



The Pakistan Credit Rating Agency Limited

Rating Report

NBP Fund Management Limited (formerly: NBP Fullerton Asset Management Limited)

Report Contents

1. Rating Analysis
2. Rating Scale
3. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	AM1	-	Stable	Maintain	-
08-Dec-2017	AM1	-	Stable	Maintain	-
21-Apr-2017	AM1	-	Stable	Upgrade	-
04-Aug-2016	AM2++	-	Stable	Maintain	-
04-Jul-2016	AM2++	-	Rating Watch	Rating Watch	-

Rating Rationale and Key Rating Drivers

The rating emanates from the company's competitive positioning as one of the key players in the asset management industry. The diversification of fund slate, along with management's plan to further expand it, bodes well in the competitive positioning. The exceptional business profile provides it with the capacity to bring sophistication in the operating infrastructure. The rating is benefitted by its innovative technology and sound operating environment. It incorporates the company's association with a renowned bank - National Bank of Pakistan. The AUMs witnessed considerable growth which resulted in an increase in the system share (Dec-17: PKR 90 billion, Dec-16: PKR 84.4 billion). The rating also takes support from the increasing retail penetration which helps to diversify the AUMs base and strengthening the company's profile among the peers. The company has an established risk management department which is fully integrated with the investment decision making process.

The rating is dependent on the management's ability to hold its position in the increasingly challenging industry. Upholding existing organization structure along with retention of key personnel and consistent superior fund performance remains imperative for the company.

Disclosure

Name of Rated Entity	NBP Fund Management Limited (formerly: NBP Fullerton Asset Management Limited)
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating(May-17)
Related Research	Sector Study Asset Management(Jun-18)
Rating Analysts	Muhammad Usman muhammad.usman@pacra.com +92-42-35869504 Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504

NBP FUND MANAGEMENT LIMITED

Incorporated	2005
Major business lines	Asset Management and Investment Advisory.
Legal status	Public Unlisted
Number of branches	14

INDUSTRY SNAPSHOT

During CY17, the industry AUMs decreased by ~5% (Dec-17 AUMs: 583bln, Dec-16 AUMs: 613bln) mainly led by bearish momentum on PSX's performance on the back of MSCI rebalancing, political noise and deteriorated economic conditions. This consequently resulted in an attrition in the asset base of equity category by 17% (Dec-17 AUMs: 150bln, Dec-16 AUMs: 181bln). On the flip side, the money market funds provided consistent inflow as compared to equity funds and their AUMs grew by ~55% (Dec-17 AUMs: 96bln, Dec-16 AUMs: 62bln). This was a result of continuity of the benign inflation, low interest rate environment, and 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.

PROFILE & GOVERNANCE

- NBP Fund Management Limited, public unlisted company, is licensed to carry out asset management and advisory services. The company is 54% owned by National Bank of Pakistan and 36% by Alexandra Fund Management Pte. Ltd.
- The company's nine-member board comprises the CEO, three representatives of National Bank of Pakistan, two representatives of FFMG and three independent directors.
- The CEO, Mr. Amjad Waheed has extensive experience in domestic and international capital markets of over two decades.

ASSESSMENT

- The AUM's witnessed considerable growth and stood at PKR 90 billion at end Dec-17 (end Dec-16 PKR 84.4 billion). Consequently, the system share of the company increased by 2% (Dec-17: 17%, Dec-16: 15%).
- The highest increase in the AUMs was observed in the money market fund followed by the Islamic Asset Allocation category.
- To diversify its product slate, the company launched two Islamic Active Allocation plans in Fund of Funds category. The management plans to launch new funds under the Fund of Funds structure in the Shariah Compliant category primarily capital preservation.
- The average top ten investor concentration stood at the same level as compared to the previous year (Dec-17: 52%, Dec-16: 53%).

SALES AND MARKETING

- The sales and marketing department has been segregated into two segments i) Retail ii) Corporate. The company has a well-built sales network of six regional branches while the head office is located in Karachi.
- The company has an exclusive arrangement with its sponsor bank, National Bank of Pakistan, for marketing its funds. Extensive marketing and synergy benefits continued to support the growth in the retail segment.

INVESTMENT DECISION MAKING

- The investment decision making process is well-structured with the CEO providing critical support. Separate Investment Committees exist for equity and fixed income funds, comprising CEO, CIO, Head of Fixed Income, and Head of Equity along with fund managers.
- The Investment Committee meets on daily basis and the research department presents investment summary to the IC.
- The research department has developed its expertise in developing detailed valuation models and investment research methodologies.

RISK AND COMPLIANCE

- The risk management department is being led by Mr. Salman Ahmad. The function of this department is to ensure compliance with all applicable statutory regulatory and internal investment guidelines.
- The scope of the risk department includes conducting regular sessions with fund management department to deliberate on the prevailing industry and market dynamics.
- The company has an independent in-house internal audit which reports independently to the Audit and Risk Committee of the board on quarterly basis.

TECHNOLOGY AND INVESTOR SERVICE

- NBP Fund is using in-house developed asset management application as its core software. The application comprise modules for efficient execution of the core functions of the company.
- The company has provided online redemption and fund to fund transfer facility to clients via its website along with redemptions through ATM machines. An online Portfolio Information System exists for SMA clients.
- The investment performance of the company, in compliance with Global Investment Performance Standards (GIPS) is presented on the company's website on quarterly basis.



RATING SCALES & 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/fund c) the rating remains suspended for six months or d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Surveillance:

PACRA shall not keep these ratings/rankings under constant surveillance. These will be reviewed on semi-annual basis. Any material happenings during the period will be incorporated in the next review.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent