



NATIONAL INVESTMENT TRUST LIMITED (NITL)

Asset Manager Rating

(August 2008)

AM2-

Assets under Management

(End Mar 08)

Amount in PKR mln

Funds	Size
LOC Holders' Fund (Fund-1)	47.7
Non-LOC Holders' Fund (Fund-2)	57.3
	105.0

Analysts

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RATING RATIONALE AND KEY DRIVERS

- The asset manager rating of NITL has been maintained at 'AM2-'. The rating reflects the company's strong franchise, sound control systems, and adequate infrastructure including its extensive outreach. Although the management's focus on preparing the entity for privatization has, to some extent, constrained the pursuit of initiatives adopted by the industry in recent years for improving service standards and quality of other support systems and processes, the entity has demonstrated a strong capacity to effectively manage its funds. This was attributable to adoption of investment strategies best suited to the Funds' specific nature, supported by adequate investment management resources.
- Given the rapidly evolving nature of the asset management industry and intensifying competition, the continued investment in human resource and upgradation of systems and processes would be critical in enabling NITL to maintain its relative standing.

ASSESSMENT

- NITL, an unquoted public limited company, was established in the public sector in 1962. The principal activity of the company is to manage National Investment (Unit) Trust – an open end mutual fund. The Fund was established under a Trust Deed executed between NITL as Management Company and National Bank of Pakistan. The Government of Pakistan controls NITL by virtue of its power to appoint the Managing Director, and, at the same time, it owns majority shareholding in the company, directly and indirectly through government owned entities. The eight-member BoD, representing its shareholders, mainly consists of bankers, prominent businessmen and representatives of the government and government controlled institutions. The current Chairman & Managing Director, a Chartered Accountant, with extensive experience in the public and private sector financial institutions, joined office in 2001. He has been instrumental in the overall reform process at NITL that led to streamlining of systems and procedures, strengthening of the control environment, and improvement in the Funds' performance.
- In line with the Cabinet Committee on Privatization approval, the privatization of the management rights of the Fund is currently in process. Nevertheless, the time line and the business plan for NITL in the post-privatization scenario remain uncertain. In an effort to prepare for the proposed privatization, the Fund has been split into two parts since April 01, 2007 i.e. LOC holders' Fund (Fund-1) and Non-LOC holders' Fund (Fund-2). The former represents those institutional holders (National Bank of Pakistan Limited, Bank of Punjab, Faysal Bank Limited and Bank of Khyber) whose redemption rights are protected in the form of Letter of Comfort issued by GoP, while the later represents other investors. The quality equivalence of the portfolio has been maintained during the splitting process. The net assets under the two separately managed funds at the time of split were PKR 39.7bIn (Fund-1) and PKR 38.5bIn (Fund-2), respectively. The Fund-2 has around 52,000 registered unit holders, out of which 51,000 are individual investors, representing around one-third of the Fund's total net assets.
- NITL follows a structured investment process. An Investment Committee, comprising the Chairman & M.D., Head of Asset Management (HoAM), Head of Finance, Head of Marketing, and Head of Corporate Governance manages the funds' assets. The HoAM, an MBA, is with NIT for over 15 years. The research wing, though adequately staffed, witnessed high turnover in recent years thereby impacting the level of advancement or structuring in the research process. Meanwhile, the creation of succession at key fund management positions requires special emphasis.
- The Funds, by virtue of their size and portfolio characteristics has been adequately diversified across all sectors and benefited from the continuous upsurge in the stock market over the past three to four years. Meanwhile, the rise in M&A activities in the country during the period also helped in negotiating bulk sales deal, leading to substantial augmentation in profitability. The management's efforts towards restructuring the portfolio, with an emphasis on accumulating high dividend yielding stocks also provided increasing stability in the income stream.
- With a head count of around 160 employees, the company is adequately staffed, with senior management comprising experienced professionals. NITL has an extensive distribution network of 19 branches in 15 major cities of the country, and currently more than 100 authorized branches of leading banks also deal in the Fund's units. With revitalization of the marketing function in recent year, the sale of fresh units registered a notable increase in Fund-2, thereby contributing towards appreciable growth in the Fund's size.
- The company's exiting IT infrastructure does not have high integration and sophistication. Meanwhile, the quality of reporting and communication with investors also lags behind the evolving industry standards. However, recently the management has entered into an agreement with a leading software solution provider for implementing advanced software application. The overall control environment has been strengthened through refinement of the existing policies and procedures. Meanwhile, the liquidity management has also shown improvement over the years.

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