

Date: December 31, 2019

Analysts:

Talha Iqbal

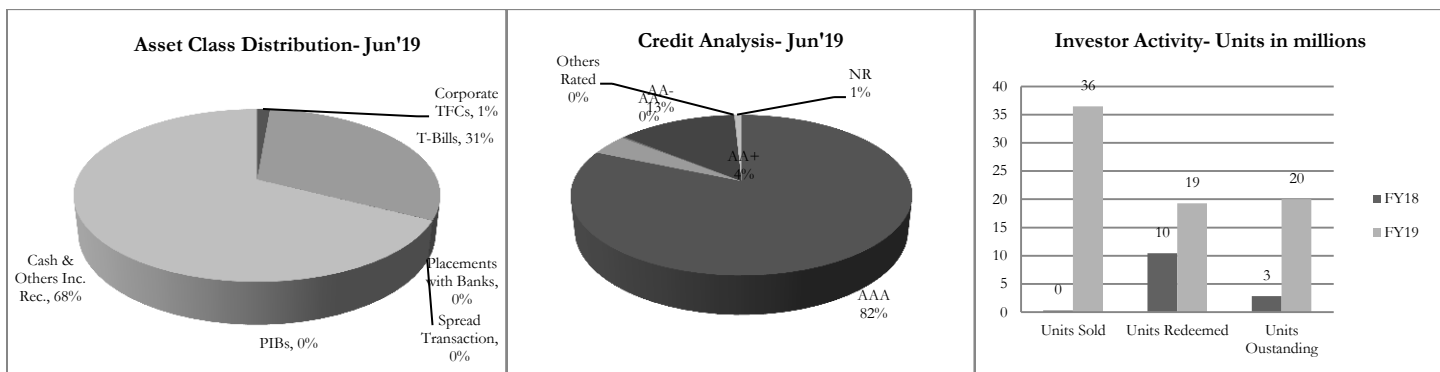
Asfia Aziz

Investment Objective

To provide consistent returns to investors through active investments in a blend of short, medium and long term securities issued and/or guaranteed by Government of Pakistan (GoP). The fund aims to provide superior risk adjusted returns through active duration and liquidity management tools.

HBL Government Securities Fund		
Rating Category	Latest	Previous
Fund Stability Rating	A+(f)	A+(f)
	<i>Dec 30, '19</i>	<i>Dec 26, '18</i>
AMC	HBL Asset Management Limited	
External Auditors – Fund	BDO Ebrahim & Co. Chartered Accountants	
Fund Managers	Mr. Wamiq Sakrani	
Trustee	Central Depository Company	
Front-end Load	Up to 2%	
Back-end Load	-	
Management Fee	1.25% per annum	
Benchmark	6 Month PKRV Rates	

	HGSF	
	FY18	FY19
Type of Scheme	Income	
Return (%)	4.7%	9.4%
Benchmark (%)	6.2%	10.0%
Peer Average (%)	4.9%	7.6%
Relative Ranking	7 out of 9	1 out of 10
Fund Size (in Rs. m)	314	2,116
Retail (%)	52%	75%
Associates (%)	32%	0%
Number of Investors	178	898
Top 10 Investors / AUMs	64%	31%
Fund Stability Rating	A+(f)	A+(f)
Management fee	1-1.25%	1.25%
WATM (at end-June)	1	60
Average Asset Allocation		
<i>Corporate TFCs</i>	0%	1%
<i>Government backed / issued Securities</i>	0%	31%
<i>Others</i>	0%	4%
<i>Placements with Banks</i>	0%	0%
<i>Cash & Others Inc. Rec.</i>	100%	64%



The HBL Government Securities fund (HBL-GSF) was launched as an open-ended fund on March 17, 2010. The fund offers investment opportunities to its unit holders in short to long-term sovereign guaranteed instruments. Net assets of the fund registered enormous growth to Rs. 2.1b (FY18: 0.3b) at end-FY19 due to higher sales. Likewise, net assets sustained a growing trend to Rs. 3.2b at end-Nov'19.

The offering document (OD) of the fund restricts exposure in government securities and AA- rated or above, with at least 70% in sovereign instruments & remaining in cash, bank deposits, Sukuk and commercial papers.

