



## The Pakistan Credit Rating Agency Limited

### Rating Report

**NBP Fund Management Limited (formerly: NBP Fullerton Asset Management Limited)**

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2018	AM1	-	Stable	Maintain	-
30-Jun-2018	AM1	-	Stable	Maintain	-
08-Dec-2017	AM1	-	Stable	Maintain	-
21-Apr-2017	AM1	-	Stable	Upgrade	-
04-Aug-2016	AM2++	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the company's leading position in Pakistan's asset management industry. Strong brand name, seasoned management team, structured investment process, along with well-developed risk management function and diversified fund slate bodes well for the company in maintaining its competitive positioning. The company has experienced an improvement in its AUMs by ~10% to ~PKR 102bln at end Nov-18 as compared to ~PKR 93bln in Dec-17. The rating incorporates from the company's association with the National Bank of Pakistan and is expected to supplement its retail penetration which, in turn, will diversify the AUMs base and strengthen its standing among peers. The recent change in the ownership, Baltoro Growth Fund, taking up (36%) stake in NBP Fund Management Limited from Alexandra Fund Management Pte. Ltd. is expected to further enhance governance and transparency through higher engagement of Baltoro Growth Fund.

The rating is dependent on the management's ability to hold its leading position in the industry. Upholding strong organization structure along with retention of key personnel and consistent superior fund performance remains imperative for the rating.

#### Disclosure

<b>Name of Rated Entity</b>	NBP Fund Management Limited (formerly: NBP Fullerton Asset 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 Management(Jun-18)
<b>Rating Analysts</b>	Muhammad Usman   muhammad.usman@pacra.com   +92-42-35869504



## Profile

**Structure** NBP Fund Management Limited was incorporated in 2005 as a public unlisted company. The company is licensed to carry out asset management and advisory services.

**Background** NBP Funds is the largest Asset Management Company in Pakistan. Its primary business is managing units of mutual funds. The company also provides investment advisory services to individuals and corporates.

**Market Share** The company's market share stood at ~17% at end Oct-18.

**Diversification Of Fund Mix** The company is currently managing 25 open-ended mutual funds, 2 pension fund schemes and several investments advisory portfolios.

**Investor Concentration** The top 10 investor concentration is ~49% at the end Sep-18 and the average related party holding represent ~15% of total AUMs.

## Ownership

**Ownership Structure** National Bank of Pakistan is the largest shareholder of the company, holds ~54% stake, followed by Baltoro Growth Fund, holds ~36% stake. The CEO of NBP Fund, Dr. Amjad Waheed, holds the remaining 10% stake in the company.

**Business Acumen** With an asset base of ~PKR 2.47 trillion as at Sep-2018 and an extensive domestic and overseas branch network of 1,502 and 21 branches, respectively, the association with NBP provides sturdy support to NBP Fund's brand name.

**Financial Strength** Building on experience and expertise of decades, NBP Fund Management Limited enjoys a strong financial foundation emanating from its well-diversified portfolio business.

## Governance

**Board Structure** The company's nine-member board comprises the CEO, three representatives of National Bank of Pakistan, two representatives of Baltoro Growth Fund and three independent directors.

**Members' Profile** The board members have a strong educational background and carry vast experience. The CEO, Mr. Amjad Waheed has extensive experience of more than two decades in domestic and international capital markets.

**Board Effectiveness** There are four committees at the board level, audit, risk, HR and remuneration committee.

**Financial Transparency** NBP Fund has an independent in-house internal audit department, which quarterly reports to the audit committee of the Board regarding its findings and ensures compliance of corrective action agreed to by the management or recommendations of the Committee.

## Management

**Organizational Structure** NBP fund has strong organizational structure and operates through thirteen departments. For smooth functioning, there are nine management committees headed by the CEO except for Operational & Financial Risk Management Committee which is headed by the CFO.

**Management Team** The management team of NBP Fund comprises experienced and qualified professionals. The CEO, Dr. Amjad Waheed, CFA, holds a Doctorate in Business Administration. He has extensive experience in domestic and international capital markets spanning over two decades.

**Technology Infrastructure** The company is using an in-house developed asset management application as its core business software. The system has separate modules for equity and fixed income securities. The software also provides value-added functions for customer relationship management.

**Control Environment** The risk management department is being led by Mr. Salman Ahmad. The function of this department is to ensure compliance with all applicable statutory regulations and internal investment guidelines. The department generates a variety of MIS reports which broadly covers all the fund's consolidated exposure status against the allowed limits.

## Investment Risk Management

**Credit Risk** The company has an internal risk assessment software that generates a variety of reports which broadly covers overall exposure against the allowed limits.

**Liquidity Profile** The company has a sound IT infrastructure that carefully provides the liquidity status to the fund management team for the arrangement of requisite liquidity in the fund.

