

JCR-VIS Credit Rating Company Limited

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

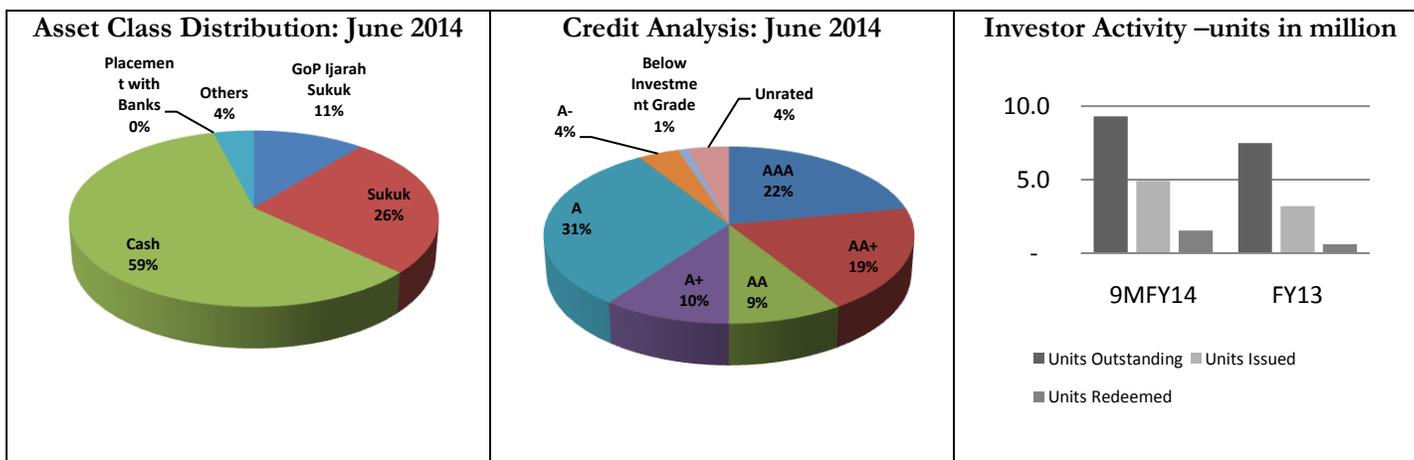
Date: August 19, 2014

Analyst: Sobia Maqbool, CFA
 Mohammad Arsal Ayub

Investment Objective

To invest in medium to long-term Shariah Compliant income as well as shorter tenor money market instruments and seek to generate superior, long-term, risk adjusted returns while preserving capital over the long-term.

| Al-Ameen Islamic Income Fund | | |
|------------------------------|---|---------------|
| Rating Category | Latest | Previous |
| Fund Stability Rating | BBB+(f) | BBB(f) |
| | Aug 12, '14 | Apr 25, '13 |
| Management Company | UBL Fund Managers Ltd | |
| Fund Manager | Mr. Adeel Shakir | |
| External Auditors - Fund | Ernst & Young Ford Rhodes Sidat Hyder | |
| Trustee | Central Depository Company Ltd. | |
| Front-end Load | 1% (Income Units) | |
| Back-end Load | Stepped-down structure (Growth Units) | |
| Management Fee | 1.25% p.a. | |
| Benchmark | Weighted average of 12-month deposit rates of three different Islamic Banks | |



Al-Ameen Islamic Income Fund (AIIF) was launched in October 2007 by the name of United Islamic Income Fund; it was renamed subsequently in line with the rebranding of all Islamic Funds being managed by UBL Fund Managers Limited (UBL FM). UBL FM is rated ‘AM-2’, which signifies ‘High’ Management Quality.

Size of the fund has improved considerably in FY14 and stood at Rs. 1.3b (FY13: Rs. 595m; FY12: Rs. 313m) at end June 2014. A replacement Offering Document (OD) has been issued for AIIF, which has become effective in August 2014. Contrary to the previous OD, the revised OD does not set any limitation on asset quality, which was previously set at

a minimum of ‘BBB’. Allowable exposure limits set in the revised OD are presented in Table 1. The revised OD allows the fund manager additional flexibility in asset allocation, albeit at the same time allowing the fund to assume additional credit risk.

