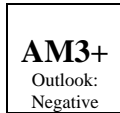
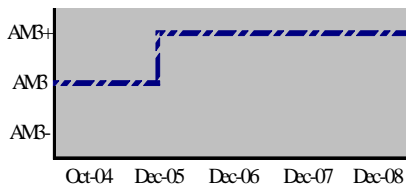


RATING (MARCH 2009)
ATLAS ASSET MANAGEMENT LIMITED (AAML)



RATING HISTORY



| Funds | Size (mln) | |
|-------------------------|--------------|--------------|
| | Jan'09 | Dec' 07 |
| Open-end | | |
| 1) Income Fund | 1,943 | 4,550 |
| 2) Islamic Income Fund | 161 | n.a. |
| 3) Stock Market Fund | 479 | 1,600 |
| 4) Islamic Fund | 289 | 734 |
| Closed-end | | |
| 5) Fund of Funds | 244 | 575 |
| Pension | | |
| 6) Pension Fund | 112 | 97 |
| 7) Pension Islamic Fund | 127 | 91 |
| | 3,355 | 7,647 |

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects the company’s experienced and qualified management team, sound quality of support systems and processes, and a strong emphasis on risk management framework. Owing to the current downturn in the operating environment, the company has witnessed substantial erosion in AUM and a consequent decline in investment management fee. Moreover, the management’s strategy to capitalize upon group synergy has had limited success to date. The impact of realignment in business strategy, given the developments pertaining to the bank’s planned merger, remains to be seen.
- The negative outlook has been assigned in view of the increasing pressure on the company’s standing, and mounting challenges in maintaining the quality of the asset management platform amidst cost cutting pressures. Meanwhile, the extent of support from the sponsoring group in the current difficult environment will be critical.

ASSESSMENT

- AAML, incorporated in August 2002, is majority owned (88%) by Shirazi Investments (Pvt) Limited – the holding company of Atlas Group. Atlas Group, established in 1962, is one of the well-known business groups of the country with presence in manufacturing, financial, and trading sectors. AAML’s eight-member board of directors, in addition to two Shirazi family members and the Chief Executive, includes independent experienced professionals including a representative of ING – a global asset manager and technical partner of AAML. Mr. M. Habib-ur-Rahman, the CEO of AAML, has extensive experience of the mutual fund industry.
- With the launch of an Islamic Income Fund in Aug08, AAML is managing five funds in total – four open-end and a closed-end fund. Furthermore, AAML is one of the few companies, which has launched Pension Fund and Islamic Pension Fund. The company has also launched investment plans based on equity and income funds, namely growth, balanced, and income multiplier.
- After witnessing a peak of around PKR400bln in assets under management in Mar08, the industry has reduced by more than half at present. While the constrained liquidity in the inter-bank market led to major redemption pressure in fixed income funds, as banks are the major investors in such funds, the downturn in capital markets eroded the value of investments in equity funds. The crisis has been aggravated by the decline in NAVs across the income fund category, and the failure on part of some asset managers in meeting the redemption requests in such funds. This is partly owing to the relatively nascent stage of the industry, which failed to maintain the distinction between long-term bond funds and money market funds. Consequently, a number of these funds ended up with a high proportion of investments in TFCs, an investment avenue that has increasingly become illiquid in the current scenario.
- The AUM of AAML declined substantially in the current crises, diluting the company’s market share. Meanwhile, the company faced pressure in managing liquidity in respect of its income fund. Although key functioning positions and processes remain largely intact to date, AAML’s ability to maintain its asset management quality while simultaneously rationalizing the relatively high cost structure, in the wake of declining AUM, would be a challenge, going forward.
- The company’s ability to harness the group’s synergy to tap growth has met with limited success to date. Leveraging upon the Atlas Bank’s operating platform for distribution of AAML’s funds was an important element in AAML’s business strategy. Owing to the planned merger of Atlas Bank, wherein the group would not have a majority stake in the merged bank, this is expected to impact upon the group’s plan to strengthen its profile in the financial sector. Given the pressure on financial profile of most of the group companies due to the current subdued economic environment, the group’s commitment to support the asset management business in the current crises would be critical.
- The company, in consultation with ING, has a comprehensive investment process and follows a structured bottom-up approach for making investment decisions. Research department is sufficiently capable both in terms of human resource and research facilities while separating the research process into conventional and Shariah investments. The company is utilizing core asset management software – Softech Asset Connect system – and has implemented the new risk management and compliance system module of the core software. Moreover, the company has an advanced real-time and state of the art software for customer relationship management (CRM) called ‘Siebel’. An in-house internal audit department comprising two experienced auditors is in place. The division has an additional responsibility to ensure compliance and risk management. Under the guidance of ING, the management continues to fortify risk measures and upgrade its management manuals.