

Date: December 31, 2019

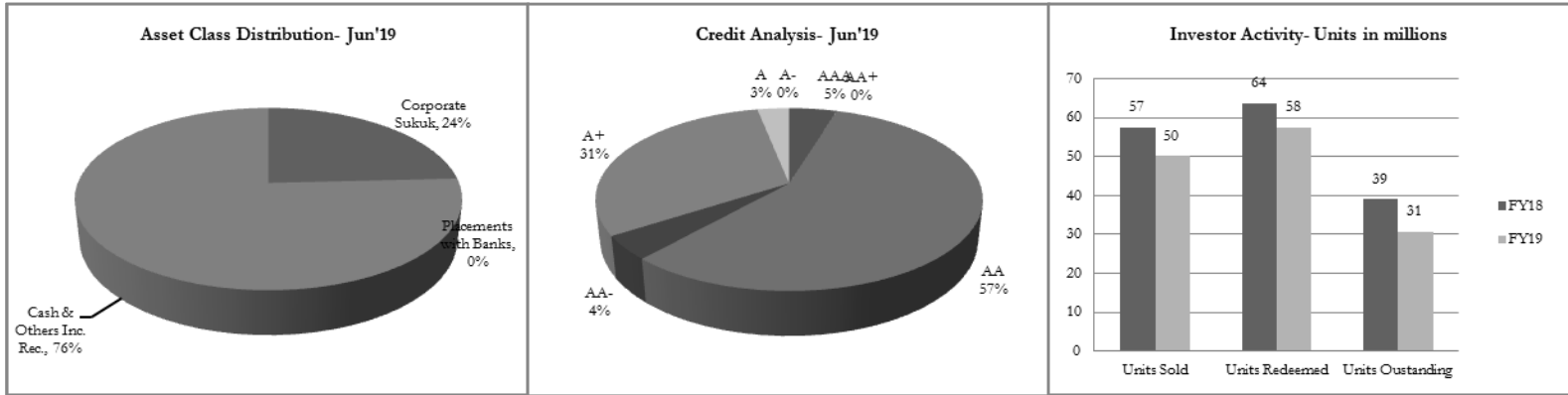
Analysts: Talha Iqbal
Asfia Aziz

Investment Objective

Objective of the fund is to provide risk adjusted returns to its investors by investing in a diversified portfolio of long, medium and short term Shariah compliant debt instruments while rationalizing liquidity considerations.

HBL Islamic Income Fund		
Rating Category	Latest	Previous
Fund Stability Rating	A+(f)	A+(f)
	<i>Dec 30, 19</i>	<i>Dec 26'18</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	Up to 2.0%	
Back-end Load	-	
Management Fee	1.385% 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	
	FY18	FY19
Type of Scheme	Islamic Income	
Return (%)	5.2%	7.9%
Benchmark (%)	2.4%	3.7%
Peer Average (%)	4.3%	7.8%
Relative Ranking	1 out of 18	12 out of 20
Fund Size (in Rs. m)	4,042	3,103
Retail (%)	13%	11%
Associates (%)	7%	73%
Number of Investors	347	553
Top 10 Investors / AUMs	84%	81%
Fund Stability Rating	A+(f)	A+(f)
Management fee	0.5-1.5%	0.5-1.5%
WATM (at end-June)	618	412
Average Asset Allocation		
<i>Corporate Sukuk</i>	21%	35%
<i>Placements with Banks</i>	17%	9%
<i>Cash & Others Inc. Rec.</i>	62%	55%



HBL Islamic Income Fund (HIIF) is an open end fund aiming to provide its investors with competitive risk adjusted returns through investments in a diversified pool of debt instruments and other approved investments avenues. At end-June'19 it was observed that the fund's size significantly declined to 3.1b imputing to higher rate of redemptions.

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 placed Shariah Compliant Government Securities/ Government guaranteed /Sukuk	0%-75%		-
Secured and	0%-50%	8%-39%	A-

unsecured, listed and/or privately placed Shariah Compliant debt Securities / Sukuk issued by corporate entities and or Financial Institutions			
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-

Credit quality provisions as stated in the offering document allow fund to take exposure in A- and above rated avenues.

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

Credit Risk

Table 2: Asset Allocation

Asset Class Distribution	Jun'18	Jun'19
Corporate Sukuk	33%	24%
Placements with Banks	17%	0%
Cash & Others Inc. Rec.	49%	72%

During FY19, major portion of 76% of the fund's net asset base was parked in placements of cash and remaining chunk was allocated in corporate Sukuks. Month-on-month asset allocations complied within the specified stipulations of the offering document.

Table 3: Credit Quality

Credit Quality	Average	Maximum	Minimum
AAA	3%	13%	0%
AA+	16%	34%	0%
AA	22%	55%	5%
AA-	26%	66%	4%
A+	17%	30%	5%
A	11%	15%	2%
A-	3%	13%	0%
NR	2%	8%	1%

As per requisites of the Investment Policy Statement (IPS), HIIIF's investments are limited to maintain a minimum credit rating of 'A-'. The fund majorly complied with these requirements in the outgoing and ongoing year.

Market Risk

Modified duration remained within the limits prescribed by the assigned ratings. Maximum and minimum durations were capped at 49 days end-Sep'18 and 13 days end-May'19 and June'19 respectively

Table 4: Modified Duration

Month	Modified Duration (days)
	HIIIF
Jul'18	32
Aug'18	47
Sep'18	49
Oct'18	38
Nov'18	43
Dec'18	33

Jan'19	34
Feb'19	34
Mar'19	33
Apr'19	22
May'19	13
Jun'19	13

Liquidity Risk

Retail investment of the fund improved in FY19 to 11% (FY18: 13%) with an increase noted in proportion of associates to 73% (FY18: 7%). Top 10 investors contribution was reported at 81% (FY18: 84%) as at end-FY19. Furthermore, number of investors rose to 553 (FY18: 347) at end-June'2019.

Fund Performance

Benchmark is defined as the months deposit rate on Islamic Bank's deposits. HIIIF achieved a return of 7.9% during FY19 (FY18: 5.2%) higher than benchmark and peer average. However, relative ranking against peers witnessed deterioration to 12/20 (FY18: 1/18).

Table 5: Fund Performance

	FY18	FY19
Return (%)	5.2%	7.9%
Benchmark (%)	2.4%	3.7%
Peer Average (%)	4.3%	7.8%
Relative Ranking	1 out of 18	12 out of 20

Rating History

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
RATING TYPE: Fund Stability Management Quality				
30-Dec-19	A+(f)	-	-	Reaffirmed
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

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY18	FY19
Paid Up Capital	NA	NA
Total Equity	NA	NA
<u>INCOME STATEMENT</u>		
Total income	276	380
Profit Before Tax	224	307
Profit After Tax	224	307
<u>RATIO ANALYSIS</u>		
Net Cash Generated from Operating Activities	601	791
Current Ratio (x)	NA	NA
Gearing (x)	NA	NA