



MCB ASSET MANAGEMENT COMPANY LIMITED (MCB AMC)

Asset Manager Rating
(December 2007)

AM3+

Analysts

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SUMMARY

- The rating of MCB AMC has been upgraded to AM3+. The rating reflects the company's well-qualified and experienced management team, implementation of effective supporting infrastructure and risk management policies, and association with a leading commercial bank – MCB Bank Limited (MCB). Meanwhile, the rating also recognizes the progress made by the management towards implementing a sound operating platform for capitalization on the strong franchise and extensive outreach of the parent bank. However, in the back-drop of relatively short operational history and track record, the efficacy of the newly developed systems and processes needs to be fully demonstrated.
- MCB AMC, a wholly owned subsidiary of MCB Bank, commenced operations in Feb06. MCB, the fourth largest bank in Pakistan in terms of asset size, has an extensive network of over one thousand branches. The major shareholding in the bank is held by Nishat Group – one of the distinguished business groups in Pakistan, with interest in textiles, cement, and financial sectors. The bank has very strong financial position, evidenced by a long-term entity rating of AA+ by PACRA. The seven-member BoD mainly comprises senior executives of MCB Bank. During the year, the CEO of MCB Bank and the Chairman of Nishat Group, Mian Muhammad Mansha – an eminent businessman and a successful entrepreneur – have been inducted on the MCB AMC's Board. The induction of these members, besides benefiting in the strategy policy making process, is also expected to help the company in eliciting greater support from the parent bank. Following the resignation of previous CEO, Mr. Yasir Qadri who earlier joined the company as COO took the charge in Sep07. He is a qualified professional, having extensive experience in the asset management industry.
- MCB AMC commenced business with a fairly large share capital (PKR 300mln), which is expected to help the company in pursuing its aggressive growth plans. This also reflects the sponsor's commitment to develop this line of business. The senior management team is well-qualified and experienced, and exhibited low turnover. The organizational structure has been further strengthened during the year, with additional hiring at nearly each functional level.
- The company has simultaneously launched an equity and a money market fund in Feb07. The growth to date in the funds' size (around PKR 13bln), mainly money market fund, is impressive, with an appreciable proportion of funds being mobilized from retail investors. Meanwhile, the performance of both the funds in terms of returns offered to investors has also remained competitive among peers.
- Going forward, the management targets to complete the basic product slate through launch of three more funds during 2008. To effectively capitalize on the synergies arising from association with a leading commercial bank, major initiatives have been taken in the structuring of the marketing and distribution function. The marketing department and institutional and retail sales divisions are headed by experienced professionals. The institutional sales team, divided into North and South regions, is being strengthened through additional hiring. As part of its overall retail strategy, the management has already placed a dedicated sales representative at thirty prime branches of MCB in KHI, LHR, ISD and RWP. Encouraged by the initial response, the management targets to aggressively extend outreach to 100 more branches by June 2008. Given the rapid expansionary stance, the management is putting greater focus on the training of the newly inducted RMs for institutional sales and sales representatives at branches. A well-thought out tiered structure has been developed, which besides ensuring effective management of the distribution network would also provide career path to the sales staff, thereby ensuring their continuity with the company. The compensation structure, including the criteria for paying commissions, has also been revised to provide more incentive to staff. The company's success in building synergies with the bank and obtaining continued co-ordination from the line management of the bank would remain critical for the implementation of its overall strategy.
- The investment process of the company is well-structured. The primary investment decision making body is the Investment Committee (IC), which meets regularly on monthly basis. The IC develops broad guidelines and investment strategies, while the fund managers carry out investment decisions within the guidelines prescribed by the IC.
- The management has developed sufficiently detailed and effective risk management policies, while a more prudent and disciplined approach is followed for managing risks across different asset classes. The company also has an effective internal audit function, headed by an experienced professional. The management cognizant of the increasing level of risks associated with aggressive growth, aims to further strengthen its risk management function. The company's IT platform is adequately supporting the operations at present. Meanwhile, continuous up-gradations are being made according to company's specific business needs.