



The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Asset Management Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2019	AM2+	-	Stable	Maintain	-
28-Dec-2018	AM2+	-	Stable	Maintain	-
30-Jun-2018	AM2+	-	Stable	Maintain	-
22-Dec-2017	AM2+	-	Stable	Maintain	-
04-May-2017	AM2+	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating incorporates the company's good governance structure, experienced management team, structured investment process and good fund performance. The affiliation with renowned Atlas Group provides support to the rating. The rating incorporates the competitive performance of its funds when compared to peers. Despite the outflow of the AUMs from equity funds in the mutual fund industry, the AMC managed to maintain its market share in this category. The overall market share of the company witnessed a slight decrease. The company's AUMs reached at ~PKR 28bln, depicted a decrease of ~15% as compared to corresponding period last year. Lately, the company has acquired an advisory licence from SECP. During 1HCY19, the management increased its fund slate by introducing 2 new funds (including Atlas Islamic Dedicated Stock Fund) and 3 plans under Shariah-Compliant Fund of Funds. The company has an adequate foothold in the retail avenue and it needs concentrated efforts to improve its standing in this regard. The strengthening of the sales team should provide impetus in augmenting retail penetration.

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The rating is dependent on upholding existing organization structure along with the strengthening of key human resources, maintaining its technological infrastructure, increase in AUMs and good fund performance. The diversity in the fund slate and customer outreach through different channels also remains imperative for the rating.

Disclosure

Name of Rated Entity	Atlas Asset Management 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	Muhammad Usman muhammad.usman@pacra.com +92-42-35869504

Profile

Structure Atlas Asset Management Limited (AAML), incorporated in 2002, is a privately owned asset management company.

Background The company is a wholly owned subsidiary of Shirazi Investments (Pvt.) Limited. It manages assets on behalf of retirement funds, welfare organizations, insurance companies, multinationals, NBFCs and individuals.

Market Share The AMC witnessed a slight decrease in its market share from Mar-18: 5.5% to Mar-19: 4.9%.

Diversification Of Fund Mix The company is currently managing a diverse product slate of eight open-end funds in multiple categories, one pension and one Islamic pension fund. Furthermore, the company has changed one of its funds category from Money Market Scheme to Income Scheme, Atlas Sovereign Fund (Formerly: Atlas Sovereign Liquid Fund). The company also has a license for Investment Advisory. As an investment adviser, the company manages two discretionary portfolios and various advisory clients.

Investor Concentration The top ten investors concentration is ~80% at end Mar-19. Average related party holdings represent ~52% of the total AUMs of the company.

Ownership

Ownership Structure The company is a wholly owned (100%) subsidiary of Shirazi Investments (Pvt.) Limited – the holding company of Atlas Group. The company's total shareholder's equity stood at ~PKR 747mln at the end Mar-19.

Business Acumen Shirazi Investments (Pvt.) Ltd, founded in 1962, is a diversified group dealing in manufacturing, financial services, real estate and power sector.

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

Governance

Board Structure The company's seven member board of directors comprises five representatives of Atlas Group including the CEO. The remaining two are independent directors.

Members' Profile The board includes the CEO, Mr. Muhammad Abdul Samad, who has completed Advanced Management Programme from INSEAD and holds postgraduate qualifications from University of Karachi & Southeastern University and also holds certification from IFMP. He has been associated with the company for over thirteen years and held C-Suite positions for over a decade.

Board Effectiveness The board actively provides guidance to the company and has setup audit, investment and HR committees.

Financial Transparency The company has an in-house internal audit department to evaluate and improve the internal control system. Mr Uzair Uddin, an experienced individual, heads the department. The department directly reports to the Audit Committee of the BoD. The external auditor of the company is Deloitte Pakistan and they provided an unqualified opinion on the Financial Statements of FY18.

Management

Organizational Structure The company operates under the guidance of Chief Executive Officer who oversees various departments, each with its well-defined and specific functions: 1) Finance, 2) Sales and Sales Support, 3) IT, 4) Internal Audit, 5) Marketing & Training, 6) HR, 7) Risk Management, 8) Admin, 9) Compliance and 10) Investment Advisory.

