management expectations. Presently, JS bank is the sole Alternate Distribution Channel of the AMC. Management of JSIL is targeting to add one other partner to its distribution network during the ongoing year. Furthermore, the sales incentive structure deployed in JS bank is being replicated at JSIL in a bid to improve performance of in-house sales team.

During the last few years, considerable emphasis has been placed to improve facilities at customer touch points. The online trading portal was revamped, mobile application was launched, and the customer service center has been equipped to handle both inbound and outbound calls to enhance user experience. The company using digital marketing channel for targeted marketing to potential clients.

**Proportion of retail AUMs has witnessed an increase on timeline basis; however, active client base remains low and fund wise concentration continues to remain on the higher side**

In FY18, total client base grew to 30,193 (FY17: 28,065). Around one-fifth of the client base represents active clients, which remain on the lower side vis-à-vis peers. Focus on addition of

<sup>1</sup> Assets under Management (AUMs) are quoted net fund of funds, unless otherwise stated

retail customers has translated into higher retail AUMs on timeline basis. At end-FY18, proportion of retail AUMs in total AUMs increased to 39.7% (FY17: 32.6%). However, concentration continues to remain on the higher side with top-10 investors constituting more than three fourth of total AUMs in majority of funds.

**Fund performance was weak in FY18 vis-à-vis peers but has shown improvement during the ongoing year**

Given the downturn witnessed in overall market due to political and macroeconomic uncertainty, performance of equity funds including Shariah compliant equity fund weakened in FY18 vis-à-vis the preceding year. No equity fund of JSIL ranked in top quartile vis-à-vis peers in FY18. As per management, decision making continues to be backed by research and fundamentals in companies with sound management and strong corporate governance framework. However, performance of some selected scrips in portfolio was weaker vis-à-vis market during Q1'18, which impacted overall returns of equity funds for the year. Post FY18, improvement has been witnessed in three out of four equity funds vis-à-vis peers on account of rebalancing of equity portfolios. Two equity funds ranked in first quartile in the period from July to October 2018. Going forward, management expects performance of equity market to remain under pressure due to uncertainty related to government policies. Performance of Unit Trust of Pakistan (JS Balanced Fund) witnessed a similar trend as equity funds on account of sizeable proportion of equities in the fund.

Performance of the largest fund, JS Income Fund, was maintained as it ranked in top quartile among peers. Performance of JS Islamic Income Fund and JS Cash Fund has witnessed improved on timeline basis with both funds featuring in top quartiles in the period Jul-Oct'18.

**Well-structured investment decision making process and qualified investment team; however, research department may need to be strengthened**

The investment decision making process is well-structured and combines a top down view with fundamental bottom-up analysis. The decision making process is committee based with the participation of key senior management personnel. Investment Committee (IC) comprises CEO, CFO, Chief Investment Officer (CIO), Chief Strategy Officer (CSO), Head of Fixed Income Portfolio and all fund managers. In line with best practices, management may consider induction of Head of Risk Management in the Investment Committee (IC). Experience of the investment management team is consistent with the assets being managed. Position of Head of Research has remained vacant since past few months. Given the importance of this position, management may consider filling this vacancy soon with a qualified resource.

**Satisfactory internal audit framework**

The Internal Audit (IA) department comprises two resources, including the Head of the department. Given the increasing workload, management plans to hire other resource in order to ensure each resource is operating at maximum efficiency level. The department follows a risk-based audit methodology for evaluation of pre-defined processes specified in the audit plan. Depending upon assessed risk, the processes are classified into high, medium and low risk categories where the frequency of audits depends on the assigned risk category. As per management, high risk category observations are resolved immediately. Technical aspects of IT audit are outsourced to KPMG Taseer Hadi & Co. Al Hilal Shariah Advisors (Pvt.) Limited act as Shariah advisors for funds under management.

**Adequate risk management and compliance framework**

The risk and compliance departments function under the stewardship of Mr. Salman Shakoor. Mr. Shakoor is assisted by two other resources in the risk department, whereas he handles the compliance responsibilities alone. No changes were noted in the structure of the department during FY18. Management may consider appointing separate resources for overseeing these two departments. As per compliance requirements, the compliance department monitors adherence to both regulatory and offering document limits; weekly and monthly reports are issued

on observance of the same. KYC and AML compliance remains the key focus area of the compliance department going forward.

