



Rating Action

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Analyst

Hammad Rashid

(+92-42-3586 9504)

Hammad.Rashid@pacra.com

www.pacra.com

PACRA ASSIGNS STABILITY RATING OF “BBB+(f)” TO KASB LIQUID FUND

The Pakistan Credit Rating Agency (PACRA) has assigned a stability rating of ‘**BBB+(f)**’ (**Triple B Plus – Fund Rating**) to KASB Liquid Fund (KLF), an open-end income fund. The fund’s rating denotes an adequate capacity to manage relative stability in returns and high exposure to risks.

The rating reflects adequate credit quality of fund’s assets and relatively modest liquidity profile due to high allocation towards TFCs (~87% at end-May10). The fund has experienced deterioration in the credit quality of its portfolio. Currently, the net non-performing debt instruments comprise ~30% of net assets. This may lead to further downward pressure on return and relative stability, particularly if restructuring efforts for the non-performing instruments do not materialize in a timely manner. The exposure against individual issuers is also high and poses greater risk if asset quality deteriorates any further. In addition, the unit holding pattern is highly concentrated, with top five investors holding more than 90% of fund’s units. However, comfort can be drawn from significant sponsor’s holdings in the fund. The rating also factors in low incidence of interest rate risk, evident from duration of 65 days at end-May10.

Going forward, the fund plans to reduce exposure in TFCs to around 70% of net assets and subsequently invest in government securities, while maintaining sufficient cash balance. Main risk factors affecting the stability of returns emanate from provisioning for non-performing instruments and volatility in prices of TFCs, amidst largely illiquid market for this segment. The fund may also be vulnerable to redemptions keeping in view highly concentrated unit holding pattern.

About the Management Company: KASB Funds Limited (KFL) is the management company for KLF and has been rated ‘AM3+’ by JCR-VIS. The main sponsors of KFL are KASB Group and BlackRock Inc. KFL is currently managing five open-end mutual funds with aggregate AUM of around PKR 3.2bln at end-May10.

The management team of KFL consists of experienced and qualified personnel. The CEO, Ms. Naz Khan, has been associated with the company since inception and carries diverse experience in domestic financial markets. The fund manager of KLF, Mr. Mir Taimur Ali, CFA, has also been associated with the company since inception. He is also involved in investment advisory and research functions at KFL.

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