

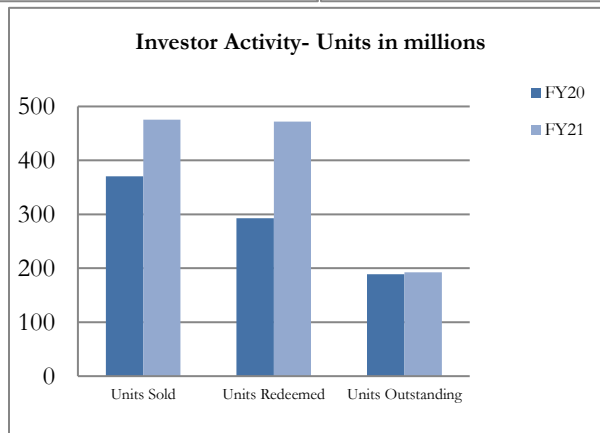
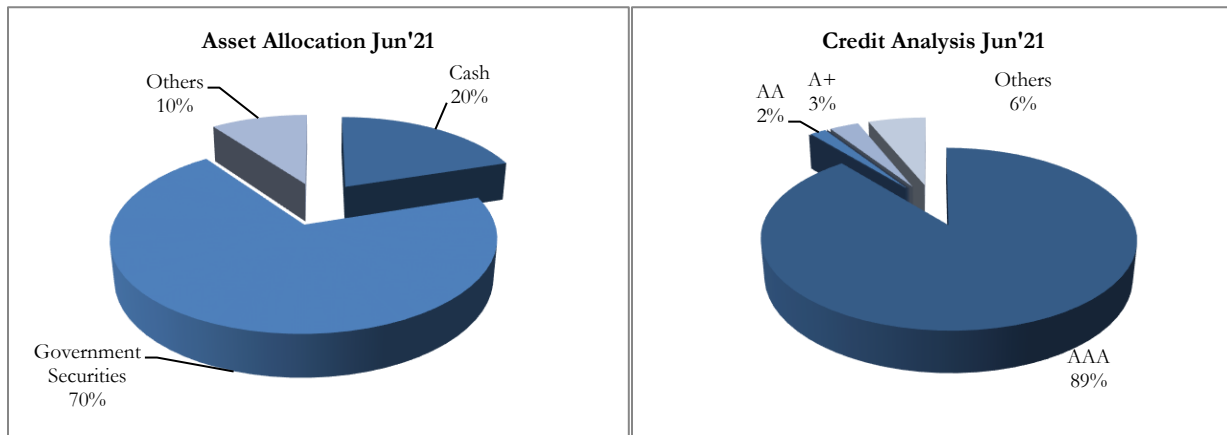
Date: December 27, 2021

Analysts: Asfia Aziz

| Meezan Sovereign Fund    |   |              |
|--------------------------|---|--------------|
| Rating Category          | Latest                                    | Previous     |
| Fund Stability Rating    | AA(f)                                     | AA(f)        |
|                          | Dec 27, 2021                              | Jan 12, 2021 |
| AMC                      | Al-Meezan AMC                             |              |
| External Auditors – Fund | A.F. Ferguson & Co. Chartered Accountants |              |
| Trustee                  | CDC                                       |              |
| Front-end Load           | 1%  |              |
| Back-end Load            | Nil                                       |              |
| Management Fee           | Upto 0.6% per annum (minimum 0.25%)       |              |
| Benchmark                | 6 Months PKISRV Rate                      |              |

**Investment Objective**

To seek maximum possible preservation of capital and a reasonable rate of return



\*- At least 70% of net assets shall remain invested in Government Securities on monthly average basis calculated at the end of each month. In the event of any breach in the same due to increase or decrease in net assets due to issuance or redemption, the breach shall be regularized within one month of the breach. In case, Shariah compliant Government securities are not available to comply with the requirement of investing minimum 70% of fund's net assets in Shariah Compliant Government Securities, the assets of the Fund may be deposited in Islamic commercial banks or Islamic windows of commercial banks, having not less than AA rating, during the period of non-availability of Shariah compliant Government securities.

\*\*-. The investment in Cash/Near Cash Instruments may temporarily deviate from the minimum and maximum requirements. However, minimum exposure limit shall be 10% of net assets calculated on the basis of the average for each calendar month.

Launched in Feb 2010, Meezan Sovereign Fund (MSF) is an open ended Shariah compliant sovereign fund designed to offer competitive returns to investors through deploying resources primarily in government backed Shariah compliant debt securities.

As at end-October'21, MSF's net assets (excluding FoF) have increased to Rs. 10.5b (FY21: Rs. 9.9b, FY20: Rs. 7.5b).

Investment Committee (IC) comprises key personnel from top management along with representatives from investment and risk management department.

