



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 |
|--------------------|------------------|-------------------|----------|-----------|--------------|
| 06-Oct-2020        | AM1              | -                 | Stable   | Upgrade   | -            |
| 08-Oct-2019        | AM2++            | -                 | Positive | Maintain  | -            |
| 08-Apr-2019        | AM2++            | -                 | Positive | Maintain  | -            |
| 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  | -            |
| 07-Apr-2015        | AM2+             | -                 | Stable   | Upgrade   | -            |

**Rating Rationale and Key Rating Drivers**

The rating reflects the Company's positioning as one of the leading players in the AMC industry, supported by strong control environment, structured Investment processes, good governance framework and qualified management team. The rating upgrade takes into account improvement across key performance areas including investment management, fund performance, control framework and growth & diversity in assets under management. The rating reflects the sizable growth in AUMs of the Company, which have increased by ~50% at end Jun'20 on YoY basis. The growth momentum is expected to continue with management focusing on strengthening its digital presence and outreach. The Company is also managing one of the largest AUMs base under SMA segment and holds significant share of the investment advisory domain. The Company has segregated its Compliance and Risk Management function in line with the best practices to strengthen its control environment. The Company has a large retail customer base with improving granularity resulting in stable AUMs. With a comprehensive portfolio of fifteen open-end mutual funds and two voluntary pension schemes, the Company offers a wide range of products for its customers. The Company's association with MCB Bank Limited – one of the largest commercial bank – and ensuing synergies have supplemented growth. The funds under management have shown consistent and good long term performance when compared to peers. The profitability of the Company has improved notably in FY20 on the back of improving revenue generation ability and declining sales and marketing expenses due to a shift towards digitization. The Company enjoys sound liquidity and has sufficient lines available, if need arises.

The rating is dependent upon the Company's ability to sustain its market share and upholding strong investment processes and control environment. Meanwhile, consistent performance of funds compared to benchmark and peers is critical. Any sustained downturn in fund performance and/or significant loss in market share will impact the rating.

**Disclosure**

|                              |   |
|------------------------------|---|
| <b>Name of Rated Entity</b>  | MCB-Arif Habib Savings and Investments Limited        |
| <b>Type of Relationship</b>  | Solicited   |
| <b>Purpose of the Rating</b> | Asset Manager Rating                                  |
| <b>Applicable Criteria</b>   | Methodology   AMC (Jun-20)                            |
| <b>Related Research</b>      | Sector Study   Asset Managers(Jun-20)                 |
| <b>Rating Analysts</b>       | Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504 |



## Profile

**Structure** MCB-Arif Habib Limited Savings and Investments Limited (MCB-AH or "the Company") is a public listed company, regulated by the SECP.

**Background** MCB-AH was incorporated in 2000 as Arif Habib Investments Limited and subsequently merged with MCB Asset Management Company in 2011, with the objective of achieving synergies in asset management business and access to a wider distribution network. Pursuant to the merger the name of the Company was changed to MCB-Arif Habib Savings and Investments Limited. The Company holds licenses for Asset Management, Investment Advisory and Pension Fund Management.

**Market Share** MCB-AH managed to sustain and improve its market share despite the Covid-19 situation. Reflecting the efforts of management in increasing its retail clientele. The market share of MCB-AH stood at ~8.6% at end Jun'20 (Dec'19: 8.5%), the Company achieved the market share of ~9% in Mar'20.

**Diversification Of Fund Mix** MCB-AH caters to both conventional and Shariah compliant clientele and is currently managing a diverse product slate of fifteen open end funds and two voluntary pension schemes. The Company is also managing one of the largest AUMs base under SMA segment and holds significant position in the investment advisory domain.

**Investor Concentration** The average top ten investor's concentration at fund level stood at ~50% at end Jun'20. The average related party holding was ~17% of the total AUMs. Diversified customer base bodes well for fund retention and limits redemption pressure.

