



The Pakistan Credit Rating Agency Limited

## Rating Report

### Habib Asset Management Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	AM3+	-	Stable	Maintain	-
22-Dec-2017	AM3+	-	Stable	Maintain	-
15-May-2017	AM3+	-	Stable	Maintain	-
08-Jun-2016	AM3+	-	Stable	Harmonize	-
31-Mar-2016	AM3	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating encapsulates the company's experienced management, adequately structured investment decision making process and reasonable fund slate. The rating also incorporates company's association with a strong commercial bank, Bank AL-Habib limited. The company is in the process of expanding the human source and strengthening its research function. Consistent improvement in the operating platform and channelization of group synergies would bode well for the company. The desired benefits towards enhancing the AUM base and strengthening the brand value remains limited. The management is eyeing expansion in the fund slate and intends to materialise its strategic plans by enhancing its position in industry coupled with major focus on retail penetration.

The rating is dependent on the successful formulation of a focused business strategy resulting in building a competitive position in the industry. Upholding strong governance practices, sound control environment and delivering competitive performance in both the funds and SMAs remains imperative.

#### Disclosure

<b>Name of Rated Entity</b>	Habib Asset Management Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	Methodology   Asset Manager Rating(May-17)
<b>Related Research</b>	Sector Study   Asset Management(Jun-18)
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## HABIB ASSET MANAGEMENT LIMITED

<b>Incorporated</b>	2005
<b>Major business lines</b>	Asset Management and Investment Advisory.
<b>Legal status</b>	Public Unlisted
<b>Number of branches</b>	3

## 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

- Habib Asset Management Limited was incorporated in September 2005 as an unlisted public limited company. Habib family and associates own around 70% of shareholding in the company, while Bank AL Habib Limited holds 30%.
- The company majorly operates from Karachi although it has offices in Lahore and Islamabad.
- The Board of Directors of the company comprise five members, including its CEO. The remaining directors comprise one executive and four non-executive members.
- Mr. Imran Azim - Chief Executive Officer has been serving as the CEO and has more than two decades of experience in the mutual funds industry.

## ASSESSMENT

- The overall assets under management increased by 19% during CY17 to ~ PKR 3.2 billion at end Dec-17 due to considerable fresh sales. However, the system share remained below 1%.
- The retail concentration of the funds remain limited 23% while the institutional is 77%.
- The company is currently managing a diverse product slate of six open-end funds. Going forward, the company plans to launch new funds in the category of capital protected and pension plan for fresh influx of AUMs.
- First Habib Cash and First Habib Income funds performed better than the peer averages in CY17. First Habib Islamic Income, First Habib Islamic Stock and First Habib Stock funds did not perform in line with the average return benchmarks in CY17.

## SALES AND MARKETING

- The company has strengthened its sales and marketing department by hiring staff with adequate experience.
- The company avails limited benefit of fund mobilization from its holding group's platform.
- The management plans to further augment its AUM base with an enhanced penetration of the retail and institutional investor base, which remains a challenge.

## INVESTMENT DECISION MAKING

- The primary investment decision making body is the Investment Committee (IC), comprising CEO, CFO, CIO and Fund Manager. The IC formally meets on fortnightly basis for investment/divestment decisions, take major portfolio decision and review broad investment limits.
- The company has an in-house research function which is overseen by the CEO.
- Research head has been recently hired. The presence of this position in the IC would strengthen the investment decision making.

## RISK AND COMPLIANCE

- Broad risk management guidelines are established for management of credit, market, operational and liquidity risk along with an operational procedural manual. Compliance department provides additional vigilance on the investment guidelines
- The internal audit department is in-house which reports to the Audit Committee of Board of Directors. The department is headed by Mr. Ateeq Qureshi.
- The company has developed a disaster recovery plan for business continuity. Data is backed up on daily basis on the secondary domain and maintained off-site.

## TECHNOLOGY AND INVESTOR SERVICE

- The company has procured Asset Connect, a widely used IT system in the asset management industry.
- The company has a reasonably user-friendly website. The website is used as a reporting platform for dissemination of information pertaining to the company, management, NAV history, fund performance, product characteristics and other important announcement.
- Fund manager reports are made available on company's website on timely basis and are an important source for dissemination of key information pertaining to the funds.



**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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