



The Pakistan Credit Rating Agency Limited

Rating Report

Al Meezan Investment Management 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
28-Jun-2019	AM1	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the company's leading position in the asset management industry as one of the largest asset managers (largest Shariah Compliant Asset manager in Pakistan). The rating incorporates the company's strong control environment, structured investment process and governance framework, qualified management team and solid track record of AUM growth. The company has separate Compliance and Audit function and in compliance with best practices and has fortified its equity management team. Al Meezan enjoys a robust and diversified customer base, with a high proportion of retail customers compared to peers, which has proved sticky over the years. The company's association with Meezan Bank Limited – largest Islamic bank – and ensuing synergies have supplemented fund growth. With a comprehensive portfolio of sixteen open-end Shariah Compliant mutual funds, Al Meezan offers a wide range of products for its customers, although it cannot offer certain conventional products when compared to peers. The company's fund performance remained sub-par during FY18 and lagged benchmarks. However, it has been improving lately. Going forward, maintaining strong fund performance remains important.

The rating is dependent upon the company's ability to sustain its market share and upholding strong investment processes and control environment. Meanwhile, consistent performance of funds compared to benchmark and peers is critical. Any sustained downturn in fund performance will impact the rating.

Disclosure

Name of Rated Entity	Al Meezan Investment Management Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-18)
Related Research	Sector Study Asset Managers(Dec-18)
Rating Analysts	Muhammad Usman muhammad.usman@pacra.com +92-42-35869504



Profile

Structure Al Meezan Investment Management Limited, established in 1995, as a private limited company. Later in 2001, the company changed its status to a public unlisted company.

Background The company is a financial arm of Meezan Bank Limited (AA+ rated bank).

Market Share The company has a market share of ~16.2% at the end of Mar-19.

Diversification Of Fund Mix The company is currently managing a diverse product slate of sixteen funds in multiple categories. Moreover, the company plans to launch two new funds in the category of Shariah Compliant Fund of Funds.

Investor Concentration The top 10 investors concentration represent ~44% of total assets under management (AUM) at the end of Mar-19. The average related party holdings represent ~22% in the funds.

Ownership

Ownership Structure Meezan Bank Limited is the largest shareholder of the company with a stake of ~65%, followed by Pak Kuwait Investment Company Limited (~30%). The CEO of Al Meezan, Mr. Mohammad Shoaib, holds ~4.85% stake in the company.

Business Acumen Meezan Bank is the largest Islamic bank of Pakistan, is a public listed bank with a paid-up capital of Rs 10 billion. The Bank provides a comprehensive range of Islamic banking products and services through a retail banking network of more than 650 branches in more than 180 cities of the country.

Financial Strength Building on decades of expertise, Al-Meezan enjoys a strong financial foundation. The net assets of the bank were ~44bln at end Dec-18.

Governance

Board Structure The company's board is composed of ten members including the CEO. Three directors are independent, four directors represents Meezan Bank and two represent Pak Kuwait Investment company.

Members' Profile The CEO, Mr. Mohammad Shoaib has around three decades of professional experience in managing investment portfolios. He is an MBA from the Institute of Business Administration. He is a CFA Charter holder since 1999 and founded the CFA Association of Pakistan in May 2002.

Board Effectiveness The board actively provides guidance to the company. Currently, there are three committees at the board level, Audit Committee, Risk Management Committee and Human Resource and Remuneration Committee.

Financial Transparency The company has an in-house internal audit department to monitor the internal control system. Mr. Salman Muslim, Chartered Accountant, heads the department. The department directly reports to the Audit Committee. The external auditors of the company are EY Ford Rhodes Chartered Accountants and they have provided an unqualified opinion on the Financial Statements of FY18.

Management

Organizational Structure The company has a well-designed organizational structure. It operates through fourteen main departments, out of which six directly report to the CEO.

Management Team The senior management team of the company comprises seasoned professionals. The CIO, Mr. Muhammad Asad is an MBA with extensive experience of over two decades, out of which more than seventeen years are with the company.

