



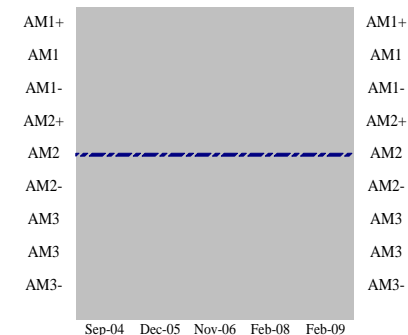
ASSET MANAGER RATING

(FEBRUARY 2009)

ARIF HABIB INVESTMENT

MANAGEMENT LIMITED (AHIML)

Asset Manager	New	Previous
	AM2	AM2
Outlook	-	Positive



Sep-04 Dec-05 Nov-06 Feb-08 Feb-09

Funds	Size (mln)	
	Open-end	Dec'08 Dec' 07
1) Pakistan Stock Market Fund	1,520	3,710
2) Pakistan Cash Management Fund	109	n.a
3) Pakistan Income Enhancement Fund	385	n.a
4) Pakistan Capital Market Fund	530	1,140
5) Metro Bank - Pakistan Sovereign Fund	373	1,439
6) Pakistan Income Fund	2,760	9,260
7) Pakistan International Element Islamic Fund	540	1,050
Closed-end		
8) Pakistan Premier Fund	1,137	2,631
9) Pakistan Strategic Allocation Fund	1,470	3,396
10) Pakistan Capital Protected Fund	559	627
Pension		
11) Pakistan Pension Fund	90	305
12) Pakistan Islamic Pension Fund	80	294
	9,553	23,852

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating of AHIML has been maintained at 'AM2' (AM Two), while the positive outlook assigned earlier has been withdrawn. AHIML's strengths as a leading player in the asset management industry includes its structured investment process, experienced management team, diverse product base and sound technology platform. Lately, the assets under management of the company have registered substantial decline on account of redemption pressure on income funds and downturn in the stock market. To offset the impact of substantial decline in management fee, the management has taken cost reduction measures, including downsizing of the sales force. Although experiencing pressure on its market share, AHIML has adequately managed the liquidity risk of its funds in the current scenario.
- The rating depends on AHIML's ability to sustain its market standing in the current challenging environment. Meanwhile maintaining the quality of support systems and processes, amidst cost cutting pressures, and strengthening of risk management and control systems would remain critical for the rating. The management's efforts at realigning the marketing strategy for future asset accumulation in the current challenging environment has gained additional importance. Meanwhile, any material deterioration in the profile of the sponsoring group may have implications on the rating

ASSESSMENT

- Incorporated in August 2000 and recently listed on the Karachi Stock Exchange, AHIML is among the leading asset management companies in Pakistan. Arif Habib Securities Limited (AHS) – the holding company for Arif Habib Group – holds majority stake (62%) in the company. Arif Habib group is engaged in investment management, financial advisory services, brokerage, banking, cement, and fertilizer industries. Currently a consortium of investors is in the process to acquire a substantial stake in Arif Habib Bank – the commercial banking arm of Arif Habib Group. The acquisition would lead to dilution of group's control and interest in the bank and may lead to some realignment in company's fund distribution strategy. Meanwhile, the financial profile of the group has lately come under pressure, owing to group's substantial exposure in capital markets, which have registered sharp meltdown in the recent past.
- AHIML's board of directors comprises the CEO, the company secretary, two executive officers of Arif Habib Securities Limited, and three independent directors, carrying diversified experience of various sectors including financial services. The Chief Executive of AHIML, a known figure in the country's mutual fund industry and associated with AHIML since its inception, is a Chartered Accountant with over three decades of experience in the financial sector.
- 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 ban on redemption of units of equity related funds due to freezing of capital markets have impacted investors' confidence, mainly retail investors. 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 income funds and money market funds. Consequently, a number of funds, which otherwise claim to offer high liquidity, ended up with a significant proportion of investments in TFCs, an investment avenue that has increasingly become illiquid in the current scenario. This further impacted the asset managers' capacity to manage liquidity in the face of heavy redemption pressure.
- AHIML also witnessed considerable decline in its overall AUM, particularly in the fixed income category, putting pressure on its market share. However, in terms of diversity of funds, AHIML maintains edge over most of its peers as the company currently manages 7 open-end funds, 3 closed-end funds and two pension schemes. Despite major redemption by investors and tough operating environment, the liquidity profile of the company's income fund has remained strong. This reflects AHIML's structured investment process and experienced management.
- The current challenges in the operating environment and pressure on capital and money markets is expected to constrain growth prospects of the industry. The current crisis has also highlighted the need of the management attention towards matching the asset profile of the fund with that of the investor mix. In wake of substantial decline in AUM and consequently in management fee, company's initiatives to invest in infrastructure is expected to remain subdued. Meanwhile, the contribution of investment income is also likely to be adversely impacted due to erosion of value of company's investment portfolio. Given the pressure on revenues, the company has undertaken retrenchment exercise, mainly aimed at downsizing in marketing and operations department. Meanwhile, organizational structure is also modified slightly following the cost reduction measures, however, segregation of duties remains intact.
- AHIML has established separate investment committees for a) equity, b) fixed-income, and c) asset allocation and capital protected funds. The investment process is structured, with qualified and experienced fund managers. The research team at AHIML supports the investment management function and comprises experienced analysts having sound educational background supported by adequate experience of equity and fixed income research. Meanwhile, risk management function was responsive in the demanding market condition reflecting a well-organized risk management framework ensuring adequate oversight. Moreover, the company has an effective internal audit department, which regularly reports to the Audit Committee.
- Currently the company markets its funds through six branches present in the major cities of the country, along with the distribution arrangements with a few leading commercial banks. The marketing department is segregated according to different clients namely institutional, strategic, and retail clients. The fund management software has been developed based on AHIML's propriety specifications, and provides 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.

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