

RATING REPORT

ABL Asset Management Company Limited

REPORT DATE:

January 05, 2020

RATING ANALYST:Asfia Aziz
asfia.aziz@vis.com.pk**RATING DETAILS**

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2++	AM2++
Rating Outlook	Positive	Stable
Rating Date	Dec 31, 2020	Dec 31, 2019

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 56 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 17 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) incorporated in October 2007.

Rs. m	FY17	FY18	FY19	FY20	Oct'20
Gross AUMs	42,849	42,145	40,917	60,285	64,610
Ex FoF AUMs	34,824	36,141	37,549	58,594	62,797
Industry AUMs (ex-FoF)	685,191	667,893	572,925	788,850	903,592
Market Share (ex-FoF)	5.1%	5.4%	6.6%	7.4%	6.9%
Retail %	24.40%	22.57%	23.98%	22.40%	21.53%
Gross Islamic AUMs	16,322	14,444	9,087	13,853	16,193
Gross Conventional AUMs	26,527	27,700	31,830	46,432	48,418

	FY17	FY18	FY19	FY20	Oct'20
Total Clients as at June	16,890	19,217	21,546	23,144	23,790
Number of Active Clients at period end	6,812	8,621	9,783	10,208	10,453
New Clients added during the year	2,337	2,327	2,329	2,598	646 (Jul - Oct 20)
Sales force at period end	97	75	81	80	82
Target of clients for next year	2,000	2,000	2,000	2,000	2000 (FY21)

Key Rating Drivers:

Market share of the company increased during FY20; however witnessed a decrease in Oct'2020. Market share improvement was largely manifested by corporate portfolio with retail proportion in total AUMs declining slightly during FY20. Growth in AUMs emanated primarily from conventional cash fund. Going forward further growth in market share may be supported by equity funds with management's focus towards building the same in line with its bullish view on the stock market.

Assets Under Management (adjusted for fund of funds (FoF)) increased sizably by around 67% as compared to FY19 to Rs. 62.8b (FY20: Rs. 58.6b; FY19: Rs. 37.5b) by end-Oct'20 vis-à-vis industry increase of 58%. Given AMC's AUMs outpacing growth as compared to industry AUMs during FY20, market share increased to 7.4% by end-June'20 (FY19: 6.6%, FY18: 5.4%). However, industry AUMs witnessed significant growth during the July-Oct'20 period whereby the AMC's market share diminished to 6.9% at end-Oct'20. Growth in AUMs emanated from primarily from ABL Cash Fund and ABL Islamic Income Fund. The cash fund constitutes around 53% (FY20: 47%, FY19: 56%) of the company's AUMs at end-Oct'20. Going forward further growth in AUMs may be supported by equity funds with management's focus towards building the same. In order to increase exposure in equity based funds, an in-house campaign was launched to encourage big corporate clients towards equity-based products. Sales staff is being briefed about movements in the stock market on a regular basis. Moreover, the AMC has also signed equity based SMAs in both retail and corporate segments.

Proportion of retail investment in relation to total AUMs continues to be on the lower side and was reported at 21.53% (FY20: 22.4%; FY19:23.98%) at end-Oct'20. Granularity in AUM base requires improvement with higher concentration of top 10 investors at 71% (FY19:63%) at end-FY20.

Fund Performance

- **Money Market:** Relative performance of ABL Cash Fund has moved from first quartile to the last quartile during the outgoing year; with slight improvement in its ranking in the ongoing fiscal year.
- **Income:** Relative performance of ABL Islamic Income Fund improved from first quartile during FY19 to the second quartile in FY20 and the ongoing year ending Oct'20. ABL Government Securities Fund maintained its position in second quartile although ranking wise there was descent within the quartile range during FY20. However its position weakened in the ongoing year moving to the last quartile. Further, ABL Income Fund was reported in the fourth quartile as of last year; however the position improved during FY20 with the fund reporting returns in the first quartile. However, the fund's position weakened again in the ongoing year moving to the last quartile. Management attributes this trend to depressed prices of corporate debt instruments.
- **Equity:** Relative performance of ABL Stock Fund weakened from first to third quartile during FY20; however its ranking improved to the second quartile in the ongoing year. Ranking of ABL Islamic Stock Fund weakened from first to third quartile in FY20; however its rank moved to the first quartile in the ongoing year. 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 in the South, strengthening and strategic allocation of sales force, enhancement of customer base through digital initiatives, and establishment of Islamic Dedicated Saving Centers.

