



The Pakistan Credit Rating Agency Limited

Rating Report

MCB-Arif Habib Savings and Investments Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Apr-2019	AM2++	-	Positive	Maintain	-
08-Oct-2018	AM2++	-	Positive	Maintain	-
28-Dec-2017	AM2++	-	Stable	Maintain	-
23-Jun-2017	AM2++	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating takes strength from the company's increasing retail market share due to its distinguished marketing. The management continues to focus on increasing the size of sales force and enhancing alternate distribution channels for improving the assets under management. The company has set high industry standards in establishing digital platforms leading to better investor services. The rating is duly supplemented by its established brand name, sponsors distribution network, experienced and stable management team, successful track record and diverse product slate. The rating also incorporates company's association with two prominent business conglomerates of Pakistan, Nishat and Arif Habib Groups. Strong sponsor profile and corporate governance framework, well-structured investment process along with diligent investment risk management function bodes well for the company.

The rating is dependent on the company's ability to sustain its market standing. Increasing overall market share, 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 Managers(Dec-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504



Non Banking Financial Institutes

The Pakistan Credit Rating Agency Limited

Profile

Structure MCB-Arif Habib Savings and Investments Limited is a public limited company listed on the Pakistan Stock Exchange.

Background The company was incorporated in August 2000 by the name of Arif Habib Investment Management Limited as an unquoted public limited company. In January 2011, MCB Asset Management was merged with Arif Habib Investment Management Limited. Pursuant to the merger, the name of company was changed to MCB-Arif Habib Savings and Investments Limited.

Market Share The market share stood at 7.9% at end Feb-19 as compared to 8.2% at end Jun-18.

Diversification Of Fund Mix The company has a diverse fund slate of fifteen open-end funds and two voluntary pension funds. It offers investment avenues for both conventional and Islamic markets.

Investor Concentration The average top ten investors concentration was ~42% at end Feb-19. Average related party holding represents ~14% of total assets under management.

Ownership

Ownership Structure The major shareholders of the company are MCB Bank Limited (51%) and Arif Habib Corporation (30%). The remaining shareholding is held by general public (9%), financial institutions (4%) and others (6%).

Business Acumen MCB Bank Limited is one of the oldest and prestigious banks in Pakistan since 1947. The majority stake of the bank is owned by the Nishat Group which has presence in major business sectors of the country including banking, textile, cement and insurance. Arif Habib Corporation is the flagship company of the Arif Habib Group. The group consists of various companies spanning the real estate, financial services, energy, cement, steel and fertilizer sectors.

Financial Strength The sponsors have a very strong financial standing. Comfort can be drawn from the strong financial profiles and expected support of the sponsors, if needed.

Governance

Board Structure The company's eight member board comprise CEO, two representatives from MCB Bank Limited, two representatives from Arif Habib Group and three independent directors.

Members' Profile The Chairman, Mian Mohammad Mansha was presented with Pakistan's civil award, Sitara-e-Imtiaz, for his contributions to industrial development. He is the founder of international conglomerate, Nishat Group. The Vice Chairman/Director, Mr. Nasim Beg has served senior positions in asset management and the automobile industry. Previously, he was a member of the Prime Minister's Economic Advisory Council and currently serving as a director for several organizations.

Board Effectiveness The board maintains effective oversight through the establishment of Audit and Human Resources and Remuneration Committees. The audit committee reviews the audit and compliance functions, while the HR committee oversees the hiring, performance review and training of the management.

Financial Transparency The external auditors, KPMG Taseer Hadi & Co have expressed an unmodified opinion on the financial statements for half year ended FY19.

Management

Organizational Structure The company has a well-designed and formalized organization structure with appropriate departmentalization. It has adopted a hierarchical organization structure with seven departments reporting to the CEO.

Management Team The management team consists of well qualified and experienced individuals. The CEO, Mr. Saqib Saleem possesses around two decades of experience including JS Investments, Atlas Asset Management and Habib Bank. The COO, Mr. Asif Mehdi Rizvi has over a decade's experience in the asset management industry.

Technology Infrastructure The company has made efforts towards up-gradation of its overall technology infrastructure and in-house unit holder accounting system has been implemented which contains interactive dashboards which provide real-time information to fund managers; facilitating investment decision making.

Control Environment The internal audit function is overseen by the Chief Internal Auditor who is reporting to the audit committee. Scope of internal audit includes identification and assessment of overall risks and evaluation of internal control framework. Annual audit plan is devised by the department and approved by the audit committee which ensures independence. It provides the road map for maintaining, indeed improvement, in the overall control environment.

Investment Risk Management

Credit Risk The risk management department regularly issues investment evaluation reports for TFCs and Sukuks after conducting thorough analysis prior for every collective investment scheme. The risk department also assesses the credit rating of different financial institutes and subsequently assigns ratings based on internal rating methodology on a quarterly basis.

Liquidity Profile The company maintains sufficient liquidity by investing surplus funds in liquid avenues. Liquidity risk reports are generated regularly which displays liquidity alert in case of liquidity constraint while moving through various redemption scenarios.

Market Risk The risk department has developed in-house risk measures to monitor market risk. This tool calculates volatility and value at risk estimates for marketable securities. The company also conducts stress testing for fixed income funds.

Portfolio Management

IC Composition The investment committees operate separately for equity and fixed income funds. The composition includes CEO, CIO, head of equity/head of fixed income, research analysts and respective fund manager.

Effectiveness The composition and functioning of the investment committee are considered strong. Separate investment committee meetings are held for equity and fixed income funds. The committee comprises well-qualified and experienced professionals.

Investment Research And Analysis The company has an in-house research department and comprises Head of Research and research analysts. Detailed valuation and analysis models have been developed which are updated on a quarterly basis. An extensive database of macro-economic indicators, sector specific and international market indicators is being maintained.

Customer Relationship

Investor Services The company uses specialized software for customer relationship management. It provides a centralized platform for facilitating, directing and monitoring of sales and marketing activities. The company provides investment services through iSave which displays key information for investors and provides the facility to conversion as well as redemption for investments.

Investor Reporting The company publishes the fund manager reports on its website in a timely manner. These comprehensively cover developments in the macro-economic environment and review of the equity and money market segment.

Distribution And Sales Network The management continues to focus on increasing the size of sales force and enhancing alternate distribution channels for improving the assets under management.

Performance

Asset Under Management Assets Under Management decreased by ~2.3% to PKR 47.4bln by end Feb-18 (Jun-18: PKR 48.5bln). Decline in AUMs emanated mainly in income category due to changing interest rate environment.

Asset Manager The total revenue declined by ~12% in the quarter ended Dec-18 as compared to Dec-17 mainly due to capital loss on sale of investments. The company suffered a loss of ~PKR 19mln in 2QFY19, as compared to net income of ~17mln in the same period last year. The company's total equity of PKR 1,456mln is well above the regulatory requirement.

Financial Summary: MCB-Arif Habib Savings and Investments Limited

Sr. no	Fund Name	Assets Under Management		Return CY18 (%)	Top Ten Investor Concentration (%)	Performance Ranking / Stability Rating
		Feb'19 (PKR mln)	Jun'18 (PKR mln)			
1	Alhamra Daily Dividend Fund	414	502	6.2	37.8	AA-
2	Alhamra Islamic Active Allocation Fund	1,001	1,404	2.1	27.9	-
3	Alhamra Islamic Active Allocation Fund II	763	794	(1.6)	37.1	-
4	Alhamra Islamic Asset Allocation Fund	3,661	3,634	(2.8)	19.9	4-Star
5	Alhamra Islamic Income Fund	1,472	1,571	6.1	52.6	AA-
6	Alhamra Islamic Stock Fund	2,345	2,600	(8.9)	64.7	3-Star
7	MCB Cash Management Optimizer	12,696	11,993	6.5	50.4	AA+
8	MCB DCF Income Fund	3,801	4,872	5.7	33.7	A+
9	MCB Pakistan Asset Allocation Fund	2,888	3,213	(5.1)	37.4	3-Star
10	MCB Pakistan Frequent Payout Fund	299	487	4.9	49.1	4-Star
11	MCB Pakistan Sovereign Fund	516	585	5.4	53.2	AA-
12	MCB Pakistan Stock Market Fund	11,462	10,113	(7.1)	46.3	4-Star
13	Pakistan Capital Market Fund	571	619	(2.8)	22.5	4-Star
14	Pakistan Cash Management Fund	217	889	5.3	64.9	AA+
15	Pakistan Income Enhancement Fund	816	1,350	5.9	34.2	A+
16	Pakistan Income Fund	1,281	1,519	6.3	37.9	A+

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)

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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