



The Pakistan Credit Rating Agency Limited

Rating Report

National Investment Trust Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Nov-2019	AM2++	-	Stable	Maintain	-
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	-
08-Jun-2016	AM2+	-	Stable	Harmonize	-
31-Mar-2016	AM2	-	Stable	Maintain	-
14-Apr-2015	AM2	-	Stable	Upgrade	-
21-Apr-2014	AM2-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects NIT's strong ownership, robust financial profile and established position as the oldest AMC in Pakistan. The rating drives support from the company's long operational history, competitive positioning, extensive outreach and sizeable penetration in the retail segment by the company. Overall governance framework remains strong with effective Board oversight. The Company's experienced management team, along with a well-structured investment process and risk management practices bodes well for the overall decision making process. The management has been focusing on increasing its outreach through digital channels and further strengthening its processes. The market share of the company witnessed a decline due to overall decline in the equity market. This was offset to an extent by growth in income funds. The performance of income funds remained at par or better than peers, whereas equity funds were affected by prevailing stock market returns.

The rating is dependent on the management's ability to sustain the competitive position of the company in the challenging industry dynamics upholding, while robust processes and governance standards, materialization of recent initiatives into AUMs growth and consistency in funds return, are critical for rating.

Disclosure

Name of Rated Entity	National Investment Trust Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-19)
Related Research	Sector Study Asset Manager(Jun-19)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

Profile

Structure National Investment Trust Limited (NIT or “The Company”) is an unlisted 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% at end Sep-19 (Dec-18: ~15%), which incorporates the AUM of eight 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 eight open-end funds (including NIT-State Enterprise fund and NIT Equity Market Opportunity fund) belonging to various categories of equity, income, money market, shariah compliant equity and shariah compliant income funds 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 (~66.02%) in the six open-end funds of the company. The average retail investor contribution was ~27.06% at end Jun-19.

Ownership

Ownership Structure Government of Pakistan directly and indirectly, through public sector entities, holds ~41.67% shareholding in the company whereas private sector institutions and individuals hold the remaining ~58.33% shareholding in the company.

Business Acumen Given the sponsorship of the Government of Pakistan, the business acumen of the company is considered strong as the Government has the outreach to appoint qualified experts.

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 ten board members out of which nine are non-executive. The board has no independent director.

Members' Profile The board members have strong and diversified backgrounds. The Board has immense expertise in finance, law, economic affairs, and business administration.

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, 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 skill set. Mr. Adnan Afridi 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. Mr. Manzoor Ahmed is the COO and has a successful track record of years 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 Investment Committee (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, and In charge of Risk Management.

Effectiveness The composition and functioning of the IC 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 benchmark 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 ~11% to PKR ~75bln at end June-19 (Dec 18: PKR ~85bln). Decline in AUMs emanated mainly from the equity category given the volatility in the stock market. Assets Under Management of NIT Money Market fund increased from ~PKR 1.4bln in Dec-18 to ~PKR 3.9bln at end Sep-19 and posted above category average YTD return. Majority of the funds (fixed income and money market) posted above average YTD returns relative to peers. Meanwhile, equity funds posted returns below benchmark.

Asset Manager The company reported loss after tax of ~PKR 1,273mln for the financial year ended Jun-19 (Jun-18: ~PKR 600mln). The main reason for this accounting loss is attributed to implementation of IFRS 9, which obligated NIT to book unrealized diminution of PKR 2,251mln, in the value of investments.

Financial Summary: National Investment Trust Limited						
Sr. no	Fund Name	Assets Under Management		Return FY19 (%)	Top Ten Investor Concentration (%)	Performance Ranking / Stability Rating
		Jun'19 (PKR mln)	Jun'18 (PKR mln)			
1	National Investment Unit Trust	51,915	70,773	(23.94)	32.6	-
2	NIT – Government Bond Fund	3,540	4,040	8.01	82.7	AA
3	NIT – Income Fund	4,130	5,574	7.25	78.1	AA-
4	NIT Islamic Equity Fund	3,046	4,134	(25.43)	54.8	-
5	NIT Islamic Income Fund	651	549	8.17	63.9	AA-
6	NIT Money Market Fund	3,484	1,322	8.87	83.9	AAA

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.

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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

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- (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)

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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
- (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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