



The Pakistan Credit Rating Agency Limited

## **RATING REPORT**

### **NATIONAL INVESTMENT TRUST LIMITED**

	<b>NEW [JUNE-16]</b>	<b>PREVIOUS [APR-16]</b>
Asset Manager Rating	AM2+	AM2+
Outlook	Positive	Stable

**JUNE 2016**

**Profile & Governance**

- NIT is the first asset management company of Pakistan, formed in 1962. The Government of Pakistan (GoP) directly and indirectly through government owned entities is major shareholder (41.65%) in the company. Other shareholders comprise prominent businessmen and commercial banks having shareholding of 8.33% each.
- These shareholders are represented by a board of ten directors. The Managing Director, Mr. Shahid Ghaffar, holds profound experience in the domestic mutual fund industry. He is supported by a team of qualified and experienced professionals.

**Assessment**

- With a product slate of seven open-end mutual funds and two pension funds NIT has a market share of ~18%, making it the largest AMC in the domestic mutual fund industry. As at end-Apr16, the AUMs of seven closed-end funds clocked in at ~PKR 90bln
- The company's flagship equity-based mutual fund, National Investment Unit Trust (NIUT) contributed ~72% in the total AUMs of the company. During CY15, the stock market witnessed dismal performance which resultantly stagnated NIUT's AUM base .
- Owing to their sheer size, most of the funds, available to the public, exhibit moderate concentration. The overall top10 investors in NIT represent 56% of the overall AUM base.

**Sales & Marketing**

- Marketing division is headed by a veteran professional, Mr. S. Zubair Ahmad, who oversees Institutional and Retail sales across NIT's branch network. The Head of Marketing reports to the COO. NIT has established an Investor Facilitation Centre (IFC) in Karachi that provides personalized service & handles queries from customers. In addition, an outlet at Abbotabad Sarmaykari Markaz and various authorized bank branches and distributors are also facilitating our investors.
- NIT's extensive network of 23 branches, spread across 15 cities in Pakistan, along with the company's distribution arrangements with the country's leading commercial banks has resulted in build-up of a sizeable pool of retail investors.

**Investment Decision Making**

- NIT has a well-structured investment decision making process. The company ensures adherence to the stated investment policies and limits. Currently, the IC for all the funds comprises the following individuals along with the relevant fund manager: a) Managing Director b)Chief Operating Officer, c) Controller of Branches & Company Secretary, d) Head of Finance, e) Head of MD's Secretariat and Personnel, f) Head of Research, g) Manager / Incharge Risk, h) Head of Compliance Department, i) Head of Trading
- NIT's research department is headed by Mr. Imran Rafiq – an MBA and CFA – reporting directly to the COO. The department comprises four well-qualified research analysts and a data base manager. The research department follows a top-down approach for investment analysis. A detailed macro-economic model has been developed. The research universe at NIT comprises of various companies including top bluechip companies of diversified sectors and those in which NIT has substantial holdings.

**Risk Department**

- Mr. Ammar Habib Khan, a Certified Financial Risk Manager (FRM) with a diversified experienced of seven years, heads the department.
- The department oversees Market risk, Credit risk, Liquidity risk, Concentration risk & Counterparty Risk over fund investments in Equity, Fixed income and pension categories.

**Technology & Investors Services**

- NIT is using Asset Connect as the core asset management software procured from Softech Systems. The company offers instant redemption of mutual funds to NI(U)T unit holders through 1 Link ATM outlets in collaboration with Summit Bank. Moreover, Client Reporting System enables investors to retrieve their investment profile through a web page.

**RATING RATIONALE**

The rating reflects the company's position as the largest and the oldest player in the domestic asset management industry. NIT's long operational history, extensive outreach and sizeable penetration in the retail segment lend support to its business profile and, in turn, its rating. Moreover, NIT's exceptional financial profile provides it with the capacity to bring further sophistication in its business philosophy and operating infrastructure. Recent diversification of fund slate alongwith the management's plan to further augment it, bodes well in strengthening NITL's profile among its peers. The company's experienced management team, a well-structured investment process alongwith the strengthening of the investment risk management function adds value to the overall decision making process. With significant size, the performance of NIT's leading fund has been good.

**KEY RATING DRIVERS**

The rating is dependent upon the company's ability to successfully execute its business strategy encompassing enhancement in system share while further diluting the AUM concentration and expanding the retail investor base. Moreover, improvement and consistency in superior funds' performance remains important.

