

Date: January 15, 2018

Analysts: Muniba Khan
Sidra Ahsan Qureshi

Investment Objective

To provide competitive risk adjusted returns to its investors by investing in a diversified portfolio of long, medium and short-term Shariah compliant debt instruments while taking into account liquidity considerations.

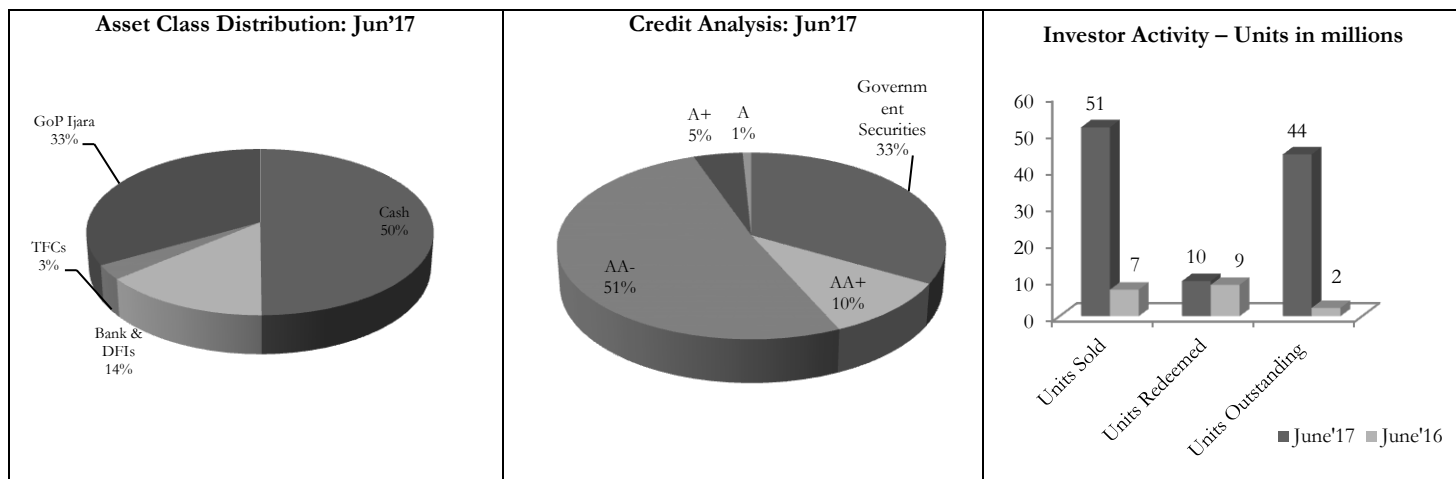
HBL Islamic Income Fund		
Rating Category	Latest	Previous
Fund Stability Rating	A+(f) Dec 29, '17	A+(f) Jan 05, '17
AMC	HBL Asset Management Limited	
External Auditors – Fund	Deloitte Yousuf Adil & Co.	
Fund Managers	Mr. Faizan Saleem	
Trustee	Central Depository Company	
Front-end Load	Upto 2%	
Back-end Load	-	
Management Fee	10% of gross earning subject to minimum fee 0.5% and maximum fee of 1.5%	
Benchmark	6 month deposit rate of 3 A rated Islamic Banks or Islamic Windows of Conventional Banks	

HBL IIF		
	FY17	FY16
Type of Scheme	Income	
Return (%)	5.5%	4.8%
Benchmark (%)	3.4%	5.2%
Peer Average (%)	5.9%	5.0%
Relative Ranking	8/17	11/15
Fund Size (in Rs. m)	4,461	227
Retail (%)	4%	37%
Associates (%)	0%	11%
Number of Investors	146	114
Top 10 Investors / AUMs	96%	82%
WATM (Weighted Average Time to Maturity)	1.3 yrs	187 days
Duration	0.95 yrs	2 days
Asset Allocation (at end June)		
<i>T-Bills</i>	-	-
<i>Ijarah Sukuk</i>	-	-
<i>TFCs/Corporate Sukuk</i>	3%	16%
<i>Certificate of Investments</i>	-	-
<i>Cash</i>	50%	82%
<i>Banks & DFIs</i>	14%	-
<i>GoP Ijarah</i>	33%	-
<i>Others (including receivables)</i>	-	2%

Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS Credit Rating Company Limited (JCR-VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-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 in this report. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. JCR-VIS is paid a fee for most rating assignments. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.

JCR-VIS Credit Rating Company Limited

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



During the on-going year, PICIC Islamic Income Fund (PICIC IIF) was renamed to HBL Islamic Income Fund (HBL IIF) as a part of branding effort post the amalgamation of PICIC Asset Management Company into HBL Asset Management Limited. HBL Islamic Income Fund (HBL IIF) is a Shariah Compliant open end fund which aims to provide investors comparable returns by investing in diversified pool of debt instruments, bank deposits and other approved investment avenues. As at end-June 2017, net assets of the fund significantly rose to Rs. 4.4b (FY16: Rs. 227m) attributable to additional investments by institutions.

