

JS INVESTMENTS LIMITED (JSIL)

Asset Manager Rating

(APRIL 2008)

JS INVESTMENTS LIMITED

(formerly JS ABAMCO Limited)

AM2+

Assets under Management

(End-Dec'07)

Amount in PKR mln

Funds	Size
Closed-end	
JS Growth Fund	5,839
JS Value Fund	2,712
UTP Large Cap	4,117
	12,668
Open-end	
UTP	4,679
JS Income Fund	11,241
UTP Islamic Fund	878
JS FoF	157
UTP A30+	425
JS AAA	647
JS CPF	1,119
JS CPF-II	1,566
JS-CPF-III	1,387
	22,099
	34,767

ANALYSTS

Humaira Jamil
+92 42 5869504
humaira@pacra.com

Moin Khalid
+92 42 5869504
moin@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The asset manager rating of JS Investments Limited (JSIL) has been maintained at AM2+. The rating reflects JSIL's leading position in the asset management industry underpinned by the size and diversity of its assets under management (AUM), successful track record, relatively superior systems and processes, qualified and experienced management and association with a sound business group. Meanwhile, the management forges ahead with enterprise-wide restructuring aimed at enhancing the efficacy of operations and quality of support systems. In the wake of increasing competition, the management has re-aligned its business strategy focusing on establishing strategic distribution partnerships with major foreign banks in Pakistan. This has facilitated asset growth and has provided JSIL a much-needed push into the retail segment. However, the time bound nature of exclusive distribution arrangements may present a challenge to JSIL in maintaining its leading position, going forward.
- Although, achieving fast-paced growth in recent years, the asset management industry is still in a nascent phase and has a considerable way to go before achieving maturity. Given the increasing competition in the asset management industry, the ratings are dependent upon JSIL's ability to sustain its leading position in the sector, and continually upgrade its systems and processes in tandem with the aggressive growth in AUM. Meanwhile, retention of key human resource would remain a critical factor in this process.

ASSESSMENT

- Incorporated in 1995, JSIL is the leading private sector asset management company in Pakistan. It is a subsidiary of Jahangir Siddiqui and Company Limited (JSCL) - 52% shareholding at end-Dec07. Starting as a traditional securities firm, JSCL now functions as a holding company for JS Group, mainly for its interest within the financial sector. It has a long-term rating of 'AA+' from PACRA, which denotes a very low expectation of credit risk and indicates very strong capacity for timely payment of financial commitments. JS Group controls and operates financial services companies in sectors as asset management, financial advisory services, stock brokerage and banking. The Group also has investments in major industries namely textiles, fertilizer, technology & media, commercial real estate, energy & natural resources and aviation. JSIL went public on March 21, 2007 with some members of the JS family divesting a portion of their holding through an offer for sale.
- With the induction of two new directors, the seven-member board is now more diverse in terms of experience and background and plays a constructive role in developing business strategy. The BoD has four independent directors. The CEO of JSIL, a chartered accountant with considerable experience in related fields, has been associated with the company since 2004.
- Due to substantial growth in AUM (86%) in the industry, though limited in only one category, that is, income funds, JSIL has experienced a decline in its market share. However, it still maintains its leading position in terms of the number and diversity of funds and the size of the AUM. Meanwhile, JSIL continues to diversify its fund-mix by adding specialized and structured products such as capital protected funds and flavored products in the fixed-income category such as JS Aggressive Income Fund. The company now manages ten open-end funds, three closed-end funds and a pension scheme.
- As a result of restructuring initiated last year, major changes have been made in the organizational structure mainly concerning the marketing and product delivery functions, which have now been structured along five new functional lines reporting directly to a newly created office of the Chief Operating Officer (COO). These functions are: (i) Investment Finance Services (IFS), (ii) business planning & development, (iii) institutional sales, (iv) marketing, and (v) investor relations. This has facilitated decentralization, separating business development and investment management. All other departments, mainly relating to fund management function, report directly to the CEO.
- As part of restructuring exercise, JSIL has assigned the distribution function to business planning and development (BPD). Emphasis is upon tapping the retail sector through channel management (investing in strategic relationships with channel partners, that is, banks and distributors). This has helped the management in offsetting, to some extent, the strong franchise advantage enjoyed by the commercial bank asset management subsidiaries in the retail segment. Currently, JSIL has exclusive distribution agreements with major foreign commercial banks in Pakistan in certain categories of funds. The strategy has provided impetus to the growth of assets in the retail sector. However, it entails a time bound opportunity, as a few other peers following suit are likely to make this niche competitive. Going ahead, while continuing direct marketing to non-retail segment, JSIL plans to rely solely on its channel partners for retail and expand the channel network for distribution of its funds. The management intends to close down all branches within 2008.
- JSIL has a structured investment process with qualified and experienced fund managers, backed by an adequately equipped research division. The research process is independent as the Head of Research reports directly to the CEO ensuring the independence of research opinion from the fund management function. Separation of the risk management from compliance function is contemplated with a view to improve internal controls and operational risk management. Recently, the scope of the research department has been expanded with the risk management and compliance department (CRMD) shifting investment risk management to it.
- Investment management is a key area facing high turnover in senior cadres. High turnover is a norm rather than an exception in the local asset management industry due to its relatively nascent stage. Realizing the threat posed by this phenomenon, the HR policy has been revamped but JSIL, by virtue of its position as the market leader, remains exposed to high turnover in key management positions.
- The IT function is upgraded to a higher level of performance with the installation of the IP/MPLS network infrastructure. Implementation of *Pertrac* Applications is another IT initiative geared towards improving the fund performance reporting to investors.