Technology Infrastructure Al Meezan uses Temenos (T24) as its core business software. Investment, redemption and conversion of mutual fund units by investors are processed via same software and are dealt on a timely basis.

Control Environment The company has devised detailed policies for IT, operations, research, investment and risk management. The company uses a dedicated software which timely notifies any breach in exposure limit and specified margin.

Investment Risk Management

Credit Risk The investment committee evaluates credit proposals presented by the risk management department. The company has controls in place to ensure allocation limits are not breached. Regulatory limits for Equity and Fixed Income funds have been implemented in the system, which restricts the fund manager to increase the exposure in any script greater than the assigned limit.

Liquidity Profile Risk management department vigilantly monitors the liquidity profile to avoid any mismatch between the liquidity of the portfolio as compared to the liquidity offered to investors. Sufficient liquidity is maintained by investing significant portion of funds' assets in liquid investment avenues in order to meet redemptions.

Market Risk The company has set appropriate metrics to measure exposure to market risk factors. Excel based models are used to measure the sensitivity of the portfolio due to changes in underlying fundamentals.

Portfolio Management

IC Composition The investment committee comprises CEO, CIO, Director Research, Fund Manager – Equities, Fund Manager – Fixed Income, Fund Manager – Commodities, Head of Risk and Head of Research.

Effectiveness The IC formally meets on a weekly basis and adhoc basis for formulating, selecting and monitoring strategical investment decisions.

Investment Research And Analysis The research department falls under the purview of CIO. It is headed by Mr. Ali Asghar, CFA. He has an experience of over seven years in the financial markets. Currently, the research team comprises six research analysts.

Customer Relationship

Investor Services The company uses specialized software for customer relationship management. The company provides investment services through the software which displays key information for investors and provides the facility of conversion as well as redemption.

Investor Reporting The company publishes comprehensive fund manager reports on its website. These reports apprise the investors about the fund's performance and prevailing market conditions. The company's web page is 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 The company has a strong distribution network by having around twenty six distributors across the country. The company is selling its mutual funds through its own branches along with Meezan Bank branch network, they're also accessible through the selected branches of Standard Chartered Bank.

Performance

Asset Under Management The AUM of the company reached ~PKR 95bln at end Mar-19, as compared to ~PKR 96bln at Mar-18. During 9MFY19, most of the company's funds posted slightly below average returns when compared to their benchmarks. MIIF, MCF, MIF, AMMF, MRAF and MTPF-Gold performed well-above their benchmarks.

Asset Manager The company has reported a net profit of ~PKR 314mln for 9MFY19. The company's equity stood at ~PKR 3.1bln at end Mar-19, which is well above the minimum regulatory capital requirement of PKR 230mln.

Financial Summary: Al Meezan Investment Management Limited						
Sr. no	Fund Name	Asset Under Management		Return 9MFY19	Top 10 Investor Concentration Mar-19	Performance Ranking / Stability Rating
		Mar19 (PKR mln)	Mar18 (PKR mln)			
1	Meezan Islamic Fund	32,387	43,209	(10.4%)	26.1%	-
2	Al Meezan Mutual Fund	6,035	7,550	(10.6%)	54.9%	-
3	Meezan Energy Fund	708	1,565	(18.7%)	39.8%	-
4	Meezan Dedicated Equity Fund	1,909	1,699	(13.3%)	95.6%	-
5	KSE-Meezan Index Fund	1,750	1,820	(12.0%)	82.8%	-
6	Meezan Balanced Fund	6,472	8,331	(4.9%)	25.9%	-
7	Meezan Asset Allocation Fund	2,347	3,060	(9.2%)	34.3%	-
8	Meezan Gold Fund	289	342	13.6%	60.3%	-
9	Meezan Islamic Income Fund	10,349	10,458	7.2%	31.5%	A
10	Meezan Sovereign Fund	1,653	2,177	6.0%	21.8%	AA-
11	Meezan Cash Fund	13,253	9,361	7.2%	37.6%	AA
12	Meezan Rozana Amdani Fund	7,580	-	9.6%	52.6%	AA

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.

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent