



The Pakistan Credit Rating Agency Limited

Rating Report

Al Meezan Investment Management Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2020	AM1	-	Stable	Maintain	-
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 as one of the largest asset managers and competitive advantage as the first and the largest Shariah-Compliant Asset Manager in Pakistan. The rating incorporates the Company’s strong brand name, robust governance framework, structured Investment processes, and qualified management team. The Company has segregated Compliance and Audit function in line with best practices to strengthen its control environment. The Company has a diversified customer base, with high proportion of retail investors compared to peers. The ratings take into account sizeable growth in AUMs of the Company, which have increased by ~24% at end Mar-20 on YoY basis. The growth momentum is expected to continue with management focusing on strengthening its digital presence and outreach. The Company’s association with Meezan Bank Limited – the largest Islamic bank – and ensuing synergies have supplemented 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, especially in equity category, lagged peers in recent periods but has improved lately and remained around industry averages. The profitability of the Company declined in FY19 due to revaluation investment losses and lower fee income as focus shifted towards fixed income and money market funds. This has improved during 9MFY20 with further upside going forward with better stock market performance. The Company enjoys sound liquidity and has sufficient lines available, if need arises.

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 Managers(Jun-20)
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 financial arm of Meezan Bank Limited (AA+ rated bank) in asset management industry.

Market Share The Company enjoys very strong standing as its market share increased to ~17.4% at end Mar-20 (Mar-19: 16.2%).

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. Al Meezan Investments offers innovative products including the country's only gold tracking fund.

Investor Concentration The top 10 investors represent ~48% of total assets under management (AUM) at the end Mar-20. The average related party holdings represent ~12% of the total AUM. Diversified customer base bodes well for fund retention and limits redemption pressure.

Ownership

Ownership Structure Meezan Bank Limited is the largest shareholder of the Company with ~65% stake, followed by Pak Kuwait Investment Company Limited (~30% shareholding). 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 is listed on PSX. Meezan Bank provides a comprehensive range of Islamic banking products and services through a retail banking network of more than 750 branches in over 200 cities of Pakistan. Pak Kuwait Investment Company Limited is Pakistan's leading Development Financial Institution. The objective of the Company is to promote profitable industrial investment in Pakistan.

Financial Strength Building on decades of expertise, Meezan Bank enjoys a strong financial foundation. The net assets of Meezan Bank stood at ~PKR 59bln at end Mar-20. Pak Kuwait Investment Company Limited had equity base of ~PKR 29 bln 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 while and two are representative of Pak Kuwait Investment Company Limited.

Members' Profile The BoD members have extensive experience (25 Years on average) in the field of banking and investment management. This helps in providing useful insight and guiding management in the development of effective risk management policies and procedures.

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 to ensure smooth and effective monitoring and control.

Financial Transparency The Company has an in-house internal audit department to monitor the internal controls. 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 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. 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 has 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. It uses a dedicated software that 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 portfolio allocations and redemption patterns. Sufficient liquidity is maintained by investing significant portion of funds' assets in liquid investment avenues. Moreover, the Company has financing lines available (though unutilized currently) to meet redemptions in a timely manner.

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, Head of Equities, Fund Manager – Equities, Fixed Income, Commodities for respective funds – 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 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. The research team comprises of experienced 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 of twenty-six distributors and twenty seven branches in fifteen cities across the country. The management is focusing on enhancing its digital presence and geographical presence, going forward.

Performance

Asset Under Management The AUMs of the Company increased by ~24% to ~PKR 116,968 mln at end Mar-20 (Mar-19: ~PKR 94,582 mln). 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, especially for equity funds.

Asset Manager The Company has reported a net profit of ~PKR 213 mln for 9MFY20 (FY19: ~PKR 211 mln, FY18: ~PKR 525 mln). The Company's equity stood at ~PKR 3,011 mln at end Mar-20 (FY19: ~PKR 2,997 mln, FY18: ~PKR 2,878 mln), which is well above the minimum regulatory capital requirement and shows very strong capitalization.



