



The Pakistan Credit Rating Agency Limited

## Rating Report

### AKD Investment Management Limited

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook  | Action    | Rating Watch |
|--------------------|------------------|-------------------|----------|-----------|--------------|
| 08-Feb-2020        | AM3++            | -                 | Negative | Maintain  | -            |
| 09-Aug-2019        | AM3++            | -                 | Stable   | Maintain  | -            |
| 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-2016        | AM3+             | -                 | Stable   | Harmonize | -            |
| 31-Mar-2016        | AM3              | -                 | Stable   | Maintain  | -            |
| 16-Jun-2015        | AM3              | -                 | Stable   | Maintain  | -            |
| 26-Sep-2014        | AM3              | -                 | Stable   | Initial   | -            |

#### Rating Rationale and Key Rating Drivers

The rating incorporates the Company's strong corporate governance structure, experienced management team and recognized name in Pakistan capital market.. However, the rating is constrained by relatively small market share (<1%) and high concentration in investor base. The Company has a stable core management team, which provides support to the rating. The Company's AUMs showed an increase of 7% and stood at ~PKR 5.44bln at end Dec'19 (Dec'18 ~PKR 5.07bln). However, the market share of the Company decreased to 0.8% at Dec'19 (Dec'18 0.9%). The funds' performance remained below average, as only AKD Islamic Income fund was able to beat the benchmark returns in CY19. Diversification in AUM base among various fund categories along with improvements in the overall operating platform will bode well for the Company. The equity of the Company has come under pressure due to losses and stands at ~PKR 167mln at end Sep'19 (Jun'19 ~PKR 197mln). This is below the minimum regulatory requirement for an asset management company, exerting pressure on the rating. Strong sponsor commitment is considered positive for the rating.

The rating is dependent on timely fulfillment of minimum regulatory equity requirement and better fund performance. Any significant delay in equity build up and/or below average fund performance will have negative rating implications. The Company's ability to successfully execute its business strategy and optimal utilization of its resources and group name remains imperative. Meanwhile, improving market share, maintaining strong fund performance and strengthening of core process is critical.

#### Disclosure

|                              |   |
|------------------------------|---|
| <b>Name of Rated Entity</b>  | AKD Investment Management Limited                         |
| <b>Type of Relationship</b>  | Solicited   |
| <b>Purpose of the Rating</b> | Asset Manager Rating                                      |
| <b>Applicable Criteria</b>   | Methodology   AMC (Jun-19)                                |
| <b>Related Research</b>      | Sector Study   Asset Manager(Jun-19)                      |
| <b>Rating Analysts</b>       | Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504 |



## Profile

**Structure** AKD Investment Management Limited ("AKD Investment" or "The Company") is a public unlisted company.

**Background** The Company was incorporated in 2004 and is part of AKD Group. The group specializes in capital markets through its brokerage and investment advisory business.

**Market Share** The Company witnessed a decline in market share from 0.9% in Dec-18 to 0.8% in Dec-19.

**Diversification Of Fund Mix** The fund slate is composed of seven open-end funds belonging to all major categories. These include aggressive fixed income, money market, index tracker, equity, shariah compliant equity and shariah compliant income.

**Investor Concentration** The average top 10 investor concentration at end Dec-19 stood at ~74% of total AUM's, which represents high redemption pressure. The average investor retail concentration was ~28% of total AUM's.

## Ownership

**Ownership Structure** The Company is a wholly owned subsidiary of Aqeel Karim Dhedi Securities (Pvt) Limited, holding ~99.97% stake in the Company. The remaining shares are held by the four directors and Mr. Faisal Bengali, an ex-CEO of the Company. Mr. Aqeel Karim Dhedi, chairman AKD Group, owns majority shareholding in AKD Securities (Pvt) Limited.

**Business Acumen** AKD Group is among the leading business conglomerates in Pakistan. It has decades of experience in the asset management, brokerage, energy and real estate sectors of the country.

**Financial Strength** The financial strength of the sponsor, the AKD Group, remains strong due to its diversified profitable businesses.

## Governance

**Board Structure** The Company's board comprises of seven members, including the CEO Mr. Imran Motiwala. Three directors are independent members, two are non-executives and two are executives.

**Members' Profile** Mr. Abdul Karim Memon is the Chairman of AKD Investment. He holds an MA in Economics degree along with a Masters in International Relations. Mr. Karim is a tax consultant by profession and runs his own consultancy business by the name of Karim & Co.

**Board Effectiveness** The Board of the Company has the overall responsibility for establishment and oversight of risk management framework. The Board has established two committees, (i) Audit Committee and (ii) HR Committee. The Company has an in-house internal audit department that reports to the Audit Committee.

**Financial Transparency** The auditors of the Company, Grant Thornton, have provided an unqualified opinion on the financial statements for the year ended June-19. The Company has appointed Deloitte Yousuf Adil, classified in 'A' category by SBP, as its new external auditor for FY20. The internal audit department jointly operates with risk management function.

## Management

**Organizational Structure** The organizational structure of the Company is well defined and is divided into ten departments that work under the supervision of the CEO. The research and fund management departments reports to the CIO, who in turn, reports to the CEO.

