

*Date: January 4, 2021*

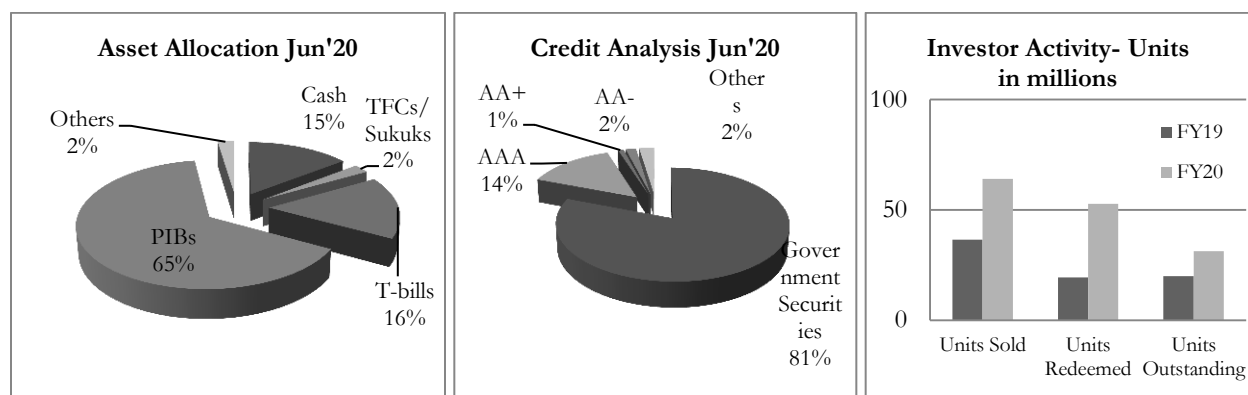
**Analysts:** Muhammad Tabish  
Batoool Zaidi

### 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          | <b>AA(f)</b>                            | <b>A+(f)</b>        |
|                                | <i>Dec 30, 2020</i>                     | <i>Dec 30, 2019</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                 | Upto 2.00%                              |                     |
| Back-end Load                  | -                                       |                     |
| Management Fee                 | 1.25% pa                                |                     |
| Benchmark                      | 6M PKRV rates                           |                     |

|                                              | HGSF        |             |
|----------------------------------------------|-------------|-------------|
|                                              | FY19        | FY20        |
| Type of Scheme                               | Income      |             |
| Return (%)                                   | 9.4%        | 16.0%       |
| Benchmark (%)                                | 10.0%       | 12.1%       |
| Peer Average (%)                             | 7.6%        | 16.65%      |
| Relative Ranking                             | 1 out of 10 | 8 out of 11 |
| Fund Size (in Rs. m)                         | 2,166       | 3,509       |
| Retail (%)                                   | 75%         | 75%         |
| Associates (%)                               | 0%          | 0%          |
| Number of Investors                          | 898         | 1,372       |
| Top 10 Investors / AUMs                      | 31%         | 29%         |
| Fund Stability Rating                        | A+(f)       | AA (f)      |
| Management fee                               | 1% - 1.25%  | 1.25%       |
| WATM (at end-June)                           | 60          | 1,337       |
| <b>Average Asset Allocation</b>              |             |             |
| <i>Corporate TFCs</i>                        | 1%          | 2%          |
| <i>Government backed / issued Securities</i> | 31%         | 16%         |
| <i>Others</i>                                | 4%          | 2%          |
| <i>PIBs</i>                                  | 0%          | 65%         |
| <i>Cash &amp; Others Inc. Rec.</i>           | 64%         | 15%         |



HBL Government Securities Fund (HG SF) was launched 23rd July, 2010 as an open ended fund with an aim to offer its investors investment opportunities in a diversified portfolio comprising of short and long term guaranteed instruments.

In line with its mandate, the fund is restricted to take exposure in government securities and AA-rated or above, with at least 70% in sovereign instruments.

Net Assets of the fund grew during the year amounting to 3.5b (FY19 2.b)

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

| Description                                                                                                                                                           | Min-Max limits       | Min. Rating                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|------------------------------------------|
| Government Securities issued and / or Guaranteed by GoP including Reverse Repo against Government Securities                                                          | 70%-100%             | N/A                                      |
| Cash in Bank Accounts (excluding term deposits)                                                                                                                       | 0%-30%               | AA- in case of cash in banks             |
| Government Securities up to 90 days maturity                                                                                                                          | 0%-100%              |                                          |
| 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 Musharika of less than 6 months    | 0%-30%               | 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 Musharika of greater than 6 months | 0%-15%               | AA-                                      |
| Authorized investments in overseas markets including mutual funds.                                                                                                    | Cap of USD15m<br>N/A | AA-                                      |
| Spread Transactions and MTS                                                                                                                                           | 0%-10%               | AA-                                      |

|                   |        |                 |
|-------------------|--------|-----------------|
| Commercial papers | 0%-20% | A2 (Instrument) |
|-------------------|--------|-----------------|

