



ASKARI INVESTMENT MANAGEMENT LIMITED

ASSET MANAGER RATING
(JULY 2008)

AM3

Funds	Size (mln)
Open-end	
AIF	13,500
AAAF	638
	14,138

ANALYSTS

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RATING RATIONALE AND KEY DRIVERS

- The Asset Manager rating of Askari Investment Management Limited (AIM) has been maintained at 'AM3'. The rating reflects AIM's capacity to establish a robust asset management platform in an increasingly competitive environment. This capacity emanates from a well-qualified management team, which has successfully put in place adequate support systems. This is further supplemented by the company's association with a leading commercial bank, Askari Bank Limited (AKBL), which, while providing an established brand offers synergistic benefits in distribution and marketing. However, the extent to which the management succeeds in capitalizing upon this potential and the related timeline remain to be seen. In addition to subdued economic environment and fierce competition in the asset management industry, the scarcity of qualified human resource is a key challenge for AIM in achieving desired expansion and diversity in its business.
- Ratings are dependant upon the management's ability to execute its business plan. Meanwhile, development of the risk management department, and an autonomous research department along with improving the composition of the IC would be critical.

ASSESSMENT

- AIM, a wholly owned subsidiary of AKBL, commenced its business in May-05. AKBL is the country's ninth largest commercial bank in terms of total assets at end-Dec-07 (PKR 182bln). The majority shareholding in the bank is held by Army Welfare Trust (AWT), which has interests in real estate, financial, cement, and pharmaceutical sectors. The bank has a very strong financial position, evidenced by a long-term entity rating of "AA" by PACRA. The eight-member BoD of AIM includes three independent directors. All directors are professionals, mainly, from the financial sector and provide valuable guidance in the development of strategy. The CEO, Mr. Saeed Aziz Khan, who has been elevated to this position in Sep-07, was previously the Senior Portfolio Manager (SrPM). The company is still in the process of finding a suitable SFM. Meanwhile, Mr. Saeed is simultaneously holding the position of CEO and Senior Portfolio Manager. AIM has a paid-up capital of PKR 100mln. The company has improving profitability, which is expected to help it in achieving the minimum capital requirement (PKR 200mln) by the year 2010, through internal generation, nonetheless, in comparison to peers; the company has a small capital base.
- AIM has two funds under management – Askari Income Fund (AIF) and Askari Asset Allocation Fund (AAAF). AIF, launched in March 2006, is an open-end income fund. The fund, largely in line with the industry, has experienced significant contraction in its size lately (end-Jun-08: PKR 8.4bln; Mar-08: PKR 13.5bln). AIF has a predominantly institutional investor mix (90%), exposing it to a high degree of volatility in terms of its size. The fund primarily invests in different fixed income asset classes, placements, TFCs, CFS, COIs, and government securities. AAAF, launched in September 2007, is also an open-end fund, having net assets of over PKR 638mln at end-Mar08, which dropped to PKR 498mln at end-Jun08. The company plans to launch two Islamic funds and a capital guaranteed fund in 2008. In addition, AIM plans to introduce a monthly income fund and an index fund in the medium-term. The company's ability to materialize these plans remains dependant on its success in engaging requisite human resource, distribution and outreach. Over the long-term, the management aims to enter in the real estate sector by launching real estate investment trusts (REITs) by capitalizing on AWT's expertise in real estate businesses. However, so far, the company has made no significant progress in this regard.
- The senior management team of AIM is fairly independent from the reference shareholder, and consists of qualified experienced professionals, having mainly international exposure. The company has vacancies in senior management cadres, owing to which the current senior management team is performing multiple duties. Nonetheless, as operations grow, the company intends to hire additional personnel to ensure proper segregation of duties. Although AIM achieved financial breakeven in FY08, the performance of its funds- AIF and AAAF has remained subdued compared to most peers during the year. Moreover, the income fund has lost around 32% of its AUM in the aftermath of the recent monetary tightening and the liquidity crunch. AAAF could not achieve the targeted AUM for FY08.
- Presently, the company is operating from three offices including the head office situated in Islamabad and branch offices in Karachi and Lahore, with a total workforce of 45 at end-June-08. In the initial phase of its operations, the company relied mainly on its internal resources for marketing of its funds, targeting corporate clients, and high net worth individuals. After achieving a reasonable growth in AUM, the management has begun pursuing the opportunity of tapping the retail market segment by capitalizing on AKBL's branch network for distribution. In this regard, the company has already trained the bank staff, posted in different branches of the bank. So far, the company has little success in this regard. Nonetheless, the management is coordinating closely with AKBL to improve fund mobilization through the bank's network and, in addition to training the bank's staff; it is exploring various options to improve monetary incentive.
- The Investment Committee (IC), comprising CEO/SrPM, CFO and Head of Risk Management, is responsible for investment decision-making. As the company grows and launches new funds, the composition of the IC needs to strengthen. The Portfolio Management Department comprises CEO/SrPM, Head of Risk Management, and two traders, one of whom is recently engaged for AAAF. The research division comprises head of research (also the senior research analyst)-HoR/SRA and two analysts. Currently, the research department has been structured in such a manner that the HoR/SRA, reports to the head of risk management. The department's recommendations are based on research reports of leading brokerage houses and reports produced in-house.
- AIM is using a relatively advanced software – Mutual Fund Management System (MFMS) developed by Softech systems. The company is in the process of introducing its own call center that would be used for marketing and customer servicing. In addition, the company has a website that is at par with the peers. The company is in the process of introducing new products such as an ATM debit card to improve customer relationship management (CRM). The company has an effective disaster recovery plan and scheduled back-ups of all data take place regularly.