

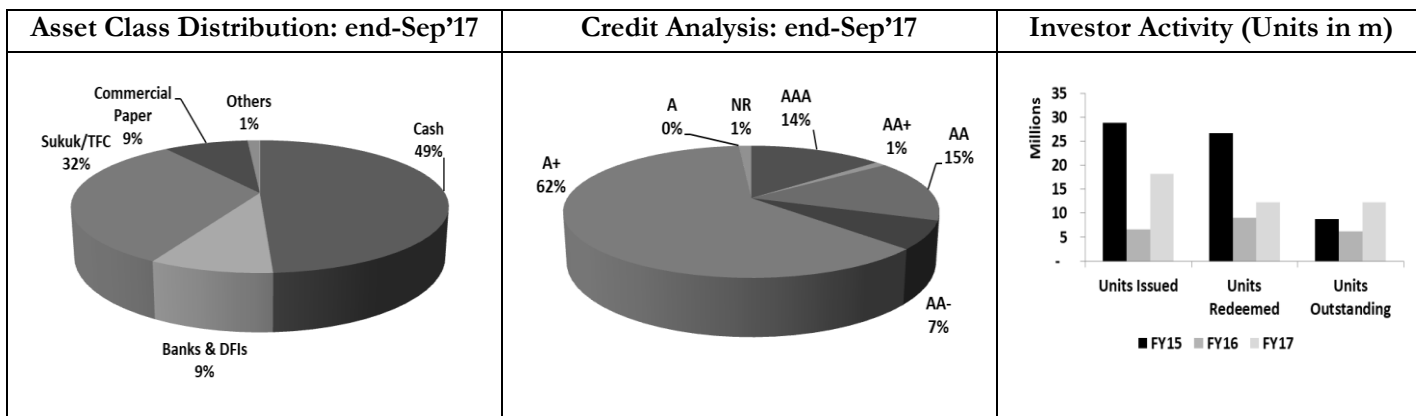
November 21, 2017

Analysts: Muniba Khan
Muhammad Ibad Desmukh

Investment Objective

FISGF seeks to provide maximum possible preservation of capital and a reasonable rate of return by investing in Shari’ah compliant money market and debt securities having good credit quality and liquidity.

Faysal Islamic Savings Growth Fund		
Rating Category	Latest	Previous
Fund Stability Rating	A+(f)	A(f)
	November 21, 2017	April 28, 2016
Asset Management Company	Faysal Asset Management Limited (FAML)	
External Auditors	Deloitte Yousuf Adil, Chartered Accountants	
Fund Manager	Mr. Syed Shahid Iqbal	
Trustee	Central Depository Company	
Management Fee	1.50% per annum	
Front-end Load	Nil	
Benchmark	Average 6M deposit rate of 3 A rated scheduled Islamic Banks or Islamic windows of conventional banks	



Faysal Islamic Savings Growth Fund (FISGF) aims to provide consistent income to investors by investing in Shariah compliant instruments. The fund is managed by Faysal Asset Management Limited (FAML), which has a management quality rating of AM3+. Investment Committee (IC) comprises key personnel from top management along with representation from investment and research department. The fund is managed by Mr. Syed Shahid Iqbal who serves as Senior Fund Specialist – Fixed Income at FAML.

Based on the approved Investment Policy Statement (IPS), the fund is required to place at least 25% of net assets in cash and cash equivalents on average for ensuring adequate liquidity. The fund can invest its entire amount in Shariah Compliant Government backed securities or as deposits in banks with a minimum medium to long-term entity rating of ‘A+’. The following table illustrates the specific limits for different asset classes:

Table 1: Proposed Operational Investment Policy (October 2017) (Target Rating: A+)

Description	Minimum Rating	Min-Max Exposure
Shariah Compliant Government Securities/ Shariah Compliant Government backed Securities	AAA	0%-100%
Shariah Compliant Term Finance Certificate, PPTFCs, Sukuks, Shariah Compliant Participation Term Certificates; Certificates of Investment	A+	0-50%
Bank Deposits, TDRs of various tenors in licensed; Islamic Banks/Development financial institution and licensed Islamic Banking windows of conventional Banks*	A	0-10%
	A+	0-100%

* Minimum 25% investment will be maintained in cash and cash equivalents on average monthly basis.

** Maximum investment in Asset Quality A of counterparties should be less than ten percent (10%) of Net Assets.

Net assets of the fund decreased to Rs. 636.2m (FY15: Rs. 886.8m) at end-FY16. Nevertheless, Assets under Management (AUMS) gained momentum to Rs. 1,253.8m

on account of aggressive business development activities, at end-FY17. Following June 2017, net assets have slightly declined to Rs. 1,241.0m, by end-September 2017.

Assets of the fund are largely parked as deposits in commercial banks rated ‘A+’. Moreover, sizeable exposure has also been built in corporate Sukuks since June 2015. The following table indicates the actual asset allocation:

Table 2: Actual Asset Allocation

	Sep-17	end-FY17	end-FY16	end-FY15	Avg. FY17	Avg. FY16
Cash	49.1%	46.3%	38.3%	73.7%	58.3%	53.3%
Banks & DFIs	8.8%	8.4%	0.0%	0.0%	3.0%	2.7%
Sukuk/TFC s/ Commercial Paper/COI	40.8%	44.2%	49.4%	25.0%	37.2%	41.8%
Others	1.3%	1.1%	12.3%	1.4%	1.6%	2.2%

During FY16, the fund had parked over 40% of its resources in securities rated ‘A-’ which is lower than the minimum stipulated rating of ‘A’ in the IPS. Subsequently, funds were shifted to ‘A+’ and above rated institutions. During FY17, the fund also invested in an ‘AAA’ rated instrument. With majority investments in ‘A+’ and above rated instruments, overall credit quality has improved.