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

**Credit Risk:**

**Table 2: Asset Allocation**

| Asset Class Distribution         | Jun'19 | Jun'20 |
|----------------------------------|--------|--------|
| Corporate TFCs                   | 1%     | 2%     |
| T-bills                          | 31%    | 16%    |
| PIBs                             | 0%     | 65%    |
| Cash and others Inc. Receivables | 65%    | 17%    |
| Commercial Paper                 | 3%     | 0%     |

As per the IPS of the fund, 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

During FY20, the fund managed to preserve 70% of its assets in PIBs and T-bills on a monthly average basis. At end-June'20 the fund's assets remained primarily concentrated in government backed securities, remaining investment portfolio comprised of cash and receivables and commercial paper. Deviations in the asset allocation plan of the fund for the months of Jun'19, Aug'19, Sept'19 and Dec'19 have been noted.

**Credit Quality:**

**Table 3: Credit Quality**

| Credit Quality        | Average | Maximum | Minimum |
|-----------------------|---------|---------|---------|
| Government Securities | 65%     | 92%     | 32%     |
| AAA                   | 17%     | 52%     | 0.1%    |
| AA+                   | 2%      | 6%      | 1%      |
| AA                    | 1%      | 2%      | 0.2%    |
| AA-                   | 14%     | 31%     | 2%      |

Complying with the specified limits stated in Investment Policy Statement (IPS) for the assigned ratings, the fund substantially managed to preserve its resources in AA or above rated instruments. There were no breaches witnessed during the period.

**Market Risk:**

Weighted Average Maturity of the net assets shall not exceed 4 years whereby the duration of the fund shall be 1 year as stated by the fund's IPS. Maximum WAM was reported to be 1,727 days at end-July'19 while average WAM amounted to 947 days for the period. Month-on-month analysis depicts that WAM of the fund complied for the assigned ratings. However several breaches have been observed in the modified duration, consecutively from the months of Oct'19-Nov'19 and Mar'20-Jul'20.

**Liquidity Risk:**

Significant portion of 75% of the fund base is provided by retail investors at end-June'20 (FY19: 79%) whereas contribution by associates remained 0% for the year. Top-10 investors remained accounting for to 29% during FY20, (FY19: 28%). However, number of investors increased to 1,372, (FY19: 898)

**Fund Performance:**

**Table 5: Fund Performance:**

| <b>Performance</b> | <b>FY19</b> | <b>FY20</b> |
|--------------------|-------------|-------------|
| Return%            | 9.4%        | 16.0%       |
| Benchmark%         | 10.0%       | 12.07%      |
| Peer Average       | 7.6%        | 16.65%      |
| Relative Ranking   | 1 out of 10 | 8 out of 11 |

Benchmark of the fund is determined against six (6) months PKRV rates. During FY20 HGSEF generated a return of 16.0% higher than its benchmark of 12.07% and lower than peer average 16.65% respectively. The fund was ranked 8<sup>th</sup> out of a total of 11 funds.

### Rating History

| Rating Date                                           | Medium to Long Term | Outlook | Short Term | Rating Action |
|-------------------------------------------------------|---------------------|---------|------------|---------------|
| <b>RATING TYPE: Fund Stability Management Quality</b> |                     |         |            |               |
| 30-Dec-20                                             | AA (f)              | -       | -          | Upgrade       |
| 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<br><i>millions</i>         | <i>(amounts in PKR)</i> |             |
|----------------------------------------------|-------------------------|-------------|
|                                              | <b>FY19</b>             | <b>FY20</b> |
| <b><u>BALANCE SHEET</u></b>                  |                         |             |
| Paid Up Capital                              | NA                      | NA          |
| Total Equity                                 | NA                      | NA          |
| <b><u>INCOME STATEMENT</u></b>               |                         |             |
| Total income                                 | 102                     | 609         |
| Profit Before Tax                            | 83                      | 521         |
| Profit After Tax                             | 83                      | 521         |
| <b><u>RATIO ANALYSIS</u></b>                 |                         |             |
| Net Cash Generated from Operating Activities |                         |             |
| Current Ratio (x)                            | NA                      | NA          |
| Gearing (x)                                  | NA                      | NA          |