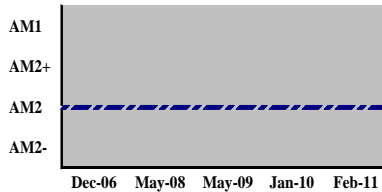


RATINGS (MARCH 2011)
ARIF HABIB INVESTMENTS
LIMITED (AHIL)



OUTLOOK: POSITIVE



ASSETS UNDER MANAGEMENT

Amount in PKR mln

Funds	Size	
	Open-end	Jan-11 Jan-10
Pakistan Income Fund	1,907	2,236
Pakistan Stock Market Fund	1,535	2,243
Metro Bank – Pakistan Sovereign Fund	1,876	1,817
Pakistan Capital Market Fund	446	480
Pakistan Int'l Element Islamic Fund	423	509
Pakistan Cash Fund	3,022	1,839
Pakistan Income Enhancement Fund	1,696	1,552
Pakistan Capital Protected Fund -FIS	255	235
Pakistan Premier Fund	758	1,796
Pakistan Strategic Allocation Fund	1,008	2,689
Pakistan Capital Protected Fund-I	-	603
AH Dow Jones SAFE Pakistan Titan 15 Index Fund	131	-
Pension Funds		
Pakistan Pension Fund	201	153
Pakistan Islamic Pension Fund	121	105
Total AUM	13,379	16,257
System Share	5.9%	7.2%

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects the company's leading industry position, emanating from diversity of product slate, successful track record, relatively superior systems and processes, qualified and experienced management and association with a sound business group. Compared to peers in investment management business, the company has relatively superior diversity in terms of investors' profile. The performance and the liquidity profile of the company's funds have remained strong.
- Owing to the proposed merger between Arif Habib Investments Limited and MCB AMC, which is expected to create synergies in various dimensions and have positive implications on the rating of the combined entity, the rating of the company has been assigned positive outlook and placed on rating watch.

ASSESSMENT

- Incorporated in August 2000 and listed on the Karachi Stock Exchange, Arif Habib Investment (AHI) is among the leading asset management companies of Pakistan. Arif Habib Corporation (formerly Arif Habib Securities Limited) – the holding company for Arif Habib Group – holds majority stake (60%) in the company. Arif Habib Corporation is a holding company with interests in the security brokerage, investment and financial advisory, investment management, commodities, private equity, microfinance, real estate, cement, and fertilizer industries.
- The proposed merger between Arif Habib Investments and MCB AMC is in final stages. This will make the merged entity second to the market leader in terms of Assets under management. The surviving entity, with a diverse product slate and investor profile, is expected to be better placed to leverage on the platform of MCB Bank to augment core business.
- AHI's board of directors comprises the CEO, the company secretary, two executive officers of AHS, and three independent directors, carrying diversified experience of various sectors including financial services. Recently the position of the chairman has been filled in by Mr. Muhammad Shafi Malik, holding Masters in Public Administration from Harvard University. The senior management team of AHI comprises qualified and experienced professionals. The CEO, Mr. Nasim Beg, has extensive experience in the financial sector both abroad and domestic markets. He is a Chartered Accountant and is one of the pioneers in mutual funds industry of Pakistan. AHI has largely shown stability in senior management team, comprising qualified and experienced professionals.
- AHI registered decrease in its overall AUM, owing to major redemptions on conversion of two closed end funds into open end funds, namely Pakistan Premier Fund and Pakistan Strategic Allocation Fund. However, AHI maintains an edge over most of its peers in terms of diversity of products offered. With the launch of AH Dow Jones Safe Pakistan Titans 15 Index Fund in October 2010, the company has the most diverse fund slate with 11 open end funds and two pension funds under management. The overall holding of retail investors is the highest, compared with all players in the investment management business. The company's income and money funds have superior ratings and have performed well in respect to peers. In equity and hybrid category, performance has been adequate.
- AHI has established separate investment committees for a) equity, b) fixed-income, and c) asset allocation and capital protected funds. Due to relative superiority and structured approach of the investment management function, the overall performance of AHI's funds has been better than peers, with some funds performing top in their asset class. AHI has a stable, qualified, and experienced fund management team supported by experienced research analysts. Despite reasonable size of the company, there is still no dedicated resource for risk management function and it is distributed at various levels. Some industry peers have progressed well in this function by employing more sophisticated risk analysis tools. The research division comprises two research analysts and two support analyst headed by the Head of Research with adequate experience. Additionally, AHI has a dedicated economist as part of its research team. Research provides crucial support to the overall investment management function.
- The company's distribution strategy hinges on organic growth, maximizing its franchise value. Currently the company markets its funds through six branches present in the major cities of the country, with plans to open up new branches. AHI has distribution arrangements with a few leading commercial banks. The marketing department is segregated according to different clients namely institutional, strategic, and retail clients. AHI has one of the largest numbers of retail clients. Meanwhile, the position of Head of Marketing has recently been filled by a senior resource.
- The fund management software has been developed based on AHIL's propriety specifications. The software has various modules designed to meet the needs of investors and fund managers. Moreover, Client Relationship Management provides a centralized platform for facilitating, directing, and monitoring of sales and marketing activities.