

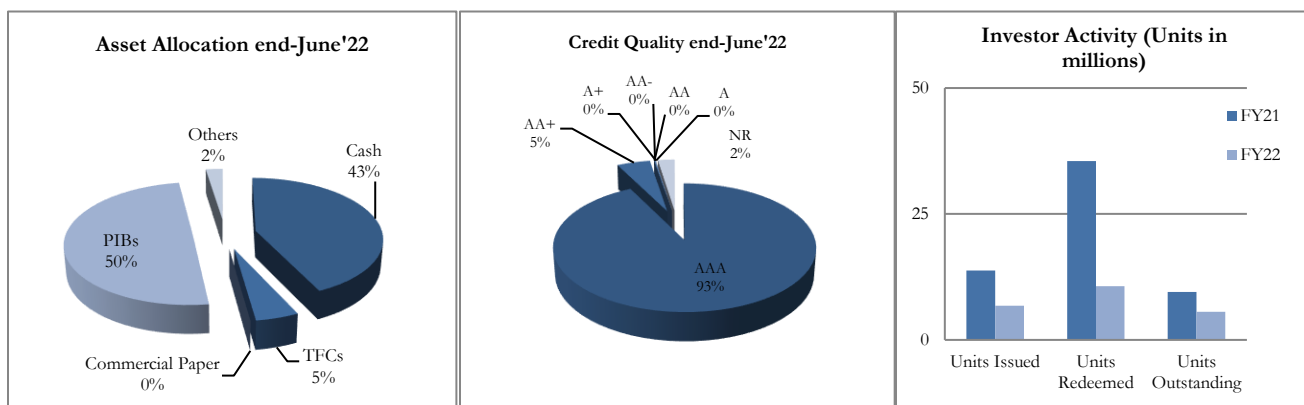
*Date: December 29, 2022*

**Analyst:** Musaddeq Ahmed Khan

**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	AA- (f)	AA(f)
	Dec 29, '22	Jan 03, '22
AMC	HBL Asset Management Limited	
External Auditors – Fund	BDO Ebrahim & Co. Chartered Accountants	
Trustee	Central Depository Company	
Front-end Load	Up to 2%	
Back-end Load	Nil	
Management Fee	1.25% per annum	
Benchmark	Six (6) months PKRV rates	



HBL Government Securities Fund (HGSF) is an open-ended fund with the objective of offering investment opportunities in a diversified portfolio comprising short and long term guaranteed instruments. Net assets of the funds decreased considerably in the outgoing fiscal year and amounted to Rs. 631m (Jun'21: Rs. 1.1b) as of Jun'22.

Investment Committee (IC) comprises key personnel from top management including CEO, Head of Fixed Income, Acting Head of Research and Head of Risk. All investment decisions are consensus based.

The fund's exposure to various sources of risks has been maintained in actual asset allocation plan and credit quality requisites. As per investment policy, pre-defined exposure limits are in place for each investment avenue.

**Table 1: Offering document (extract)**

Description	Minimum Rating	Min- Max Limits
Government Securities issued and / or Guaranteed by GoP including Reverse Repo against Government Securities	-	70%-100%
Cash in Bank Accounts (excluding term deposits)	A (in case of cash in Bank)	10%-30%
Government Securities up to 90 days maturity	-	0%-100%
Reverse Repo (up to six months only) against Government Securities	-	0%-90%
Deposit with Scheduled Banks, DFP's and NBFC including TDR's, Letter of Placement (LOP), Certificate of Deposit and Certificate of Musharika of less than 6 months	A	0%-30%
Deposit with Scheduled Banks, DFP's and NBFC including TDR's,	A	0%-15%

Letter of Placement (LOP), Certificate of Deposit and Certificate of Musharika of greater than 6 months		
Authorized investments in overseas markets including mutual funds.	A	Cap of \$15m
Spread Transactions and MTS	-	0%-10%
Commercial papers	A	0%-20%
Term Finance Certificates/ Sukuk	A	0%-20%

### Asset Allocation:

**Table 2: Asset Class Distribution:**

Asset Allocation	Average FY'21	Average FY'22	Jun'22
Cash adjusted for accruals	15%	28%	43%
TFCs/Sukuks	3%	5%	5%
T-bills	10%	10%	0%
Commercial Paper	-	2%	0%
PIBs	69%	53%	50%
Others	3%	2%	2%

As per Offering Document (OD), 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 FY22, the fund managed to preserve around 63% (FY21: 79%) of asset base in PIBs and T-bills on a monthly average basis. Deviations in asset allocation plan were noted in 8 months of FY22.