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 76% (FY19: 84%) of the total sales mix in FY20. The sales function is divided in two regions, north and south. 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.

At end-Oct'20, sales force of ABL AMC comprised 82 individuals, split region-wise. Going forward, with increased focus on retail portfolio the management plans on hiring 120 new employees by January'22 with major proportion in the South to increase AUM penetration in the Southern region of the country.

Given increased focus towards client acquisition through digitization, the company has initiated a Whatsapp Business Solution campaign. This campaign empowers the AMC to communicate with customers all across the world through Whatsapp. WhatsApp Business Solution enables enterprise clients to submit messages to WhatsApp network users, as well to receive messages sent from WhatsApp network end-users back to enterprises. It is an opportunity for the organization to have a two-way communication with the customers. The customers can explore Products and Services with Self Service channel and Notifications and also interact via Live Chat with the agent.

In order to increase Shariah Compliant AUMs given investors' inclination towards the same, ABL AMC

is in the process of setting up three (Karachi, Lahore and Islamabad) dedicated Islamic Saving Centers throughout Pakistan under the banner of “EMAAN” by FY21. These centers will be strategically located adjacent to Islamic branches of ABL Bank providing increased visibility. The company is under process to hire dedicated human resource for selling Islamic products in order to improve market share in the Shahriah Compliant segment.

Product suite caters to most investor needs; Islamic cash fund launched in FY20; meanwhile launch of another cash fund and two more capital protected saving plans are envisaged going forward.

ABL AMC offers investment solutions for both conventional and Islamic markets. During FY20, ABL AMC additional variants of ABL Special Savings Fund and an Islamic Cash Fund, thereby taking total tally of fund offerings to 15 (FY19: 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 encompassing more than one-half of the AUM portfolio, 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 discretionary portfolios for Separately Managed Accounts (SMAs). SMA clients have had a long-term association with the company. During the period under review, the company signed new agreements with Adamjee Insurance, Feroze 1888 Mills, Lahore University, and Gul Ahmad. Going forward, the AMC plans to launch another cash fund and two more capital protected saving plans.

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. During the year under review, key developments in the IAD include enhanced coverage of IT and operational audits, and separate dedicated segment on KYC AML in the annual internal audit report. All core softwares were upgraded in the outgoing year with the key risks integrated with the system.

Compliance

During the review period, focus remained on maintaining adherence to employee trading and KYC policy along with updating of policy and procedural framework. AML KYC backlog has been completed for around 90% of the active clients of the AMC. 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.

IT initiatives with strong focus on digitalization across the asset management value chain

Last year, the company launched its app where all the information pertaining to forex, stock market, commodities and money market is available on real time basis. In the ongoing year, the company has translated its entire website in Urdu for ease of its client base. Moreover, the company's online portal is active. The AMC is now also present on 1-Link. Going forward, after integration of company's software with myABL the clients would be able to make investments and redemptions directly from the application. Key plans and initiatives in the IT division are as follows:

- Transform through Technology by adopting an integrated platform that manage all activities— Investment, Distribution, Operation, valuation, etc.
- Utilization of online portal/mobile application for investment/ redemption transactions
- Promote the use of Electronic Data Interchange (EDI) by investors to improve efficiency and cost saving
- Promote Paperless working environment for entire transaction chain
- Improve presence on social media

In lieu of the above, the management envisions enhanced digitalization and synergies to improve customer experience which is expected to result in higher customer retention.

Core revenue has improved significantly in 2019 owing to one-off gain from instruments at FVTPL and higher dividend income. While expenses have remained largely stable; profitability may be impacted going forward by higher expenses resulting from sales team expansion.

The after tax profit of the company more than doubled to Rs. 377m (2018: Rs. 152m) during 2019 mainly on account of one-off income from instruments at FVTPL and higher dividend income in line with higher investment in financial instruments. Consequently, operating profit increased to Rs. 469m (2018: Rs. 217m) despite a challenging economic situation. Net profit during 1H2020 was reported at Rs. 64m in the absence of one-off investment gains in the period. Going forward, hiring of sales staff is expected to result in further increase in administrative expenses in FY21 whereas same shall be off set with additional revenue.

Employee turnover improved as compared to the previous year; however it remains on the higher side. Sponsor profile of the company remains strong.