#### Offering document (extract)

| Description  | Min. Rating | Min- Max Limits         |
|--|-------------|-------------------------|
| Shariah compliant fixed income Government securities (including sukuk)   | N/A         | *70%-100%               |
| Cash in bank accounts of Islamic banks & Islamic windows of conventional banks. Government securities with <90 days maturity | A+          | **10% **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%-25%                  |
| Shariah Compliant non-traded securities with maturity exceeding six (6) months.  | AA-         | 0%-15%                  |
| Authorized Shariah compliant investment outside Pakistan   | N/A         | 0% - As allowed by SECP |
| Subject to SECP and other regulatory approval, investment in Shariah compliant debt and money market securities              | N/A         | 0% - As allowed by SECP |

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#### Asset Allocation:

##### Asset Class Distribution:

| Asset Allocation (% of Total Assets) | Average FY20  | Average FY21  | Jun'21        |
|--------------------------------------|---------------|---------------|---------------|
| Cash                                 | 52.8%         | 17.2%         | 20.0%         |
| Government Securities                | 43.5%         | 79.1%         | 70.0%         |
| Others                               | 3.7%          | 3.7%          | 10.0%         |
| <b>Total</b>                         | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |

As per the offering document, MSF is required to maintain a minimum 70% of net assets in government backed/issued securities at all times. On the basis of average monthly basis, the fund's asset allocation remained non-compliant at all times with aforesaid stipulation during FY21. Cash holdings were also maintained on average at 17% relative to minimum requirement of 10% as per the offering document.

#### Credit Quality:

##### Credit Quality

| Credit Quality | Average | Maximum | Minimum |
|----------------|---------|---------|---------|
| AAA            | 92.35%  | 97.70%  | 85.90%  |
| AA+            | 0.43%   | 1.30%   | 0.00%   |
| AA             | 1.16%   | 7.50%   | 0.00%   |
| AA-            | 0.55%   | 3.20%   | 0.00%   |
| A+             | 2.00%   | 8.70%   | 0.00%   |
| Others         | 3.51%   | 6.10%   | 1.10%   |

As per VIS benchmarks, the fund has largely remained compliant with minimum exposure of 25% in AAA rated investments in the outgoing year. Average investments in AAA instruments was recorded at 92% in FY21. Moreover, in accordance with the offering documents guidelines, the fund since its launch has complied with exposure of less than 10% in 'A' rated investments with all other exposures lying in the bands above 'A+'. This does breach the VIS rating benchmark of maintaining investments in AA- or above

bands for the assigned level of ratings, however the quantum of such investments remains low at average 2%.

Going forward, increased exposure in the same may warrant a rating revision.

**Market Risk:**

Average duration of the fund for FY21 was reported at 105 days being above the limit of 90 days as per the assigned ratings. However, the fund complied with its investment policy whereby weighted average duration of the portfolio (excluding GoP securities) should not exceed 2 years.

**Liquidity Profile:**

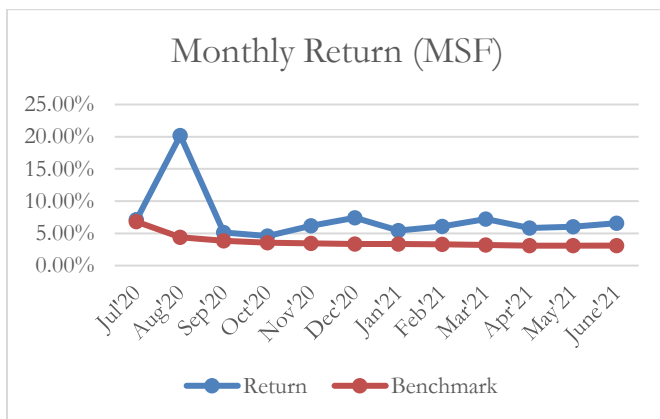
During the period under review, investor base grew considerably and was reported at 8,805 investors (Dec'19: 7,712 investors) investors at end-Jun'21. Unrelated corporates held 26% of the fund's total asset base while retail investors constituted 64% during FY21. The fund features concentration with top 10 investors representing 31% of total AUMs as at end-Jun'21. Given the liquid asset allocation of the fund, liquidity of the fund remains strong.

**Fund Performance:**

| Performance      | FY20   | FY21  | Oct'21 YTD |
|------------------|--------|-------|------------|
| Total Return     | 11.17% | 7.65% | 8.61%      |
| Quartile         | Q2     | Q1    | Q2         |
| Peer Ranking     | 10/21  | 1/22  | 9/23       |
| Benchmark Return | 7.93%  | 3.71% | 3.14%      |
| Peer Average     | 10.75% | 5.99% | 8.92%      |

During the period under review, fund returns have noticeably outperformed the benchmark rates as well as the peer average return; at end-June'21 the fund posted an annualized return of 7.65% against its benchmark of 3.71%. Relative to its peers, the fund has maintained its position amongst the top 2 quartiles in the review period majorly outpacing peer average returns.

**Fund Performance:**



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**Rating History**

| Rating Type    | Rating Date | Medium to Long Term | Rating Action |
|----------------|-------------|---------------------|---------------|
| Fund Stability | 12/27/2021  | AA (f)              | Reaffirmed    |
| Fund Stability | 01/12/2021  | AA (f)              | Upgrade       |
| Fund Stability | 12/30/2019  | AA- (f)             | Reaffirmed    |
| Fund Stability | 12/28/2018  | AA- (f)             | Reaffirmed    |
| 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   |

| <b>BALANCE SHEET</b>           | <b>FY20</b> | <b>FY21</b> |
|--------------------------------|-------------|-------------|
| Paid Up Capital                | NA          | NA          |
| Total Equity                   | 9,736.3     | 9,939.2     |
|                                |             |             |
| <b><u>INCOME STATEMENT</u></b> |             |             |
| Total Income                   | 559.1       | 793.6       |
| Profit Before Tax              | 483.9       | 669.8       |
| Profit After Tax               | 483.9       | 669.8       |
|                                |             |             |
| <b><u>RATIO ANALYSIS</u></b>   |             |             |
| Current Ratio (x)              | NA          | NA          |
| Gearing (x)                    | NA          | NA          |

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