**INDUSTRY SNAPSHOT**

During CY15, the AMC industry observed a meager increase of 3% in its AUMs mainly due to sluggish performance of capital markets. This also resulted in a dip in the asset base of equity funds reducing their system share. The income funds predominantly government bond funds benefitted from the consistent outflow from the money market funds. This was a result of continuity in the low interest rate environment. The CPPI based investment style was the main focus of industry players and was successful in building a healthy share in the overall AUM mix and SMAs. This reflected in the influx of capital protected funds initially and later active allocation funds. Lately, Shariah compliant investment schemes also gained popularity among the investors. The growth trend of the income funds continued during 1QCY16.



Financial Summary								
Sr. #	Fund	Category	Asset Under Management		Return – Mar'16	Benchmark Return – Mar'16	Top 10 Investors Concentration – Mar'16	Performance Ranking (Jun 15)/ Stability Rating
			Mar-16 (PKR mln)	Dec-15 (PKR mln)				
1.	NIT Government Treasury Fund –NIT-GTF*	Money Market	882	N/A	5.2%	5.6%	95.8%	N/A
2.	NIT Government Bond Fund –NIT-GBF	Money Market	4,123	4,620	5.5%	5.6%	58.3%	AA-
3.	NIT Income Fund -NIT-IF	Fixed Income	4,157	4,013	5.7%	6.3%	72.9%	A+(f)
4.	National Investment Unit Trust -NIUT	Equity	63,581	64,077	5.01%	5.64%	46.0%	3-Star
5.	NIT Islamic Equity Fund – NIT-IEF	Islamic Equity	5,078	5,087	6.4%	8.3%	52.2%	N/A

\* NIT Government Treasury Fund was launched during Jan-16.

## RATING SCALE & DEFINITIONS: Asset Management Industry

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be determined solely by investors

### ASSET MANAGER RATINGS

#### **AM1: Very high quality**

Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.

#### **AM2++, AM2+, AM2: High quality**

Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.

#### **AM3++, AM3+, AM3: Good quality**

Asset manager meets investment management industry standards and benchmarks.

#### **AM4++, AM4+, AM4: Adequate quality**

Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.

#### **AM5: Weak**

Asset manager does not meet the minimum investment management industry standards and benchmarks.

+ = (Plus)

++ = (Double Plus)

### FUND STABILITY RATINGS

#### **AAA(f)**

An exceptionally strong capacity to maintain relative stability in returns and possesses negligible exposure to risks.

#### **AA+(f), AA (f), AA-(f)**

A strong capacity to maintain relative stability in returns and possesses low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions

#### **A+(f), A (f), A-(f)**

A fund with stable performance generally in line with its peers with adequate capacity to respond to future opportunities or stress situations.

#### **BBB+(f), BBB (f), BBB-(f)**

An adequate capacity to maintain relative stability in returns and possesses high exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.

#### **BB+(f), BB (f), BB-(f)**

A low capacity to maintain stability in returns and possesses very high exposure to risks

#### **B(f)**

A very low capacity to maintain stability in returns and possesses very high exposure to risks.

*The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.*

### FUND PERFORMANCE RANKINGS

**5-Star** Very good performance

**4-Star** Good performance

**3-Star** Average performance

**2-Star** Below average performance

**1-Star** Weak performance

### CAPITAL PROTECTION RATINGS

#### **CP1**

Very strong certainty of capital protection.

#### **CP2+ CP2**

Strong certainty of capital protection.

#### **CP3+ CP3**

Good certainty of capital protection.

#### **CP4+ CP4**

Adequate certainty of capital protection.

#### **CP5**

Weak capital protection.

**Rating Watch:** Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

**Rating Outlooks:** Indicates the potential and direction of a rating in response to a) trends in economic and/or fundamental business/financial conditions and/or deviation from expected trend. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.**

**Suspension:** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

#### **Withdrawn:**

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity or c) the rating remains suspended for six months or d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.



## Regulatory and Supplementary Disclosure

### Rated Entity

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

National Investment Trust Limited  
AMC  
Solicited

### Purpose of the Rating

Regulatory Requirement

### Rating History

Dissemination Date	Asset Manager Rating	Outlook	Action
18-Aug-16	AM2+	Positive	Maintain
8-Jun-16	AM2+	Stable	Harmonize
31-Mar-16	AM2	Stable	Maintain
14-Apr-15	AM2	Stable	Upgrade
21-Apr-14	AM2-	Stable	Maintain
9-Apr-13	AM2-	Stable	Maintain
29-Jun-12	AM2-	Stable	Initial

### Related Criteria and Research

Master Methodology:  
Specific Methodology:  
Research:

Asset Management Rating Methodology [2005]  
-  
Asset Management Sector Review -2016

### Rating Analysts

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### Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

### Disclaimer

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PACRA ensures that the credit rating assigned to an entity or instrument should not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship

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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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#### **Confidentiality**

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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Asset Manager Rating is a forward-looking assessment of relative qualifications and capabilities of an asset manager (asset management company/Investment advisor). There is no probability of default associated with Asset Manager Rating.