## Ownership

**Ownership Structure** The major shareholders of MCB-AH are MCB Bank Limited ~51%, Arif Habib Corporation Limited ~30% and Adamjee Insurance Company Limited ~8%. The general public holds remaining ~11% of the shares.

**Business Acumen** MCB Bank Limited is one of the oldest and prestigious bank in Pakistan since 1947. The majority stake of the bank is owned by the Nishat Group, which has a presence in major business sectors of the country including 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** MCB Bank Limited (rated 'AAA') has an asset base of ~PKR 184bln at end Jun'20 accompanied by equity of ~PKR 13bln. Comfort can be drawn from the strong financial profiles and the support expected by sponsors, if needed.

## Governance

**Board Structure** MCB-AH's control vests in eight-member board, comprises the CEO, two representatives from MCB Bank Limited, two representatives from Arif Habib Group. There are three independent directors.

**Members' Profile** The Chairman, Mr. Rashid besides holding this office also serves at senior positions of several prestigious organizations. The Vice Chairman/Director, Mr. Nasim Beg, has served at senior positions in asset management and the automobile industry. Previously, he was a member of the Prime Minister's Economic Advisory Council.

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, MCB-AH has constituted an Audit Committee and HR Committee at board level. Meeting minutes are formally recorded with strong follow up.

**Transparency** MCB-AH has an in-house internal audit department to monitor the internal controls. The external auditors of the Company are M/S KPMG Taseer Hadi & Co. They have a satisfactory QCR rating and are classified in the 'A' category of SBP Panel of Auditors.

## Management

**Organizational Structure** MCB-AH has a well-defined organizational structure having departments and sub departments reporting to independent MANCOM member. The departments are mainly, i) Internal Audit ii) Finance & Taxation iii) Fund Accounting iv) Operations & Settlement v) Risk Management vi) Quality Assurance and CS vii) Compliance viii) Marketing ix) Information Technology x) Human Resources xi) Sales and marketing xii) Investment, Research & Product Development

**Management Team** The management team of MCB-AH comprises of experienced and qualified professionals. The CEO, Mr. Saqib Saleem, possesses ~20 years of experience. He has primarily worked for JS Investments, Atlas Asset Management, and Habib Bank Limited. The CFO, Mr. Asif Mehdi Rizvi, possess overall ~21 years of experience. The Company has witnessed a very low turnover rate in the key management positions, resulting in a stable management.

**Technology Infrastructure** MCB-AH has successfully strengthened its technological platform to enhance its outreach and improve customer services. MCB-AH has in-house unit holder accounting system, which contains interactive dashboards providing real-time information to fund managers, facilitating investment decision making.

**Control Environment** In-line with the best practices, MCB-AH is operating separate Risk Management and Compliance departments and both departments are headed by different individuals. The departments ensures compliance with all applicable statutory regulations and internal investment guidelines.

## Investment Risk Management

**Credit Risk** The Risk management department regularly issues investment evaluation reports for debt instruments after conducting a thorough analysis for every collective investment scheme. The debt instruments are assessed by the Risk management and ratings are assigned based on internal rating methodology.

**Liquidity Profile** MCB-AH ensures sufficient liquidity is maintained by investing significant portion of funds' assets in liquid investment avenues. Risk management department vigilantly monitors the liquidity profile to avoid any mismatch between portfolio allocations and redemption patterns.

**Market Risk** The Risk management department has developed in-house risk measures to monitor market risk. Different tools and methods are being used to calculate volatility and value at risk estimates for marketable securities.

## Portfolio Management

**IC Composition** The Investment Committee comprise the CEO, CIO, head of equity, head of fixed income, research analysts and respective fund managers.

**Effectiveness** The Investment Committee reviews the investment strategy of each fund under management and its performance on regular basis to incorporate the impact of various factors on funds' performance. Induction of independent research head will further enhance effectiveness.

**Investment Research And Analysis** MCB-AH has an in-house research department headed by Mr. Awais Abdul Sattar. The department comprises of seven experienced and qualified individuals. The models are linked with the research terminal so as to generate real-time comparisons within and across sectors.

