



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Oman Asset Management

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2020	AM3+	-	Stable	Maintain	-
28-Aug-2019	AM3+	-	Stable	Maintain	-
26-Feb-2019	AM3+	-	Stable	Maintain	-
28-Aug-2018	AM3+	-	Stable	Upgrade	-
08-Dec-2017	AM3	-	Positive	Maintain	-
08-Jun-2017	AM3	-	Positive	Maintain	-
17-Nov-2016	AM3	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating recognizes the company's association with an established and renowned financial institution, Pak Oman Investment Company Limited. The rating reflects the company's experienced management, structured investment decision making process and diversified fund slate. The corporate governance framework is considered strong on the backdrop of sound board oversight and presence of seasoned professionals in the management team. The AUMs of the Company has increased by 33% since Jun'19 and stood at PKR 4.4bln at end Jun'20. However, the funds' performance remained subdued in relation to their category average returns. Going forward, the management is focusing on retail penetration by enhancing retail client base and growth in SMA business. This would support the revenue stream. To enhance the assets under management, a number of initiatives are being taken including the expansion of sales force and ongoing focus on alternative distribution channels for enhanced retail market penetration. The Company has issued right shares to meet the minimum equity requirements regulatory as prescribed by SECP. The Company has also paid of all long term loan and now showing zero leveraging structure, which bodes well for the rating.

The rating is dependent on the company's ability to enhance its market position, gain in terms of assets under management and maintaining strong performance of its funds. Meanwhile, upholding high governance standards and strengthening of risk management is crucial for the rating.

Disclosure

Name of Rated Entity	Pak Oman Asset Management
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-20)
Related Research	Sector Study Asset Managers(Jun-20)
Rating Analysts	Usama Zubair usama.zubair@pacra.com +92-42-35869504



Profile

Structure Pak Oman Asset Management Company Limited (or "The Company") was incorporated on July 28, 2006 as a public unlisted company.

Background On 31st May 2017, 100% shares of Askari Investment Management Limited were acquired by Pak Oman Asset Management for an amount of PKR 551mln. The merger was successfully completed and effective from October 31, 2017. After the completion of merger, all funds of Askari Investment Management Limited are controlled and managed by Pak Oman Asset Management.

Market Share The company's market share of the Company remained same since Jun'19 and stood at ~0.6% at end Jun'20.

Diversification Of Fund Mix The company's diversified fund slate includes seven open-end funds, representing asset allocation, equity, income, aggressive fixed income, money market, balanced and other shariah compliant categories.

Investor Concentration The average top ten investors concentration is above 90% at end Jun'20, making it vulnerable to high redemption pressure. The average related party holdings represents ~56% of total assets under management of the company as at end Jun'20.

Ownership

Ownership Structure The company is a majority owned subsidiary of Pak Oman Investment Company Limited (98%) and remaining shareholders include Oman International Development and Investment Company (0.84%), Bank Muscat (0.43%) and National Logistic Cell (0.84%).

Business Acumen The parent company, Pak Oman Investment Company Limited, was formed as a joint venture between the Governments of Pakistan and Sultanate of Oman in July 2000. Pak Oman Investment Company, along with its subsidiaries, provides corporate banking, investment banking and treasury services.

Financial Strength The company derives its financial strength from Pak Oman Investment Company. Collectively, Pak Oman Investment company's asset base is ~PKR 92bln supported by equity of ~PKR 8bln with total profit after tax of ~PKR 504mln at end Dec'19.

Governance

Board Structure The company's board of directors comprise seven members with two independent directors.

Members' Profile The board members have strong educational backgrounds and carry extensive diversified experience. The Chairman, H.E. Yahya Bin Said has vast experience as a commercial banker and is the Minister of the Special Economic Zone Authority at A'Duqum, Sultanate of Oman.

Board Effectiveness To ensure its effectiveness, the board has formulated the audit and HR and remuneration committees.

Financial Transparency The internal audit function is in-house and reports to the audit committee on quarterly basis. The external auditors are Ernst & Young, which fall into the 'A' category of SBP audit firm rankings.

Management

Organizational Structure The organizational structure aligns with the operations of the company. The company operates through eight main departments which fall under the purview of the CEO except for the internal audit department which reports to the audit committee.

Management Team The company's management team consists of qualified and experienced professionals. The current CEO, Ms. Sadaf Kazmi holds a Masters degree in public administration and carries substantial experience of over a decade in the asset management industry.

Technology Infrastructure The company has outsourced its back office systems, fund management, dividends management and unit holder accounting processes to IT Minds. The company has deployed ERP software developed by Sidat Hyder & Co. (Pvt.) Limited which provides additional business modules of investments, unit management and general ledger. The modules also generate tailor-made MIS reports for analytical purposes.

Control Environment Internal Audit plan, approved by Audit Committee encompasses the review of internal control system which includes policies/procedures, physical safeguards, KYC/AML and monitoring of compliance function pertaining to NBFC regulations. For operational risk management, the company has outsourced its disaster recovery system to CubeAccess. The compliance and risk functions are not segregated and are overseen by one dedicated person.

