



The Pakistan Credit Rating Agency Limited

# LAKSON INVESTMENTS LIMITED

## RATING REPORT

	<b>NEW [DEC-17]</b>	<b>PREVIOUS [MAY-17]</b>	<b>REPORT CONTENTS</b>
<b>Asset Manager Rating</b>	AM 2+	AM 2+	1. PROFILE & GOVERNANCE 2. ASSESSMENT
<b>Outlook</b>	Stable	Stable	3. SALES & MARKETING 4. INVESTMENT DECISION MAKING 5. RISK AND COMPLIANCE 6. TECHNOLOGY & INVESTOR SERVICES

DECEMBER 2017

### Profile & Ownership

- Incorporated in January 2009, LI is the investment management arm of Lakson Group, wholly owned through Siza Services (Private) Limited.
- Lakson Group, established in 1954, is among the leading business groups in Pakistan.

### Governance

- The eight-member BoD comprises four independent directors and four executives of group companies. The Chairman of Lakson Group, Mr. Iqbal Ali Lakhani, is the Chairman of LI's board. The CEO, Mr. Babar Ali Lakhani, has vast investment management experience in local and foreign markets.

### Assessment

- LI provides investment advisory services to high net-worth individuals and corporate customers, via a platform called "Lakson Managed Accounts (LMA)". The LMA portfolio with forty eight mandates currently stands at PKR14bln-Sep-17.
- The company has high group investments which consist of 56% of total AUMs as at Sep-17 (31% in May-17). The company concentration levels remain high both in funds and SMA. However the concentration has improved since (May-17 89%, Sep-17 80%). LI is currently managing six open-end funds with assets under management of PKR15.57bln (end Sep-17).
- The company increased its system share (May-17 2.42%, Sep-17 2.52%)
- The company is in advance stages to launch a Private Equity fund with a unique strategy to strengthen its niche.

### Sales & Marketing

- LI has developed a multi-pronged marketing and distribution strategy divided into two segments a) Institutional/ Retail Sales b) Investment Advisory. The company has distribution arrangements with various third-party distributors.
- The company also conducts training sessions for the new staff and a weekly meeting of the sales staff with Executive Director & COO, to keep them updated with the industry developments and market Update.
- Lakson promotes investment opportunities in Pakistan to potential investor in Middle East and Europe by participating seminars and conference.

### Investment decision making

- The management team of LI comprises qualified and experienced professionals. The IC considers macroeconomic research & fundamental analysis on different segments for portfolio allocation decisions.
- The research function develops model portfolios after detailed scenario analysis and evaluations parallel to the fund managers portfolios providing challenge to the investment function at LI.
- During the period under review, position of Head of Research fell vacant. The position has been filled and new HoR will join in the month of Nov-17.

### Risk & Compliance

- LI has separated its risk department which implements reasonably broad Risk Management Guidelines.
- The company has developed a new risk software in collaboration with a London based firm. The software highlights different aspect of a stock effecting the performance of a fund including liquidity position, short term volatility both sector and scrip wise, beta calculation and other key ratios.
- The primary function of Compliance, headed by Mr. Junaid, is to ensure compliance with NBFC regulations and internal guidelines.
- Compliance generates comprehensive system-generated reports on daily basis for supervisory review of senior management.

### Technology & Investor Service

- The management has acquired quality software – Asset Connect for portfolio management, unit holders and general accounting requirements. The software solution is developed by a reputable software house, Softech Systems Pvt Ltd.
- The company issues informative Bulletin(s) on a daily basis and performance reports for the funds and SMA under management on a bi monthly/ monthly basis as requested by the client.

### RATING RATIONALE

The rating reflects Lakson Investments strong governance practices, robust risk management framework, and elaborate decision making process. The rating incorporates the company's well thought strategy of creating a niche in institutional and high net worth investor space. This should enable it to capture volumes in otherwise crowded asset management industry. It is approaching its target market through three streams a) Mutual Funds, b) SMA, and c) Private Equity. The management has concerted efforts towards effectively utilizing group's established brand coupled with sound operating platform and strengthened investor services. The company has successfully launched a Private Equity fund. The company has affiliated with a London based firm to enhance its risk management process. Lakson has strong research function which provides various analysis to support the fund management team to generate consistent fund performance. Although a source of concentration, group/family investment provides stability to AUMs.

### KEY RATING DRIVERS

The rating depends on the company's ability to implement its strategy of building volumes (institutional & high net worth) without going deep into retail segment. While, strong and stable performance in SMAs and Mutual funds remain imperative. Given relative newness of Private Equity concept in Pakistan desire to acquire shareholding in companies for private equity fund is critical.

### INDUSTRY

During 8MCY17, 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% (8MCY17: 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 compliant active allocation schemes remained favorite amongst the Asset Managers



Financial Summary: Lakson Investment Limited								
Sr. #	Fund	Category	Asset Under Management		Return - CYTD	Benchmark Return CYTD	Top 10 Investor Concentration	Performance Rankings/ Stability Ratings
			Dec16 (rupees in mln)	Sep17 (rupees in mln)				
1.	Lakson Asset Allocation Developed Markets Fund	Asset Allocation	298	232	7.88%	7.92%	95%	3 Star
2.	Lakson Equity Fund	Equity	4,121	3,508	(10.03%)	(-13.57%)	89%	4 Star
3.	Lakson Income Fund	Income	3,463	4,263	7.06%	6.14%	81%	A+
4.	Lakson Islamic Tactical Fund (Formerly: Lakson Asset Allocation Emerging Markets Fund)	Shariah Compliant Asset Allocation	126	166	(4.60%)	(6.80%)	95%	3 Star
5.	Lakson Money Market Fund	Money Market	4,519	6,221	7.15%	5.32%	75%	AA(f)
6.	Lakson Tactical Fund (Formerly: Lakson Asset Allocation Global Commodities Fund)	Asset Allocation	1,544	1,186	(2.99%)	(6.11%)	79%	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.

#### **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**

Lakson Investments Limited  
 AMC  
 Solicited

### Purpose of the Rating

Regulatory Requirement

### Rating History

Dissemination Date	Asset Manager Rating	Outlook	Action
22-Dec-17	AM2+	Stable	Maintain
15-May-17	AM2+	Stable	Upgrade
7-Jun-16	AM2	Stable	Harmonize
31-Mar-16	AM2-	Stable	Maintain
22-Apr-15	AM2-	Stable	Upgrade

### Related Criteria and Research

Master Methodology:  
 Specific Methodology:  
 Research:

Asset Management Rating Methodology [2005]  
 Management Rating Methodology [2017]  
 Asset Management Sector Review -2017

### 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.

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#### **Confidentiality**

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