

ALLIANCE INVESTMENT MANAGEMENT LIMITED (AIML)

Asset Manager Rating

(June 2008)

AM4-

31-Mar-08	PKR (mln)
Assets Under Management (AUM)	450

Analysts

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RATING RATIONALE AND KEY DRIVERS

- AIML has been assigned an Asset Manager Rating of 'AM4-'. The rating reflects the company's adequate capacity to manage risks inherent in asset management. This capacity emanates from the management team's sufficient experience in their current line of business, that is, equity market investments. Despite having a small size of key team, the nascent stage of the company has lent it the ability to manage different operations smoothly. The investment management process is unstructured, and is largely dependant on the Chief Executive Officer (CEO) for its development and execution. AIML has, however, put in place basic internal control systems, asset allocation and risk management policies.
- The rating is dependent upon the management's ability to develop a structured and independent investment management system and strengthen internal controls. Meanwhile, the continuity of the CEO would remain critical. Moreover, with increase in AUM, expansion in human resource and development of a client relationship system would be important.

ASSESSMENT

- Alliance Investment Management Limited (AIML) was incorporated in February, 2006. The company is registered as an Investment Advisor under the Non-Banking Finance Companies, Rules 2007. It is owned by a group of individuals, mainly being part of the larger family of the CEO and his friends. The CEO, Mr. Khurram Hanif, an MBA from IBA with around ten years of experience in the non-banking financial sector, has also served as the CEO of another small asset management company. He has been instrumental in establishing this company and the shareholders. The board of directors, including the CEO, comprises seven members. The directors, being associated with different fields, bring a diversified experience on the board.
- AIML is an investment and financial services company. Currently, the company is engaged in providing discretionary and non-discretionary portfolio management services to corporate clients and high net worth individuals. The company's key area of expertise is stock market investments, wherein higher emphasis is placed on long-term fundamentals driven investments. AIML does not have a technical collaboration with any foreign asset management company. Although this is no longer a legal requirement, an experienced technical partner offers several advantages in terms of upgradation of systems, technical expertise and human resource development.
- Although currently providing investment advisory services only, AIML plans to enter the asset management area-that is the management of open-end fund-in the long-term. For this, the company will have to meet the higher minimum capital requirement. Working towards this goal, the company is in the process of increasing its capital (currently PKR 35mln) through internal full retention of profits. However, given current level of profitability, the sponsors may have to inject further equity to meet regulatory capital levels, which would increase to PKR 200mln by June-2010. AIML is managing around PKR 450 mln of assets, mainly belonging to a few high net worth individuals. The management plans to expand its AUM. In preparation for this, the company is taking steps to increase awareness about AIML and investment in mutual funds through advertisements, seminars and presentations. With the advent of asset management companies, AIML faces fierce competition. Consequently, the relative size of funds is likely to remain limited in the medium-term.
- AIML does not require a distribution network as it caters a niche market comprising high net worth individuals and corporate clients. However, as it plans to increase the customer base and the size of the funds under management, it is in the process of employing a formal marketing strategy.
- AIML does not have separate and specific divisions/departments in its organizational structure, as the company is in its initial stage of operations. The company operates with the CEO along with three key employees: (i) the Chief Financial Officer (CFO), (ii) the IT head, and (iii) the Customer Services Representative. There are five main functions: (i) operations, (ii) administration, (iii) human resource, (iv) marketing, and (v) investments. The CEO, who is also the Chief Investment Officer (CIO), heads the operations department. The CFO looks after finance and accounting matters and performs the role of the company secretary as well. The customer services representative looks after the customer services section. All personnel have requisite past job experience. Going forward, the company plans to engage an accountant.
- AIML has an unstructured, though streamlined, investment process adequate for the current investment needs. The investment committee is composed of the CEO, the CFO and a director who is also a shareholder that provides valuable guidance. However, the structure of the IC undermines independence of the investment process. Mainly the CEO is assisted by the CFO in making investment decisions. The investment committee, while performing in the absence of any structured research process, relies mainly on research reports from leading securities companies, in addition to informal fundamental analysis.
- AIML is in the process of switching to an oracle-based fund management system, Alliance Investment Management Limited Fund Management System (AIMLFMS), that is developed in-house to meet the company's specific requirements. The management plans to complete the transition to this new system by end-08. The IT head is responsible for software/hardware systems. In addition, he generates required reports for the CFO and the CEO.