



IGI FUNDS LIMITED (IGI FL)

ASSET MANAGER RATING (DECEMBER 2008)

	NEW	PREVIOUS
AM Rating	AM3	AM3-

Funds	Size (mln)	
Open-end	Nov'08	Dec' 07
Income Fund	1,430	3,005
Stock Fund	130	n.a.
	1,560	3,005

ANALYSTS

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RATING RATIONALE & KEY RATING DRIVERS

- The rating reflects the company's experienced and qualified management team, a structured and strong fund management function, and demonstrated support of the sponsoring Group. The rating also factors in a growing realization on part of the management to institute a strong in-house risk management, compliance and control platform, translating into an improved relative standing amongst peers. Although current challenges in the operating environment and downturn in the capital markets have impeded growth prospects for the overall asset management industry, IGI FL on the back of its experienced management team and a robust platform is better placed to withstand these challenges. Meanwhile leveraging upon 'IGI Financial Services' (IGI FS) platform would provide incremental benefits for mobilization of funds, while also helping in rationalizing costs in the current challenging environment.
- The continuing financial commitment from the group during the initial development phase, stability of key management, successful implementation of the business strategy and institution of a strong risk management framework remain critical to the overall rating prospects.

ASSESSMENT

- IGI FL is a member of one of the leading business conglomerates in the country – Packages Group (PG). The Group has diversified interests mainly in manufacturing and financial services. As part of its strategy to build a common franchise in the financial services sector and to derive synergetic benefits from various interests, including an insurance company, investment bank, securities house and asset management business, the structure of IGI FS was evolved. During FY08, IGI FL raised its share capital to PKR 220mln, enabling the company to cushion the development phase losses and to acquire the requisite financial resources for planned growth. The overall financial strength of Packages Group is very sound. Under the group structure IGI Investment Bank is the direct parent of IGI FL (86% holding). The investment banking segment is increasingly coming under pressure due to the recent challenges in operating environment. This under extreme circumstances may put extra pressure on the profile of IGI FL. Given the relatively weak brand name in the financial industry compared to some of the well-established players, it would be an uphill task for the company to tap into the retail segment as well as to generate funds for its proposed retirement schemes.
- The Board of IGI FL comprises six members including the CEO – two representing the Packages Group, while three are independent professionals having extensive experience of the financial services sector. The company maintains high standards of governance and transparency. Mr. Javed Hassan recently replaced Mr. Ali A. Shirazee as the CEO of IGI FL. He has an extensive experience of around 15 years in the financial sector. The company witnessed some turnover at the senior management level during FY08.
- IGI FL, in April 2007, launched its first fund, IGI Income Fund (IGI IF), an open-end mutual fund, with the objective to build a portfolio of fixed income investments – term deposits, money market placements, TFCs and CFS. The fund size currently stands at PKR1.4bln, after reaching a peak of PKR4.1bln in April 2008. This was mainly due to heavy redemption pressure witnessed across the industry due to liquidity crunch in the money markets. Nevertheless, despite high investor concentration, mainly commercial banks, the management has effectively managed liquidity pressure on the fund. The company also launched its Stock Fund in Jul-08.
- Going forward, IGI FL is targeting to expand its product base by launching the Pak Brunei Income Plus Fund and the Islamic Income & Growth Fund in the near future, for which necessary regulatory approvals and trust deeds have been finalized. The management also aims to diversify its asset base by expanding its Managed Accounts & Advisory portfolio. However challenges in the operating environment and pressure on capital & money markets are expected to put pressure on the company's initiatives for growth in AUM, which is expected to remain subdued, particularly in view of the diminishing investor confidence in the industry.
- For marketing and distribution, the company plans to capitalize on the expanding outreach of IGI FS, mainly Fund Select and IGI Insurance platforms, besides utilizing the services of other distributors. Given the difficulties in operating environment impeding growth prospects, the management has embarked upon a cost-rationalization initiative that includes winding-up of the retail sales function and an increased emphasis upon the distribution segment, through entering into agreements with independent distributors, to drive sales growth. This would enable the company to maintain an internal focus on fund management.
- The investment committee (IC) comprises the CEO, CIO, CFO, Fund Manager, and Head of Research. The IC meets on weekly basis to evaluate portfolio performance and to take new investment decisions, keeping in view the prevailing economic, political and market conditions, while ensuring compliance with relevant laws and regulations. A detailed Investment Policy and parameters for the funds under management were implemented to further streamline the overall investment process. Research department of the company provides support to investment team in taking appropriate investment decisions. The research team consists of a Head of Research and three support analysts.
- During the year a separate Risk & Compliance department reporting to the CFO was established. Going forward, the management intends to formulate more detailed policies and procedures addressing key risk areas. The company is using software from Sidat Hyder Morshad Associates for its core business operations. The software is fully integrated and provides unit holder accounting, portfolio management and accounting, and financial and payroll modules. The company is in the process of further upgrading and customizing the core software to meet its specific business requirements. Though few of the peers have already developed better systems, procedures and controls, IGI FL, on the back of a sound business strategy, is poised to bridge the gap.