

RATING REPORT

ABL Asset Management Company Limited

REPORT DATE:

January 30, 2019

RATING ANALYST:

Muhammad Ibad Desmukh
ibad.desmukh@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2++	AM2++
Rating Outlook	Stable	Stable
Rating Date	Dec 31, 2018	Dec 29, 2017

COMPANY INFORMATION

Incorporated in October 2007	External auditors: KPMG Taseer Hadi & Co. Chartered Accountants
Unlisted Public Limited Company	Chairman of the Board: Mr. Sheikh Mukhtar Ahmed
Key Shareholders (with stake 5% or more): Allied Bank Limited	Chief Executive Officer: Mr. Alee Khalid Ghaznavi

APPLICABLE METHODOLOGY(IES)

JCR-VIS Rating Criteria
 Asset Management Companies (March 2016): <http://jcrvis.com.pk/docs/AMC-Methodology-201603.pdf>

ABL Asset Management Company Limited

OVERVIEW OF THE INSTITUTION

ABL Asset Management Company Limited (ABL AMC) is a public unlisted company incorporated in Pakistan in October 2007. It is a wholly owned subsidiary of Allied Bank Limited (ABL). ABL AMC has obtained licenses to undertake Investment Advisory Services and Asset Management Services under the NBFC Rules and NBFC Regulations. The Company has also obtained license to carry out business as Pension Fund Manager under the Voluntary Pension System Rules.

Profile of Chairman

Mr. Sheikh Mukhtar Ahmed has over 55 years of experience in establishing and managing various industrial and financial companies. Mr. Mukhtar joined the Board of ABL in 2004 and the ABL AMC Board in 2008.

Profile of CEO

Mr. Alee Khalid Ghaznavi has sixteen years' of working experience with leading financial institutions including ABL, Habib Bank AG Zurich and National of Bank of Pakistan Limited in the area of Corporate and Investment banking.

RATING RATIONALE

ABL Asset Management Company Limited (ABL AMC) is a wholly owned subsidiary of Allied Bank Limited (ABL).

Key Rating Drivers:

Market share increased slightly in the outgoing fiscal year; retail proportion in total AUMs remains low. Growth in AUMs emanated from cash and income funds; further growth in market share may be supported by income funds given volatility in equity market.

Assets Under Management (adjusted for fund of funds (FoF)) increased by 3% to Rs. 36.1b (FY17: Rs. 35.2b) by end-FY18 vis-à-vis industry decline of ~2%. Resultantly, market share witnessed slight increase to 5.9% (FY17: 5.7%) by end-FY18. Growth in AUMs emanated from ABL Cash Fund and ABL Islamic Income Fund; further growth was observed in AUMs by end-Oct'2018 to Rs. 42b. Further increase in AUMs may be supported by fixed income funds given volatility in equity market.

Proportion of retail investment in relation to total AUMs is on the lower side and was reported at 22% (FY17: 24%) at end-FY18. Granularity in AUM base requires improvement with higher concentration of top 10 investors at 67% at end-FY18.

Fund Performance

- Money Market: Relative performance of ABL Cash Fund has moved from first quartile to second quartile.
- Income: Relative performance of ABL Islamic Income Fund dropped from second to third quartile, ABL Government Securities Fund from first to fourth quartile and ABL Income Fund from second to fourth quartile. Management attributes this trend to depressed prices of corporate debt instruments.
- Equity: Relative performance of ABL Stock Fund decreased from third to fourth quartile while ranking of ABL Islamic Stock Fund improved from third to first quartile. With respect to equity funds, decline in relative performance is attributed to mistimed changes in exposure to cement sector.

Given enhanced synergies between fund management department and research team, the management forecasts funds' performance to improve, going forward.

Focus remains on collaboration with ABL, expansion of geographic footprint, strengthening and strategic allocation of sales force and enhancement of customer base through digital initiatives.

To improve AUM profile and grow market share, overall business development strategy is focused on more effective engagement with the parent bank for sale of mutual funds, expansion of sales force and enhancement of alternative delivery channels with emphasis on digital marketing.

