



The Pakistan Credit Rating Agency Limited

Rating Report

AKD 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
08-Feb-2019	AM3++	-	Stable	Maintain	-
10-Aug-2018	AM3++	-	Stable	Maintain	-
22-Dec-2017	AM3++	-	Stable	Maintain	-
08-Jun-2017	AM3++	-	Stable	Upgrade	-
08-Jun-2017	AM3++	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating reflects the company's strong governance profile, experienced and qualified management team, structured investment management framework and improving fund slate.

The rating incorporates the company's established performance track record in equity category. However, the same needs to be translated in fixed income category. At end Dec-18, the assets under management declined by ~6%, due to high reliance on equity funds. The rating is constrained by relatively small market share (<1%) and high concentration in investor base. Lately, the profitability of the company has come under pressure on the back of subdued performance of capital markets.

The rating is dependent on materialization of the management's efforts to increase its market share, while achieving diversity in investor as well as an overall asset base. The company's ability to successfully execute its business strategy and optimal utilization of its resources and group name remains imperative. Meanwhile, sustained fund performance and strengthening of core process is critical.

Disclosure

Name of Rated Entity	AKD 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 AKD Investment Management Limited is a public unlisted company.

Background Incorporated in 2004, AKD Securities Private Ltd. is majority owned by Mr. Aqeel Karim Dhedhi.

Market Share The AMC's witnessed a minor decrease in its market share from Dec-17: 1% to Dec-18: 0.9%.

Diversification Of Fund Mix The company is currently managing a diverse product slate of six open-end funds and one close-end fund. During CY18, the company increased its product slate by two funds under the category of Shariah Compliant Income and Shariah Compliant Equity.

Investor Concentration The top 10 investor concentration at end Sep-18 stood at ~76% of total AUMs, represents high redemption pressure. The average related party holding represents ~14% of total AUMs.

Ownership

Ownership Structure The company is a wholly owned subsidiary of Aqeel Karim Dhedhi Securities (Pvt) Limited, holding ~99.97% stake in the company. The remaining shares are held by the four directors and an ex-CEO of the company.

Business Acumen AKD Group has business enterprises operating in asset management, brokerage and real estate sectors of Pakistan's economy. Mr. Aqeel Karim Dhedhi is the Chairman of the AKD Group and is a renowned individual of Pakistan's capital market industry.

Financial Strength Building on decades of professional experience, AKD Investment Management Limited enjoys a strong financial foundation emanating from its well diversified business.

Governance

Board Structure The company's board is composed of seven members, including the CEO Mr. Imran Motiwala. Other than the CEO, remaining board comprises one executive, two non-executives and three independent members.

Members' Profile Mr. Imran Motiwala has been serving as the Chief Executive Officer of AKD Investment Management Limited since 2009, while also serving as a Director in the company from 2007. With a career spanning around two decades in the capital market industry, Mr. Imran is a seasoned finance professional with experience ranging from equity brokerage to asset management.

Board Effectiveness The board actively provides guidance to the company and constituted two committees, audit and HR & remuneration committee to streamline governance structure across the organization.

Financial Transparency The company has established an in-house internal audit department that reports to the audit committee. The department jointly operates with risk management function. The company's external auditors are Grant Thornton, who have provided an unqualified opinion on the financial statements of FY18.

Management

Organizational Structure The company has a well designed organizational structure. The company operates through ten departments under the supervision of the CEO. The research and fund management department reports to the CIO.

Management Team The senior management of the company comprises qualified and experienced professionals. Ms. Anum Aqeel Dhedhi CIO, holds a BSc in Financial Economics from the City University of London, United Kingdom. She has previously worked as an economist at AKD Securities (Pvt.) Ltd.

Technology Infrastructure The company is currently using an in-house developed asset management application named "FunDXs" as its core business software. The software comprises three modules: 1) Portfolio Management System, 2) Money Market and 3) Unit holder module.

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 company has developed an internal risk assessment software to evaluate the risk of the overall portfolio. Exposure and margin limits are properly defined.

Liquidity Profile The risk management department generates liquidity and redemption risk report for the equity funds that shows a list of liquid stocks which are able to meet heavy redemption under distress conditions.

Market Risk The risk management department generates stress testing report as per SECP guidelines. The report takes into account the interest rate volatility affecting the fixed income portfolio of the fund management.

Portfolio Management

IC Composition The investment committee comprises nine members including CEO, CIO, COO, Director Corporate Sales, Manager Risk and Fund Managers.

Effectiveness The IC formally meets on daily basis in order to make investment decisions.

Investment Research And Analysis The research department comprises five individuals and reports directly to the CIO. The position of Head of Research is currently vacant and the company remains under the process of hiring a competent resource as the Head of Research.

Customer Relationship

Investor Services The company releases its fund manager reports on its webpage in a timely manner. Furthermore, the company is looking forward to partner up with 1-Link to facilitate its investors to make ATM redemption from the country's popular banks.

Investor Reporting The company's webpage is used as a reporting platform for dissemination of information pertaining to the company and its funds under management, which includes NAV history, fund performance, product characteristics and other important announcements.

Distribution And Sales Network The company's sales team comprises thirteen individuals including the head of sales. The head of sales is highly focused on retail clients due to which the number of retail investors accounts have increased.

Performance

Asset Under Management The company's assets under management decreased slightly from ~PKR 5,362mln in Dec-17 to ~PKR 5,072mln in Dec-18, depicting a decrease of ~5.4%, whilst the industry witnessed a growth of ~3.1% during the period.

Asset Manager The company has reported a net loss of ~PKR 66mln and ~PKR 12mln for FY18 and 1QFY19, respectively. The company's equity stood at ~PKR 276mln at end Sep-18, above than SECP minimum capital requirement of PKR 230mln.

Financial Summary: AKD Investment Management Limited

Sr. no	Fund Name	Asset Under Management		Return CY18	Top 10 Investor Concentration Sep-18	Performance Ranking / Stability Rating
		Dec18 (PKR mln)	Dec17 (PKR mln)			
1	AKD Opportunity Fund	2,063	2,555	(8.7%)	47.8%	3-Star
2	AKD Aggressive Income Fund	553	780	0.7%	82.8%	A-
3	AKD Index Tracker Fund	398	448	(9.9%)	94.1%	-
4	AKD Cash Fund	366	121	5.6%	94.7%	AA+
5	AKD Islamic Income Fund	127	-	-	64.8%	A+
6	AKD Islamic Stock Fund	199	-	-	71.9%	-

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.

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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)

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)

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