



The Pakistan Credit Rating Agency Limited

## Rating Report

### NBP Fund Management Limited

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1. Rating Analysis
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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook      | Action       | Rating Watch |
|--------------------|------------------|-------------------|--------------|--------------|--------------|
| 24-Dec-2019        | AM1              | -                 | Stable       | Maintain     | -            |
| 27-Jun-2019        | AM1              | -                 | Stable       | Maintain     | -            |
| 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     | -            |
| 04-Jul-2016        | AM2++            | -                 | Rating Watch | Rating Watch | -            |
| 08-Jun-2016        | AM2++            | -                 | Stable       | Harmonize    | -            |
| 31-Mar-2016        | AM2+             | -                 | Stable       | Maintain     | -            |
| 06-Apr-2015        | AM2+             | -                 | Stable       | Upgrade      | -            |
| 08-Apr-2014        | AM2              | -                 | Stable       | Maintain     | -            |

#### Rating Rationale and Key Rating Drivers

The rating reflects the Company's established position as one of the leading players in the asset management industry. The rating incorporates the strong brand name, sound governance framework, experienced and seasoned management team, robust risk management function, and well structured investment process. A diversified fund slate across twelve categories bodes well for the Company in maintaining its competitive positioning, while attracting and retaining investor across all fund categories. This has resulted in augmented AUM's as they grew by ~11%, to ~PKR 99bln at end Sep-19. The fund performance has consistently shown good results when compared to peers. The Company's capitalization and fee generation capabilities provides cushion against market volatility. The profitability of the Company declined due to relatively lower management fee owing to the fluctuation in AUM's during FY19. This is expected to improve going forward with recent surge in equity market and AUM's growth. The rating also incorporates the Company's association with a renowned bank - National Bank of Pakistan and potential synergies.

The rating is dependent on the management's ability to sustain its market share. 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                           |
| <b>Type of Relationship</b>  | Solicited   |
| <b>Purpose of the Rating</b> | Asset Manager Rating                                  |
| <b>Applicable Criteria</b>   | Methodology   AMC (Jun-19)                            |
| <b>Related Research</b>      | Sector Study   Asset Manager(Jun-19)                  |
| <b>Rating Analysts</b>       | Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504 |



## Profile

**Structure** NBP Fund Management Limited (“NBP Fund” or “The Company”) was incorporated in 2005 as a public unlisted company. The Company is licensed to carry out asset management and investment advisory services.

**Background** NBP Fund is one of the largest Asset Management companies in Pakistan with diversified product slate in conventional and shariah compliant categories. The Company also provides investment advisory services to high net worth individuals and corporate clients.

**Market Share** NBP Fund’s market share stood at ~17.3% at end Sep-19, the company has strengthened its market share when compared with Dec-18.

**Diversification Of Fund Mix** The Company is currently managing a diverse product slate of twenty-seven funds in twelve different conventional and Shariah Compliant categories and two voluntary pension schemes. Recently, the Company has launched two new plans and three funds under the income, Money Market, Asset Allocation and Shariah Compliant Fund of Funds – CPPI categories.

**Investor Concentration** Top 10 investor concentration stood at ~57% at end Sep-19 and the average related party holding represents ~5% of total AUM.

## Ownership

**Ownership Structure** National Bank of Pakistan is the largest shareholder of NBP Fund with a stake of ~54%, followed by Baltoro Growth Fund, holding ~36% stake. The CEO of NBP Fund, Dr. Amjad Waheed, CFA, and family members, holds the remaining 10% stake in the Company.

**Business Acumen** With an asset base of ~PKR 3 tln at end Sep-19 and an extensive domestic and overseas branch network of 1,504 and 21 branches, respectively, the association with National Bank of Pakistan provides strong support to NBP Fund.

**Financial Strength** Building on decades of expertise, National Bank of Pakistan enjoys strong financial foundation emanating from its well diversified portfolio of business and sustained profitability. Baltoro Growth Fund is supported by 11 full-time professionals, including 8 investment professionals located in Islamabad and Lahore.

## 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 strong educational backgrounds and carry vast experience. 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.

**Board Effectiveness** There are three committees at the board level, (i) Audit and Risk Committee, (ii) HR and Remuneration Committee and (iii) Strategy and Business Planning

**Financial Transparency** NBP Fund has an in-house internal audit department to monitor the internal control systems, which quarterly reports to the audit committee of the Board regarding its findings and ensures compliance of corrective actions. The external auditors of the Company are Grant Thornton Anjum Rahman Chartered Accountants and they have provided an unqualified opinion on the Financial Statements, pertaining to the period FY19.

