

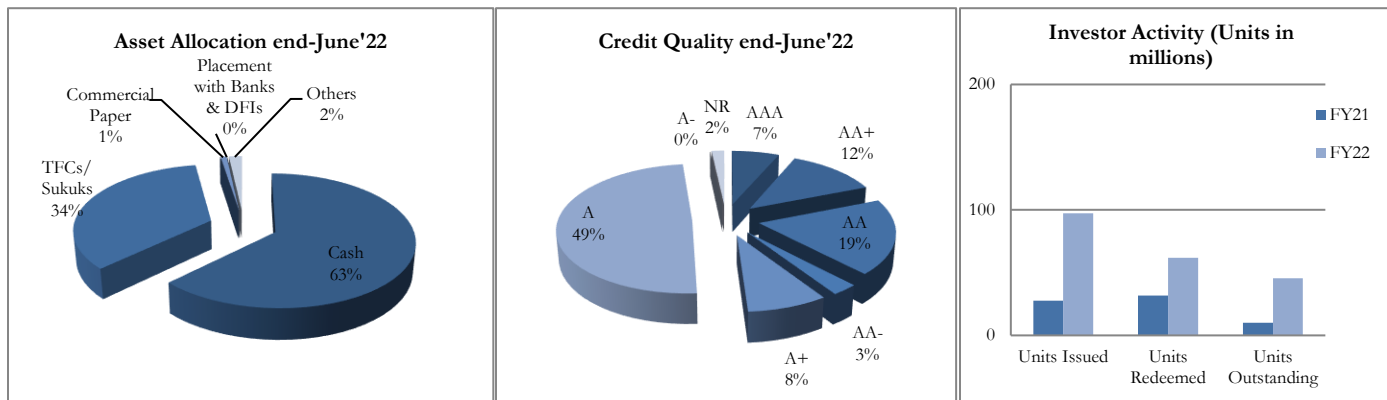
Date: December 29, 2022

Analyst: Musaddeq Ahmed Khan

Investment Objective

To provide risk adjusted returns 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)
	Dec 29, '22	Jan 03, '22
AMC	HBL Asset Management Limited	
External Auditors – Fund	Yousuf Adil & Co., Chartered Accountants	
Trustee	Central Depository Company	
Front-end Load	Up to 2.00%	
Back-end Load	Nil	
Management Fee	0.50%	
Benchmark	Six (6) months average deposit rates of 3 A rated Islamic Banks or Islamic Widows of Conventional Banks as per MUFAP	



HBL Islamic Income Fund (HIIIF) is an open-ended fund aiming to provide its investors with high liquidity and risk adjusted returns through various approved investment avenues comprising of short and long-term debt instruments. Net assets of the funds increased significantly to Rs. 4.67b (Jun'21: 969m) 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	Min Rating	Min-Max Limits
Shariah Compliant Government Securities > 90 days maturity	-	0%-75%
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.	A-	25%-100%
Bank Deposits and placement of funds < 6 months with licensed Islamic Banks, Islamic Financial Institutions or Islamic Branches/Windows of Conventional Banks	A-	0%-100%
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	-	0%-75%

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	A-	0%-50%
Shariah Compliant non-traded securities with maturity of < 6 months	A-	0%-75%
Shariah Compliant non-traded securities with maturity of > 6 months	A-	0%-15%
Subject to approval, authorized Shariah Compliant Investments outside Pakistan including Islamic mutual funds	A	0%-30% (cap of \$15m)
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	A-	As allowed by commission
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	A-	0%-25%

Asset Allocation:

Table 2: Asset Class Distribution:

Asset Allocation	Average FY'21	Average FY'22	Jun'22
Cash adjusted for accruals	61%	47%	63%
TFCs/Sukuks	32%	33%	35%
Commercial Paper	3%	16%	1%
GoP Ijara Sukuk	1%	0%	0%
Certificate of Modaraba	0%	0%	0%
Placement with Banks & DFIs	0%	2%	0%
Others	2%	2%	2%

More than 90% of the fund's net assets remained concentrated in cash placements and corporate TFCs/ Sukuks as at Jun'22. Other investment avenues include commercial paper and Placement with Banks and DFIs. No breach was witnessed during the period under review.

