

RATING REPORT

ABL Asset Management Company Limited

REPORT DATE:

January 27, 2020

RATING ANALYST:

Maham Qasim

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2++	AM2++
Rating Outlook	Stable	Stable
Rating Date	Dec 31, 2019	Dec 31, 2018

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)

VIS Rating Criteria

Asset Management Companies (June 2019): <https://www.vis.com.pk/kc-meth.aspx>

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 of the company increased during the review period; however the growth was largely manifested in corporate portfolio with retail proportion in total AUMs remained stagnant. Growth in AUMs emanated from cash fund; 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 sizably by almost 50% to Rs. 54.1b (FY19: Rs. 36.6b; FY18: Rs. 36.1b) by end-Nov'19 vis-à-vis industry increase of ~4%. Resultantly, market share witnessed increase to 8.7% (FY19: 7.1%; FY18: 6.1%) by end-Nov'19. Growth in AUMs emanated from primarily from ABL Cash Fund and ABL Islamic Income Fund. The cash fund constitutes around 48% (FY19: 58%; FY18: 37%) of the company's AUMs at end-Nov'19. 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 24% (FY18: 22%; FY17:24%) at end-HY19. Granularity in AUM base requires improvement with higher concentration of top 10 investors at 63% (FY18:67%) at end-HY19.

Fund Performance

- Money Market: Relative performance of ABL Cash Fund has moved from second quartile to first quartile during the outgoing year; moreover it has maintained its position during the ongoing year at end-Nov'19.
- Income: Relative performance of ABL Islamic Income Fund improved from second to first quartile during FY18; moreover the position was further strengthened during the ongoing year at end-Nov'19. ABL Government Securities Fund maintained its position in second quartile although ranking wise there was descent within the quartile range. Further, ABL Income Fund was reported in the fourth quartile as of last year; however the position improved during the ongoing year with the fund reported in the third quartile at end-Nov'19. Management attributes this trend to depressed prices of corporate debt instruments.
- Equity: Relative performance of ABL Stock Fund improved to first from fourth quartile while ranking of ABL Islamic Stock Fund improved from third to first quartile. With respect to equity funds, improvement in relative performance is attributed to investment in performing scrips including banking and textile 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, enhance market share and overall geographical presence, the business development strategy encompasses 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 representing 84% (FY18: 75%) of the total sales mix. The sales function is divided in two regions, north and south and is spearheaded by Head of Retail Sales. The company has 7 retail centers across Pakistan in all the major cities including Lahore, Karachi, Rawalpindi, Peshawar, Islamabad, Faisalabad and Sialkot whereby branch of parent bank is situated on ground floor and mutual fund center is situated on mezzanine floor. As per the management, the co-existential approach has been cost effective, adds to brand recognition and had led to inflow of walk in customers. During the period under review, the company signed new agreements with Philip Morris, Telenor and Pakistan Petroleum Limited. .

At end-Nov'19, sales team of ABL AMC comprised ~100 individuals, split region-wise. Going forward, with increased focus on retail portfolio the management plans on hiring 50 new employees during FY20 with 25 in Karachi and 10 each in Lahore and Islamabad. 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. As per the management, FY20 is projected to be the retail year for the company whereby the company is launching Voluntary Pension Scheme (VPS) for ABL Bank's employees in Jan-FY20; given the aforementioned institution has 17,000 employees, the company has projected an annual inflow of sticky funds amounting to Rs 5.0b. Going forward, the management plans to place dedicated employees in ABL Bank's UAE's office and Bahrain branch to tap international clients for portfolio growth. Further given attrition is profound at entry level positions, the management has aligned its human resource policies with that of parent bank with provision of gratuity right after completion of five year employment to rectify the situation. In addition, house and motor loans are also available to the workforce at discounted interest rates.

Product suite caters to most investor needs; capital protected fund launched in FY19; meanwhile launch of shariah compliant cash fund is envisaged during FY20.

