



Rating Action

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PACRA UPGRADES STABILITY RATING OF NAFA ISLAMIC AGGRESSIVE INCOME FUND

The Pakistan Credit Rating Agency (PACRA) has upgraded the stability rating of NAFA Islamic Aggressive Income Fund (NIAIF) (Formerly; NAFA Islamic Income Fund) to **‘BBB (f)’ (Triple B – Fund Rating)** [Previous rating: ‘BBB-(f)’ (Triple B Minus – Fund Rating)], an open-end Shariah compliant income fund. The fund’s rating denotes an adequate capacity to manage relative stability in returns and high exposure to risks.

The fund primarily invests in Shariah compliant money market and debt securities and aims to provide a reasonable rate of return and capital preservation to its unit holders. However, since inception the fund has not been able to perform in line with its investment objectives and the volatility of returns is fairly high. The rating reflects fund’s adequate credit quality and relatively modest liquidity profile. The rating also incorporates funds moderate exposure to interest rate risk. Currently, a significant majority of fund’s assets are invested in Sukuk bonds (~71% at Nov-end 2010), while remaining portion comprises daily cash balances with Islamic banks. The fund has a high proportion of non-performing Sukuks, though a sizeable provisioning has already been made. However, recent restructuring developments coupled with regularization of payments from some of the large exposures would bode well for the fund. The unit holding pattern is significantly concentrated with top ten investors holding around 90% of fund’s units. However, comfort can be drawn from large investments by the sponsors in this fund.

Going forward, the fund anticipates slight reduction in its exposure to Sukuks and increasing investments in government securities and term-deposits with Shariah Compliant banks. The main risk factor affecting the stability of returns emanate from volatility in prices of Sukuks amidst largely illiquid market for this segment. The fund has managed its duration over the period under consideration which is around 80 days on average.

About the Management Company: NBP Fullerton Asset Management Limited (formerly National Fullerton Asset Management Limited) (NAFA) is the management company for the NIAIF and has been rated ‘AM2-’ by PACRA. The main sponsors of NAFA are National Bank of Pakistan and Alexandra Fund Management Pte Limited (a member of Fullerton Fund Management Group, a wholly owned subsidiary of Tamasek Holdings, Singapore). NAFA is currently managing ten mutual funds, along with two discretionary portfolios, with an aggregate AUM of around PKR 15.65 bln as at end-Nov10.

The management team of NAFA consists of qualified and experienced personnel. Dr. Amjad Waheed, CFA, the CEO of NAFA, holds a Doctorate in Business Administration with majors in Finance/Investments, besides having extensive experience in the asset management industry. The fund manager of NIIF, Mr. Usman Khan, BBA from IBA, joined NAFA in Aug09 as a Research Analyst.

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