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

Description	Min-Max limits	Min-Max Actual	Min Rating
Shariah Compliant Government Securities > 90 days maturity	0%-75%	0%-33%	-
Shariah Compliant Government Securities (excluding Sukuk) < 90 days maturity and Cash at Bank (excluding TDR) with licensed Islamic Banks and/or Islamic Branches/Windows of Conventional Banks.	25%-100%		A-
Bank Deposits and placement of funds < 6 months with licensed Islamic Banks, Islamic Financial Institutions or Islamic Branches/Windows of Conventional Banks	0%-100%	50%-90%	A-
Spread Transactions as approved by the Shariah Advisors in eligible securities as declared by the Stock Exchanges and the SECP	0%-40%		-
Secured and unsecured, listed and/or privately placed Shariah Compliant Government Securities/ Government guaranteed /Sukuk	0%-75%		-

Secured and unsecured, listed and/or privately placed Shariah Compliant debt Securities / Sukuk issued by corporate entities and or Financial Institutions	0%-50%	3%-44%	A-
Shariah Compliant non-traded securities with maturity of < 6 months	0%-75%		A-
Shariah Compliant non-traded securities with maturity of > 6 months	0%-15%		A-
Subject to approval, authorized Shariah Compliant Investments outside Pakistan including Islamic mutual funds	0%-30% (cap \$15m)		A
Any other Shariah Compliant instruments/ securities that may be permitted or approved by the SECP and Shariah Advisor of the Scheme from time to time	As allowed by Commission		A-
Placement of Funds including TDR, PLS Saving Account, COD, COM, COI, Money Market Placements, and other clean placements with Islamic Micro Finance Banks, Islamic NBFCs and Modarabas.2	0%-25%	0%-14%	A-

The Investment Committee (IC) comprises Chief Executive Officer, Chief Investment Officer, Head of Research, Manager Risk, Head of Fixed Income and Senior Fund Manager- Fixed Income. Investment decisions are consensus based.

Asset Allocation

Table 2: Asset Allocation

Assets	June'17	June'16	Average
Banks and DFIs	14%	0%	3%
Cash	50%	82%	72%
TFC/Corporate Sukuk	3%	16%	19%
GoP Ijarah	33%	-	3%
Others	-	2%	2%
Total	100%	100%	100%

Asset allocation of the fund largely remained within the stipulated limits defined in the investment policy. As per policy, the fund parked more than 70% of assets in near cash instruments, on a month average basis. Moreover, the fund also increased its exposure in GoP Ijarah Sukuks to one-third of assets, as at June 30, 2017. The fund also maintained significant exposure in corporate Sukuks, on an average basis, during FY17.

Credit & Market risk

Table 3: Credit Quality Summary- FY17

Credit Quality	Average	Maximum	Minimum
Government Securities	3%	33%	0%
AAA	0%	1%	0%
AA+	1%	10%	0%
AA-	55%	98%	9%
A+	38%	90%	0%
A	0%	1%	0%
A-	0%	2%	0%
NR	3%	16%	0%

As per the Investment Policy Statement (IPS), HBL IIF's investments are subject to a minimum credit rating of 'A-'. In compliance with the requirements, the fund deployed resources largely in A+ and AA- rated issue/issuer, on average.

Table 4: Risk Summary-FY17

	Average	Maximum	Minimum
WATM (days)	393	891	83
Duration (days)	117	566	4

Given the volatility in asset allocation through the year, both Weighted Average Time to Maturity (WATM) (FY16: 393 days; FY16: 158 days) and duration (FY17: 117 days; FY16: 15 days) were reported higher as compared to preceding year. Nonetheless, WATM remained under the specified limit of 2 years.

Liquidity Profile

The fund's portfolio concentration was on the higher side with top 10 investors contributing 96% (FY16: 82%) as at end-June 2017. However, there is more than adequate liquidity in the portfolio to meet redemptions.

In accordance with investors' movement, unit holding pattern altered; associates' share reduced to a negligible level (FY16: 11%) and unrelated corporates' holdings increased to 96% (FY16: 52%). With higher AUMs raised

through institutions, retail investor's proportion declined to 4% (FY16: 37%) as at end-FY17. In line with the growth in AUMs, number of investors was reported higher at 146 (FY16: 114) as at June 30, 2017.

Fund Performance

Figure 1: Monthly return Vs. Benchmark

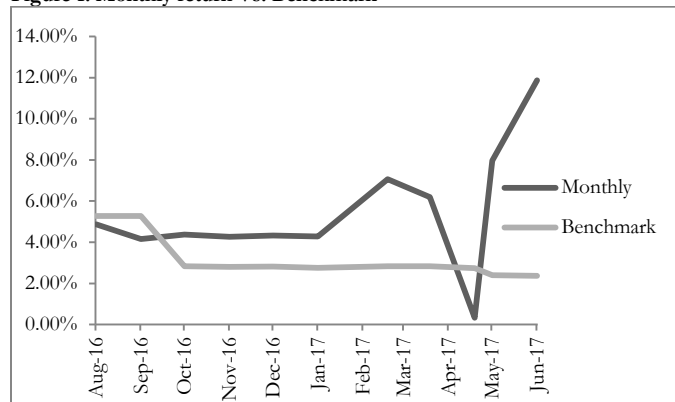


Table 5: Fund performance

	FY17	FY16
Return (%)	5.5%	4.8%
Benchmark (%)	3.4%	5.2%
Peer Average	5.9%	5.0%
Relative Ranking	8/17	11/15

The fund was able to outperform the benchmark during FY17; benchmark is defined as the 6 month deposit rate on Islamic bank's deposits. Moreover, relative ranking of HBL IIF improved on a timeline basis as reflected in a higher ranking as compared to the preceding year (FY17: 8th out of 17 funds; FY16: 11th out of 15 funds). Nevertheless, the performance of HBL IIF remained in the second quartile 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
RATING TYPE: Fund Stability Management Quality				
29-Dec-17	A+(f)	-	-	Reaffirmed
05-Jan-17	A+(f)	-	-	Upgraded
28-Dec-15	A(f)	-	-	Reaffirmed
22-Dec-14	A(f)	-	-	Reaffirmed
04-Aug-14	A(f)	-	-	Initial