

Date: January 12, 2016

Analyst: Jazib Ahmed, CFA
Moiz Badshah

Investment Objective

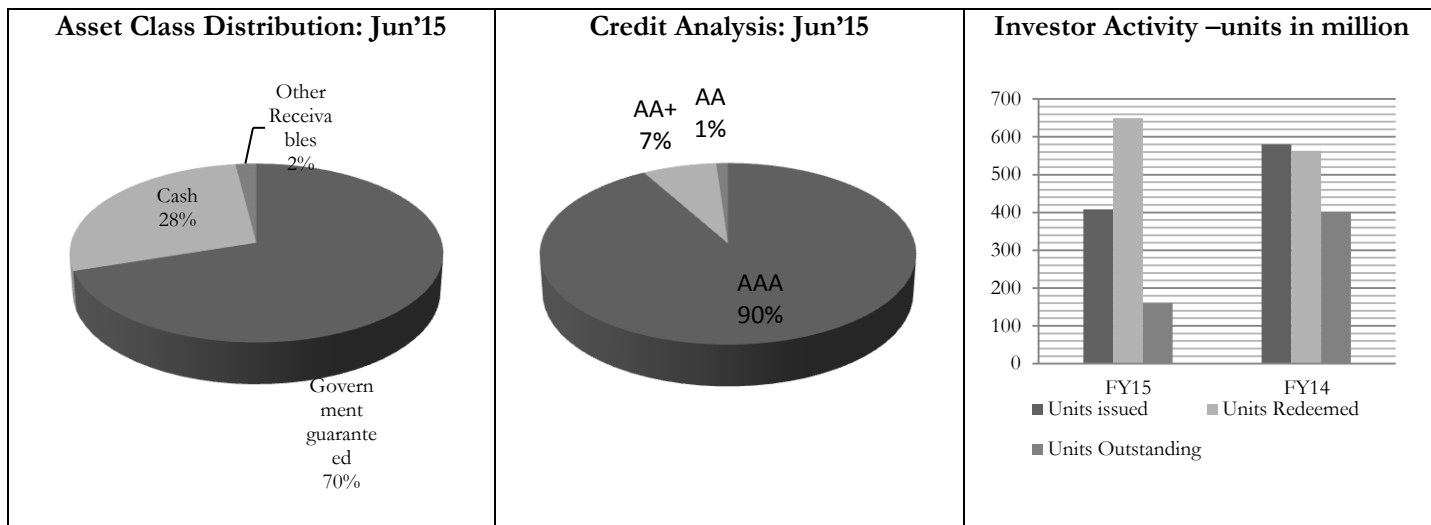
To seek maximum possible preservation of capital at a reasonable rate of return.

Meezan Sovereign Fund		
Rating Category	Latest	Previous
Fund Stability Rating	AA(f)	AA(f)
	<i>Jan 12, 2016</i>	<i>Oct 28, 2014</i>
Asset Management Company	Al Meezan Investment Management Limited (Al-Meezan)	
Shariah Advisor	Meezan Bank Ltd	
External Auditor - Fund	KPMG Taseer Hadi & Co.	
Chief Executive	Mr. Mohammad Shoaib, CFA	
Fund Manager	Mr. Zain Malik	
Trustee	Central Depository Company Ltd.	
Front-end Load	0.5%	
Back-end Load	Nil	
Management Fee	1%	
Benchmark	Average return on 6-month Islamic bank deposits	

	MSF	
	FY15	FY14
Type of Scheme	Income	
Return (%)	6.8%	8.5%
Benchmark (%)	6.2%	6.6%
Relative Ranking	1 out of 3	2 out of 3
Fund Size (in Rs. m)	8,820	20,281
Retail (%)	36.4%	33.1%
Associates (%)	57.1%	35.1%
Number of Investors	4,326	5,576
Top 10 Investors / AUMs	18.7%	12.8%
WATM (<i>Weighted Average Time to Maturity</i>)	0.37 years	0.65 years
Duration (for FY15)	0.08 years	
Asset Allocation (<i>Based on month-end averages across the fiscal year</i>)		
<i>Government backed / issued Securities</i>	68.8%	68.3%
<i>Cash</i>	28.4%	29.5%
<i>Others inc. Rec.</i>	2.8%	2.3%

JCR-VIS Credit Rating Company Limited

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



Meezan Sovereign Fund (MSF) is one of three Shari'ah compliant sovereign funds operating in the fixed income mutual funds segment. Performance of the fund is directly linked to returns offered by the government through Shari'ah compliant debt instruments. Over the course of FY15, MSF has experienced more than 50% drop in net assets.