### Credit Quality:

**Table 3: Credit Quality**

Credit Quality	Monthly Average	Maximum	Minimum
AAA	72%	97%	40%
AA+	5%	34%	0%
AA	2%	20%	0%
AA-	16%	45%	0%
A+	2%	15%	0%
A	1%	7%	0%
NR	2%	3%	1%

Following the changes in OD of the fund and effective from Nov'21, the fund is restricted to take exposure in government securities and in instrument that have a minimum credit rating of 'A rated or above'. This is a notch down from previous restriction of 'AA- rated or above' and has negative impact on funds rating. However, during

FY22, the fund's credit quality was in compliance with OD. During the year FY22, on an average, 72% (FY21: 82%) of the fund's investment portfolio was held with 'AAA' (or government securities) rated issue/issuer. Though the fund breached the minimum investment limit of 'A+' or above rated instrument stipulated in investment policy guidelines for the assigned rating.

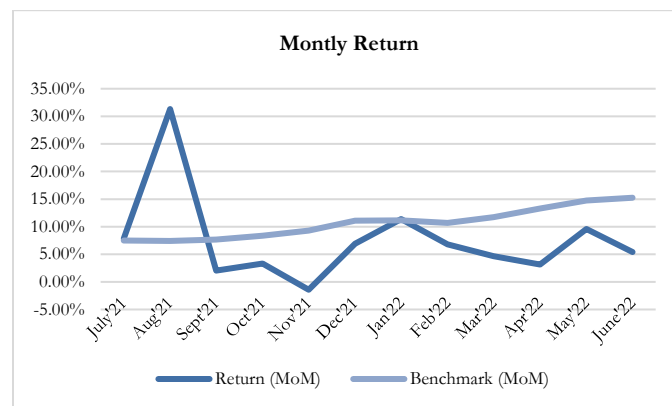
### Market Risk:

As per OD, Weighted Average Maturity (WAM) shall not exceed 4 years whereby duration of the fund shall be 365 days. In the outgoing fiscal year, monthly average WAM amounted to 1,493 (FY21: 1,519) days (4.09 years) while no breaches were noted in modified duration during the period from July'21 to Oct'22. Maximum duration during the period under review stood at 284 days in Aug'21.

### Liquidity Profile:

More than 80.0% (Jun'21: 84.1%) of the fund base is provided by retail investors as of Jun'22. Top-10 investors' concentration has increased to 36% (Jun'21: 30.4%) as at Jun'22. The total number of investors decreased to 667 (Jun'21: 887).

### Fund Performance:


**Table 4: Fund Performance:**

Performance	FY21	FY22
Total Return	5.10%	7.89%
Peer Ranking	25/31	29/30
Benchmark Return	7.28%	10.67%
Peer Average	5.85%	9.38

Benchmark of the fund is determined against six (6) months PKRV rates. During FY22, the fund under-performed 9

months out of 12 compared to benchmark rate and has lower return than peer average 9.38%. Based on 365 days return, the fund has remained in the last quartile over the last three years.

<u>BALANCE SHEET</u>	FY21	FY22
Paid Up Capital	-	-
Total Equity	-	-
<u>INCOME STATEMENT</u>		
Total Income	127	72
Profit Before Tax	82	71
Profit After Tax	82	71
<u>RATIO ANALYSIS</u>		
Current Ratio (x)	-	-
Gearing (x)	-	-

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix I**

**VIS** Credit Rating Company Limited

**RATING SCALE & DEFINITIONS: FUND STABILITY RATING SCALE**

**AAA(f)**

Highest degree of stability in NAV. Risk is negligible with very low sensitivity to changing economic conditions

**AA+(f), AA(f), AA-(f)**

High degree of stability in NAV. Risk is modest but may vary slightly from time to time because of changing economics conditions

**A+(f), A(f), A-(f)**

Moderate degree of stability in NAV. Risk factors may vary with possible changes in the economy

**BBB+(f), BBB(f), BBB-(f)**

Adequate degree of stability in NAV. Risk factors are considered variable if changes occur in the economy

**BB+(f), BB(f), BB-(f)**

Low degree of stability in NAV. Risk factors are sensitive to changes in the economy

**B(f)**

Very low degree of stability in NAV. Risk factors are capable of fluctuating widely if changes occur in the economy

The FSR scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

FSRs may be placed under 'Rating-Watch' if VIS views that the status of the assigned rating is uncertain and there are conditions present that necessitate re-evaluation of the assigned rating. VIS also designates direction, Positive, Negative or Developing, to ratings placed under 'Rating-Watch'. This shows VIS's opinion regarding the likely direction of a rating. Developments in factors other than those that necessitated the 'Rating-Watch' may result in a rating change, while the rating continues to be placed under 'Rating-Watch'.

REGULATORY DISCLOSURES		Appendix I		
<b>Name of Rated Fund</b>	HBL Government Securities Fund			
<b>Sector</b>	Mutual Funds			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Fund Stability Rating (FSR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Outlook</b>	<b>Rating Action</b>
	29-Dec-22	AA- (f)		Downgrade
	03-Jan-22	AA (f)		Reaffirmed
	31-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	
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.			
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