## 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 of experienced and qualified professionals. Mr. Sajjad Anwar, Chief Investment Officer, holds MBA in Finance and is a CFA Charter holder. He has been associated with the Company for more than eleven years.

**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, CFA. The department ensures compliance with all applicable statutory regulations and internal investment guidelines. The department generates a variety of MIS reports that broadly covers all of 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 variety of reports, and limits overall exposure as per the allowed limits.

**Liquidity Profile** The Company has a sound IT infrastructure, that provides the liquidity status to the fund management team for the arrangement of requisite liquidity in the fund. The Company maintains liquidity cushions for anticipated redemption requirements.

**Market Risk** The risk management department 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 formally meets on weekly basis and the research department presents an investment summary to the committee.

**Investment Research And Analysis** The research department, which falls under the purview of CIO, is headed by Mr. Hassan Raza, CFA. He has over six years of experience in the equity research. Currently, his team comprises six well experienced and qualified research analysts. The fund performance is also monitored by the research department on a regular basis.

## Customer Relationship

**Investor Services** NBP Fund offers online portal, mobile-app, I-Link and M-Net ATM services to facilitate its investors for online transactions. The Company has also setup a call centre for complaints resolution.

**Investor Reporting** The Company publishes the fund manager reports on its website in a timely manner that contain information pertaining to the Company, management, NAV history, fund performance, product characteristics and other important announcements.

**Distribution And Sales Network** Distribution and sales network of the Company comprises two segments (i) Retail and (ii) Corporate. The retail segment falls under the purview of CEO. NBP Fund has a large sales team of ~900 employees. The synergistic benefits derived from the association with National Bank of Pakistan is expected to support the growth in the retail segment.

## Performance

**Asset Under Management** The AUM of NBP Fund increased by ~11%, to ~PKR 99bln at end Sep’19 (Dec’18: ~PKR 89bln). Majority of the funds performed considerably better, relative to its peers and benchmark.

**Asset Manager** The profitability of NBP Fund has declined during FY19 but remained adequate. This can be attributable to fair value loss on investments, financial charges on leased assets and higher sales and marketing expenses due to a significant addition in salesforce. The Company has very strong capitalization with equity standing well above the minimum regulatory capital requirement of PKR 230mln.



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| Fund's Performance   NBP Fund Management Limited |   |                   |                     |  |                                    |                                     |
|--|---|-------------------|---------------------|--|------------------------------------|-------------------------------------|
| Sr. No.  | Fund                                    | AUMs              |                     | Return (%)<br>Sep'19 (Rolling 12 Months) |                                    | Top Ten Investors Concentration (%) |
|  |   | Sep'19 (PKR' mln) | Sep'18 (PKR' mln)   | Fund                                     | Category                           |                                     |
| 1  | NBP Government Securities Liquid Fund   | 2,209             | 4,862               | 10.1%                                    | Money Market                       | 74.0%                               |
| 2  | NBP Money Market Fund                   | 25,223            | 24,098              | 10.6%                                    | Money Market                       | 62.8%                               |
| 3  | NAFA Government Securities Savings Fund | 199               | 138                 | 10.9%                                    | Income                             | 74.3%                               |
| 4  | NBP Government Securities Plan-I        | 277               | Launched in Mar '19 | 8.4%                                     | Income                             | 92.4%                               |
| 5  | NBP Mahana Amdani Fund                  | 614               | 447                 | 10.6%                                    | Income                             | 47.0%                               |
| 6  | NBP Financial Sector Income Fund        | 9,198             | 3,121               | 10.9%                                    | Income                             | 47.3%                               |
| 7  | NBP Income Opportunity Fund             | 5,203             | 5,822               | 10.4%                                    | Income                             | 41.5%                               |
| 8  | NBP Savings Fund                        | 977               | 797                 | 10.5%                                    | Income                             | 92.4%                               |
| 9  | NBP Sarmaya Izafa Fund                  | 1,378             | 3,126               | -9.9%                                    | Asset Allocation                   | 44.4%                               |
| 10   | NBP Balanced Fund                       | 1,338             | 1,648               | -9.2%                                    | Balanced                           | 89.2%                               |
| 11   | NBP Stock Fund                          | 10,882            | 16,250              | -20.6%                                   | Equity                             | 52.4%                               |
| 12   | NBP Financial Sector Fund               | 743               | 1,225               | -16.4%                                   | Equity                             | 75.5%                               |
| 13   | NBP Riba Free Savings Fund              | 6,224             | 4,497               | 10.2%                                    | Shariah Compliant Income           | 29.9%                               |
| 14   | NBP Islamic Mahana Amdani Fund          | 12,695            | Launched in Oct '18 | 10.6%                                    | Shariah Compliant Income           | 26.1%                               |
| 15   | NBP Islamic Savings Fund                | 2,504             | 3,094               | 10.0%                                    | Shariah Compliant Income           | 24.0%                               |
| 16   | NBP Islamic Money Market Fund           | 3,765             | 1,471               | 9.9%                                     | Shariah Compliant Money Market     | 75.0%                               |
| 17   | NBP Islamic Regular Income Fund         | 105               | Launched in Nov '18 | -18.2%                                   | Shariah Compliant Asset Allocation | 100%                                |
| 18   | NBP Islamic Sarmaya Izafa Fund          | 4,900             | 11,366              | -12.8%                                   | Shariah Compliant Asset Allocation | 15.0%                               |



