



The Pakistan Credit Rating Agency Limited

Rating Report

National Investment Trust Limited

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Rating History table with columns: Dissemination Date, Long Term Rating, Short Term Rating, Outlook, Action, Rating Watch. Rows include dates from 2015 to 2020 and corresponding ratings like AM2, AM2+, AM2++.

Rating Rationale and Key Rating Drivers

National Investment Trust Limited ("NITL" or the "Company") reaps the benefit of being the first AMC in Pakistan and a robust financial profile. The rating incorporates the Company's experienced management team, structured investment decision making process, strong control environment, an adequate fund slate and satisfactory governance framework.

The Positive Outlook on rating captures the improving fund slate of the Company that would ultimately translate into AUMs growth. The rating is also dependent on the management's ability to sustain the competitive position of the company in the challenging industry dynamics and superior fund performance in comparison to peers.

Disclosure table with rows: Name of Rated Entity (National Investment Trust Limited), Type of Relationship (Solicited), Purpose of the Rating (Asset Manager Rating), Applicable Criteria (Methodology | AMC (Jun-20)), Related Research (Sector Study | Asset Managers(Jun-20)), Rating Analysts (Afnan Iqbal | afnan.iqbal@pacra.com | +92-42-35869504).



Profile

Structure National Investment Trust Limited (NITL 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 Market share of the Company stood at ~8.9% at end Jun'20 (Dec-19: ~11%).

Diversification Of Fund Mix The Company is currently managing a fund slate of ten open-ended funds (including two non-public funds namely NIT-SEF and NIT-EMOF) under seven different categories and two voluntary pension schemes. NIT- State Enterprise Fund and NIT-Equity Market Opportunity Fund are not offered to the general public and primarily comprises of investments from the sponsors. The Company launched an exchange traded fund and an asset allocation fund during CY20.

Investor Concentration The weighted average top ten investors contribution at fund level stood at ~44% at end Jun'20 and the weighted average retail investors contribution was ~34% at end Jun'20. From the AMC's perspective, ~38% of the AUMs are owned by top ten investors. At end Jun'20, NIUT comprises of majority of the Company's investors base, ~85% of investors are concentrated in NIUT.

Ownership

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

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 comprises of ten members out of which nine are non-executive. There is no representation of independent directors on the board.

Members' Profile The board members on average carries a diversified experience of ~33 years in different areas, especially in banking and investment management. The board members possess strong profile and skills suited to the financial services industry.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR and Remuneration Committee and Risk Management Committee at board level.

Transparency The Company has in-house internal audit department for effective monitoring of control systems. The head of internal audit directly reports to the audit committee. The external auditors of the Company are M/S KPMG Taseer Hadi & Co. They have a satisfactory QCR rating and are classified in the 'A' category of SBP Panel of Auditors.

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 was appointed as the Managing Director of the company in Feb'19. He possess 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 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 and online services for customer facilitation. 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 Company conducts incisive credit analysis for counterparties at the time of initiation of the relationship.

Liquidity Profile The risk management department vigilantly monitors the liquidity profile and presents quarterly reports to the board members. The primary focus is to assess prevailing industry 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 and mitigate market risk. The department uses various techniques to manage the market risk which includes standard deviation, sortino and information ratios, modified duration and PVBP. Any significant deviations are highlighted to the investment committee for necessary action.

Portfolio Management

IC Composition The investment decision making process is well-structured with the MD providing critical support. The members of investment committee also include the COO, Head of Finance, Head of Fixed Income, Head of Equities and Trading, Head of Research, Head of Compliance, Risk Manager and Fund Managers.

Effectiveness The investment committee reviews the investment strategy of each fund under management and its performance on regular basis to incorporate the impact of various factors on funds' performance. Induction of independent research head further enhances the effectiveness.

Investment Research And Analysis The research department, which falls under the purview of COO, is headed by Mr. Ali Kamal. He possess years of diversified experience in equity research. Currently, his team comprises of four qualified research analysts.

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 fund returns, benchmark comparison, MoM trend in asset allocation and breakup of asset quality.

Distribution And Sales Network The Company has 27 branches in different 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 ~9% to PKR ~69bln at end Jun'20 (Dec'19: PKR ~75bln). Decline in AUMs emanated mainly from the equity category given the volatility in the stock market. Comfort was provided to the total AUMs by fixed income and money market funds. Conventional and Shariah compliant equity funds posted above average returns (FY20) relative to peers. Meanwhile, income and money market funds posted returns near to the industry average.

Asset Manager The Company reported profit after tax of ~PKR 529mln for the financial year ended Jun'20 (Jun'19: ~(PKR 1,273mln)). The accounting profit is primarily attributed to implementation of IFRS-9 due to which NITL booked unrealized appreciation of PKR 299mln in FY20 as compared to a loss of PKR 2,251mln in FY19.



The Pakistan Credit Rating Agency Limited

Fund's Performance | National Investment Trust Limited

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR' mln)				Return 12 M Trailing (%) (Jul'19 to Jun'20)			Top Ten Investors Concentration	Stability Rating (Jun'20)
				Sep'20	Jun'20	Mar'20	Dec'19	Return	Bench.	Fund vs. Bench.		
1	National Investment Unit Trust	Equity	73.4%	59,477	50,300	41,679	58,292	6.4%	1.5%	4.9%	34%	-
2	NIT Asset Allocation Fund*	Asset Allocation	0.8%	673	524	0	0	2.1%	3.1%	-1.0%	90%	-
3	NIT - Government Bond Fund	Income	6.4%	3,764	4,355	4,175	3,772	16.0%	12.1%	4.0%	76%	AA
4	NIT - Income Fund	Income	5.5%	3,978	3,761	3,897	3,653	12.6%	12.2%	0.4%	84%	AA-
5	NIT Islamic Equity Fund	Shariah Compliant Equity	4.3%	3,405	2,961	2,322	3,508	2.8%	1.6%	1.2%	55%	-
6	NIT Islamic Income Fund	Shariah Compliant Income	1.4%	778	990	1,085	728	10.4%	6.3%	4.1%	48%	AA-
7	NIT Money Market Fund (Formerly: NIT Government Treasury Fund)	Money Market	7.0%	5,991	4,824	4,560	4,276	12.5%	11.6%	0.9%	72%	AAA
8	NIT Pakistan Gateway Exchange Traded Fund**	ETF	0.1%	56	50	7	0	7.2%	8.8%	-1.5%	-	-
9	Voluntary Pension Schemes	VPS	1.2%	847	802	747	796	-	-	-	-	-
Sum/Average:			100.0%	78,969	68,567	58,471	75,025					

*Fund launched on 09 April 2020

** Fund launched on 24 March 2020

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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- (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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