Table 3(a): Credit quality summary for 3MFY18

Credit Quality	Average	Maximum	Minimum
AAA	14%	14%	14%
AA+	4%	10%	1%
AA	13%	16%	7%
AA-	7%	8%	7%
A+	61%	62%	61%
A	0%	0%	0%
A-	0%	0%	0%
BBB+	0%	0%	0%
NR	1%	2%	1%

Table 3(b): Credit quality summary for FY17

Credit Quality	Average	Maximum	Minimum
AAA	16%	17%	13%
AA+	7%	9%	7%
AA	5%	26%	0%
AA-	8%	23%	0%
A+	74%	91%	64%
A	0%	0%	0%
A-	0%	0%	0%
BBB+	0%	0%	0%
NR	2%	9%	1%

Table 3(c): Credit quality summary for FY16

Credit Quality	Average	Maximum	Minimum
AAA	0%	0%	0%
AA+	6%	11%	0%
AA	16%	56%	0%
AA-	23%	24%	22%
A+	36%	77%	0%
A	0%	0%	0%
A-	48%	59%	14%
BBB+	0%	0%	0%
NR	2%	12%	1%

Table 3(d): Credit quality summary for FY15

Credit Quality	Average	Maximum	Minimum
AAA	0%	0%	0%
AA+	4%	11%	0%
AA	14%	18%	7%
AA-	0%	0%	0%
A+	28%	38%	24%
A	0%	0%	0%
A-	53%	59%	42%
BBB+	0%	0%	0%
NR	2%	2%	1%

Weighted Average Maturity (WAM) of net assets is capped at 4 years, excluding government securities. Actual WAM of net assets remained below 2 years throughout period ending September 2017. Duration of the fund also remained low at 41.35 days (FY17: 46.64 days; FY16: 30.66 days; FY15: 11.52 days) at end-September 2017. Since the benchmark rate consists of 6 months deposit rates, actual duration is expected to remain under the defined limit of 180 days.

Table 4: Risk Summary

	Average	Maximum	Minimum
3MFY18			
WAM	1.42	1.59	1.31
Duration	54.30	69.34	41.35
FY17			
WAM	1.21	1.65	0.37
Duration	33.94	60.26	14.20
FY16			
WAM	1.28	1.70	1.01
Duration	30.40	45.36	16.32
6MFY16			
WAM	1.11	1.16	1.01
Duration	33.34	45.36	16.32

In line with movement in benchmark and discount rates, return generated by the fund trended downwards over past two fiscal years. However, the fund outperformed the benchmark by posting a return of 5.30% (FY16: 5.50%)

JCR-VIS Credit Rating Company Limited

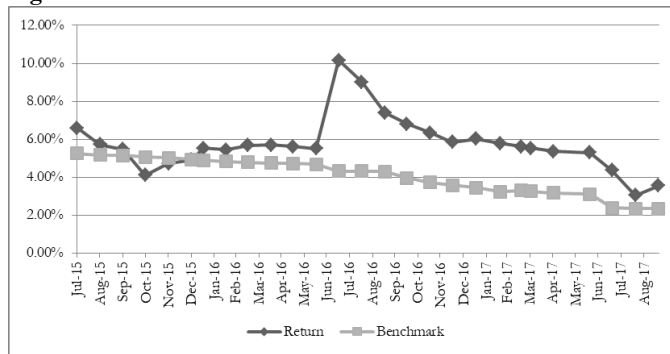
Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

vis-à-vis benchmark return of 3.11% (FY16: 4.68%) in FY17. Despite improvement in absolute return, relative ranking of the fund weakened in comparison to the peers as the fund ranked 10 out of total 16 operational income funds.

Table 5: Fund Performance

	FY17	FY16	FY15
Return (%)	5.30	5.50	8.22
Benchmark (%)	3.11	4.68	6.61
Relative Ranking	10/16	4/15	3/14

Figure 1: Fund return vs. benchmark return



With growth in fund size, top-10 investor concentration in the fund has notably improved to 31.7% (FY16: 47.2%; FY15: 62.0%). Contribution from retail clients increased to 62% (FY15: 37%) of AUMs in FY16, though returning to 34% by end-FY17. Related party contribution decreased in FY16 but subsequently increased to 15% (FY16: 5%; FY15: 21%) during FY17 [JCR-VIS]

JCR-VIS Credit Rating Company Limited

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

Rating History

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Fund Stability Management Quality</u>				
21-Nov-17	A+(f)			Upgrade
28-Apr-16	A(f)			Reaffirmed
29-Jun-15	A(f)			Downgrade
2-Aug-13	AA-(f)			Reaffirmed
20-Nov-12	AA-(f)			Upgrade
20-May-12	A+(f)			Initial