

Date: January 8, 2018

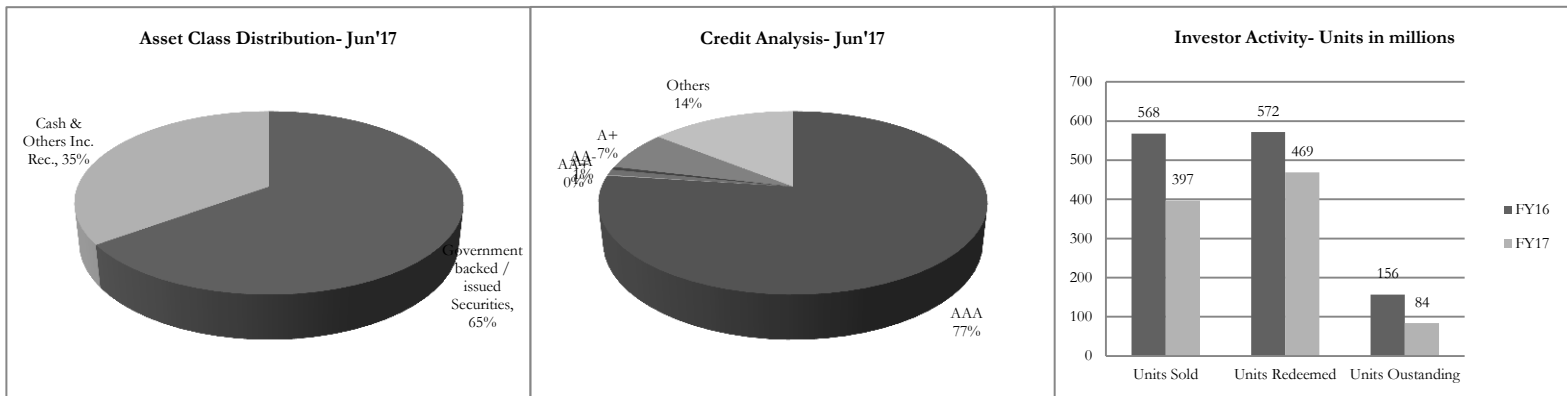
Analyst: Talha Iqbal
Asfia Aziz

Investment Objective

To seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in Government Securities

Meezan Sovereign Fund		
Rating Category	Latest	Previous
Fund Stability Rating	AA- (f) <i>Dec 29, 2017</i>	AA(f) <i>Dec 30, 2016</i>
Asset Management Company	Al Meezan Investment Management Limited	
Shariah Advisor	Meezan Bank Ltd	
External Auditor - Fund	KPMG Taseer Hadi & Co.	
Fund Manager	Mr. Zain Malik, CFA	
Trustee	Central Depository Company Ltd.	
Front-end Load	0.5%	
Back-end Load	Nil	
Management Fee	1%	
Benchmark	6-months PKISRV rates	

MSF	FY16	FY17
Type of Scheme	Income	
Return (%)	5.1%	6.6%
Peer Average (%)	5.0%	5.3%
Benchmark (%)	4.5%	4.7%
Relative Ranking	7 out of 18	1 out of 18
Fund Size (in Rs. m)	7,945	4,334
Retail (%)	28%	46%
Associates (%)	58%	29%
Number of Investors	3,958	4,274
Top 10 Investors / AUMs	62%	41%
Fund Stability Rating	AA (f)	AA- (f)
Management fee	1.00%	1.00%
WATM	2.0 years	1.33 years
Modified Duration (at end-June)	1.0 years	0.88 years
Asset Allocation (at end-June)		
<i>Corporate Sukuk</i>	-	-
<i>Government backed / issued Securities</i>	58%	65%
<i>Placements with Banks</i>	-	-
<i>Cash & Others Inc. Rec.</i>	42%	35%
Total non-performing Investments	-	-



Meezan Sovereign Fund (MSF) is an open ended Shariah compliant sovereign fund. Given the structural design, the fund’s return is directly related to return of government backed Shariah compliant debt instruments.

Table 1: Offering document (extract)

Description	Min. Rating	Min- Max Limits	
Shariah compliant fixed income Government securities (including sukus)	N/A	70%-100%	
Cash in bank accounts of Islamic banks & Islamic windows of conventional banks. Government securities with <90 days maturity	A+	25%	10%
	AA		30%
Shariah compliant spread transactions in government securities	N/A	0%-40%	
Bank deposits in licensed Islamic banks & Islamic windows of conventional banks	AA	0%-15%	
Any other Shariah compliant government security	N/A	0%-15%	
Subject to SECP and other regulatory approval, investment in Shariah compliant debt and money market securities	N/A	0%-30% (<\$15m)	

The Investment Committee (IC) comprises Chief Executive Officer (CEO), Chief Investment Officer (CIO), Head of Research, Head of Risk Management and fund managers. Decision making is done on consensus basis.

During FY17, net assets declined by 45% to Rs. 4.3b (FY16: Rs. 7.9b) owing to the redemptions by associates.

Credit Quality

Table 2: Asset Allocation

Asset Allocation	Jun'16	Jun'17	Average
Govt. Guaranteed Securities	58%	65%	80%
Cash and Others including receivables	42%	35%	20%

The offering document requires MSF to maintain a minimum 70% of net assets in government backed/issued securities. Barring end-Jun'2017 and Sep'2017, the fund has remained compliant with the aforementioned stipulation. As at end FY17, investment in GoP fixed income securities was reported at 65% (FY16: 58%) of net assets.

Table 3: Credit Quality Summary- FY17

Credit Quality	Average	Maximum	Minimum
AAA	84%	94%	76%
AA+	2%	6%	0%
AA	4%	10%	1%
AA-	6%	10%	0%
A+	1%	10%	0%

As per JCR-VIS’s credit risk criteria, for an FSR rating of AA, the fund can deploy a maximum 15% in AA- rated investments. Investment in exposures rated two notches below the fund’s rating is not allowed. However, the fund non-complied with the credit risk criteria in May'2017, June'2017, Jul'2017, and Aug'2017 by investing in A+ rated bank deposits.

JCR-VIS Credit Rating Company Limited

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

Market Risk

As at end June 2017, Weighted Average Time to Maturity (WATM) was reported 1.33 years (FY16: 2 years). Duration of the fund has consistently exceeded the 90 day criteria for a AA rated fund.

Liquidity Profile

AUM profile of the fund has improved in terms of investor concentration with top 10 investors accounting for 41% (FY16: 62%) of total net assets at year end FY17. Furthermore, retail proportion in total AUMs increased to 46% (FY16: 28%) as evidenced by the enhanced number of retail investors (FY17: 4,112; FY16: 3,803).

Fund Performance

Table 4: Fund performance

	FY16	FY17
Return (%)	5.1%	6.6%
Benchmark (%)	4.5%	4.7%
Peer Average	5.0%	5.3%
Relative Ranking	7/18	1/18

Return reported by the fund is above the benchmark on account of capital gain on GoP Ijarah Sukuk. Performance ranking of the fund vis-à-vis peers has also improved with the fund ranked 1 out of a total of 18 funds JCR-VIS

Rating History

Rating Type	Rating Date	Medium to Long Term	Rating Action
Fund Stability	12/29/2017	AA-	Downgrade
Fund Stability	12/30/2016	AA(f)	Reaffirmed
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)	Harmonized
Fund Stability	5/4/2010	AA+(f)	Final
Fund Stability	2/2/2010	AA+(f)	Preliminary