

**Date:** December 27, 2018

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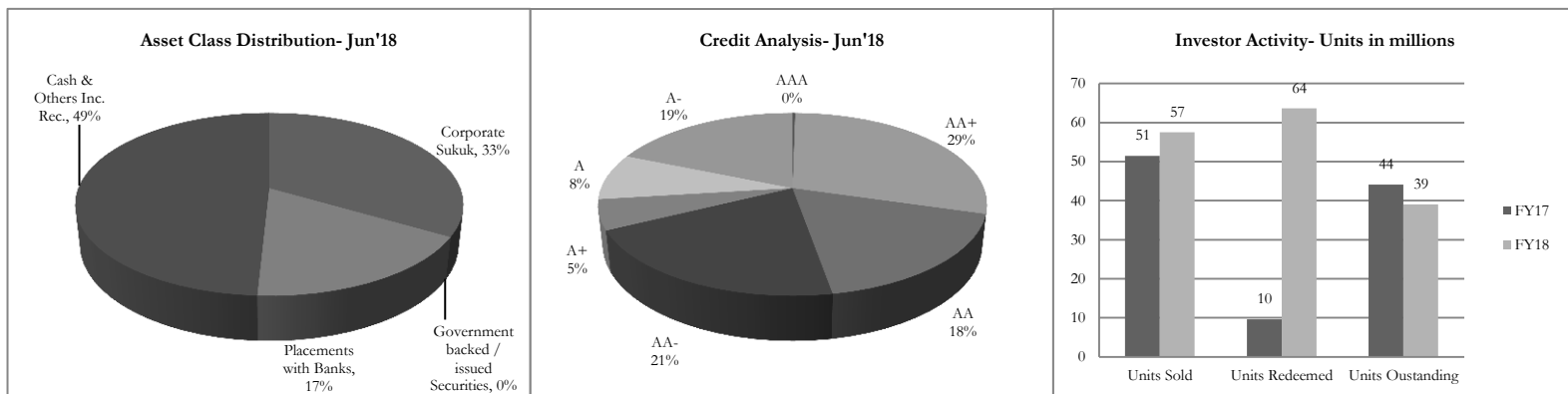
**Investment Objective**

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	<b>A+(f)</b>	<b>A+(f)</b>
	<i>Dec 26, '18</i>	<i>Dec 29, '17</i>
AMC	HBL Asset Management Limited	
External Auditors – Fund	BDO Ebrahim & Co.	
Fund Managers	Mr. Faizan Saleem	
Trustee	Central Depository Company	
Front-end Load	Up to 2.0%	
Back-end Load	-	
Management Fee	10% of gross earnings subject to a min fee of 0.50% and a max fee of 1.50% of average daily net assets	
Benchmark	6M average deposit rates of 3 A rated Islamic Banks or Islamic Widows of Conventional Banks as per MUFAP	

	HIIF	
	FY17	FY18
Type of Scheme	Islamic Income	
Return (%)	5.5%	5.2%
Benchmark (%)	3.4%	2.4%
Peer Average (%)	5.1%	4.3%
Relative Ranking	8 out of 17	2 out of 17
Fund Size (in Rs. m)	4,461	4,042
Retail (%)	40%	13%
Associates (%)	0%	7%
Number of Investors	146	347
Top 10 Investors / AUMs	81%	84%
Fund Stability Rating	A+(f)	A+(f)
Management fee	0.5-1.5%	0.5-1.5%
WATM (at end-June)	481	618
Modified Duration (at end-June)	347	24
<b>Average Asset Allocation*</b>		
<i>Corporate Sukuk</i>	26%	21%
<i>Government backed / issued Securities</i>	6%	2%
<i>Placements with Banks</i>	6%	17%
<i>Cash &amp; Others Inc. Rec.</i>	62%	60%

\*- FY17: Six Months Average and FY18: Twelve Months Average



HBL Islamic Income Fund (HIIF) 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'2018, net assets of the fund slightly declined to Rs. 4b (FY17: Rs. 4.4b) attributable to decrease in retail investment.

**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%-22%	-
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%	40%-66%	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	0%-75%		-

placed Shariah Compliant Government Securities/ Government guaranteed /Sukuk			
Secured and unsecured, listed and/or privately placed Shariah Compliant debt Securities / Sukuk issued by corporate entities and or Financial Institutions	0%-50%	8%-39%	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%	7%-32%	A-

The credit quality stipulated in the offering document allows the fund to take exposure in 'A-' and above rated

investment avenues. As per management, the same will be revised to ‘A’ in order to remain compliant with credit quality stipulations.

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.

**Credit Risk**

**Table 2: Asset Allocation**

Asset Class Distribution	Jun'17	Jun'18
Corporate Sukuk	3%	33%
Government backed / issued Securities	33%	0%
Placements with Banks	14%	17%
Cash & Others Inc. Rec.	50%	48%

Asset allocation of the fund remained within the stipulated limits defined in the investment policy. On a yearly average basis, around three fifth of the fund’s resources were invested in cash and cash equivalents. Moreover, at end-June’2018, the fund parked 33% of its net assets in corporate Sukuk.

**Table 3: Credit Quality**

Credit Quality	Average	Maximum	Minimum
AAA	2%	22%	0%
AA+	13%	29%	0%
AA	18%	24%	14%
AA-	31%	58%	8%
A+	20%	32%	5%
A	7%	12%	1%
A-	13%	18%	0%
NR	2%	5%	1%

As per the Investment Policy Statement (IPS), HIIF’s investments are subject to a minimum credit rating of ‘A-’. The fund complied with the requirements of its IPS. However, deviations from credit quality criteria have been noted. Going forward, management has committed to comply with credit quality criteria prescribed by JCR-VIS for the assigned rating.

**Market Risk**

Modified duration remained within the limit of 365 days in line with criteria for the assigned ratings. Highest duration was recorded in July’2017 at 258 days.

**Table 4: Modified Duration**

Month	Modified Duration (Days)
Jul'17	258
Aug'17	50
Sep'17	26
Oct'17	17
Nov'17	40
Dec'17	25
Jan'18	25
Feb'18	32
Mar'18	28
Apr'18	15
May'18	27
Jun'18	24

**Liquidity Risk**

Retail investment of the fund declined in FY18 to 13% (FY17: 40%) with an increase noted in proportion of unrelated corporates to 81% (FY17: 60%). Top 10 investors contribution was reported at 84% (FY17: 81%) as at end-FY18. Furthermore, number of investors rose to 347 (FY17: 147) at end-June’2018.

**Fund Performance**

**Table 5: Fund Performance**

	FY17	FY18
Return (%)	5.5%	5.2%
Benchmark (%)	3.4%	2.4%
Peer Average (%)	5.1%	4.3%
Relative Ranking	8 out of 17	2 out of 17

The fund was able to outperform the benchmark during FY18; benchmark is defined as the 6 month deposit rate on Islamic bank’s deposits. Moreover, relative ranking of the fund improved on a timeline basis as reflected in a higher ranking as compared to the preceding year (FY18: 2<sup>nd</sup> out of 17 funds; FY17: 8<sup>th</sup> out of 17 funds) 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
<b>RATING TYPE: Fund Stability Management Quality</b>				
26-Dec-18	A+(f)	-	-	Reaffirmed
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