Management Team The company's existing team is well qualified with related experience and has demonstrated stability during the year. The CIO, Mr. Khalid Mahmood, holds an MBA degree with Majors in Finance from Bahria University. He has more than a decade of professional experience in research and fund management.

Technology Infrastructure The company has entered into a Service Level Agreement (SLA) with ITMinds Limited for the outsourcing of back-office functions. Under the agreement, ITMinds Limited will provide back-office services in relation to the accounting settlement, unit management operations and NAV calculation.

Control Environment The company has devised detailed policies for IT, operations, research, investment and risk management. The company uses a dedicated software which notifies about any breach in exposure limits and specified margins.

Investment Risk Management

Credit Risk The company has developed an internal risk assessment software to evaluate the risk of the overall portfolio. Exposure limits and margins are properly defined with inbuilt restrictions.

Liquidity Profile The operational front of risk management department vigilantly monitors the liquidity profile of the company.

Market Risk The company has set appropriate metrics to measure exposure to market risk factors. The department has developed VaR and sensitivity analysis models to monitor market risk.

Portfolio Management

IC Composition The company's investment committee comprises six members including the CEO, CIO, fund managers along with a non-executive director. The risk manager and research manager both participate in the IC meetings as non-voting members.

Effectiveness The IC formally meets on a weekly basis in order to take investment decisions. The fund managers are responsible for the implementation of investment decisions and ensuring a smooth investment process. The CIO and the management team have been associated with the company for the past many years which also depicts the consistent fund strategy.

Investment Research And Analysis Mr. Faizan Khan Ghori resigned from AAML, he was managing the research function of the company. The company is in the process to fill the vacant position. The department consists of 4 individuals. Currently, the department functions under the supervision of CIO.

Customer Relationship

Investor Services The company has implemented 'Investors Help Desk System' for effective management of the queries received from the investors. The company has launched certain financial tools on its website for the benefit of the investors; these include a tax savings calculator along with a pension simulator. The Pension Simulator, launched by the company is the first in the industry, which provides the investors with financial forecasts based on actuarial estimations.

Investor Reporting The company's well-developed website is used as a reporting platform for dissemination of information pertaining to the company, management, NAV history, fund performance, product characteristics and other important announcements. The company has also developed an application for automatic distribution of NAV via SMS to facilitate its investors.

Distribution And Sales Network There has been an increase in the sales staff. Currently, the company has 33 individuals in its sales department for both retail and institutional clients. The head of sales is highly focused on retail clients due to which the number of retail investors accounts have increased.

Performance

Asset Under Management The AUMs of the company reached ~PKR 28bln at end Mar-19, as compared to ~PKR 33bln at Mar-18, a decrease of ~15%. The decrease in assets was mainly due to the stock market poor performance, redemption from sponsors and individuals. AMMF, ASMF, AISF and AIIF met their benchmark returns in 9MFY19.

Asset Manager The company has reported a net profit of ~PKR 66mln and ~PKR 34mln for FY18 and 9MFY19, respectively. The company's equity stood at ~PKR 747mln at end Mar-19, above than minimum capital requirement of PKR 230mln.

Financial Summary: Atlas Asset Management Limited

Sr. no	Fund Name (Category)	Asset Under Management		Return 9MFY19	Top 10 Investor Concentration Mar-19	Performance Ranking / Stability Rating
		Mar19 (PKR mln)	Mar18 (PKR mln)			
1	Atlas Income Fund	3,663	8,307	7.5%	90.2%	AA-
2	Atlas Islamic Income Fund	739	983	7.8%	68.2%	AA-
3	Atlas Islamic Stock Fund	1,207	2,397	(5.3%)	59.2%	-
4	Atlas Money Market Fund	13,729	13,654	8.3%	84.0%	AA
5	Atlas Sovereign Fund	419	353	8.0%	98.6%	AA
6	Atlas Stock Market Fund	5,704	5,658	(6.5%)	79.5%	-

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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