ABL AMC offers investment solutions for both conventional and Islamic markets. During FY19, ABL AMC launched an additional fund namely ABL Special Savings Fund, thereby taking total tally of fund offerings to 13. ABL Special Savings Fund aims to not only provide its unit-holders capital preservation but competitive regular returns from a portfolio of fixed income investments in line with the risk tolerance of the Investor. 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 18 (FY18: 19; FY17: 26) discretionary portfolios for Separately Managed Accounts (SMAs) at end-HY19. SMA clients have had a long-term association with the company. In a bid to diversify product suite, the company plans to launch an Islamic Cash Fund in FY20.

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. IC formally meets on a weekly and ad-hoc basis to discuss the current market situation, along with micro and macro-economic environment. During the period under review, the company has also initiated daily IC whereby entire day's work is discussed and signed off in the morning. The Head of Research reports directly to the Head of Equity and Head of Income on daily basis. The Head of Research enhances 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

During the review period, 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. There was no compliance breach in terms of sector composition, scrip composition and asset allocation in any of the funds operated by the company.

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. During the period under review, the department focused on stringent monitoring of investment and operational risk. In investment risk, the management focused on sectoral allocations, broker correlation reports, CPPI models, redemptions & liquidity requirements and fund performances. On other hand, in operational risk the department focused on account opening clearance procedures primarily pertaining to FATF, risk profiling of customers and customer tracking. Risk function may enhance scope of coverage to include assessment of business risk and its impact on overall financial health of the AMC.

IT initiatives with strong focus on digitalization

During the period under review, the company launched its app where all the information pertaining to forex, stock market, commodities and money market is available on real time basis. Further in Jan'20, the company has planned to translate its website in Urdu for ease of its client base. Going forward, after

integration of company's software with myABL the clients would be able to make investments and redemptions directly from the app. In addition, the company is in the process of issuing a co-branded ATM card with the parent bank by end-March'20; the card is currently in the printing stage. Hence, the management envisions enhanced digitalization and synergies to improve customer experience which is expected to result in higher customer retention.

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

The after tax profit of the company decreased to Rs. 151.3m (FY17: Rs. 192.1m) during FY18 mainly on account lower non-fund based income. The core profit marginally declined from Rs.188m to Rs. 179.2m despite of political uncertainty and challenging economic situation. However, the profitability of the company took a positive turn during the ongoing year with after tax profit reported at Rs. 156.5m for HY19 on account of increase in scale of operations with higher AUMs and increased dividend income in line with higher investment in financial instruments. In addition, the improved performance of the company was also an outcome of largely rationalized marketing and administrative. Going forward, hiring of sales staff is expected to result in further increase in administrative expenses in FY20 whereas same shall be off set with additional revenue.

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

Key positions of Chief Investment Officer (CIO) and Head of Risk are currently vacant; the management does not plan on hiring CIO as the aim is to function with a leaner structure whereby both Head of Income and Head of Equity directly report to the CEO. Moreover, the Head of Research has an additional role of acting Head of Risk. In addition, significant turnover was witnessed in operational staff of the AMC. Given the company is in the growth mode, stability of human resources and their retention is considered highly critically to maintain effective continuity in operations and dissemination of strategic vision, 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 key rating drivers.

