



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-Dec-2019 | AM1 | - | Stable | Maintain | - |
| 28-Jun-2019 | AM1 | - | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

The rating reflects the Company's established standing in the asset management industry, as the largest Asset Management Company in terms of AUMs and pioneer in Shariah Compliant investments in Pakistan. The rating incorporates the Company's strong brand name, structured investment process and governance framework, qualified management team and solid track record of AUM growth. The Company has segregated Compliance and Audit function in line with the best practices to strengthen its control environment. The Company enjoys a robust and diversified customer base, with a high proportion of retail investors compared to peers. The Company's association with Meezan Bank Limited – the largest Islamic bank – and ensuing synergies have supplemented funds growth. With a comprehensive portfolio of seventeen open-end Shariah Compliant mutual funds including a voluntary pension scheme, the Company 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 lagged peers in recent periods but has improved lately and remained around the benchmark. The profitability of the Company has declined in FY19 and remained under pressure during 1QFY20. This is expected to improve with better stock market performance, going forward.

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 and/or significant loss in market share 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-19) |
| Related Research | Sector Study Asset Manager(Jun-19) |
| Rating Analysts | Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504 |



Profile

Structure Al Meezan Investment Management Limited (“Al Meezan Investments” or “The Company”) was 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) in asset management industry.

Market Share The relative standing of the Company has increased as it has ~17.8% market share at end Sep-19 (Dec-18: 15.2%).

Diversification Of Fund Mix The Company is currently managing a diverse product slate of seventeen funds in nine different Shariah Compliant categories including a voluntary pension scheme. Recently, the Company launched two new plans in the category of Shariah Compliant Fund of Funds – CPPI - and one Shariah Compliant Money Market fund. Al Meezan Investments offers innovative products including the country's only gold tracking fund.

Investor Concentration The top 10 investors concentration represent ~47% of total assets under management (AUM) at the end Sep-19. The average related party holdings represent ~11% of the total AUM. Diversified customer base bodes well for fund retention.

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 (PKIC) ~30%. The CEO of Al Meezan, Mr. Mohammad Shoaib, holds ~4.85% stake in the Company.

Business Acumen Meezan Bank Limited is Pakistan's first and largest Islamic bank and a public listed company with equity paid-up capital of PKR 12.8bln. Meezan Bank Limited provides a comprehensive range of Islamic banking products and services, through a retail banking network of more than 690 branches in more than 180 cities of Pakistan. Pak Kuwait Investment Company Limited is Pakistan's leading Development Financial Institution with equity base of PKR ~24.1bln.

Financial Strength Building on decades of expertise, Meezan Bank Limited enjoys a strong financial foundation. The net assets of Meezan bank Limited stood at ~47bln at end Sep-19.

Governance

Board Structure The Company's board is composed of ten members including the CEO. Three directors are independent and six are non-executive. Four directors represent Meezan Bank Limited and two represent Pak Kuwait Investment company Limited.

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 one of the founders of 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 & Remuneration Committee.

Financial Transparency The Company has an in-house internal audit department to monitor the internal control system, The department directly reports to the audit committee of the board. An independent compliance department is also in place, to ensure compliance with all the statutory regulations. The external auditors of the Company, EY Ford Rhodes Chartered Accountants, have provided an unqualified opinion on the Financial Statements for FY19.

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. The Company witnessed a very low turnover rate in the key management positions, resulting in a stable management.

Technology Infrastructure Al Meezan Investments has implemented Temenos (T24) as its core business software. Investment, redemption and conversion of mutual fund units by investors are processed via 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. 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 (IC) comprises the 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 on ad-hoc basis for formulating, selecting and monitoring strategic investment decisions.

Investment Research And Analysis The research department is headed by Mr. Ali Asghar, CFA, and falls under the purview of CIO. He has over seven years of experience 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 using the software, which displays key information for investors and provides the facility of conversion as well as redemption via online portal, mobile app and ATM card.

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 and twenty five branches across the country.

Performance

Asset Under Management The AUM of the Company increased by ~16% to ~PKR 102bln at end Sep-19 (Dec-18: ~PKR 88bln). Fund performance has improved lately with around fifty percent of the funds performing in line with their benchmark. The fund performance lagged industry averages in recent years.

Asset Manager The Company has reported a significant decline in net profits by ~60%, to ~PKR 211mln for FY19 (FY18: ~PKR 525mln, Sep-19: ~PKR -12mln). This is mainly on the basis of lower fee income and sizeable losses on remeasurement of investments. The Company's equity stood at ~PKR 2,997mln in FY19 (FY18: ~PKR 2,878mln, Sep-19: ~PKR 2,985mln), which is well above the minimum regulatory capital requirement of PKR 230 million.



