



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Asset Management 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 |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 27-Jun-2019 | AM3+ | - | Stable | Maintain | - |
| 28-Dec-2018 | AM3+ | - | Stable | Maintain | - |
| 30-Jun-2018 | AM3+ | - | Stable | Maintain | - |
| 22-Dec-2017 | AM3+ | - | Stable | Maintain | - |
| 15-May-2017 | AM3+ | - | Stable | Maintain | - |

Rating Rationale and Key Rating Drivers

The rating reflects the company's adequately structured investment decision making process, experienced management, average fund performance and limited fund slate. The rating takes into account the company's association with a commercial bank, Bank Al-Habib Limited, though the translation of the brand name into AUMs remains limited. The company's AUMs decreased by ~18% and stood at ~PKR 3.3bln at end Mar-19 as compared to ~PKR 4bln in Mar-18. The company made a net loss for 9MFY19 despite having significant increase in its income. The loss was mainly due to rising administrative and operating expenses. Due to losses, the company's equity is eroding gradually and falling below the minimum regulatory capital requirement of PKR 230mln. The management intends to strengthen its financial performance by increasing its fund management revenue through the fresh influx of AUMs with a major focus on both retail and institutional clientele. The company is in the process of expanding the human resource and strengthening its functions.

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The rating is dependent on the company's ability to sustain its system share, recoup equity position, gain in terms of assets under management, diversification in fund slate and strong performance of its funds. Meanwhile, upholding high governance standards and strengthening of risk management is crucial for the rating.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | Habib 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 Habib Asset Management Limited (HAML), incorporated in September 2005, as an unlisted public limited company.
Background The company is a financial arm of Bank AL Habib Limited (AA+ rated bank) and Dawood Habib Group.
Market Share The company has a market share of ~0.6% at the end Mar-19.
Diversification Of Fund Mix The company is currently managing a diverse product slate of six open-end funds in multiple categories.
Investor Concentration The top 10 investors concentration is significantly high, which is ~79% at the end Mar-19. The average related party holdings represent ~1% in the funds.

Ownership

Ownership Structure Habib family and associates own ~70% of shareholding in the company, while Bank AL Habib Limited holds ~30% stake in the company
Business Acumen The company is a part of Habib group, which is one of the oldest and a distinguished name in Pakistan's banking, insurance, sugar, textile, auto, food and trade sectors.
Financial Strength Building on decades of professional experience, Habib Asset Management Limited enjoys a strong financial foundation emanating from its well diversified portfolio business.

Governance

Board Structure The Board of Directors of the company comprises six members including the CEO. Two members are non-executive, one executive and three are independent directors.
Members' Profile The CEO, Mr. Imran Azim, has more than three decades of professional experience in the mutual fund industry. He holds masters in business administration from Gomal University DI Khan with majors in the financial management.
Board Effectiveness The board actively provides guidance to the company and has setup audit and HR committee.
Financial Transparency The company has established an in-house internal audit department which reports to the audit committee. The internal audit assignment encompasses the review of internal control system of the company. The company's external auditors are Ernst & Young and they provided an unqualified opinion on the financial statements of FY18.

Management

Organizational Structure The company has a well-designed and formalized organization structure. It operates through nine main departments, out of which 7 directly report to the CEO
Management Team The senior management team of Habib Asset Management comprises qualified and experienced professionals. The CIO, Mr. Junaid Kasbati is an MBA with extensive experience of eighteen years of which more than thirteen years are with the company.
Technology Infrastructure The company has procured Asset Connect, a widely used IT system in the asset management industry. The software is integrated and comprises basic modules: (1) Unit Holder Module, (2) Portfolio Module, and (3) General Ledger (GL) Module.
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 To monitor credit risk, internal assessment modules are in place with a combination of qualitative and quantitative analysis. Excel based credit risk scorecards are being used to provide statistical estimates for counterparty 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 movements in interest rates. The exposure limits applicable to interest-bearing securities are regularly reviewed and reported to the management.

Portfolio Management

IC Composition The company's investment committee comprises of six members including the CEO, COO, CFO, CIO and Fund Managers.
Effectiveness The IC formally meets on fortnightly basis in order to take investment decisions.
Investment Research And Analysis The company has a research department which comprises one individual, the head of research. The research function is presided by the CEO. The department use excel based models for equity valuation.

Customer Relationship

Investor Services The company is providing sound investor services to its clients. For the ease of investors, the company has introduced an online chat facility where the investors can ask investment related questions, seek guidance and make a complaint. The company has launched an online redemption module to facilitate its customers. The module will enable the customers to redeem the invested units electronically.
Investor Reporting The AMC publishes the fund manager reports on its webpage in a timely manner. The webpage is also used as a reporting platform for dissemination of information pertaining to the company, management, NAV history, fund performance, product characteristics and other important announcements.
Distribution And Sales Network The company has an adequate distribution and sales network and needs improvement. Currently, the company does not have any distribution agreement with Bank AL Habib Limited.

Performance

Asset Under Management The company's assets under management decreased from ~PKR 4bln in Mar-18 to ~PKR 3.3bln in Mar-19, depicting a decrease of ~18%.
Asset Manager The company has reported a net loss of ~PKR 23mln for nine months period ended Mar-19. The company's equity stood at ~PKR 224mln at end Mar-19, which doesn't meet the minimum regulatory capital requirement of PKR 230mln.

Financial Summary: Habib Asset Management Limited

| Sr. no | Fund Name (Category) | Asset Under Management | | 9MFY19 | Top 10 Investor Concentration Mar-19 | Performance Ranking / Stability Rating |
|--------|-----------------------------------|------------------------|-----------------|--------|--------------------------------------|--|
| | | Mar19 (PKR mln) | Mar18 (PKR mln) | | | |
| 1 | First Habib Asset Allocation Fund | 101 | 206 | (3%) | 91% | 3-Star |
| 2 | First Habib Cash Fund | 2371 | 2521 | 8% | 65% | AA |
| 3 | First Habib Income Fund | 506 | 857 | 7% | 77% | AA |
| 4 | First Habib Islamic Income Fund | 101 | 139 | 6% | 94% | A |
| 5 | First Habib Islamic Stock Fund | 102 | 119 | (7%) | 80% | 4-Star |
| 6 | First Habib Stock Fund | 119 | 166 | (9%) | 69% | 3-Star |

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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