Table 1: Approved Investment Avenues-Offering document (extract)

Description	Min-Max limits	Min-Max Actual	Minimum Rating
Government Securities issued and / or Guaranteed by GoP including Reverse Repo against Government Securities	70%-100%	Over 70% of net assets were kept in Govt. Securities on Monthly Average	N/A
Cash in Bank Accounts (excluding term deposits)	0% - 30*%	13%- 99%	AA- in case of cash in banks
Government Securities up to 90 days maturity	0% to 100%	On average 70% of net assets were kept in Govt. Securities of Up-to	

		90 days	
Reverse Repo (up to six months only) against Government Securities	0%-90%	-	N/A
Deposit with Scheduled Banks, DFI's and NBFC including TDR's, Letter of Placement (LOP), Certificate of Deposit and Certificate of Musharaika of less than 6 months	0%-30%	0%-25%	AA- (for Banks and DFIs) AA+ (for NBFCs)
Deposit with Scheduled Banks, DFI's and NBFC including TDR's, Letter of Placement (LOP), Certificate of Deposit and Certificate of Musharaika of greater than 6 months	0%-15%	-	AA- (for Banks and DFIs) AA+ (for NBFCs)
Authorized investments in overseas markets including mutual funds.	Cap of USD15m N/A	-	AA-
Spread Transactions and MTS	0%-10%	0%-4%	N/A
Commercial papers	0%-20%	-	A- (Entity) & A2 (Instrument)

* At times cash at bank may exceed the limit of 30%, as long as minimum investment limit of 70% in Government securities are maintained on monthly average calculated on a daily basis.

Investment Committee (IC) comprises Chief Executive Officer, Chief Investment Officer, Head of Fixed Income, and Head of Research. All investment decisions are consensus based.

Credit Risk

Table 2: Asset Allocation

Asset Class Distribution	Jun'18	Jun'19
Corporate TFCs	0%	1%
T-Bills	0%	31%
PIBs	0%	0%
Spread Transaction	0%	0%
Placements with Banks	0%	0%
Cash & Others Inc. Rec.	100%	68%

During FY19, the fund invested mostly in cash while exposure in government securities at end of the month was reported below its requirement of a minimum of 70%. As per the IPS, at times cash at bank may exceed the limit of 30%, as long as minimum investment limit of 70% in Government securities are maintained on monthly average calculated on a daily basis. The management affirms that the stipulation has been met on a monthly average basis.

Table 3: Credit Quality

Credit Analysis	Jun'19
AAA	81%
AA+	4%
AA	0%
AA-	13%
Others Rated	0%
NR	1%

The fund has maintained its exposure in AA rated or above instruments, as stated in investment policy statement (IPS). In this regard, the fund has complied with its investment strategy and hence no breach was witnessed during FY19.

Market Risk

Table 4: Modified Duration

Month	Modified Duration (days)
	HGSF
Jul'18	58
Aug'18	44
Sep'18	18
Oct'18	44
Nov'18	12
Dec'18	16

Jan'19	6
Feb'19	94
Mar'19	5
Apr'19	15
May'19	43
Jun'19	60

As per assigned rating criteria, weighted average maturity duration shall not exceed 365 days. The fund complied with the stipulation during the year. Average modified duration of the fund was reported 35 days during FY19. Moreover, the Weighted Average Maturity (WAM) of the net assets shall not exceed 4 years. Given that the weighted average maturity and duration falls under the rating criteria, the risk profile of the fund is considered to be adequate.

Liquidity Risk

Total number of retail investors increased to 897 (FY18: 178) at end-FY19. During FY19, massive increase was witnessed in retail holdings to Rs. 1.6b (FY18: Rs. 0.2b). Top-10 investors represent two-sevenths of the fund at the end- FY19. The fund has maintained its proportion up to 68% in cash & other high liquid instruments at end-FY19. Given the sufficient highly liquid assets, liquidity profile of the fund is considered adequate.

Fund Performance

Table 5: Fund Performance

	FY18	FY19
Return (%)	4.7%	9.4%
Benchmark (%)	6.2%	10.0%
Peer Average (%)	4.9%	7.6%
Relative Ranking	7 out of 9	1 out of 10

Performance of the fund is benchmarked against average six months KIBOR. During FY19, HBL-GSF posted a return of 9.4% being lower against the benchmark return of 10%. However, the fund outperformed well against the average peer group and hence has been ranked 1/10 at end-FY19.

Rating History

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
RATING TYPE: Fund Stability Management Quality				
30-Dec-19	A+(f)	-	-	Reaffirmed
26-Dec-18	A+(f)	-	-	Reaffirmed
15-Jan-18	A+(f)	-	-	Upgrade
05-Jan-17	A (f)	-	-	Reaffirmed
04-Jan-16	A (f)	-	-	Downgrade
25-Feb-15	A+ (f)	-	-	Reaffirmed
23-Dec-13	A+ (f)	-	-	Reaffirmed
17-Aug-12	A+(f)	-	-	Reaffirmed

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>		
	FY18	FY19
Paid Up Capital	NA	NA
Total Equity	NA	NA
<u>INCOME STATEMENT</u>		
Total income	45	102
Profit Before Tax	31	83
Profit After Tax	31	83
<u>RATIO ANALYSIS</u>		
Net Cash Generated from Operating Activities	1,235	-61
Current Ratio (x)	NA	NA
Gearing (x)	NA	NA