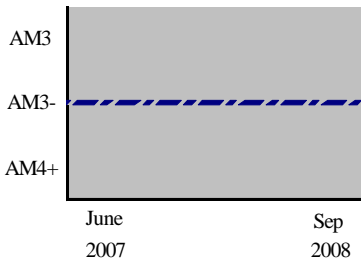




HABIB ASSET MANAGEMENT LIMITED (HAML)

Asset Manager Rating
(September 2008)

AM3-



Fund	30-Jun-08	30-Jun-07
	Size in PKR mln	
First Habib Income Fund	1,900	1,046

Analysts

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RATING RATIONALE AND KEY RATING DRIVERS

- The asset manager rating of HAML has been maintained at ‘AM3-’. The rating reflects HAML’s adequate capacity to conduct its operations in an increasingly competitive industry. This capacity emanates from the presence of a requisite human resource base and support systems, as well as a structured investment process. At the same time, the company’s association with a strong business group (Habib Group) offers synergies in marketing and distribution of units of its mutual funds. However, the extent to which the management succeeds in capitalizing on the potential and the related timeline remains to be seen. The rating also takes into account the inherent constraint of the early stage of operations and the limited size and diversity in Assets Under Management (AUM). While essential infrastructure and control procedures have been developed, the pace of the company’s initiatives to make inroads in an increasingly competitive industry remained relatively slow.
- The ratings are dependent upon the management’s ability to strengthen the fund management and research function and fill key slots in the senior management team through additional hiring of experienced personnel. Meanwhile, the development of a separate risk management and compliance function and implementation of effective strategies for increasing the AUM would remain critical.

ASSESSMENT

- HAML, incorporated in September 2005 as a public limited company, currently has paid up capital of PKR 112.5 mln (end June-07: 45 mln). The capital base of the company was enhanced during the year to meet enhanced Minimum Capital Requirements prescribed by NBFCs regulations. However, despite the increase the capital base remains low compared to some peers. HAML is a part of Habib Group - the oldest and a distinguished name in Pakistan’s banking circle, with interest in insurance, sugar, textile, auto, food and trade sectors. Habib family members and associates hold approximately 90% shareholding in the company. However, Bank AL Habib Limited (BAHL) with 30% ownership stake is the single largest shareholder. Members of the Habib family hold the majority shareholding in the bank. The bank has a very strong financial position, evidenced by a long-term entity rating of AA by PACRA. HAML has a resourceful four member BOD comprising, in addition to CEO, the Chairman of BAH, CEO of Habib Insurance Company Limited, a senior executive of BAH, and a distinguished entrepreneur as an independent director. The CEO of the company, Mr. Imran Azim is an MBA and has prior experience in Pakistan’s mutual fund industry. However, his immediate past experience was in industrial concerns. The company has filled essential key positions, though some with certain delays, and has instituted the requisite infrastructure. However, certain key functions including fund management, research, risk management and compliance require further strengthening, especially with the proposed launch of new funds.
- Currently HAML has one fund under management – First Habib Income Fund (FHIF) – launched in June 2007. This is an open-end income fund, having net assets of PKR 1.9bln at end-June 08, (Investor Mix: corporate 93%, retail 07%). The fund primarily invests in different fixed income asset classes, placements, TFCs, CFS, COIs, and government securities. FHIF demonstrated a relatively low growth in AUM as compared to peers. During the initial phase of its operations, the company mainly relied on contacts of senior team members and references from sponsors for marketing its fund. Going forward, the company plans to launch two more funds in the near-term (Stock Fund and Islamic Multi-Asset Balanced Fund), which would help in attracting investors by providing them more investment options.
- The marketing department has recently undergone expansion with the hiring of additional personnel. There are currently three Relationship Managers, working under a Marketing Head. Two Relationship Managers are dedicated to corporate sales and one to retail sales. The marketing and distribution strategy of HAML envisages leveraging on the extensive outreach and franchise of group companies. In the first phase of exploiting the likely synergies, HAML entered into distribution arrangements with BAH and Habib Insurance Limited. Units of First Habib Income Fund are currently distributed through 20 selected branches of BAH in 6 different cities and 13 branches of Habib Insurance. So far the contribution from these branches has remained nominal. The company has not deployed any of its own staff members in these branches. The bank’s staff provides guidance to prospective clients. Given the relatively less priority of asset management business in the overall business of the Habib Group and conflict of interest that may arise with branch managers in mobilizing funds, the success of the management in capitalizing on the group synergies would depend on the effective execution of its strategies.
- The Investment Committee (IC), comprising 1) CEO, 2) CFO, and 3) Fund Manager, is responsible for the investment decision-making process. The IC meets weekly and follows the broad investment guidelines provided by the Investment Policy Statement of FHIF. The company has recently developed its in-house research function, which comprises two analysts having basic research experience. Given the management’s plans to launch two more funds in the near-term entailing investments in the stock market, the fund management and research functions need to be further strengthened.
- The company has in place, basic policy and procedural manuals encompassing operational and investment activities. Meanwhile, the Internal Audit function has been outsourced to A.F Fergusons. However, there is no separate resource dedicated for risk management and compliance functions.

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