The fund is required to maintain a minimum 70% of net assets in Shari'ah compliant Government of Pakistan (GoP) fixed income securities. Liquidity of the fund (for conversions and redemptions) is ensured by placing a minimum of 25% (maximum 30%) of net assets as cash or cash equivalents in Islamic banks; includes Shari'ah complaint instruments not having a maturity of more than 90 days. Due to the declining interest rate scenario and lack of availability in GoP debt instruments, resulting in higher prices and lower yield on investments, investors have redirected funds from MSF to more beneficial equity based funds. Net assets have decreased to Rs. 8.8b at end-FY15 (FY14: Rs. 20.3b) and further reduced to Rs. 7.03b by end-3MFY16. Reduction has come from both retail and associated investors.

Investments in GoP Fixed Income securities includes government guaranteed / backed securities; in the case where security rating is 'AAA', entity rating shall be

ignored. Average investments GoP backed / issued securities amounted to 68.8% for FY15 (FY14: 68.3%), on the lower side due to lack of availability of such instruments. The remaining major portion has been placed as cash in 'AA' rated banks or above. Credit risk emanating from the portfolio is considered minimal.

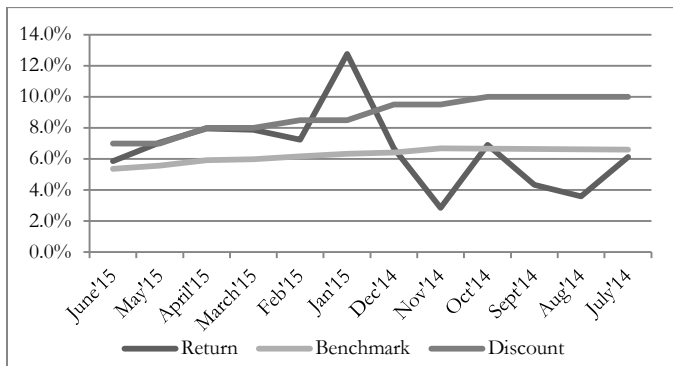
WATM (Weighted Average Time to Maturity) of MSF is capped at 4 years. The same was reported as 0.37 years at June'15 (June'14: 0.65 years). GoP fixed income instruments are pegged to the market benchmark rates and re-priced periodically. This reduces the portfolios sensitivity to changes in the same benchmark rates, as seen in duration which was reported as 0.08 years for FY15. The rate re-set frequency of GoP Ijarah Sukuk is set at 6-months.

Though Top 10 investor concentration is on the lower side of 18.7%, larger portion of investors in the fund include associated parties and institutional investors. Top 10 investors primarily comprise AMIM managed fund of funds schemes, with the same used to mitigate risk emanating from equity based investment. Due to the liquid nature of GoP issued / backed securities, the fund will be able to meet any redemption requirements in a timely manner.

JCR-VIS Credit Rating Company Limited

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

Return of the fund fell during FY15 in line with drop in benchmark rates and those of Islamic sovereign funds. Though the fund continues to outperform its benchmark, comparison to the same may not be best suited due to its composition (benchmark: average 6-month deposit rates of three Islamic banks).



Month-on-month returns of the fund depicted volatility due to declining discount rates and re-pricing of the fund. Returns during 2015 have followed a constant declining trend due to the assertion of the low discount rate scenario. Despite recent issue of GoP Ijarah Sukuk, prices in the same remain inflated due to limited supply JCR-VIS

Rating History

Rating Type	Rating Date	Medium to Long Term	Rating Action
Fund Stability	1/12/2016	AA(f)	Reaffirmed
Fund Stability	10/28/2014	AA(f)	Reaffirmed
Fund Stability	8/29/2013	AA(f)	Reaffirmed
Fund Stability	3/29/2012	AA(f)	Harmonised
Fund Stability	5/4/2010	AA+(f)	Final
Fund Stability	2/2/2010	AA+(f)	Preliminary