



The Pakistan Credit Rating Agency Limited

## Rating Report

### Alfalah GHP Investment Management Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Feb-2019	AM2+	-	Stable	Maintain	-
10-Aug-2018	AM2+	-	Stable	Maintain	-
22-Dec-2017	AM2+	-	Stable	Maintain	-
16-May-2017	AM2+	-	Stable	Upgrade	-
08-Jun-2016	AM2	-	Stable	Harmonize	-

#### Rating Rationale and Key Rating Drivers

The rating incorporates the company's strong ownership and governance profile due to its association with a renowned financial institution – Bank Alfalah Limited. The rating reflects the clear organizational structure, well-diversified fund slate, strong risk management framework, seasoned management team, structured investment process and quality support systems.

The rating reflects the company's growing market share in its assets under management and its prominent position in the investment advisory domain. At end Dec-18, the SMA portfolio stood at ~14bln and assets under management stood at ~PKR 31bln (~PKR 26bln in Dec-17) with system share of ~5.4%. The top ten investor concentration stood at ~65%, represents moderate redemption pressure. The company's reported equity stood at ~PKR 810mln as at end Sep-18.

The rating is dependent on the organization's capacity to effectively execute its business plan leveraging on group synergies to augment its system share, while reducing investor concentration. In the meantime, establishing a strong and stable fund performance would be vital.

#### Disclosure

<b>Name of Rated Entity</b>	Alfalah GHP Investment Management Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	Methodology   AMC (Jun-18)
<b>Related Research</b>	Sector Study   Asset Managers(Dec-18)
<b>Rating Analysts</b>	Muhammad Usman   muhammad.usman@pacra.com   +92-42-35869504



## Profile

**Structure** Alfalah GHP Investment Management Limited is a public unlisted company.

**Background** Incorporated in October 2004, the company commenced its operations in March 2005 and is registered as an asset management company and investment adviser under the Non-Banking Finance Companies Regulations.

**Market Share** The company has a market share of ~5.4% at the end Dec-18 (Dec-17: ~4.6%).

**Diversification Of Fund Mix** The company is currently managing a diverse product slate of seventeen funds. During CY18, the company launched three plans, two under the category of Shariah Compliant Fund of Funds and one under the category of Capital Protection.

**Investor Concentration** The top ten investors concentration is ~65% at end Sep-18.

## Ownership

**Ownership Structure** MAB Investment Inc holds the highest stake in the company which stands ~42% followed by Bank Alfalah Limited (BAFL) ~40% and GHP Beteiligungen AG ~14%.

**Business Acumen** The main sponsors of the company are Bank Alfalah Limited and GHP Financial Services AG. In 2007 MAB Investments introduced as another shareholder of the company. MAB Investments is one of the investment companies of H.H. Sheikh Nahayan bin Mubarak Al Nahayan, a member of the Abu Dhabi Ruling Family.

**Financial Strength** Building on decades of expertise, Alfalah GHP Investment Management Limited enjoys a strong financial foundation emanating from its well-diversified profitable businesses.

## Governance

**Board Structure** The company's eight-member BoD includes the CEO along with three representatives of BAFL, one representative of GHP Beteiligungen Limited, one representative of MAB Investments and two directors are independent.

**Members' Profile** Ms. Maheen Rahman is the Chief Executive Officer of Alfalah GHP Investment Management, and has over fourteen years of experience in investment banking, research and asset management.

**Board Effectiveness** The board is chaired by Mr. Adeel Khalid Bajwa. He is the CEO of Dhabi Group based in Abu Dhabi, United Arab Emirates. There are three board committees that include audit, HR and risk management committee.

**Financial Transparency** The internal audit function has been outsourced to a reputable firm, Deloitte Pakistan, which reports directly to the audit committee on a quarterly basis.

## Management

**Organizational Structure** The company operates under the guidance of Chief Operating Officer through nine departments, each with its well-defined and specific functions.

**Management Team** The existing senior management team of Alfalah GHP consists of qualified and experienced professionals and has demonstrated stability during the year. Mr. Nabeel Malik – Head of Investments – an MBA in finance carries sound fund management experience of over a decade.

