



The Pakistan Credit Rating Agency Limited

Rating Report

Lakson Investments Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Aug-2021	AM2+	-	Stable	Maintain	-
28-Aug-2020	AM2+	-	Stable	Maintain	-
29-Aug-2019	AM2+	-	Stable	Maintain	-
27-Feb-2019	AM2+	-	Stable	Maintain	-
28-Aug-2018	AM2+	-	Stable	Maintain	-
22-Dec-2017	AM2+	-	Stable	Maintain	-
15-May-2017	AM2+	-	Stable	Upgrade	-
08-Jun-2016	AM2	-	Stable	Harmonize	-
31-Mar-2016	AM2-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating incorporates the well defined strategy of Lakson Investments Limited (the "Company") to cater to the investment needs of institutional and high net worth investors. A Strong ownership and governance profile provide support to the rating. The Company has a well defined organizational structure, strong risk management framework, seasoned management team, innovative products and structured investment process. The Company has an adequate product slate. The fund mix has lately tilted towards money market category, in line with industry peers. Lakson Investments Limited is the only asset manager in Pakistan, which offers both domestic and internationally focused funds. The investor concentration at fund level remains high, an outcome of niche focused strategy of the Company. AUMs (CIS) of the Company witnessed a growth of ~20% to stand at ~PKR 22.7bln at end-Jun'21 (Jun'20: ~PKR 18.9bln). However, the market share declined nominally to ~2.2% at end-Jun'21 (Jun'20: ~2.4%) as the industry grew at a faster pace. To augment its revenue stream, the Company is also offering specialized investment products which includes Separately Managed Accounts with adequate AUMs as compared to peers, Private Equity and Venture Capital fund management. The overall performance of money market and income fund remained competitive and exceeded the industry averages. Equity and asset allocation funds lagged in performance when compared with benchmarks; however, the asset allocation funds exceeded the industry averages. The Company remained profitable during CY20 and has an adequate equity base. The rating incorporates the Company's association with Lakson Group, a leading business conglomerates in Pakistan having investments in multiple sectors.

The rating is dependent on the Company's ability to strengthen its market position in terms of AUMs, sustaining superior fund performance and upholding robust investment framework. Meanwhile, diluting investor concentration and successful execution of strategic initiatives is important.

Disclosure

Name of Rated Entity	Lakson Investments Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating(Jun-21)
Related Research	Sector Study Asset Managers(Jun-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Profile

Structure Lakson Investments Limited (Lakson Investments or "the Company") was incorporated as an unlisted public company in 2008.

Background Lakson Investments was registered as an asset management company (AMC) in Jan'09 and started its operations in Nov'09. The Company is also registered as Investment advisor. It is the only AMC in Pakistan that offers both domestic and internationally focused funds. The Company has launched private equity and venture capital funds in the recent years.

Market Share The Company's market share stood at ~2.2% at end-Jun'21 (Jun'20: 2.4%). Stand-alone AUMs registered a growth of 20%; however, the market share declined slightly.

Diversification Of Fund Mix The Company's fund slate comprises six open-end funds belonging to all major categories of asset allocation, equity, income, Shariah Compliant asset allocation and money market.

Investor Concentration At end-Jun'21, average top ten investors concentration stood at ~83% of total assets under management. The main focus of the Company is institutional clients and HNWI's, hence relatively higher investor concentration.

Ownership

Ownership Structure The Company is a wholly owned subsidiary of Lakson Group through its holding company, SIZA Services (Pvt.) Limited.

Business Acumen Lakson Group was established in 1954 and is owned by Lakhani family. It is among the leading business conglomerates in Pakistan and has interests in multiple sectors including financial services, paper and board manufacturing, printing and packaging, media, agri-business, consumer non-durables, fast food, information technology, surgical instruments and travel.

Financial Strength Lakson Group has robust financial standing as reflected by its diversified profitable businesses.

Governance

Board Structure The control of the Company vests in seven board members including the CEO. There are two independent and four non-executive directors. Presence of independent directors reflects well on the governance framework.

Members' Profile The Company's board is chaired by Mr. Iqbal Ali Lakhani, who is also the chairman of the Lakson Group. He holds extensive experience of over five decades in consumer marketing, finance, manufacturing industry and government relations. Board members carry diversified experiences (33 Years on average) in different business areas.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee and HR Committee at board level. The Board provides strategic guidance on relevant matters.

Transparency The internal audit function is outsourced to Grant Thornton Anjum Rahman, which reports to the Board Audit Committee on quarterly basis. The external auditors of the company are M/S Deloitte Pakistan that stand in 'A' category of SBP's audit firm rankings.

Management

Organizational Structure The Company has a well-defined and formalized organizational structure, with appropriate departmentalization. It operates through nine main departments each with its own specific function.

Management Team The senior management team comprises experienced and qualified professionals. The CEO, Mr. Babar Ali Lakhani, possesses research and portfolio management experience with domestic and international institutions. Mr. Kashif Mustafa, Executive Director and COO, has more than a decade's experience of capital markets with local and international brokerage houses and leading asset management companies.