Scope of the risk management department includes development and oversight of risk strategy, policy, framework, and methodology, with active support and involvement of the business, operations and the other groups/functions. Management is currently in process of automating risk management processes.

#### **Sound Governance Framework**

Overall corporate governance framework is supported by adequate board composition and oversight. In line with best practices, two independent directors are present on the board. Management may consider appointing a female director on the Board as per revised Corporate Governance Rules, 2017. Effective functioning of three board committees ensures satisfactory control framework and risk related oversight. Senior management team comprises seasoned professionals.

**Operating profitability decreased in the ongoing year due to growth in expenses. Going forward, operating profitability is expected to remain under pressure due to planned operational expenditure and management's focus on increasing AUMs.**

Given that the management fees on some funds was decreased during the ongoing year in a bid to facilitate AUMs growth, overall Management fee earned by the AMC declined by 6.0% in 9MCY18 vis-à-vis the corresponding period last year. Despite decline in management fee earned, overall revenues increased by 13.1% due to sizeable gain in sale of investments. Operating profitability decreased on account of 27.7% growth in administrative and marketing expenses during the period. Going forward, management fee is projected to increase on the back of growth in AUMs. However, expense base is also projected to depict increase on account of planned operational expenditure.

**JS Investments Limited<sup>2</sup>**

FINANCIAL SUMMARY			Appendix I
<b><u>UNIT TRUST OF PAKISTAN (UTP)</u></b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	1,415	1,687	1,350
Return (%)	-12.5%	24.5%	7.0%
Benchmark (%)	-5.6%	12.1%	3.8%
Retail Proportion (% of Net assets)	18.1%	15.8%	20%
Ranking Against Peers	4 out of 4	3 out of 5	3 out of 6
<b><u>JS GROWTH FUND (JS-GF)</u></b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	2,123	2,612	2,128
Return (%)	-15.9%	37.6%	3.9%
Benchmark (%)	-10.0%	17.9%	0.4%
Retail Proportion (% of Net assets)	51.2%	41%	51%
Ranking Against Peers	16 out of 21	2 out of 21	15 out of 20
<b><u>JS VALUE FUND (JS-VF)</u></b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	1,114	1,201	1,073
Return (%)	-12.8%	25.5%	13.7%
Benchmark (%)	-10.0%	17.9%	0.4%
Retail Proportion (% of Net assets)	22.0%	18.4%	28%
Ranking Against Peers	11 out of 21	15 out of 21	5 out of 20
<b><u>JS LARGE CAP FUND (JS-LCF)</u></b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	762	789	665
Return (%)	-12.7%	44.3%	4.8%
Benchmark (%)	-10.0%	17.9%	0.4%
Retail Proportion (% of Net assets)	50.3%	45.5%	39%
Ranking Against Peers	9 out of 21	1 out of 21	15 out of 20
<b><u>JS ISLAMIC FUND (JS-ISF)</u></b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	1,000	131	462
Return (%)	-19.8%	46.1%	5.9%
Benchmark (%)	-9.6%	18.8%	15.5%
Retail Proportion (% of Net assets)	60.3%	40.5%	71%
Ranking Against Peers	17 out of 20	1 out of 20	11 out of 16
<b><u>JS FUND OF FUNDS (JS-FoF)</u></b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	276	312	190
Return (%)	-9.5%	21.4%	9.1%
Benchmark (%)	-8.9%	15.7%	4.0%
Retail Proportion (% of Net assets)	29%	28%	44%
<b><u>JS CASH FUND (JS-CF)</u></b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>

