



ALFALAH GHP INVESTMENT MANAGEMENT LIMITED (AGIM)

Asset Manager Rating

(September 2006)

AM3

SUMMARY

- AGIM has been assigned Asset Manager Rating of 'AM3'. The rating reflects the company's strong capacity to manage the risks inherent in asset management. This capacity emanates from a well-qualified and experienced management team, a structured investment process, effective supporting systems and risk management policies. The company's association with a leading commercial bank, representing a strong business group, offers synergies in distribution and marketing of units of its mutual funds. However, the extent to which the management succeeds in capitalizing on this potential and the related timeline remain to be seen. At the same time, AGIM has limited operational history, size and diversity in funds under management. Consequently, the efficacy of systems and processes needs to be fully tested.
- AGIM, a subsidiary of Bank Alfalah Limited (BAL), commenced operations in Mar05. BAL, the fifth largest bank in the country in terms of total assets, has shown aggressive expansion in recent years and currently has a network of 165 branches. The Abu Dhabi Group comprising prominent members of the ruling family and leading businessmen of UAE owns the majority shareholding in the bank. The Group has expanded its investments in Pakistan in the financial, telecommunication and real-estate sectors. BAL has a very strong financial strength, evidenced by the long-term credit rating of AA. The other equity partner, with 20% shareholding, is GHP Financial Services – an international portfolio management and investment advisory company based in Switzerland. GHP provided technical support to the company in the initial process of development of systems and processes, and is also involved in major policy and strategic decisions. GHP has representation on the six-member BoD through one nominee director, while the remaining members primarily include senior management staff in BAL and the Abu Dhabi Group. The CEO, Mr. Abdul Aziz Anis, a Chartered Financial Analyst, holds 12% shareholding in the company and has considerable experience in Pakistan's capital markets.
- AGIM currently has one Fund under management – Alfalah GHP Value Fund – an open-end broad based asset allocation fund, having a NAV of PKR 550mln at end-Jul06. The management plans to increase the Fund's size to PKR 1bln by end-06. Meanwhile, it also intends to increase the diversity of funds under management by launching an income fund in near future, and thereafter an Islamic fund. The BoD has recently approved injection of additional equity of PKR 100mln for supporting the initial development costs, which would raise the total share capital of the company to PKR 160mln. Meanwhile, the management expects to achieve monthly break-even in profitability by the end of 2006.
- The management team of AGIM, including Fund Manager, comprises qualified professionals, having extensive experience in their related fields. The company has a well-defined organizational structure with appropriate departmentalization, and is adequately staffed in all areas of its operations.
- The Investment Committee (IC) comprising CEO, Fund Manager, and Head of Finance is responsible for making investment decisions, and is supported by Portfolio Management Department. The department consists of two research analysts, a database officer and a dealer. The research reports of leading brokerage houses are used as a starting point. The critical assumptions and data in these reports are validated by the in-house research analysts, who then make their own valuation through using various quantitative models. The management intends to develop a fully functional in-house research division in the medium term, after achieving a reasonable increase in size of assets under management.
- The management plans to serve a diverse client base, and in this regard has set up separate departments for Retail and Corporate Marketing, for a more focused approach. The main emphasis of the policy for attracting retail investors is to capitalize on the brand equity of the parent bank, its huge retail customer base, and extensive distribution network. The Fund's units are currently distributed through seven selected branches of BAL in KHI and LHR, with one sales representative being placed at each branch. The management intends to raise the number of selected branches to 14 by year-end, and has also recently made arrangements with some independent distribution companies. Given the relatively limited scale of asset management operations in the overall business of the group, and other business constraints, the extent to which these synergies are exploited remains to be seen.
- The company's IT system is adequately supporting the portfolio and order management, unit holder and other general accounting requirements, while facilitating decision-making and controls through generation of various reports on transactional and periodical basis. Going forward, the management plans to achieve full integration between various modules, and offer web-based features to its customers.

Analysts

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