



The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Asset Management Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	AM2+	-	Stable	Maintain	-
22-Dec-2017	AM2+	-	Stable	Maintain	-
04-May-2017	AM2+	-	Stable	Upgrade	-
08-Jun-2016	AM2	-	Stable	Harmonize	-
15-Apr-2016	AM2-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the company's qualified and experienced management team, structured investment process and sound quality of systems. The affiliation of Atlas Asset Management Limited with an acknowledged business group, -Atlas Group, gives support to the rating. The rating incorporates enhancement in the AUMs base by 10% resulting in an increase in its system share (Dec-17: 5.1%, Dec-16: 4.4%) which is owed to the brand name and the fund performance. Furthermore, the company is one of the initial four pension fund managers who have been issued license voluntary pension schemes. Increased focus of the management towards strengthening the investment decision making process lends support to the performance of funds.

The rating is dependent on the company's business plan to expand its outreach by opening up new sales branches with a greater focus towards retail penetration. Moreover, sustainability and improvement in performance of funds remains imperative. Continued demonstration of high governance standards and risk management is critical.

Disclosure

Name of Rated Entity	Atlas 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

ATLAS ASSET MANAGEMENT LIMITED

Incorporated	2002
Major business lines	Asset Management
Legal status	Public Unlisted
Number of branches	10

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

- Atlas Asset Management Limited, incorporated in August 2002 is a wholly owned subsidiary of Shirazi Investments Private Limited, the wholly owned subsidiary of Atlas Group. The presence of Atlas Group in the financial sector includes asset management and the insurance business.
- The total shareholders' equity of Atlas Asset Management was PKR 646 million at end Dec-17 which is well above the minimum capital requirement as per the NBFC Regulations.
- The company has seven member board, including five representatives of the Atlas Group including the CEO and two independent directors.

ASSESSMENT

- The company's diversified product slate includes six open end funds and two pension and Islamic pension funds.
- During CY17, the company witnessed growth of 10% in its AUM base (Dec-17: PKR 27.6 billion, Dec-16: PKR 25 billion) resulting an increase in the system share of the company (Dec-17: 5.1%, Dec-16: 4.4%).
- The average top ten unit holder concentration of most of the funds remained ~ 83%. The retail penetration is 10% and institutional 90%.

SALES AND MARKETING

- The sales and sales support department is headed by Ms. Mishaal H. Shirazi. The company has a separate Marketing and Sales training department for training and development of the sales staff.
- The company has eleven distributors, seven institutions and four Individual Registered Service Providers.
- The future growth of the company depends on penetration into the retail industry. The company plans to expand its retail presence by enhancing its sales force country wide.

INVESTMENT DECISION MAKING

- The research function is being managed by Mr. Faizan Khan Ghorri. The department consists of five individuals including the manager. Research function operates under the supervision of CIO.
- The Investment Committee (IC) comprise CEO, CIO, fund managers along with a non-executive director. The Risk Manager and Research Manager also participate in the IC meetings as non-voting members.
- The IC meets on weekly basis to make investment decisions and the fund managers are responsible for implementation of the IC decisions and ensuring a smooth investment process.

RISK AND COMPLIANCE

- Mr. Shaikh Owais Ahmed is the Manager Risk and is assisted by two risk analysts and database officer. The risk committee meeting is held fortnightly/monthly to review Equity, Fixed Income and Money Market funds.
- A detailed risk score card is prepared for each fund by conducting detailed evaluations which are presented to the IC in meetings along with investment recommendations.
- The company has an in-house internal audit department to evaluate and improve the effectiveness of risk management, controls and governance processes.
- A comprehensive disaster recovery plan exists. Risk department reports every quarter to CEO with the objective of identifying and monitoring operational risks.

TECHNOLOGY AND INVESTOR SERVICE

- The company has entered into a Service Level Agreement with ITMinds Limited for outsourcing back office functions.
- A real time and state of the art CRM software has been developed for customer relationship.
- A mobile application is in progress to facilitate clients in redemptions, conversions of funds and statements.
- The company presents its investment performance in compliance with Global Investment Performance Standards (GIPS) 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.

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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)

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