



The Pakistan Credit Rating Agency Limited

Rating Report

MCB-Arif Habib Savings and Investments 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
08-Oct-2018	AM2++	-	Positive	Maintain	-
28-Dec-2017	AM2++	-	Stable	Maintain	-
23-Jun-2017	AM2++	-	Stable	Maintain	-
08-Jun-2016	AM2++	-	Stable	Harmonize	-
31-Mar-2016	AM2+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects company's strong performance in terms of returns and growth in its AUMs, which outpaced the benchmark in FY18. The rating is duly supplemented by its established brand name, sponsors distribution network, experienced management team, successful track record and diverse product slate. The company has relatively superior diversity in terms of investors' profile and witnessed a significant growth in its SMA portfolio in FY18. The company has set high standards in establishing digital platforms leading to better customer service and strengthening the operating platform in terms of marketing, distribution, risk management and fund management. The company's well-structured investment process along with diligent investment risk management function adds value to the overall decision making process. The rating takes strength from the company's association with two prominent business conglomerates of Pakistan, Nishat and Arif Habib Groups.

The rating is dependent on the company's ability to sustain its market standing. Increasing overall market share (AUMs), stability of the key human resource and consistent fund performance is important for the rating.

Disclosure

Name of Rated Entity	MCB-Arif Habib Savings and Investments Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-18)
Related Research	Sector Study Asset Management(Jun-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504

MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED

Incorporated	2000
Major business lines	Asset Management and Investment Advisory.
Legal status	Public listed
Number of branches	18

INDUSTRY SNAPSHOT

During FY18, the industry AUMs increased meagerly by ~0.4% (June-18 AUMs: ~PKR589 bln, June-17 AUMs: ~PKR587 bln). Nominal growth in FY18 is the result of contradicting economic indicators and high political noise. The twin deficits and debt repayments led to the steep slide in falling foreign exchange reserves which created a negative impact. On the other side, high GDP growth, amiable inflation and healthy LSM growth contributed positive to the economy. In the equity market for FY18, the cumulative return was negative 10%. Foreigner's interest seemed low as they kept offloading local equities since MSCI rebalancing last year. The money market has shown an upwards trajectory and is anticipated to grow further at the back of increasing interest rates.

PROFILE & GOVERNANCE

- MCB Arif Habib Savings & Investments Limited (MCBAH) incorporated in August 2000 and listed on the Karachi Stock Exchange, is a major player in the mutual fund industry of Pakistan.
- The major shareholders of MCBAH comprise: a) MCB Bank Limited (51%) and b) Arif Habib Corporation (30%).
- The company's eight members Board of Directors comprise the company's CEO, three independent directors and four non-executive directors. Mian Muhammad Mansha, Chairman MCB, serves as the Chairman of the board.

ASSESSMENT

- The company's AUMs increased slightly by 4% during FY18 to ~PKR49 bln at end June-18 from ~PKR 47 bln end June-17. Resultantly, the system share increased to 8.2% at end June-18 (June-17: 7.1%). The institutional investor concentration forms majority part of the company's AUMs.
- The company's diverse product slate includes fifteen open-end funds and two voluntary pension funds as at June-18 belonging to all major categories. A new fund in the category of Shariah Compliant Income (Alhamra Daily Dividend Fund) was launched in April, 2018 with AUM base of ~PKR0.5 bln at end June-18.
- The Separately Managed Accounts have witnessed a significant growth of 28% in FY18 to ~PKR32 bln at end-June 18 (June17: ~PKR25 bln).
- The company's funds in the Asset Allocation, Balanced, Equity and Shariah Compliant Income categories showed above average performance in comparison to its peers.

SALES AND MARKETING

- The company has a well-established Marketing department which aims to market funds under management through five key segments: a) Retail b) Corporate c) Retirement Funds d) Financial Institutions and e) Foreign Business.
- A corporate sales team has been formed as the company plans to target corporate Provident/Endowment funds and working capital investments. The company has also established a digital distribution channel through the iSave portal.
- The management remains focused to strengthen company's distribution network to make further inroads in the corporate and retail segment. The company follows digital marketing to support growth in AUMs.

INVESTMENT DECISION MAKING

- The company has a well-structured investment decision making process. The Investment Committee comprise: CEO, CIO, Head of Equity, Head of Fixed Income, Head of Research and respective Fund Manager. Separate Investment Committee meetings are held for equity and fixed income funds.
- The research department follows a top-down approach for investment analysis. Detailed valuation models have been developed which are updated on a quarterly basis.

RISK AND COMPLIANCE

- The Risk Management department makes concerted efforts to minimize the company's exposure primarily to market, credit and liquidity risks. Comprehensive statistical tools have been developed which utilize various analytical techniques to identify and manage risks.
- The company has an independent in-house internal audit function which reports to the Audit Committee on quarterly basis.
- The company has outsourced its business continuity and disaster recovery systems to an external service provider.

TECHNOLOGY AND INVESTOR SERVICE

- The company uses an in-house unit holder accounting system, Retrofit, which contains interactive dashboards which provide real-time information to fund managers; facilitating investment decision making.
- Customer Relationship Management software monitors investors' complains, feedbacks and requests. The iSave portal displays key information for investors and provides the facility of investment, conversion as well as redemption for all their investments. A separate real-time online portal exists for Separately Managed Accounts.
- The fund manager reports for all the funds under management are made available on the company's website on a timely basis.

Asset Manager Rating Scale & Definitions

An independent opinion on the quality and expertise deployed by an asset management company

Scale	Definition
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.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. 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'.

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.

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, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. PACRA shall not keep the Asset Manager Rating under constant surveillance. The rating will be reviewed at least once every six months. Any material happening during a period that may warrant a revision of rating will be incorporated in the following 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)

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- (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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