Sales operations are conducted primarily through three channels: ABL AMC owned branches, sales team and third party distributors. Major sale of mutual fund units continues to be generated from the head

office. Since last review, the sales function has undergone reorganization whereby the positions of Retail Head North Sales and Retail Head South Sales were merged into Head of Retail Sales. The sales team is divided into two regions, north and south. At end-June 2018, sales team of ABL AMC comprised ~100 individuals, split region-wise. Retail clientele are catered to through a branch network of 6 branches spread nationwide; 2 of these branches were added during the outgoing year. Management plans to set up 6 new dedicated branches across various cities in the country. Moreover, additional hiring of 100 sales staff is being undertaken. As per management, a portion of sales personnel will be stationed at ABL's Islamic banking branches to mobilize retail AUMs. These initiatives are envisaged to facilitate in reducing currently high region-wise concentration in sales. With respect to High Net Worth Individuals (HNWIs), the AMC has set up a dedicated sales team of ten people which will focus on client acquisition, retention and expansion of existing portfolios.

Product suite caters to most investor needs; launch of a second cash fund and two capital protected plans is envisaged during 2019.

ABL AMC offers investment solutions for both conventional and Islamic markets. During period under review, ABL AMC launched an additional fund namely Allied Finergy Fund (the first of its kind in Pakistan), thereby taking total tally of fund offerings to 12. Allied Finergy Fund provides investors the opportunity for long-term capital appreciation through investments in financial and energy sector securities. Apart from aggressive income fund, product suite caters to most investor needs and comprises money market, income, equity, allocation plans and pension fund schemes. As an investment advisor, ABL AMC also manages 26 (2016: 21) discretionary portfolios for Separately Managed Accounts (SMAs). SMA clients have had a long-term association with the company. In a bid to diversify product suite, the company plans to launch a second conventional cash fund along with two capital protected plans in 2019.

Formalized investment decision making process; composition and functioning of investment committee are considered adequate.

Overall investment process is formalized with separate Investment Committee (IC) meetings conducted for strategy and monitoring SMA performance. The head of risk is a permanent voting member of the IC. IC comprises CEO, CIO, CFO, Head of Fixed Income, Head of Equity, Head of Risk and Fund Managers. All members in IC are permanent voting members. Since last review, key change in IC composition was the exclusion of Head of Compliance. The IC meets on a weekly and ad-hoc basis to discuss the current market situation, along with micro and macro-economic environment. The Head of Research reports directly to the CIO on daily basis. Changes observed in the department during the outgoing year comprise appointment of an experienced Head of Research, enhanced synergies between fund management and research team and strengthening of in-house research team consequently reducing reliance on sell-side research.

Internal Audit

Overall scope and functioning of different control functions is adequate. Observations in the internal audit report, particularly pertaining to fund management were comprehensive and reflect detailed review undertaken by the Internal Audit Department. The department employs a Risk-based Internal Audit methodology when covering various functions of the AMC. The annual audit plan is split into quarterly assignments with each department being covered annually.

Compliance

Since last review, focus remained on maintaining adherence to employee trading and KYC policy along with updating of policy and procedural framework. The compliance function is segmented into two

divisions, namely client compliance and regulatory compliance. Client compliance resource monitors compliance of the customer with Anti-Money Laundering, Combating Force Terrorism, FATCA etc., whereas regulatory compliance resource monitors compliance with regulatory policies. The company maintains records of communication lines in the trading room which is reviewed on sampling basis. Furthermore, the compliance department maintains a camera live-feed of the trading room for monitoring purposes.

Risk management function is dedicated and independent.

A Board Risk Management Committee (BRMC) is in place for effective risk oversight. Composition and functioning of the department is considered adequate. Scope of the department includes investment (credit, market and liquidity risk) and operations risk. Risk function may enhance scope of coverage to include assessment of business risk and its impact on overall financial health of the AMC.

Core revenue has improved while expenses have remained largely stable; profitability may be impacted by higher expenses resulting from sales team expansion.

Although investment advisory fee decreased, overall operating profit (excluding impact of investment income) increased in 2017. Increase in operating profit was a function of higher management fees earned and load income while administrative and distribution/marketing expenses remained largely stable. However, overall profitability declined on account of unrealized loss on investments in 2017. Going forward, hiring of sales staff is expected to result in higher administrative expenses in 2019.

Significant turnover witnessed in operational staff while sponsor profile remains strong.