**Management Team** The senior management of the Company comprises qualified and experienced professionals. The COO, Mr. Muhammad Yaqoob, CFA has around fifteen years of experience. He is supported by an experienced core management team having long association with the Company. Ms. Anum Aqeel Dhedi, CIO, holds a BSc in Financial Economics from the City University of London, United Kingdom.

**Technology Infrastructure** The Company is currently using an in-house developed asset management application named "FunDXs" as its core business software. The software comprises four modules: 1) Portfolio Management System, 2) Money Market, 3) Unit holder module, and 4) GL 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 margins.

## 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 and controls are in place to ensure the allocation limit. Cash is held only with reputable banks with high quality external credit enhancements.

**Liquidity Profile** The risk management department generates liquidity and redemption risk report for equity funds that shows a list of liquid stocks, which are able to meet heavy redemption under both normal and distress conditions without incurring unacceptable losses or risking damage to the Company's reputation.

**Market Risk** The risk management department follows the internal risk management policies and 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 of the Company comprises seven members, including the CEO, CIO, COO, Manager Risk Management, and 3 Fund Managers.

**Effectiveness** The IC formally meets on weekly and on ad-hoc basis in order to make investment decisions and monitor funds performance.

**Investment Research And Analysis** The research department reports directly to the CIO. The Company currently has one Research Analyst.

## Customer Relationship

**Investor Services** The Company releases its fund manager reports on its web site 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 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 eleven 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 increased from ~PKR 5.07 bln in Dec-18 to ~PKR 5.44bln in Dec-19, depicting an increase of ~7%, whilst the industry witnessed an increase of ~17.6% during CY19. The fund performance remained subdued, as only the AKD Islamic Income Fund posted returns above the benchmark, based on 12 month rolling returns at Dec-19. Golden Arrow Stock fund (Formerly: Golden Arrow Selected Stocks Fund), which was converted to an open-end scheme in Nov-19, and AKD Opportunity Fund performed poorly as the funds generated returns below their respective benchmarks and category average returns. Consistent fund performance with above average returns is imperative.

**Asset Manager** The Company has reported a net loss of ~PKR 92.5mln for FY19. (FY18: PKR (65.9)mln, 1QFY20 PKR (29.4) mln). The Company's equity stood at ~PKR 167mln at end Sep-19 which is below the minimum capital requirement of PKR 230mln set by the SECP. Sponsors of AKDIML plan to inject equity in order to meet the minimum requirement, going forward.

**Fund's Performance Summary: AKD Investment Management Limited**

| Sr. No | Fund Name                  | Category                 | Assets Under Management |                  | Return Dec-19 (Rolling 12 months) (%) | Benchmark Return Dec-19 (Rolling 12 months) (%) | Top 10 Investor Concentration | Performance Ranking / Stability Rating (Dec-19)   |
|--------|----------------------------|--------------------------|-------------------------|------------------|---------------------------------------|---|-------------------------------|---|
|        |                            |                          | Dec'19 (PKR mln)        | Dec'18 (PKR mln) |                                       |   |                               |   |
| 1      | AKD Oppourtunity Fund      | Equity                   | 1,811                   | 2,063            | -1.91%                                | 9.90%   | 51.00%                        | 1 star (1 year), 2 star (3 year), 3 star (5 year) |
| 2      | AKD Aggressive Income Fund | Aggressive Fixed Income  | 617                     | 553              | 10.64%                                | 12.84%  | 98.00%                        | A- (f)  |
| 3      | AKD Index Tracker Fund     | Index Tracker            | 446                     | 398              | 7.90%                                 | 9.90%   | 95.00%                        | 3 star (1 year), 3 star (3 year), 2 star (5 year) |
| 4      | AKD Cash Fund              | Money Market             | 1,065                   | 366              | 10.96%                                | 11.32%  | 94.00%                        | AA+ (f)   |
| 5      | Golden Arrow Stock Fund    | Equity                   | 1,130                   | 1,366            | -8.35%                                | 9.90%   | 36.00%                        | 1 star (1 year), 2 star (3 year), 4 star (5 year) |
| 6      | AKD Islamic Income Fund    | Shariah Compliant Income | 215                     | 127              | 11.07%                                | 5.33%   | 74.00%                        | A+ (f)  |
| 7      | AKD Islamic Stock Fund     | Shariah Compliant Equity | 152                     | 199              | -8.96%                                | 7.94%   | 70.00%                        | 1 star (1 year)                                   |
|        | <b>Total AUM</b>           |                          | <b>5,436</b>            | <b>5,072</b>     |                                       |   |                               |   |

## Asset Manager Rating Scale & Definitions

An independent opinion on the quality and expertise deployed by an asset management company

| Scale                | Definition   |
|----------------------|--|
| AM1                  | <b>Very high quality.</b> Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.                   |
| AM2++<br>AM2+<br>AM2 | <b>High quality.</b> Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors. |
| AM3++<br>AM3+<br>AM3 | <b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.  |
| AM4++<br>AM4+<br>AM4 | <b>Adequate quality.</b> Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.         |
| AM5                  | <b>Weak.</b> 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.

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(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)

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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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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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