The Pakistan Credit Rating Agency Limited

Fund's Performance | Al Meezan Investment Management Limited

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR' mln)			Return 9MFY20		Return 12 M Trailing (Apr-19 to Mar-20)		Top Ten Investors Concentration
				Mar-20	Dec-19	Mar-19	Return	Bench.	Return	Bench.	
1	Meezan Rozana Amdani Fund	Shariah Compliant Money Market	26.4%	30,882	28,559	8,080	12.5%	5.5%	12.3%	5.2%	49%
2	Meezan Islamic Income Fund	Shariah Compliant Income	21.9%	25,564	21,184	8,711	12.2%	6.3%	11.9%	6.0%	21%
3	Meezan Islamic Fund	Shariah Compliant Equity	15.3%	17,881	27,648	29,490	-16.2%	-16.8%	-29.2%	-28.8%	31%
4	Meezan Cash Fund	Shariah Compliant Money Market	11.1%	13,028	10,308	9,286	11.6%	5.5%	11.3%	5.2%	12%
5	Meezan Sovereign Fund	Shariah Compliant Income	4.1%	4,749	3,715	1,403	12.0%	8.6%	11.8%	8.3%	17%
6	Meezan Balanced Fund	Shariah Compliant Balanced Fund	3.1%	3,601	4,682	6,473	-3.0%	-4.3%	-11.0%	-11.6%	32%
7	Al Meezan Mutual Fund	Shariah Compliant Equity	2.4%	2,861	4,592	5,345	-15.2%	-16.8%	-28.3%	-28.8%	58%
8	KSE Meezan Index Fund	Shariah Compliant Index Tracker	1.3%	1,464	1,850	1,751	-17.0%	-16.8%	-29.3%	-28.8%	87%
9	Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan IV)	Shariah Compliant Fund of Funds - CPPI	1.0%	1,154	1,376	1,800	-0.7%	-4.2%	-1.7%	-6.2%	39%
10	Meezan Asset Allocation Fund	Shariah Compliant Asset Allocation	1.0%	1,118	1,644	2,347	-11.5%	-10.8%	-22.4%	-20.7%	40%
11	Meezan Strategic Allocation Fund (MSAP I)	Shariah Compliant Fund of Funds	0.6%	716	929	1,343	-6.8%	-7.1%	-16.7%	-16.3%	47%
12	Meezan Strategic Allocation Fund (MSAP IV)	Shariah Compliant Fund of Funds	0.6%	669	967	1,262	-7.3%	-7.8%	-16.8%	-17.2%	66%
13	Meezan Strategic Allocation Fund (MSAP III)	Shariah Compliant Fund of Funds	0.6%	666	877	1,170	-7.5%	-7.8%	-17.0%	-17.1%	59%
14	Meezan Strategic Allocation Fund (Meezan Capital Preservation Plan III)	Shariah Compliant Fund of Funds - CPPI	0.4%	454	843	1,258	-3.1%	-5.1%	-3.0%	-6.2%	38%
15	Meezan Gold Fund	Shariah Compliant Commodities	0.4%	419	361	289	10.8%	9.5%	27.2%	24.5%	50%
16	Meezan Strategic Allocation Fund (MSAP II)	Shariah Compliant Fund of Funds	0.3%	401	548	990	-7.5%	-8.2%	-16.8%	-17.4%	59%
17	Meezan Energy Fund	Shariah Compliant Equity	0.3%	318	608	708	-26.8%	-16.8%	-39.6%	-28.8%	50%
18	Meezan Financial Planning Fund of Funds (MAAP I)	Shariah Compliant Fund of Funds	0.2%	277	326	695	-9.3%	-7.7%	-19.1%	-17.1%	78%
19	Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan V)	Shariah Compliant Fund of Funds - CPPI	0.2%	245	306	588	-0.1%	-3.2%	-1.2%	-5.3%	27%
20	Meezan Financial Planning Fund of Funds (Aggressive)	Shariah Compliant Fund of Funds	0.2%	239	327	454	-9.0%	-9.7%	-19.1%	-19.3%	71%
21	Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan VI)	Shariah Compliant Fund of Funds - CPPI	0.2%	212	300	562	-1.5%	-3.7%	-3.0%	-6.2%	36%
22	Meezan Strategic Allocation Fund (MSAP V)	Shariah Compliant Fund of Funds	0.2%	183	239	393	-7.9%	-7.8%	-17.2%	-17.1%	66%
23	Meezan Financial Planning Fund of Funds (Conservative)	Shariah Compliant Fund of Funds	0.1%	145	169	240	3.9%	1.1%	1.7%	-1.6%	64%
24	Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan VII)	Shariah Compliant Fund of Funds - CPPI	0.1%	137	169	267	-2.3%	-2.5%	-4.1%	-5.1%	56%
25	Meezan Financial Planning Fund of Funds (Moderate)	Shariah Compliant Fund of Funds	0.1%	111	145	229	-2.1%	-4.0%	-8.5%	-10.4%	37%
26	Meezan Strategic Allocation Fund III (Meezan Capital Preservation Plan IX)*	Shariah Compliant Fund of Funds - CPPI	0.1%	84	99	0	-2.1%	-5.1%	-	-	96%
27	Meezan Strategic Allocation Fund II (Meezan Capital Preservation Plan VIII)	Shariah Compliant Fund of Funds - CPPI	0.1%	65	99	153	-2.1%	-4.7%	-3.6%	-8.2%	33%
28	Meezan Tahaffuz Pension Fund	VPS	8.0%	9,324	10,283	9,295	-	-	-	-	-
Sum/Average:				116,969	123,151	94,582					49%

* Plan launched on 14-May-2019

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’.

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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 surveill 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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- (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)
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