<sup>2</sup> Assets Under Management (AUMs) are quoted on gross basis

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

Fund Size (in Rs. millions)	568	821	782
Return (%)	5.3%	5.7%	5.7%
Benchmark (%)	5.5%	5.3%	5.7%
Retail Proportion (% of Net assets)	19.2%	13.6%	56%
Ranking Against Peers	13 out of 21	18 out of 21	9 out of 22
<b><u>JS INCOME FUND (JS-IF)</u></b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	2,381	2,168	879
Return (%)	5.9%	7.0%	6.3%
Benchmark (%)	6.5%	6.3%	6.7%
Retail Proportion (% of Net assets)	33.5%	46.8%	14%
Ranking Against Peers	3 out of 28	3 out of 28	21 out of 28
<b><u>JS CAPITAL PROTECTED FUND V (JSCPFV)</u></b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	218	270	299
Return (%)	2.2%	5.7%	0.1%
Benchmark (%)	4.8%	6.4%	0.2%
Retail Proportion (% of Net assets)	15.3%	13.4%	34%
<b><u>JS ISLAMIC HYBRID FUND OF FUNDS</u></b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
<i>Fund Size (in Rs. millions)</i>			
Mustahkem	134	232	-
Munafa	9	26	-
Mustanad	19	813	-
Mutasasib	29	72	-
Mufeed	61	77	-
<b><u>JS ISLAMIC DEDICATED EQUITY FUND (JS-IDEF)</u></b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	1,249	-	-
Return (%) (YTD return since launch)	-2.1%	-	-
Benchmark (%)	-5.5%	-	-
Retail Proportion (% of Net assets)	0.0%	-	-
Ranking Against Peers	-	-	-
<b><u>JS ISLAMIC HYBRID FUND OF FUNDS (JSIAAP – I)</u></b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	111	-	-
Return (%) (YTD return since launch)	-0.3%	-	-
Benchmark (%)	-3.0%	-	-
Retail Proportion (% of Net assets)	91.3%	-	-
Ranking Against Peers	-	-	-
<b><u>JS ISLAMIC HYBRID FUND OF FUNDS II (JSIAAP – II)</u></b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	657	-	-
Return (%) (YTD return since launch)	-2.0%	-	-
Benchmark (%)	-3.7%	-	-
Retail Proportion (% of Net assets)	68.6%	-	-

## JCR-VIS Credit Rating Company Limited

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

Ranking Against Peers	-	-	-
<b>JS ISLAMIC HYBRID FUND OF FUNDS II (JSICPAP – I)</b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	1,575	-	-
Return (%) (YTD return since launch)	0.2%	-	-
Benchmark (%)	-1.8%	-	-
Retail Proportion (% of Net assets)	61.0%	-	-
Ranking Against Peers	-	-	-
<b>JS ISLAMIC HYBRID FUND OF FUNDS II (JSICPAP – II)</b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	1,738	-	-
Return (%) (YTD return since launch)	-0.2%	-	-
Benchmark (%)	-0.7%	-	-
Retail Proportion (% of Net assets)	60.9%	-	-
Ranking Against Peers	-	-	-
<b>JS ISLAMIC INCOME FUND (JS IIF) (formerly JS ISLAMIC GOVERNMENT SECURITIES FUND (JS IGSE))</b>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	651.9	109.6	192
Return (%)	3.4%	3.6%	3.7%
Benchmark (%)	2.6%	4.2%	5.5%
Retail Proportion (% of Net assets)	4%	5%	6%
Ranking Against Peers	16 out of 18	17 out of 18	14 out of 14
<b>JS PENSION SAVINGS FUND (JS-PSE)</b>			
<i>Equity sub-fund</i>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	228	267	159
Return (%)	-15.9%	41.3%	3.4%
<i>Debt sub-fund</i>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	180	160	147
Return (%)	4.4%	4.6%	5.3%
<i>Money market sub-fund</i>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	131	113.8	112
Return (%)	4.1%	4.4%	4.1%
<b>JS ISLAMIC PENSION SAVINGS FUND (JS-IPSE)</b>			
<i>Equity sub-fund</i>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	152	190	124
Return (%)	-20.1%	38.0%	4.1%
<i>Debt sub-fund</i>			
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
Fund Size (in Rs. millions)	82	70	62

Return (%)	2.3%	5.2%	3.9%
<i>Money market sub-fund</i>			
Fund Size (in Rs. millions)	60	54.9	53
Return (%)	2.8%	3.9%	2.4%

**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)



<b>REGULATORY DISCLOSURE</b>		<b>Appendix III</b>		
Name of Rated Entity	<b>JS Investments Limited</b>			
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>
	12/31/2018	AM2	Positive	Maintained
	1/04/2018	AM2	Stable	Reaffirmed
	1/05/2017	AM2	Stable	Reaffirmed
	5/04/2016	AM2	Stable	Harmonised
	12/31/2015	AM2-	Stable	Reaffirmed
	8/20/2014	AM2-	Stable	Reaffirmed
	6/26/2013	AM2-	Stable	Reaffirmed
	1/11/2012	AM2-	Stable	Reaffirmed
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 asset management quality only and is not a recommendation to buy or sell any securities.			
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.			
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