Table 1: Exposure Limits

| | Limits (as per OD) |
|-------------------------------|--------------------------------|
| Cash & Cash Equivalents | 10-100% |
| GoP Ijarah Sukuk | 0-90% |
| Commercial Paper | 0-90% |
| Bank Deposits/ COIs/ CODs etc | 0-90% |
| Corporate Sukuk | 0-90% |
| Spread Transactions | 0-90% |
| Overseas Investment | 0-30%(Subject to cap of \$15m) |
| Others | 0-90% |

Actual asset allocation of the fund is presented in Table 2.

Table 2: Actual Asset Allocation

| End-June 2014 | Average FY14 |
|---------------|--------------|
|---------------|--------------|

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| | | |
|---------------------------|-----|-----|
| GoP Ijarah Sukuk | 11% | 20% |
| Corporate Sukuk | 26% | 26% |
| Cash | 59% | 42% |
| Placement with Banks/DFIs | 0% | 6% |
| Others | 4% | 6% |

At end-June 2014, corporate Sukuk certificates comprised about 26% of total assets; this include 10.6% investment in Sukuk issues of WAPDA, proceeds of which are guaranteed by the Government of Pakistan. In June 2014, the fund also built exposure in GoP issued Ijarah certificates to the tune of 11% of assets. Major corporate instruments held in the portfolio include exposure of 10.1% to the instruments issued by K-Electric Limited and 4.1% to Sukuk issue of Engro Fertilizer Limited. Since December 2013, the proportion of cash and placements in the fund has been sizeable at over 50%.

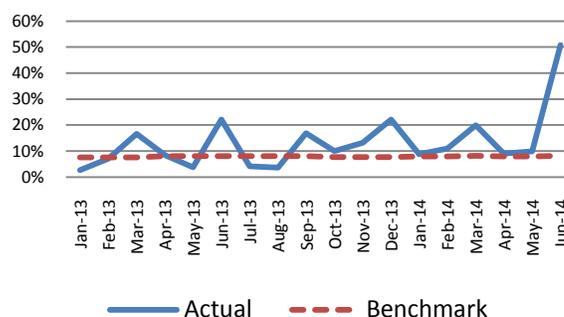
Overall time, credit quality of the portfolio has experienced significant improvement with exposure to below investment grade assets comprising just 1% of assets at end June 2014. Given that exposure to below investment grade assets has come down from 10% at end-Dec'12, the susceptibility of the fund's NAV to downside risk emanating from exposure in instruments with weak credit risk profile has reduced.

Credit risk arising from the current portfolio holdings is considered manageable. However, given that the proposed investment guidelines do not entail any minimum criteria for counterparty risk, the fund has the flexibility to assume higher credit risk. As such, the management does not plan to invest in sub-investment grade securities. Fresh exposures assumed by the fund will be tracked on an on-going basis, for impact on risk profile of the fund.

As per policy, a cap of 5 years is placed on the weighted average maturity (WAM) of the fund, which excludes GoP issued Sukuk certificates. Actual WAM of the fund has increased in recent months and was reported at 4.26 years at end-June 2014 as the fund built exposure in long term bonds. Given that return on Sukuk certificates is pegged to market benchmark rates, price risk on account of changes in benchmark rate is expected to remain manageable.

AIIF's performance is benchmarked against monthly average deposit rates of 3 Islamic banks. During FY14, the fund generated return of 14.36% vis-à-vis benchmark return of 7.82%. The high returns are partially on account of reversals. A month-wise analysis of returns depicts substantial volatility in the fund's performance.

Figure 1: Fund Performance (Actual vs Benchmark)



Besides AIIF, there are 2 other Shariah compliant aggressive income funds in the market and return of AIIF compares favorably to them.

As at end June 2014, top 10 investors held 65% of the outstanding units. Related party holding was about 18% while retail investors held 20% of the outstanding units. Improving risk profile of the fund's assets is expected to have improved the fund's ability to meet redemptions in a timely manner ^[JCR-VIS]

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| Rating Date | Medium to Long Term | Outlook | Short Term | Rating Action |
|---|---------------------|---------|------------|---------------|
| <u>RATING TYPE: Fund Stability</u> | | | | |
| 12-Aug-14 | BBB+(f) | | | Upgrade |
| 25-Apr-13 | BBB(f) | | | Upgrade |
| 10-Apr -12 | BB+(f) | | | Downgrade |
| 08-Dec-10 | BBB-(f) | | | Initial |