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|    |  |       |       |        |                                     |       |
|----|--|-------|-------|--------|-------------------------------------|-------|
| 19 | NBP Islamic Stock Fund                     | 3,729 | 5,715 | -23.8% | Shariah Compliant Equity            | 48.3% |
| 20 | NBP Islamic Energy Fund                    | 514   | 1,512 | -31%   | Shariah Compliant Equity            | 20.0% |
| 21 | NAFA Islamic Principal Protected Fund-II   | 106   | 123   | -0.5%  | Shariah Compliant Capital Protected | 94.0% |
| 22 | NAFA Islamic Active Allocation Plan-I      | 129   | 347   | -10.5% | Shariah Compliant Fund of Funds     | 88.4% |
| 23 | NAFA Islamic Active Allocation Plan-II     | 33    | 359   | -1.0%  | Shariah Compliant Fund of Funds     | 85.0% |
| 24 | NAFA Islamic Active Allocation Plan-III    | 357   | 614   | -10.6% | Shariah Compliant Fund of Funds     | 89.2% |
| 25 | NAFA Islamic Active Allocation Plan-IV     | 196   | 495   | -10.7% | Shariah Compliant Fund of Funds     | 78.0% |
| 26 | NAFA Islamic Active Allocation Plan-V      | 274   | 747   | -10.8% | Shariah Compliant Fund of Funds     | 58.1% |
| 27 | NAFA Islamic Active Allocation Plan-VI     | 183   | 440   | -10.4% | Shariah Compliant Fund of Funds     | 68.3% |
| 28 | NAFA Islamic Active Allocation Plan-VII    | 46    | 187   | -11.6% | Shariah Compliant Fund of Funds     | 70.0% |
| 29 | NAFA Islamic Active Allocation Plan-VIII   | 210   | 552   | -1.2%  | Shariah Compliant Fund of Funds     | 53.2% |
| 30 | NAFA Islamic Capital Preservation Plan-I   | 559   | 1,639 | 3.1%   | Shariah Compliant FoF CPPI          | 54.2% |
| 31 | NAFA Islamic Capital Preservation Plan-II  | 289   | 780   | 0.8%   | Shariah Compliant FoF CPPI          | 27.4% |
| 32 | NAFA Islamic Capital Preservation Plan-III | 297   | 820   | 0.3%   | Shariah Compliant FoF CPPI          | 27.0% |
| 33 | NAFA Islamic Capital Preservation Plan-IV  | 174   | 611   | -0.2%  | Shariah Compliant FoF CPPI          | 50.3% |



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|           |  |       |       |        |  |       |
|-----------|--|-------|-------|--------|--|-------|
| <b>34</b> | NBP Islamic Capital Preservation Plan-V      | 119   | -     | -0.8%  | Shariah Compliant FoF CPPI                 | 46.2% |
| <b>35</b> | NBP Active Allocation Riba Free Savings Fund | 521   | 2,601 | 8.9%   | Shariah Compliant Income                   | 100%  |
| <b>36</b> | NBP Islamic Active Allocation Equity Fund    | 1,131 | 1,196 | -23.2% | Shariah Compliant Equity                   | 98.2% |
| <b>37</b> | NAFA Islamic Pension Fund                    | 1,987 | 1,973 | -      | Shariah Compliant Voluntary Pension Scheme | -     |
| <b>38</b> | NAFA Pension Fund                            | 2,228 | 2,129 | -      | Voluntary Pension Scheme                   | -     |

**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++<br>AM2+<br>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++<br>AM3+<br>AM3 | <b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.  |
| AM4++<br>AM4+<br>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 surveill 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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(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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- (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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- (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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- (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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