



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
26-Dec-2019	AM2+	-	Stable	Maintain	-
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	-
08-Jun-2016	AM2	-	Stable	Harmonize	-
15-Apr-2016	AM2-	-	Stable	Maintain	-
17-Apr-2015	AM2-	-	Stable	Maintain	-
18-Apr-2014	AM2-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating incorporates the Company's strong governance structure, accomplished management team, structured investment process and stable market share. The rating incorporates the Company's association with a renowned business group, Atlas group. The overall AUMs of the Company reduced resulting in slight dip in market share to ~4.5% (~5.0% at end Dec-18). However, the Company managed to somewhat maintain its AUM's in the equity category, despite outflows witnessed in the industry. The fund performance remained adequate when compared to peers. The management introduced 4 plans under Shariah-Compliant Fund of Funds during FY19. The Company acquired an advisory licence from SECP in FY19, to further diversify the revenue stream. The Company has a modest standing in the retail avenue and intends to strengthen its sales team to provide impetus in augmenting retail penetration.

The rating is dependent on upholding strong governance and organizational structure. Meanwhile, increasing market share and customer outreach along with consistent fund performance remains imperative.

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-19)
Related Research	Sector Study Asset Manager(Jun-19)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Structure Atlas Asset Management Limited ("AAML" or "The Company"), was incorporated in 2002 as a public unlisted 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, in addition to group funds.

Market Share AAML observed a slight decrease in its market share from ~5.0% at end Dec-18 to ~4.5% at end Sep-19.

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. The Company also has a license for investment advisory. As an investment adviser, the Company manages two discretionary SMA's and has several advisory clients on board.

Investor Concentration The top ten average investors concentration is ~83% in the funds of AAML with average related party holdings contributing ~71% to the total AUM's. The higher proportion of group funds limits redemption pressure to an extent.

Ownership

Ownership Structure The Company is a wholly owned (100%) subsidiary of Shirazi Investments (Pvt.) Limited – the holding company of Atlas Group.

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, AAML enjoys a strong financial foundation emanating from the well-diversified profitable businesses.

Governance

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

Members' Profile The Board will elect a new Chairman in the next board meeting after the sad demise of Mr. Yusuf H. Shirazi. The Board includes a new member, Mr. Iftikhar H. Shirazi, who was appointed Director in Nov-19 in place of Mr. Yusuf H. Shirazi. He is currently Chairman of Shirazi Investments (Pvt) Limited. He is also serving on the Board of Governors of the British Overseas Association. He has also served Management Association of Pakistan as their Vice President.

Board Effectiveness The Board ensures effective governance structure through its committees, namely (i) Audit (ii) Human Resource & Remuneration Committee.

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 Company has appointed Shinewing Hameed Chaudhri & Co, classified in 'B' category by SBP, as its new external auditor for FY20. Previously, Deloitte Yousof Adil provided an unqualified opinion on the Financial Statements of FY19.

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. These include: 1) Finance, 2) Sales and Sales Support, 3) IT, 4) Internal Audit, 5) Marketing, 6) HR & Admin, 7) Risk Management, 8) Compliance and 9) Investment Advisory.

Management Team The Company's existing team is well qualified with relevant experience. Almost all of the top management has been associated with AAML for a significant period of time, which shows stability and strong employee retention. The top management 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. He has been associated with the Company for over thirteen years and held C-Suite positions for over a decade. 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 risk management department 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. 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, Head of Portfolio Management, Head of Equities, Head of Fixed Income, along with a non-executive director.

Effectiveness The composition and functioning of the IC is considered adequate. 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.

Investment Research And Analysis The research department of the Company comprises four individuals. The Research function is headed by Mr. Bilal Farooq, with three analysts working under his supervision.

Customer Relationship

Investor Services The Company has implemented 'Investors Help Desk System' for effective management of 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. The Atlas Invest app provides investors the facility to manage their investments on the go.

Distribution And Sales Network There has been an increase in the sales staff. Currently, the Company has 30 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 and now the focus has turned to increasing the AUM of the Company.

Performance

Asset Under Management The AUMs of the Company decreased to ~PKR 26bln at end Sep-19. (Dec-18: ~PKR 29bln, Sep-18: ~PKR 30bln). Atlas Money Market produced returns greater than its benchmark and industry average but still had redemptions. Atlas Sovereign Fund, Income category, was able to outperform the peers in its category and also witnessed a considerable influx in funds in CY19.

Asset Manager The Company has reported a net profit of ~PKR 34mln in FY19. (FY 18: ~PKR 65mln, 1QFY19 : ~PKR 16mln). The profits of the Company declined due to lower management fee and the Company's equity stood at ~PKR 739 mln at end Sep-19, sufficiently above the minimum capital requirement of PKR 230mln.

Fund's Performance Summary: Atlas Asset Management Limited								
Sr. No	Fund Name	Category	Assets Under Management		Return Sep-19 (Rolling 12 months) (%)	Benchmark Return Sep-19 (Rolling 12 months) (%)	Top Ten Investor Concentration (%)	Performance Ranking / Stability Rating (Sep-19)
			Sep'19 (PKR mln)	Sep'18 (PKR mln)				
1	Atlas Income Fund	Income	3,100	4,737	9.96%	11.64%	90.40%	AA- (f)
2	Atlas Stock Market Fund	Equity	5,152	5,970	-22.64%	-21.76%	83.09%	
3	Atlas Islamic Stock Fund	Shariah Compliant Equity	1,176	1,859	-23.57%	-26.12%	66.50%	
4	Atlas Islamic Income Fund	Shariah Compliant Income	979	680	10.16%	4.46%	53.06%	AA- (f)
5	Atlas Money Market Fund	Money Market	9,197	14,311	10.52%	10.24%	80.89%	AA (f)
6	Atlas Sovereign Fund	Income	3,055	362	10.32%	11.09%	95.93%	AA (f)
7	Atlas Aggressive Allocation Islamic Plan	Shariah Compliant Fund of Funds	90	-			100.00%	
8	Atlas Moderate Allocation Islamic Plan	Shariah Compliant Fund of Funds	103	-			99.95%	
9	Atlas Conservative Allocation Islamic Plan	Shariah Compliant Fund of Funds	121	-			99.89%	
10	Atlas Islamic Capital Preservation Plan	Shariah Compliant Fund of Funds - CPPI	433	-			97.96%	
11	Atlas Pension Fund	VPS	1,126	1,057			-	
12	Atlas Pension Islamic Fund	Shairah Compliant VPS	1,171	1,095			-	
	Total AUM		25,706	30,070				

Note: Fund of Funds were launched in Jan-19, therefore 12 months returns are not available.

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.

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- 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

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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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- (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)
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- (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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- (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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