



The Pakistan Credit Rating Agency Limited

## Rating Report

### National Investment Trust 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
06-May-2019	AM2++	-	Stable	Maintain	-
05-Nov-2018	AM2++	-	Stable	Maintain	-
08-Dec-2017	AM2++	-	Stable	Maintain	-
25-May-2017	AM2++	-	Stable	Upgrade	-
18-Aug-2016	AM2+	-	Positive	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating derives strength from the strong sponsorship and competitive positioning of the company. The rating reflects long operational history, extensive outreach and sizeable penetration in the retail segment. The rating takes into account the board composition and the effective corporate governance framework of the company. The company's experienced management team and a well-structured investment process along with sound investment risk management function adds value to the overall decision-making process. The diversification of AUM base among various fund categories and expansion in the fund slate along with improvements in the overall operating platform will bode well for the company. Meanwhile, customer outreach through different channels and fund performance in line with the rating remains imperative.

The rating is dependent on the management's ability to sustain the competitive position of the company in the industry, upholding existing organization structure along with retention of key human resource. Growth in the AUM from the retail market and consistency in fund returns are important rating determinants.

#### Disclosure

<b>Name of Rated Entity</b>	National Investment Trust 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 Managers(Dec-18)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504



## Profile

**Structure** National Investment Trust Limited is an unquoted public limited company.

**Background** National Investment Trust Limited is the first asset management company of Pakistan. It was established in 1962 and National Investment Unit Trust, Pakistan's first open-end equity fund was launched in the same year by the company.

**Market Share** The company has a market share of 12.9% at end Mar-19 (Jun-18: 14.3%) which incorporates the AUM of six open end funds and two voluntary pension funds of the company. The drop in market share mainly emanated from reduction in AUM of NIUT fund due to the declining trend of equity market.

**Diversification Of Fund Mix** The company has six open-end funds belonging to categories of equity, income, money market, shariah compliant equity and shariah compliant income and two voluntary pension schemes. NIT-State Enterprise fund and NIT Equity Market Opportunity fund are the two equity funds of the company which have investments from the management company and the sponsors.

**Investor Concentration** The average percentage share of the top ten investors remain high ~65.35% of the total AUM of the six open-end funds of the company. The average retail investor concentration was ~27.27% at end Feb-19.

## Ownership

**Ownership Structure** Government of Pakistan directly and indirectly through public sector entities holds ~41% shareholding in the company whereas private sector institutions and individuals hold ~59% shareholding in the company.

**Business Acumen** Given the sponsorship of the Government of Pakistan, the business acumen of the company is considered strong.

**Financial Strength** The sponsors have the ability and willingness to support the company on a continuing basis and in times of crisis.

## Governance

**Board Structure** The company's Board of Directors currently comprise eleven board members out of which ten are non-executive. The board has no independent director.

**Members' Profile** Mr. Adnan Afridi, an executive director on the board, has been appointed as the Managing Director of the company in Feb-19. He has over two decades of experience and has led a distinguished career in financial services and capital markets.

**Board Effectiveness** The board ensures effective governance structure through its committees, namely, (i) Audit, (ii) HR and remuneration and (iii) Risk Management.

**Financial Transparency** KPMG Taseer Hadi and Company, classified in 'A' category by State Bank of Pakistan and having a satisfactory QCR are the external auditors of the company.

## Management

**Organizational Structure** The company has a well-defined organizational structure and operates through ten departments with clear segregation of responsibilities.

**Management Team** The management team comprises experienced professionals carrying requisite experience and relevant skill set. Mr. Manzoor Ahmed is the COO/CIO and has a successful track record of managing the operations and investment portfolio of the company.

**Technology Infrastructure** The company's technology environment makes use of a robust IT infrastructure based on Asset Connect, procured from Softech Systems. The software comprises modules for efficient execution of the core functions of the business. It supports decision-making and control environment through generation of various reports on periodical basis.