The Pakistan Credit Rating Agency Limited

| Fund's Performance Al Meezan Investment Management Limited | | | | | | |
|--|---|-------------------|-------------------|-----------------------------------|--|---------------------------------|
| Sr. No. | Fund | AUMs | | Return Sep'19 (Rolling 12 Months) | | Top Ten Investors Concentration |
| | | Sep'19 (PKR' mln) | Sep'18 (PKR' mln) | Fund | Category | |
| 1 | Meezan Asset Allocation Fund | 1,616 | 2,829 | -21.7% | Shariah Compliant Asset Allocation | 42% |
| 2 | Meezan Balanced Fund | 4,552 | 7,549 | -13.5% | Shariah Compliant Balanced Fund | 32% |
| 3 | Meezan Gold Fund | 545 | 248 | 39.9% | Shariah Compliant Commodities | 54% |
| 4 | Al Meezan Mutual Fund | 3,542 | 6,186 | -26.6% | Shariah Compliant Equity | 59% |
| 5 | Meezan Energy Fund | 519 | 1,207 | -38.5% | Shariah Compliant Equity | 55% |
| 6 | Meezan Islamic Fund | 20,528 | 34,280 | -27.1% | Shariah Compliant Fund of Funds | 30% |
| 7 | Meezan Financial Planning Fund of Funds (Aggressive) | 341 | 485 | -19.1% | Shariah Compliant Fund of Funds | 71% |
| 8 | Meezan Financial Planning Fund of Funds (Conservative) | 184 | 274 | -0.8% | Shariah Compliant Fund of Funds | 60% |
| 9 | Meezan Financial Planning Fund of Funds (MAAP I) | 485 | 808 | -20.6% | Shariah Compliant Fund of Funds | 75% |
| 10 | Meezan Financial Planning Fund of Funds (Moderate) | 138 | 259 | -10.1% | Shariah Compliant Fund of Funds | 38% |
| 11 | Meezan Strategic Allocation Fund (MSAP I) | 898 | 1,856 | -18.8% | Shariah Compliant Fund of Funds | 44% |
| 12 | Meezan Strategic Allocation Fund (MSAP II) | 503 | 1,235 | -17.5% | Shariah Compliant Fund of Funds | 55% |
| 13 | Meezan Strategic Allocation Fund (MSAP III) | 776 | 1,350 | -17.8% | Shariah Compliant Fund of Funds | 56% |
| 14 | Meezan Strategic Allocation Fund (MSAP IV) | 838 | 1,470 | -18.0% | Shariah Compliant Fund of Funds | 60% |
| 15 | Meezan Strategic Allocation Fund (MSAP V) | 229 | 504 | -17.9% | Shariah Compliant Fund of Funds | 63% |
| 16 | Meezan Strategic Allocation Fund (Meezan Capital Preservation Plan III) | 996 | 1,347 | 3.3% | Shariah Compliant Fund of Funds - CPPI | 27% |
| 17 | Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan IV) | 1,362 | 2,027 | 1.1% | Shariah Compliant Fund of Funds – CPPI | 35% |



The Pakistan Credit Rating Agency Limited

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|----|--|--------|-------|--------|--|-----|
| 18 | Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan V) | 378 | 746 | 0.5% | Shariah Compliant Fund of Funds – CPPI | 33% |
| 19 | Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan VI) | 314 | 640 | -0.2% | Shariah Compliant Fund of Funds – CPPI | 33% |
| 20 | Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan VII) | 177 | 8 | 0.5% | Shariah Compliant Fund of Funds – CPPI | 49% |
| 21 | Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan VIII)* | 102 | - | -0.8% | Shariah Compliant Fund of Funds – CPPI | 32% |
| 22 | Meezan Strategic Allocation Fund III (Meezan Capital Preservation Plan IX)* | 94 | - | -2.6% | Shariah Compliant Fund of Funds – CPPI | 91% |
| 23 | Meezan Islamic Income Fund | 16,284 | 8,545 | 9.6% | Shariah Compliant Income | 25% |
| 24 | Meezan Sovereign Fund | 4,728 | 1,759 | 9.5% | Shariah Compliant Income | 19% |
| 25 | KSE Meezan Index Fund | 1,438 | 1,641 | -27.2% | Shariah Compliant Index Tracker | 88% |
| 26 | Meezan Cash Fund | 9,655 | 4,992 | 9.3% | Shariah Compliant Money Market | 6% |
| 27 | Meezan Rozana Amdani Fund* | 22,025 | - | 10.8% | Shariah Compliant Money Market | 59% |
| 28 | Meezan Tahaffuz Pension Fund | 8,847 | 9,395 | - | Voluntary Pension Scheme | - |

* Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan VIII), launched on 14th Dec 2018.

* Meezan Strategic Allocation Fund III (Meezan Capital Preservation Plan IX), launched on 14th May 2019.

* Meezan Rozana Amdani Fund was launched on 28th Dec 2018.

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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- 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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- (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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- (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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