## Customer Relationship

**Investor Services** MCB-AH has implemented a specialized software for customer relationship management. It provides a centralized platform for facilitating, directing and monitoring sales and marketing activities. The Company provides investment services through iSave which displays key information for investors and provides the facility of account opening, conversions and redemption of funds.

**Investor Reporting** MCB-AH disseminates unit holder statements and publishes the fund manager reports on its website in a timely manner. The FMR comprehensively cover developments on the macroeconomic front and also includes a review of the equity and money market segment.

**Distribution And Sales Network** MCB-AH has a strong distribution network of fifteen branches across the country and agreements with third party distributors. The management is focusing on enhancing its digital presence and geographical presence, going forward.

## Performance

**Asset Under Management** The AUMs base increased to ~PKR 66bln at end Jun'20 (Dec'19: ~PKR 58bln). The market share improved nominally to ~8.6% at end Jun'20 (Jun'19: 8.2%) as the industry grew at a faster pace with strong competition. The AUM's under SMA stood at ~PKR 51bln at end Jun'20. The overall funds performance remained satisfactory and above the benchmark. More than 50% of the funds performance fall in top quartile.

**Asset Manager** MCB-AH reported net profit of ~PKR 256mln for the year ended Jun'20 (FY19: ~PKR 24mln). The equity stood at ~PKR 1.5bln at end Jun'20, which is well above the minimum capital requirement of PKR 230mln