**Control Environment** The Internal Audit function is overseen by the Head of Internal Audit, Mr. Asim Rafiq, who reports administratively to the Managing Director and functionally to the Audit Committee of the Board of Directors. The Internal Audit Department conducts regular audits and the scope of internal audit includes identification and assessment of overall risks and evaluation of internal control framework.

## Investment Risk Management

**Credit Risk** The company has internal assessment modules in place for monitoring credit risk with focus on qualitative and quantitative analysis. The formalized investment process ensures that the credit portfolio of the fund exposed to credit risk is broadly diversified.

**Liquidity Profile** The risk management department vigilantly monitors the liquidity profile and presents quarterly reports to the board members with major focus on prevailing industrial risk dynamics, historical redemption trends, analysis on liquidity of stocks and comprehensive analysis of interest rates followed with VAR analysis pertaining to investment portfolio.

**Market Risk** The risk department has developed in-house risk measures to monitor market risk. The department takes into account volatility of stock market and estimates value at risk and performs stress testing on regular basis.

## Portfolio Management

**IC Composition** The IC comprises the Managing Director, Chief Operating Officer, respective Fund Manager, Head of Research, Head of Trading (for Equities and Pension funds), Head of Compliance, Head of Finance, Head of Marketing and In charge of Risk Management.

**Effectiveness** The composition and functioning of the investment committee are considered strong. The committee comprises well-qualified and experienced professionals. On average, the IC meets around 3-4 times during a week and investment decisions are finalized upon receipt of approval from all IC members.

**Investment Research And Analysis** The research department falls under the purview of the COO and comprises head of research and analysts. Detailed valuation and analysis models have been developed which are updated on a quarterly basis. An extensive database of macro-economic indicators, sector specific and international market indicators is being maintained.

## Customer Relationship

**Investor Services** The company has a dedicated investor services section which addresses customer's queries and complaints on a timely basis. Client Reporting System enables investors to retrieve their investment profile through a web page.

**Investor Reporting** The company publishes fund manager reports on its website on monthly basis which contain information pertaining to benchmark comparison, MoM trend in asset allocation and breakup of asset quality.

**Distribution And Sales Network** The company continues to focus on the retail penetration and has 24 branches in 16 major cities across Pakistan. The long operational history of the company along with its association with the Government of Pakistan and leading financial institutions have been instrumental in establishing a strong footprint among domestic retail and corporate investors.

## Performance

**Asset Under Management** Assets Under Management declined by ~14% to PKR ~75bln at end Mar-19 (Jun-18: ~PKR 87bln). Decline in AUMs emanated mainly in the equity category given the volatility in the stock market. Assets Under Management of NIT Money Market fund increased from ~PKR 1.3bln in Jun-18 to ~PKR 2.1bln at end Mar-19 and posted above category average YTD return. Barring the money market fund, majority of funds posted below average YTD returns and the returns depict significant room for improvement relative to peers.

**Asset Manager** The company reported profit after tax of ~PKR 494mln for half year ended Dec-18 (1HFY18: ~PKR 233mln) with equity of ~PKR 10.5bln at end Dec-18 which is well above the minimum capital requirement of PKR 230mln. The total comprehensive loss for the half year was ~760mln due to unrealized loss on investments classified as 'available for sale'.

Financial Summary: National Investment Trust Limited						
Sr. no	Fund Name	Assets Under Management		Return CY18 (%)	Top Ten Investor Concentration (%)	Performance Ranking / Stability Rating
		Dec'18 (PKR mln)	Dec'17 (PKR mln)			
1	National Investment Unit Trust	61,413	68,843	(7.3)	32.3	-
2	NIT – Government Bond Fund	3,802	4362	5.9	79.1	AA
3	NIT – Income Fund	4,571	5,148	6.1	73.6	AA-
4	NIT Islamic Equity Fund	3,420	4,145	(16.7)	54.3	-
5	NIT Islamic Income Fund	547	714	5.5	68.4	AA-
6	NIT Money Market Fund	1,493	1,606	6.3	84.4	AAA

## 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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### **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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