



The Pakistan Credit Rating Agency Limited

## **RATING REPORT**

### **ATLAS ASSET MANAGEMENT LIMITED**

	<b>NEW [APR-17]</b>	<b>PREVIOUS [JUN-16]</b>
Asset Manager Rating	AM2+	AM2
Outlook	Stable	Stable

**APRIL 2017**

## Profile & Governance

- Atlas Asset Management Limited (AAML), incorporated in August 2002 and a part of Atlas Group (AG), is a wholly owned (100%) subsidiary of Shirazi Investments (Pvt.) Limited (SIL) – the holding company of Atlas Group
- AAML's total shareholder's equity stands at PKR 639mln at end-Dec16, which is well above the minimum capital requirement as per revised NBFC regulations (AMC: PKR 300mln).
- AAML demonstrate strong Governance structure representing strong board structure, skilled management profile, structured board processes & effectiveness along with financial transparency

## Assessment

- The AUMs posted a healthy growth of ~34% during CY16, resulting in an enhanced system share (Dec15: 4.2%, Dec16: 4.3%)
- AAML possess high unit holder concentrations with most of the funds having top10 concentrations of ~84%.
- The company has a diversified fund slate with seven open end funds with a pension and Islamic pension scheme. AAML also manages a gold fund in the commodity fund category.
- The performance of most of the company's funds has shown similar performances in comparison to its peers. The performance of pension and Islamic pension funds have remained in the strong category.

## Sales & Marketing

- The company currently has 11 distributors (Institutions: 6, Independent Registered Service Provider: 5) for its funds and pension schemes. Majority proportion of business in CY16 was routed through Head & Regional Offices (90%), followed by various distributors (10%).
- The Sales and Sales support department is headed by Mr. Abbas Sajjad. The department comprises three Zonal Managers (Karachi, Lahore and Rawalpindi), with a team of sales staff.
- Currently the company has twelve branches across Pakistan with a branches Hyderabad & Multan are scheduled to be opened during the year. The Sales Managers are engaged in Corporate as well as Retail Sales utilizing regional offices of Atlas Group Companies for focusing on retail penetration.

## Investment Decision Making

- The investment committee includes 1) Mr. Habib-ur-Rehman (CEO), 2) Mr. Ali H. Shirazi (Non-Executive Director), 3) Mr. Muhammad Abdul Samad (COO), 4) Mr. Khalid Mahmood (CIO), along with respective fund managers. Mr. Shirazi attends IC on ad-hoc basis.
- Each IC comprises CEO, COO, Non-Executive Director, CIO and fund managers as permanent members.
- The research department is well equipped with an extensive data base pertaining to various macro and micro economic indicators and global and domestic industry specific trends along with company level research derived by sophisticated in-house based model

## Risk & Compliance

- The department is headed by Mr. Faizan Ghori, a new addition with exorbitant professional experience along with MBA (Finance) qualification and an overall experience of 2 years in Financial & Audit sector.
- The detailed Risk scorecard highlighting various risk parameters, with newly developed stress-test & redemption models, are presented into the RC along with recommendations of the department. The compliance department reports directly to the COO. A separate area has been created to cover Anti Money Laundering (AML) / KYC.

## Technology & Value Added Services

- AAML is using in-house developed asset management application as its core business software.
- The company has deployed real-time and state of the art software for customer relationship management (CRM). Going forward, cross-platform Mobile App is under development which includes value added services such as ATM redemption service (planned), conversion of funds, daily statements & monthly statement accessible from their smartphones. The developments is scheduled to be launch during 3QFY17

## RATING RATIONALE

The rating reflects the company's retention of experienced management team, improved investment process, and exceptional quality of system and processes. It also signifies the enhancement in the company's AUM base resulting in an increased system share owing to the management's concerted efforts to demonstrate exorbitant fund performances. The focus towards increasing the outreach in remote areas and strengthening the sales team would benefit in augmenting the retail penetration. The enhanced focus towards strengthening decision making process lends support to the sustained fund performance on the back of strong research & risk management function. The present management team has long association with the company; a well-structured succession process benefits the company in the long run. The affiliation of AAML with an acknowledged business group - Atlas Group - lends support to the rating.

## 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 CY16, the AMC industry experienced a massive increase of 27.9% in its AUMs mainly led by the bullish momentum observed in the PSX. This consequently resulted in a rise in the asset base of equity funds increasing their system share. The equity based funds predominately equity funds benefited from the consistent outflow from the money market and fixed Income based funds. This was a result of continuity of the low interest rate environment, excess liquidity in the market and increase in investors risk appetite. The Fund of Funds and Asset Allocation Plans were the main focus of industry players and was successful in building a healthy share in the overall AUM mix. . Lately, Shariah compliant investment schemes also gained popularity among the investors.

Financial Summary								
Sr. #	Fund	Category	Asset Under Management		Return – CY16	Benchmark Return – CY16	Top 10 Investors Concentration	Performance Ranking (Jun-16) / Stability Rating
			Dec-16 (PKR mln)	Dec-15 (PKR mln)				
1.	Atlas Money Market Fund -AMF	Money Market	4,841	4,319	5.56%	5.13%	90%	AA(f)
2.	Atlas Sovereign Liquid Fund-ASLF	Money Market	601	638	5.26%	5.40%	99%	AA(f)
3.	Atlas Income Fund -AIF	Income	8,714	8,388	6.70%	6.19%	91%	AA-(f)
4.	Atlas Islamic Income Fund -AIIF	Islamic Income	2,471	519	5.55%	4.43%	86%	AA-(f)
5.	Atlas Stock Market Fund -ASMF	Equity	5,795	3,468	49.48%	45.68%	75%	Un-rated
6.	Atlas Islamic Stock Fund -AISF	Islamic Equity	2,713	1,284	43.03%	47.10%	81%	Unrated
7.	Atlas Gold Fund -AGF	Commodities	195	179	8.45%	7.58%	96%	Unrated

## 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.