Employee turnover rate witnessed improvement in FY20 and the ongoing year; however remains on the higher side for both-operational staff and sales staff. As per management, sales force of the AMC comprises senior skilled professionals. Moreover, the company has recently hired 12-15 people in the South to garner AUM growth. 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 (AUMs are reported as gross)		Appendix I	
ABL Income Fund (ABL IF)		FY19	FY20
Fund size (in Rs. Millions)		1,208	1,296
Return %		7%	14%
Benchmark %		10%	12%
Retail Proportion of Net Assets		20%	34%
Ranking Against Peers		20/20	5/19
ABL Cash Fund (ABL CF)		FY19	FY20
Fund size (in Rs. Millions)		21,204	26,889
Return %		9%	13%
Benchmark %		9%	12%
Retail Proportion of Net Assets		17%	16%
Ranking Against Peers		3/20	12/21
ABL Islamic Cash Fund (ABL ICF)		FY19	FY20
Fund size Gross (in Rs. Millions)		NA	1,493
Return %		NA	10%
Benchmark %		NA	5%
Retail Proportion of Net Assets		NA	NA
Ranking Against Peers		NA	8/9
ABL Islamic Income Fund (ABL IIF)		FY19	FY20
Fund size (in Rs. Millions)		2,503	5,726
Return %		8%	11%
Benchmark %		4%	6%
Retail Proportion of Net Assets		26%	49%
Ranking Against Peers		5/20	9/21
ABL Government Securities Fund (ABL GSF)		FY19	FY20
Fund size (in Rs. Millions)		2,660	4,657
Return %		8%	15%
Benchmark %		10%	12%
Retail Proportion of Net Assets		28%	39%
Ranking Against Peers		5/10	8/12
ABL Stock Fund (ABL SF)		FY19	FY20
Fund size (in Rs. Millions)		3,569	4,080
Return %		-17%	-1%
Benchmark %		-19%	2%
Retail Proportion of Net Assets		43%	33%
Ranking Against Peers		5/20	14/24
ABL Islamic Stock Fund (ABL ISF)		FY19	FY20
Fund size (in Rs. Millions)		1,975	2,049
Return %		-17%	1%
Benchmark %		-24%	2%
Retail Proportion of Net Assets		17%	15%
Ranking Against Peers		1/17	11/15

ABL Islamic Financial Planning Fund (ABL IFPF)	FY19	FY20
Fund size (in Rs. Millions)	2,296	1,114
Retail Proportion of Net Assets	52%	36%
Associate Proportion of Net Assets	2%	13%
ABL Financial Planning Fund (ABL FPF)	FY19	FY20
Fund size (in Rs. Millions)	1,071	579
Retail Proportion of Net Assets	31%	31%
Associate Portion of Net Assets	29%	41%
ABL Dedicated Stock Fund (ABL DSF)	FY19	FY20
Fund size (in Rs. Millions)	30	-
Return %	-17%	-4%
Benchmark %	-24%	2%
Retail Proportion of Net Assets	0%	0%
ABL Pension Fund (ABL PF)	FY19	FY20
Fund size (in Rs. Millions)	248	339
ABL Islamic Pension Fund (ABL IPF)	FY19	FY20
Fund size (in Rs. Millions)	159	199
Allied Finergy Fund (AFF)	FY19	FY20
Fund size (in Rs. Millions)	448	496
Return %	-2%	-5%
Benchmark %	-8%	6%
Retail Proportion of Net Assets	44%	19%
Ranking Against Peers	NA	12/12
ABL Islamic Asset Allocation Fund (ABL IAAF)	FY19	FY20
Fund size (in Rs. Millions)	235	2,172
Return %	-1%	7%
Benchmark %	5%	12%
Retail Proportion of Net Assets	62%	4%
Ranking Against Peers	2/12	6/11
ABL Special Saving Plans	FY19	FY20
Fund size (in Rs. Millions)	358	7,510

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
BALANCE SHEET	2018	2019	1HFY20
Paid Up Capital	500	500	500
Total Equity	1,985	2,361	2,425
INCOME STATEMENT			
Total income	508	790	207
Profit Before Tax	217	461	91
Profit After Tax	152	377	64
RATIO ANALYSIS			
Net Cash Generated from Operating Activities	123	158	82
Current Ratio (x)	7	7	8
Gearing (x)	-	0.03	0.03

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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 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-20	AM2++	Positive	Maintained
	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.			
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			
Due Diligence Meetings Conducted		Name	Designation	Date
	1	Mr. Khalid Hussain	Country Head Business Development	03-Dec-2020
	2	Mr. Kamran Shahzad	Chief Internal Auditor	03-Dec-2020