While senior management largely remained stable, significant turnover was witnessed in operational staff of the AMC. Subsequently, most of the vacancies have been filled. Stability of human resources and their retention is considered important to maintain effective continuity in operations, going forward. Assigned ratings continue to draw comfort from the company's sponsor profile, ABL, being one of the largest private sector banks in the country. Going forward, financial strength and support of the sponsor will remain one of the rating drivers.

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

ABL Asset Management Limited

FINANCIAL SUMMARY		
<u>ABL INCOME FUND (ABL IF)</u>	FY18	FY17
Fund Size (in Rs. millions)	2,810	3,875
Return (%)	4.67%	5.90%
Benchmark (%)	6.35%	6.10%
Retail Proportion (% of Net assets)	18%	17%
Ranking Against Peers	24/28	14/28
Calendar Year Ranking	27/28	14/28
<u>ABL CASH FUND (ABL CF)</u>		
Fund Size (in Rs. millions)	13,235	7,577
Return (%)	5.41%	5.70%
Benchmark (%)	5.35%	3.10%
Retail Proportion (% of Net assets)	14%	8%
Ranking Against Peers	9/21	2/21
Calendar Year Ranking	9/19	2/19
<u>ABL ISLAMIC INCOME FUND (ABL IIF)</u>		
Fund Size (in Rs. millions)	5,020	3,968
Return (%)	4.37%	5.70%
Benchmark (%)	2.46%	3.10%
Retail Proportion (% of Net assets)	16%	28%
Ranking Against Peers	10/16	5/16
Calendar Year Ranking	11/17	7/17
<u>ABL GOVERNMENT SECURITIES FUND (ABL GSF)</u>		
Fund Size (in Rs. millions)	3,137	3,794
Return (%)	5.09%	6.60%
Benchmark (%)	6.20%	5.90%
Retail Proportion (% of Net assets)	21%	23%
Ranking Against Peers	12/28	6/28
Calendar Year Ranking	22/28	3/28
<u>ABL STOCK FUND (ASF)</u>		
Fund Size (in Rs. millions)	6,249	8,894
Return (%)	-16.84%	33.20%
Benchmark (%)	-10.00%	22.40%
Retail Proportion (% of Net assets)	35%	30%
Ranking Against Peers	17/21	7/21
Calendar Year Ranking	16/20	13/20

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<u>ABL ISLAMIC STOCK FUND (AISF)</u>	FY18	FY17
Fund Size (in Rs. millions)	2,423	3,544
Return (%)	-15.93%	31.20%
Benchmark (%)	9.59%	18.80%
Retail Proportion (% of Net assets)	20%	17%
Ranking Against Peers	10/16	3/16
Calendar Year Ranking	5/20	11/18
<u>ABL FINANCIAL PLANNING FUND (ABL FPF)</u>	FY18	FY17
Fund Size (in Rs. millions)	1,632	2,137
Retail Proportion (% of Net assets)	33%	43%
Associate Proportion (% of Net assets)	15%	11%
<u>ABL ISLAMIC FINANCIAL PLANNING FUND</u>	FY18	FY17
Fund Size (in Rs. millions)	4,371	5,887
Retail Proportion (% of Net assets)	39%	46%
Associate Proportion (% of Net assets)	6%	6%
<u>ABL ISLAMIC DEDICATED STOCK FUND</u>	FY18	FY17
Fund Size (in Rs. millions)	1,693	2,737
Retail Proportion (% of Net assets)	0%	0%
Associate Proportion (% of Net assets)	100%	100%

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.

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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

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REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	ABL Asset Management Company 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
	31-Dec-18	AM2++	Stable	Reaffirmed
	29-Dec-17	AM2++	Stable	Upgrade
	30-Dec-16	AM2+	Stable	Reaffirmed
	4-May-16	AM2+	Stable	Harmonized
	31-Dec-15	AM2	Stable	Reaffirmed
	31-Dec-14	AM2	Stable	Reaffirmed
	21-Jun-13	AM2	Stable	Upgrade
	10-Jan-13	AM2-	Positive	Maintained
	16-Sep-11	AM2-	Stable	Upgrade
	31-Dec-10	AM3+	Positive	Upgrade
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 credit quality only and is not a recommendation to buy or sell any securities.			
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