



The Pakistan Credit Rating Agency Limited

# NBP FULLERTON ASSET MANAGEMENT LIMITED

## RATINGS REPORT

	NEW [DEC-17]	PREVIOUS [APR-17]	REPORT CONTENTS
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DECEMBER 2017

## **Profile & Governance**

- NAFA was incorporated in August 2005. National Bank of Pakistan (NBP) is the major shareholder of NAFA with 54% stake, followed by Alexandra Fund Management Pte. Ltd - 36% stake.
- The company's nine-member BoD comprises the CEO, three representatives of NBP, two representatives of FFMG and three independent directors. The CEO, Dr. Amjad Waheed, CFA, holds a Doctorate in Business Administration; he has extensive experience in domestic and international capital markets spanning over 26 years.

## **Assessment**

- Presently, the company is managing a diversified portfolio of twenty seven open-end funds, two Voluntary Pension Schemes and several discretionary portfolios with AUM of over PKR 100bln end Sep-17.
- In the period under review, AUMs witnessed slight decline (May-17: PKR112.5bln, Sep-17: PKR 103.4bln) however, company managed to improve its system share (i.e. May-17: 16.5%, Sep-17 16.7%) even though the industry experienced a hefty decline in.
- NAFA's funds performed exceptionally well among its peers.
- The top10 concentration deteriorated slightly and was at 42% at end-Sep-17.

## **Sales & Marketing**

- NAFA's marketing and distribution arrangements have been divided into two segments (i) Corporate Marketing and (ii) Retail Sales.
- NAFA has a well spread sales network of 6 regional offices in Karachi, Lahore, Islamabad, Peshawar, Hyderabad and Multan with head office in Karachi. The company has an exclusive arrangement with its sponsor bank (NBP) for marketing its funds through their branches.
- NAFA also has Islamic Saving Centers; 5 in KHI, 3 in ISL and 1 in LHR.
- Currently NAFA has a large sales team of 400 employees and the company plans to increase its sales team by 200 employees.
- In collaboration with summit bank, NAFA has launched Visa Debit card.

## **Investment Decision Making**

- NAFA has a well-structured investment process and adheres to stated investment policies. The company convenes separate Investment Committees (IC), each for a) Fixed Income, b) Equity and c) SMA.
- Each IC comprises CEO, CIO, Head of Research along with Head of Fixed Income and Head of Equity accompanied by respective 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.

## **Risk, Audit & Compliance**

- Risk Management Department is responsible to identify, monitor, measure and report potential risks in the portfolio and guides the fund management in the portfolio management process.
- The Internal Audit Department is independent of the management and reports to the Audit and Risk Committee of the Board quarterly regarding its findings.
- NAFA has a separate compliance department headed by a qualified Chartered Accountant and reporting directly to the Chief Executive Officer.
- The Compliance department is mainly looking after the overall regulatory compliances of the Company.

## **Technology & Investor services**

- NAFA is using in-house developed asset management application as its core business software. The application comprises modules required for the efficient execution of the core functions of the company.
- Investor Services Department (ISD) is responsible to handle communication to investors and for responding to all types of queries.
- NAFA has a well-structured disaster recovery system in place. Scheduled backup of all data takes place on a daily basis.

## **RATING RATIONALE**

The "AM1" (AM one) rating is the highest rating level of Asset Manager Rating scale. The rating reflects the company's positioning as one of the leading players in the domestic AMC industry supported by its proficient and well qualified management team, sound operating platform and diversified product slate. Low turnover in the key management positions has helped in building a cohesive culture. The management's increased emphasis towards asset allocation and FoF funds has resulted in continuous enhancement of retail penetration (at end-Sep 17: 35%) which lends support to the company's business profile. This comes as a result of concerted efforts to augment the marketing team and utilizing the distribution network of parent bank along with the continuous improvement in the investor facilitation services. The company managed to maintain its AUM base despite the dip in the industry due to lack luster stock market performance, consequently resulting in enhanced system share. A well-structured investment process and supportive decision making infrastructure has provided consistency to the fund performance track record. The rating incorporates NAFA's association with a well-known fund management group and the country's leading commercial bank. Above factors contributed towards NAFA maintaining PKR. 100bln assets under management.

## **KEY RATING DRIVERS**

The rating is dependent on company's ability to sustain its fund performance. Strengthening its market positioning in line with its peers along with consistent enhancement in retail penetration remain important. Stability in key human resource, organic growth in AUMs and continuous advancement on the technological front will bode well for the company.