Technology Infrastructure The management has implemented Asset Connect software for portfolio management, unit holder accounting and general accounting.

Control Environment The risk management department has implemented comprehensive risk management guidelines for the management of credit, market and liquidity risk. For operational risk management, the Company has established and implemented a disaster recovery plan and a dedicated disaster recovery site in Karachi and Lahore. The Company operated smoothly during COVID outbreak due to its strong technological setup. The compliance function ensures adherence with all applicable internal and external rules and regulations.

Investment Risk Management

Credit Risk The risk management function assesses the creditworthiness of entities to monitor credit risk of existing portfolio and to identify new investment opportunities in debt instruments. The Company has developed models to rate debt instruments and issuers, which includes various qualitative and quantitative parameters for analyzing credit risk.

Liquidity Profile The Company has internal guidelines and limits for exposure in different avenues to manage liquidity risk. The compliance department ensures adherence to internal limits on daily basis and generates regular MIS.

Market Risk For managing market risk, various techniques such as VaR analysis, beta analysis and stress testing are being used. The Company has real time dashboards for monitoring currency depreciation, crude oil prices and other indicators having an impact on investment portfolio.

Portfolio Management

IC Composition The investment committee consists of CEO, COO, CIO, Head of Fixed Income, Head of Equities, Head of Research, and Manager Compliance.

Effectiveness The investment committee meets twice a week and a separate meeting is held with focus on separately managed accounts. The PE and VC funds have dedicated teams as well, although certain team members are common to ensure synergies and share their expertise in local context.

Investment Research And Analysis The research department falls under the purview of the COO and the team is organized, primarily, by industry sectors. A customized software exists for equity valuation and credit research. The Company has access to Bloomberg terminal, which is integrated with the fund management department.

Customer Relationship

Investor Services The Company has a dedicated team headed by an experienced resource for investor services. A value added service namely "Asset Allocation Optimizer" is provided to investors enabling investors to create their own mix and match strategy for funds allocation among available investment avenues.

Investor Reporting The Company issues informative bulletins on daily basis and performance reports for the funds and separately managed accounts on a bimonthly/monthly basis as requested by the clients. A separate online portal access is provided to discretionary clients.

Distribution And Sales Network The Company has distribution arrangements with various third-party distributors. Training sessions are conducted for the new staff and a weekly meeting of the sales staff with the head of department is held.

Performance

Asset Under Management The Company's AUMs surged by ~20% to stand at PKR 22.7bln at end-Jun'21 (Jun'20: PKR 18.9bln). However, the market share decline to 2.2% at end-Jun'21 (Jun'19: 2.4%) as the industry grew at a faster pace. The money market and income funds' performance during FY21 remained superior to industry peers. Equity and asset allocation funds lagged in performance when compared with benchmarks; however, the asset allocation funds exceeded the industry averages.

Asset Manager For diversifying the revenue stream, the Company is successfully running a healthcare focused PE fund. Lately, the Company has launched a VC fund as well. Although these fund sizes are modest, the management expects them to grow and perform well. The Company reported a revenue of PKR 290mln and profit of ~PKR 66mln for CY20 (CY19: ~PKR 84mln). The Company has strong capitalization with equity standing at ~PKR 1.1bln at end-Dec'20, which is considerably higher than the regulatory requirement of PKR 230mln.



The Pakistan Credit Rating Agency Limited

Fund's Performance | Lakson Investments Limited

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR' mln)			Return FY21			12 M Trailing		Top Ten Investors Concentration	Stability Rating (Jun'20)
				Jun'21	Dec'20	Jun'20	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.		
1	Lakson Money Market Fund	Money Market	54.3%	12,325	12,150	10,315	6.9%	6.6%	6.9%	0.3%	0.0%	69%	AA+(f)
2	Lakson Income Fund	Income	22.5%	5,100	3,907	3,061	7.2%	5.9%	7.4%	1.3%	-0.2%	64%	A+(f)
3	Lakson Equity Fund	Equity	13.9%	3,160	3,410	2,932	33.2%	41.3%	37.6%	-8.1%	-4.3%	85%	-
4	Lakson Asset Allocation Developed Markets Fund	Asset Allocation	4.5%	1,012	1,422	1,944	6.1%	-	11.1%	-	-5.1%	96%	-
5	Lakson Tactical Fund	Asset Allocation	2.8%	627	617	507	24.3%	21.7%	25.0%	2.6%	-0.7%	89%	-
6	Lakson Islamic Tactical Fund	Shariah Compliant Asset Allocation	2.2%	489	420	150	20.8%	15.8%	23.0%	5.1%	-2.2%	93%	-
Sum/Average:				22,713	21,926	18,909	16.4%		18.5%	0.2%	-2.1%	83%	

Asset Manager Rating

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.

<p>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’.</p>	<p>Rating Watch 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>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.</p>	<p>Withdrawn 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 surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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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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- (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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- (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)

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(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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