Credit Quality:

Table 3: Credit Quality

Credit Quality	Monthly Average	Maximum	Minimum
AAA	20%	55%	0%
AA+	10%	22%	6%
AA	16%	65%	3%

AA-	13%	52%	3%
A+	21%	72%	7%
A	16%	49%	1%
A-	2%	5%	0%
NR	1%	5%	0%

Investment Policy Statement (IPS) of the fund restricts exposure in minimum credit rating of 'A-' in order to maintain risk. There have been no breaches in reviewing year. On a monthly average basis, the fund parked around 60% of its assets in AA- and above rated avenues. However, the VIS credit risk criteria for the assigned rating limits exposure in 'A' rated instruments to 25% or less which was breached on multiple occasions during FY22.

Market Risk:

As per IPS, Weighted Average Maturity (WAM) is capped at 4 years while duration of the fund shall be no longer than 365 days. Since last review, both WAM and modified duration have remained compliant within the specified limit as per assigned ratings. Average WAM and duration stood at 366 days (FY21: 400) and 44 days (FY21: 41), respectively.

Liquidity Profile:

As at Jun'22, retail investor contribution to the fund's total asset base has reduced to 41% (Jun'21: 61%) whereas unrelated corporate investors increased significantly to 59% (Jun'21: 39%). Hence, top-10 investors' concentration has significantly increased to 66% (Jun'21: 38%). Total number of investors also increased to 975 (Jun'21: 668).

Fund Performance:

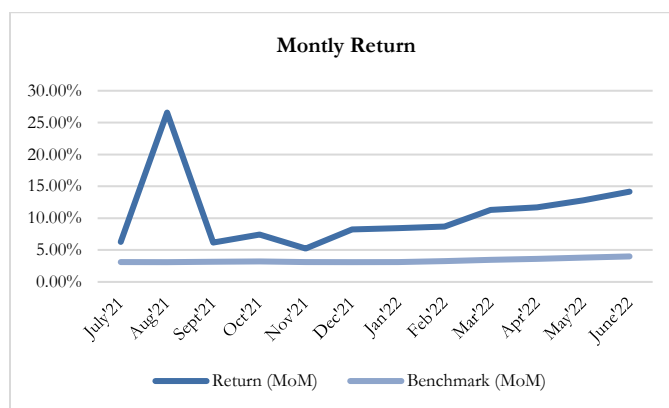


Table 4: Fund Performance:

Performance	FY21	FY21
Total Return	5.45%	11.14%
Peer Ranking	19/22	2/21
Benchmark Return	3.56%	3.34%
Peer Average	5.99%	8.91%

The fund has outperformed vis-à-vis benchmark return rate during FY22. Moreover, based on 365 days return, the fund's return compares favorably in comparison to peers average. The relative ranking of the fund inclined since last review and the fund ranked up to first quartile.

<u>BALANCE SHEET</u>	FY21	FY22
Paid Up Capital	-	-
Total Equity	-	-
<u>INCOME STATEMENT</u>		
Total Income	95	254
Profit Before Tax	67	241
Profit After Tax	67	241
<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		
Name of Rated Fund	HBL Islamic Income Fund			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Fund Stability Rating (FSR)			
Rating History	Rating Date	Medium to Long Term	Outlook	Rating Action
	29-Dec-22	A+ (f)		Reaffirmed
	03-Jan-22	A+ (f)		Reaffirmed
	31-Dec-20	A+ (f)		Reaffirmed
	30-Dec-19	A+ (f)		Reaffirmed
	26-Dec-18	A+ (f)		Reaffirmed
	29-Dec-17	A+ (f)		Reaffirmed
	05-Jan-17	A+ (f)		Upgrade
	28-Dec-15	A (f)		Reaffirmed
	22-Dec-14	A (f)		Reaffirmed
04-Aug-14	A (f)		Initial	
Instrument Structure	N/A			
Statement by the Rating Team	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.			
Probability of Default	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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