ABL Asset Management Limited
FINANCIAL SUMMARY

ABL INCOME FUND (ABL IF)	FY17	FY18	FY19
Fund Size (in Rs. millions)	3,875	2,810	1,692
Return (%)	5.90%	4.67%	7.12%
Benchmark (%)	6.10%	6.35%	10.31%
Retail Proportion (% of Net assets)	17%	18%	20%
Ranking Against Peers	14/28	18/20	20/20
ABL CASH FUND (ABL CF)	FY17	FY18	FY19
Fund Size (in Rs. millions)	7,577	13,235	21,248
Return (%)	5.41%	5.41%	9.02%
Benchmark (%)	4.96%	5.35%	9.71%
Retail Proportion (% of Net assets)	8%	14%	17%
Ranking Against Peers	2/21	7/22	3/20
ABL ISLAMIC INCOME FUND (ABL IIF)	FY17	FY18	FY19
Fund Size (in Rs. millions)	3,968	5,020	3,732
Return (%)	5.70%	4.37%	12.45%
Benchmark (%)	3.10%	2.46%	5.19%
Retail Proportion (% of Net assets)	28%	16%	26%
Ranking Against Peers	5/16	8/18	5/20
ABL GOVERNMENT SECURITIES FUND (ABL GSF)	FY17	FY18	FY19
Fund Size (in Rs. millions)	3,794	3,137	2,811
Return (%)	6.60%	5.09%	10.03%
Benchmark (%)	5.90%	6.20%	12.83%
Retail Proportion (% of Net assets)	23%	21%	28%
Ranking Against Peers	6/28	3/9	5/10
ABL STOCK FUND (ASF)	FY17	FY18	FY19
Fund Size (in Rs. millions)	8,894	6,249	5,892
Return (%)	33.20%	-16.84%	-16.54%
Benchmark (%)	22.44%	-10.00%	19.11%
Retail Proportion (% of Net assets)	30%	35%	43%
Ranking Against Peers	7/21	17/21	5/20
ABL ISLAMIC STOCK FUND (AISF)	FY17	FY18	FY19
Fund Size (in Rs. millions)	3,544	2,423	1,976
Return (%)	31.20%	-15.93%	-16.65%
Benchmark (%)	18.80%	-9.59%	-23.84%
Retail Proportion (% of Net assets)	17%	20%	17%

Ranking Against Peers	3/16	13/20	1/17
<u>ABL FINANCIAL PLANNING FUND (ABL FPF)</u>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	2,137	1,632	1,071
Retail Proportion (% of Net assets)	43%	33%	28%
Associate Proportion (% of Net assets)	11%	15%	22%
<u>ABL ISLAMIC FINANCIAL PLANNING FUND (ABL IFPF)</u>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	5,887	4,371	2,296
Retail Proportion (% of Net assets)	46%	39%	48%
Associate Proportion (% of Net assets)	6%	6%	2%
<u>ABL ISLAMIC DEDICATED STOCK FUND (ABL IDSF)</u>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	2,737	1,693	687
Retail Proportion (% of Net assets)	0%	0%	0%
Associate Proportion (% of Net assets)	100%	100%	100%
<u>ABL CAPITAL PROTECTED FUND (ABL ACPF)</u>			
	FY17	FY18	FY19
Fund Size (in Rs. millions)	-	403	358
Return (%)	-	2.83%	6.25%
Benchmark (%)	-	0.75%	5.59%
Retail Proportion (% of Net assets)	-	50%	46%
Ranking Against Peers	-	3/4	1/3

FINANCIAL SUMMARY (Rs. in millions)	(Appendix II)	
<u>BALANCE SHEET</u>	FY17	FY18
Paid Up Capital	500.0	500.0
Total Equity	1,833.7	1,985.0
<u>INCOME STATEMENT</u>		
Total Income	563.3	506.3
Profit Before Tax	264.8	216.5
Profit After Tax	192.1	151.3
<u>RATIO ANALYSIS</u>		
Current Ratio (x)	6.46	6.95
Gearing (x)	N/A	N/A

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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

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

REGULATORY DISCLOSURE		APPENDIX IV		
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-19	AM2++	Stable	Reaffirmed
	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	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.			
Probability of Default	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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Due Diligence Meetings Conducted		Name	Designation	Date
	1	Mr. Khalid Hussain	Country Head Business Development	04-Dec-2019
	2	Mr. Tahir Saeed	Head of Research	03-Dec-2019
	3	Mr. Fahad Aziz	Head of Fixed Income	03-Dec-2019
	4	Mr. Abdul Hayee	Fund Manager Equity	03-Dec-2019
	5	Mr. Rehan Saif	Head of Compliance	03-Dec-2019