Investment Risk Management

Credit Risk Internal assessment modules are used with a combination of qualitative and quantitative analysis. Excel based credit risk scorecards are in place which provide statistical estimates for counter party credit risk. The fund managers ensure the credit portfolio of the fund exposed to credit risk is broadly diversified.

Liquidity Profile The company invests significant portion of the funds' assets in liquid investment avenues to maintain sufficient liquidity. The compliance department regularly generates liquidity reports along with common statistical tools like VAR analysis for assessing liquidity risks. The portfolio allocations are monitored on ongoing basis and matched to the approved allocation limits and any breach in exposure limit is reported to the investment committee in prompt manner.

Market Risk The company has set appropriate metrics to measure its exposure to market risk factors such as sensitivity analysis and stress testing. The company's management places special focus on monitoring exchange rates and global commodity prices and a macro-economic model has been developed in order to have a macroeconomic fundamental review regularly.

Portfolio Management

IC Composition The investment committee comprises CEO, CFO, CIO, head of research, head of risk and fund managers. The CIO, Mr. Mustafa, has been recently hired by the Company. He has nearly two decades experience of investment management and management consulting.

Effectiveness The investment committee meets formally on fortnightly basis. However, daily informal meetings are held for making decisions pertaining to asset allocations and fund management.

Investment Research And Analysis The research function has been outsourced to Akseer Research Private Limited which specializes in providing equity research and corporate finance services.

Customer Relationship

Investor Services The sales department provides investor education, personalized solutions, and client reporting. The Company has deployed an online customer relationship management software named 'Agile'. The access is given to sales personnel and it provides quick facilities for customers and saves cost for the company. Retail customer outreach is expected to enhance by allowing investments in company's mutual funds through the use of digital wallet.

Investor Reporting In addition to publishing fund manager reports on monthly basis, the company also disseminates unit holder statement every month which comprises monthly net asset values, benchmark return comparisons and asset allocations.

Distribution And Sales Network The Company has segregated the marketing and distribution department into two departments: i) Sales and Marketing which is responsible for the corporate sales, separately managed accounts and investor services ii) Retail Sales which is responsible for penetration into the retail market. The Company has distribution agreement with Askari Bank Limited for retail penetration. Additional sales staff has also been hired for improving customer outreach.

Performance

Asset Under Management The assets under management of the Company were ~PKR 4.4bln at end Jun'20 (SPLY: PKR 3.3bln), depicting an increase of ~33%. During trailing twelve months ending on Jun'20, majority of the Company's funds beat their benchmark but unable to perform well above the industry average return.

Asset Manager Going forward, the Company plans to launch new funds/plans in the capital protected category to diversify their fund slate. The Company reported net loss of ~PKR 12mln in the 1HCY20. The Company has issued right shares to improve the minimum regulatory requirement of equity. The equity stood at ~PKR 317mln which is above the minimum equity regulatory requirement. Furthermore, the long term loan has been completely paid of, now the Company is showing zero leveraging.

Fund's Performance Pak Oman Asset Management Company Limited														
Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR' mln)				Return 12 M Trailing (%) (Jun-19 to Jun-20)			12 M Trailing		Top Ten Investors Concentration	Ranking (Dec-19)/ Stability Rating (Dec-19)
				Jun-20	Mar-20	Dec-19	Jun-19	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.		
1	Askari Asset Allocation Fund	Asset Allocation	2.4%	105	101	133	125	1.3%	3.1%	8.4%	-1.8%	-7.1%	99%	2-Star
2	Askari High Yield Scheme	Aggressive fixed Income	26.4%	1,168	681	688	1,231	7.9%	12.3%	12.3%	-4.4%	-4.3%	80%	A(f)
3	Askari Cash Fund (Formerly Askari Sovereign Cash Fund)	Money Market	30.0%	1,328	1,861	2,505	786	13.0%	12.5%	11.7%	0.5%	1.4%	69%	AA+(f)
4	Askari Sovereign Yield Enhancer	Income	5.5%	242	228	193	167	14.0%	14.3%	12.1%	-0.3%	2.0%	93%	A+(f)
5	Pak Oman Advantage Asset Allocation Fund	Asset Allocation	2.1%	95	88	109	100	1.5%	3.1%	0.6%	-1.6%	0.9%	100%	2-Star
6	Pak Oman Advantage Islamic Income Fund	Shariah Compliant Income	22.9%	1,013	206	195	231	8.8%	10.4%	6.3%	-1.7%	2.5%	99%	A(f)
6	Pak Oman Government Securities Fund	Income	5.8%	257	278	268	255	16.9%	14.3%	12.1%	2.6%	4.9%	100%	AA-(f)
7	Pak Oman Islamic Asset Allocation Fund	Shariah Compliant Asset Allocation	5.0%	220	208	249	178	-0.8%	5.8%	2.6%	-6.5%	-3.4%	98%	1-Star
Sum/Average:				4,428	3,651	4,340	3,074						92%	

Asset Manager Rating

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.

<p>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’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 watch may accompany rating outlook of the respective opinion.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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- 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

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- (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.
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- (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)
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- (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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