The Pakistan Credit Rating Agency Limited

| Fund's Performance   MCB-AH Savings and Investments Limited |  |                                    |            |                |        |        |  |           |        |                   |                 |                                 |                           |
|---|--|------------------------------------|------------|----------------|--------|--------|--|-----------|--------|-------------------|-----------------|---------------------------------|---------------------------|
| Sr. No.   | Fund Name  | Category                           | Weight (%) | AUMs (PKR' mn) |        |        | Return   12 M Trailing (%)<br>(Jul'19 to Jun'20) |           |        | 12 M Trailing     |                 | Top Ten Investors Concentration | Stability Rating (Dec'19) |
|   |  |                                    |            | Jun'20         | Mar'20 | Dec'19 | Return   | Ind. Avg. | Bench. | Fund vs. Industry | Fund vs. Bench. |                                 |                           |
| 1   | Alhamra Daily Dividend Fund  | Shariah Compliant Income           | 4.9%       | 3,237          | 2,668  | 1,125  | 11.9%  | 10.4%     | 6.3%   | 1.5%              | 5.5%            | 51%                             | AA-                       |
| 2   | Alhamra Islamic Active Allocation Fund   | Shariah Compliant Fund of Funds    | 0.5%       | 341            | 362    | 441    | 6.4%   | 4.5%      | 0.0%   | 1.9%              | 6.4%            | 57%                             | -                         |
| 3   | Alhamra Islamic Active Allocation Fund II  | Shariah Compliant Fund of Funds    | 0.3%       | 177            | 183    | 238    | 11.8%  | 4.5%      | 1.6%   | 7.3%              | 10.2%           | 75%                             | -                         |
| 4   | Alhamra Islamic Asset Allocation Fund (Formerly: Pak. Intl. Element Islamic Asset Allocation Fund) | Shariah Compliant Asset Allocation | 3.0%       | 1,964          | 1,629  | 2,611  | -0.8%  | 5.8%      | 0.7%   | -6.6%             | -1.4%           | 27%                             | -                         |
| 5   | Alhamra Islamic Income Fund (Formerly: MCB Islamic Income Fund)                                    | Shariah Compliant Income           | 6.0%       | 3,953          | 3,213  | 2,578  | 11.6%  | 10.4%     | 6.4%   | 1.2%              | 5.3%            | 36%                             | AA-                       |
| 6   | MCB Pakistan Frequent Payout Fund*   | Asset Allocation                   | 0.2%       | 152            | 148    | 179    | 4.4%   | 3.1%      | 13.0%  | 1.3%              | -8.6%           | 66%                             | -                         |
| 7   | Alhamra Islamic Stock Fund (Formerly: MCB Pakistan Islamic Stock Fund)                             | Shariah Compliant Equity           | 4.0%       | 2,656          | 1,937  | 2,937  | 2.4%   | -1.3%     | 1.6%   | 3.7%              | 0.8%            | 54%                             | -                         |
| 8   | MCB Cash Management Optimizer  | Money Market                       | 42.4%      | 28,106         | 27,012 | 20,271 | 12.7%  | 12.6%     | 11.6%  | 0.1%              | 1.1%            | 32%                             | AA+                       |
| 9   | MCB DCF Income Fund  | Income                             | 6.1%       | 4,033          | 4,226  | 4,260  | 11.7%  | 14.3%     | 13.0%  | -2.6%             | -1.3%           | 55%                             | AA-                       |
| 10  | MCB Pakistan Asset Allocation Fund   | Asset Allocation                   | 2.0%       | 1,299          | 1,092  | 1,591  | -3.6%  | 3.1%      | -0.3%  | -6.7%             | -3.3%           | 68%                             | -                         |
| 11  | MCB Pakistan Sovereign Fund  | Income                             | 2.7%       | 1,816          | 2,637  | 2,510  | 16.4%  | 14.3%     | 12.9%  | 2.1%              | 3.5%            | 38%                             | AA-                       |
| 12  | MCB Pakistan Stock Market Fund   | Equity                             | 13.3%      | 8,804          | 7,281  | 9,574  | -2.4%  | -1.2%     | 1.5%   | -1.2%             | -3.9%           | 55%                             | -                         |
| 13  | Pakistan Capital Market Fund   | Balanced                           | 0.6%       | 415            | 397    | 515    | 4.9%   | 4.4%      | 2.3%   | 0.5%              | 2.6%            | 23%                             | -                         |
| 14  | Pakistan Cash Management Fund  | Money Market                       | 5.6%       | 3,693          | 4,063  | 4,399  | 12.0%  | 12.6%     | 11.6%  | -0.6%             | 0.4%            | 98%                             | AA+                       |
| 15  | Pakistan Income Enhancement Fund   | Aggressive Fixed Income            | 1.1%       | 707            | 772    | 760    | 14.5%  | 12.3%     | 13.1%  | 2.2%              | 1.4%            | 36%                             | A+                        |
| 16  | Pakistan Income Fund   | Income                             | 3.1%       | 2,076          | 1,646  | 1,554  | 14.0%  | 14.3%     | 13.0%  | -0.3%             | 0.9%            | 38%                             | A+                        |
| 17  | Pension Funds  | VPS                                | 4.2%       | 2,781          | 2,475  | 2,755  | -  | -         | -      | -                 | -               | -                               | -                         |
| Sum/Average:  |  |                                    |            | 66,210         | 61,744 | 58,299 |  |           |        |                   |                 |                                 |                           |

\* MCB Pakistan Frequent Payout Fund (MCBPFPPF) was converted into Alhamra Islamic Money Market Fund (AIMMF) on 21 August 2020. The AUMs, fund return, benchmark and industry average performance mentioned here pertains to MCBPFPPF - Asset Allocation Category.

**Asset Manager Rating**

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

| Scale                | Definition   |
|----------------------|--|
| AM1                  | <b>Very high quality.</b> Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.                   |
| AM2++<br>AM2+<br>AM2 | <b>High quality.</b> Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors. |
| AM3++<br>AM3+<br>AM3 | <b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.  |
| AM4++<br>AM4+<br>AM4 | <b>Adequate quality.</b> Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.         |
| AM5                  | <b>Weak.</b> Asset manager does not meet the minimum investment management industry standards and benchmarks.  |

|   |   |  |   |   |
|---|---|--|---|---|
| <p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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 surveill the opinion due to lack of requisite information.</p> | <p><b>Harmonization</b><br/>A change in rating due to revision in applicable methodology or underlying scale.</p> |
|---|---|--|---|---|

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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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- (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)

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