**Market Risk** The RMD conducts regular sessions with the fund management department to deliberate on the prevailing industry dynamics and market conditions. NBP Fund manages market risk by monitoring exposure in marketable securities, following the internal risk management policies and regulations laid down by the SECP.

## Portfolio Management

**IC Composition** The investment decision making process is well-structured with the CEO providing critical support. The company convenes separate Investment Committees (IC), each for fixed income and equity funds. Each committee comprises CEO, CIO and Head of Research along with the head of fixed income and head of equity accompanied by respective fund managers and head of risk as a permanent member.

**Effectiveness** The Investment Committee meets on daily basis and the research department presents an investment summary to the committee.

**Investment Research And Analysis** The research department falls under the purview of CIO, is headed by Mr. Hassan Raza, CFA. He has an experience of over six years in the equity research. Currently, his team comprises six well experienced and qualified research analysts and plan to add more to cope with the planned expansion. The fund performance is also gauged by the research department on a regular basis.

## Customer Relationship

**Investor Services** Investor Services Department (ISD) is responsible to handle communication to investors and for responding to all types of queries. The company offers an online account statement facility to its customers through its website. With the purpose of addressing the clients' queries, NBP Fund has also set up a call centre. NBP Fund has facilitated its customers by providing them with online redemption and fund-to-fund transfer facility via its webpage. Moreover, the company has developed, tested and implemented redemptions module through all 1-Link and M-Net ATM Machines across the country.

**Investor Reporting** The company publishes the fund manager reports on its website in a timely manner. The website 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** NBP Fund's marketing and distribution arrangements have been divided into two segments (i) Retail Segment and (ii) Corporate Segment. The retail segment falls under the purview of CEO. NBP Fund has increased the strength of its retail sales team to ~600 employees. The company has an exclusive arrangement with its sponsor bank (NBP) for marketing its funds. Majority of the NBP branches facilitate the company for retail mobilization. The synergy benefits derived from the association continue to support the growth in the retail segment.

## Performance

**Asset Under Management** The company performed well and managed to keep in line its AUMs with the growth of industry's AUMs. The company's AUMs hiked by ~12.8% from ~PKR 92.7bln Dec-17 to ~PKR 105bln in Oct-18.

**Asset Manager** The AMC has reported a healthy net profit of ~PKR 340mln in FY18 (FY17: 371mln). The company's equity stood at ~PKR 881mln at end Sep-18, which is more than minimum capital requirement of PKR 230mln.

**Financial Summary: NBP Fund Management Limited**

Sr. no	Fund Name (Category)	Asset Under Management		Return FY18	Top 10 Investor Concentration Sep-18	Performance Ranking / Stability Rating
		Oct18 (PKR mln)	Dec17 (PKR mln)			
1	NAFA Active Allocation Riba Free Savings Fund	1,975	2,168	4.1%	100.0%	A-
2	NAFA Asset Allocation Fund	2,901	3,083	(6.8%)	38.1%	3
3	NAFA Financial Sector Fund	1,212	-	-	49.2%	-
4	NAFA Financial Sector Income Fund	3,804	2,357	6.0%	55.4%	A+
5	NAFA Government Securities Liquid Fund	4,578	4,126	5.3%	76.5%	AAA
6	NAFA Government Securities Savings Fund	103	162	5.0%	87.4%	AA-
7	NAFA Income Fund	905	925	5.5%	97.6%	A
8	NAFA Income Opportunity Fund	5,634	8,257	5.3%	40.2%	A
9	NAFA Islamic Asset Allocation Fund	11,171	12,547	(8.7%)	10.2%	3
10	NAFA Islamic Energy Fund	1,507	2,150	(3.2%)	14.4%	-
11	NAFA Islamic Income Fund	2,819	4,477	5.1%	28.2%	A-
12	NAFA Islamic Money Market Fund	1,208	-	-	99.1%	AA
13	NAFA Islamic Stock Fund	6,494	6,450	(12.8%)	33.5%	3
14	NAFA Money Market Fund	28,152	19,304	5.6%	61.4%	AA
15	NAFA Multi Asset Fund	1,668	1,669	(6.2%)	82.0%	3
16	NAFA Riba Free Savings Fund	4,727	3,326	5.2%	37.0%	A
17	NAFA Savings Plus Fund	385	475	5.4%	52.1%	AA-
18	NAFA Stock Fund	16,808	14,792	(9.7%)	38.4%	4
19	NBP Aitemaad Mahana Amdani Fund	164	-	-	-	A
20	NAFA ISLAMIC ACTIVE ALLOCATION EQUITY FUND	1,991	2,527	(14.1%)	97.4%	3

## 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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(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

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- (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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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
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- (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)
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### **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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