**Technology Infrastructure** The company is currently using ERP developed by Sidat Hyder Morshad & Co. (Pvt.) Limited as its core software. However, the company is in the process of upgrading the version of the ERP.

**Control Environment** The company has devised detailed policies for IT, operations, research and risk management. The company uses excel based models to monitor the exposure limits and margins.

## Investment Risk Management

**Credit Risk** The company used excel based credit risk models with a combination of qualitative and quantitative analysis. The models also provide statistical estimates for counter party credit risk.

**Liquidity Profile** The risk management department vigilantly monitors the liquidity profile of the company. Sufficient liquidity is maintained by investing a significant portion of funds assets in liquid investment avenues.

**Market Risk** The company has set appropriate metrics to measure exposure to market risk factors. Excel-based financial models are being used to measure the sensitivity of the portfolio instruments due to changes in interest rates.

## Portfolio Management

**IC Composition** The Investment Committee comprises CEO, COO, CIO, Head of equities, Head of Compliance and Portfolio Manager.

**Effectiveness** The IC formally meets on a weekly basis to, develop investment strategies, take major portfolio-related decisions and to monitor fund's performance.

**Investment Research And Analysis** The company's research department comprises four analysts. The research function operates under the supervision of Chief Investment Officer, Mr. Nabeel Malik. The department is involved in the fundamental analysis of key sectors and stocks to identify attractive investment opportunities.

## Customer Relationship

**Investor Services** The company is actively promoting its online information portal which would allow the investors real-time access to their accounts. The company has launched its personal app where investors can have real-time access to their investment portfolio.

**Investor Reporting** The company facilitates its customers in respect of reporting and communication. The fund manager reports of all the funds under management are sent to the investors on regular basis. Valuation report is sent to the customers on weekly basis containing comparison of funds' performance amongst its peers,

**Distribution And Sales Network** The corporate sales department is headed by Ms. Mehwish Aslam, whilst the retail sales department is headed by Mr. Qasim. Currently, the company has 44 members sales' team. The company has developed an extensive marketing strategy to increase its size in the retail sales through capitalizing on the parent bank's network.

## Performance

**Asset Under Management** The AUMs of the company reached ~PKR 31bln at end Dec-18, as compared to ~PKR 26bln at Dec-17, depicted an increase of ~22%. The growth in assets is mainly owed to a fresh influx in mutual funds units. AGHP-MMF, AGHP-IIF, AGHP-ISF and AGHP-IVF met their benchmark returns in CY18.

**Asset Manager** The company has reported a net profit of ~PKR 76mln and ~PKR 38mln for 1HCY18 and 1QFY19, respectively. The company's equity stood at ~PKR810mln at end Sep-18, above than the minimum capital requirement of PKR 230mln.

**Financial Summary: Alfalah GHP Investment Management Limited**

Sr. no	Fund Name	Asset Under Management		Return YTD	Top 10 Investor Concentration Sep-18	Performance Ranking / Stability Rating
		Dec18 (PKR mln)	Dec17 (PKR mln)			
1	Alfalah GHP Alpha Fund	1,394	1,618	(12.1%)	75.3%	-
2	Alfalah GHP Cash Fund	102	105	6.3%	98.4%	AA+
3	Alfalah GHP Income Fund	310	545	5.6%	89.6%	A+
4	Alfalah GHP Income Multiplier Fund	447	1,558	2.9%	73.9%	A+
5	Alfalah GHP Islamic Income Fund	4,580	7,229	5.8%	86.5%	A+
6	Alfalah GHP Islamic Stock Fund	3,272	5,051	(10.5%)	54.8%	-
7	Alfalah GHP Islamic Value Fund	188	379	(6.9%)	69.4%	-
8	Alfalah GHP Money Market Fund	13,748	2,061	7.6%	58.7%	AA+
9	Alfalah GHP Sovereign Fund	936	1,332	6.2%	57.2%	AA-
10	Alfalah GHP Stock Fund	2,205	2,321	(12.5%)	56.1%	-
11	Alfalah GHP Value Fund	1,665	2,257	(7.3%)	26.6%	-

## Asset Manager Rating Scale & Definitions

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++ AM2+ 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++ AM3+ AM3	<b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ 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.

**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)
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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)
- (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)

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- (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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