## **INDUSTRY**

During 9MCY17, the industry AUM's dropped by 3.6% mainly led by the bearish momentum on PSX's performance on the back of political instability and deteriorated economic conditions. This consequently resulted in an attrition in the asset base of equity category of 9% (9MCY17: 40%; CY16:46%) decreasing their system share. On the flip side, the money market funds benefited from the consistent inflow from the Equity and fixed Income based funds. This was a result of continuity of the benign inflation, low interest rate environment, excess liquidity. The Fund of Funds and Asset Allocation Plans were the main focus of industry players as the fund managers opting in risk averse strategy to bail out deteriorating risk appetite in the capital markets. Resultantly, Shariah complaint active allocation schemes remained favorite amongst the Asset Managers



Financial Summary: NBP FULLERTON ASSET MANAGEMENT LIMITED (NAFA)								
Sr. #	Fund	Category	Asset Under Management		Return FYTD / Since Inception of Fund	Benchmark Return CY16 / Since Inception of Fund	Top 10 Investor Concentration	Performance Rankings/ Stability Ratings
			Dec16 (rupees in mln)	Sep 17 (rupees in mln)				
1.	NAFA Active Allocation Riba Free Savings Fund	Shariah Compliant Income	202	290	3.6%	2.3%	100%	A-(f)
2.	<b>NAFA Asset Allocation Fund</b>	Asset Allocation	2,331	3,299	(7.0%)	(5.4%)	37%	<b>4-Star</b>
3.	NAFA Financial Sector Income Fund	Income	793	2,001	6.2%	6.2%	58%	A+(f)
4.	NAFA Government Securities Liquid Fund	Money Market	4,734	5,343	5.1%	5.2%	70%	AAA(f)
5.	NAFA Government Securities Savings Fund	Income	158	158	4.8%	6%	80%	AA-(f)
6.	NAFA Income Fund	Income	842	918	5.4%	6.2%	96%	A(f)
7.	<b>NAFA Income Opportunity Fund</b>	Income	12,908	8,639	5.1%	6.2%	39%	A(f)
8.	NAFA Islamic Active Allocation	Shariah Compliant Equity	3,878	3,242	-10.8%	-9.1%	100%	<b>3-Star</b>



	Equity Fund							
9.	NAFA Islamic Active Allocation Plan I	Shariah Compliant Fund of Funds	978	642	-8%	-6.4%	59%	N/A
10.	NAFA Islamic Active Allocation Plan II	Shariah Compliant Fund of Funds	809	592	-8.1%	-6.7%	61%	N/A
11.	NAFA Islamic Active Allocation Plan III	Shariah Compliant Fund of Funds	1,504	841	-7.9%	-6.5%	55%	N/A
12.	NAFA Islamic Active Allocation Plan IV	Shariah Compliant Fund of Funds	894	612	-7.9%	-6.5%	46%	N/A
13.	NAFA Islamic Active Allocation Plan V	Shariah Compliant Fund of Funds	Not Published	1,327	-7.8%	-6.3%	36%	N/A
14.	NAFA Islamic Asset Allocation Fund	Shariah Compliant Asset Allocation	10,025	13,892	-6.5%	-5.7%	12%	3 Star
15.	NAFA Islamic Energy Fund	Shariah Compliant Equity	2,711	2,126	-1.8%	-8.1%	21%	N/A
16.	NAFA Islamic Income Fund (Formerly; NAFA Islamic Aggressive	Shariah Compliant Income	2,566	4,335	4.6%	2.3%	35%	A-(f)



	Income Fund)							
17.	NAFA Islamic Principal Preservation Fund	Shariah Compliant Fund of Funds - CPPI	1,165	304	-0.1%	-0.2%	80%	N/A
18.	NAFA Islamic Principal Protected Fund I	Shariah Compliant Capital Protected Fund	409	89	0.7%	-0.2%	63%	N/A
19.	NAFA Islamic Principal Protected Fund II	Shariah Compliant Capital Protected Fund	1,005	139	-0.37%	-0.1%	81%	N/A
20.	NAFA Islamic Stock Fund	Shariah Compliant Equity	6,022	7,394	-10.7%	-9.1%	38%	4-Star
21.	NAFA Money Market Fund	Money Market	12,233	23,118	5.4%	5.2%	55%	AA(f)
22.	NAFA Multi Asset Fund	Balanced	1,747	1,767	-5.7%	-5.2%	79%	4-Star
23.	NAFA Riba Free Savings Fund	Shariah Compliant Income	1,386	2,948	4.7%	2.3%	48%	A(f)
24.	NAFA Savings Plus Fund	Income	431	445	5.2%	6.2%	52%	AA-(f)
25.	NAFA Stock Fund	Equity	15,079	15,038	-9.9%	-10%	34%	4-Star

## 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.

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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**

NBP Fullerton Asset Management Limited  
AMC  
Solicited

### [Purpose of the Rating](#)

Regulatory Requirement

### [Rating History](#)

Dissemination Date	Asset Manager Rating	Outlook	Action
	AM1	Stable	Maintain
21-Apr-17	AM1	Stable	Upgrade
4-Aug-16	AM2++	Stable	Harmonized
31-Mar-16	AM2+	Stable	Maintain
6-Apr-15	AM2+	Stable	Upgrade
8-Apr-14	AM2	Stable	Maintain

### [Related Criteria and Research](#)

**Master Methodology:**  
**Specific Methodology:**  
**Research:**

Asset Management Rating Methodology  
-  
Asset Management Sector Review -2016

### [Rating Analysts](#)

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