



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-2021	AM3++	-	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The rating incorporates AKD Investment Management Limited's ("AKDIML" or the "Company") adequate corporate governance structure, experienced management team and recognized name in Pakistan capital market. Since Dec'19, the AUMs of the Company grew by ~20% and currently stood at PKR ~6.528mln. 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 funds' performance remained above par, equity funds performed well above benchmark and industry average. Whereas, Income and Money market fund's performance remained in line with industry averages. Diversification in AUM base among various fund categories along with improvements in the overall operating platform will bode well for the Company. The profitability of the Company is improving majorly on the back of unrealized gains on investments. The equity of the Company which has come under pressure due to losses is now recovered on the back of improving profits.

The rating is dependent on sustainable cash flows and profits which would ultimately results in stable equity. 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, strengthening of core process and meeting the regulatory thresholds 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-20)
Related Research	Sector Study Asset Managers(Jun-20)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504



Profile

Structure AKD Investment Management Limited ("AKDIML" 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, investment advisory and asset management.

Market Share The Company witnessed a decline in market share from 0.8% in Dec'19 to 0.7% in Dec'20.

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-20 stood at ~71% of total AUM's, which represents high redemption pressure. The average investor retail concentration was ~22%, whereas related party holding was ~7.6% of total AUM's.

Ownership

Ownership Structure The Company is a wholly owned subsidiary of AKD Group Holdings (Private) Limited (Formerly: Aqeel Karim Dhedhi Securities (Private) 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.

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 AKDIML. 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.

Transparency The auditors of the Company, Yousuf Adil Chartered Accountants, have provided an unqualified opinion on the financial statements for the year ended June-20. The Company has appointed Yousuf Adil Chartered Accountants, classified in 'A' category by SBP, as its new external auditor for FY21. 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 nine 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 more than sixteen years of experience. He is supported by an experienced core management team having long association with the Company. Ms. Anum Aqeel Dhedhi, 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 system and mechanism 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, 2 Fund Managers and a research analyst.

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 nine individuals including director corporate and head of retail sales. The head of retail 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 by 20% and currently stood at ~PKR 6.53bln at end Dec'20. However, the market share of the Company slightly declined by 0.1%, as the industry grew at a faster pace by 40%. During the year ending on Dec'20, the funds in equity category outperformed their benchmark and remained well above the industry average, while funds in income and money market category remained in line with the industry averages and posted returns above benchmarks. Consistent fund performance with above average returns is imperative.

Asset Manager The profitability of the Company is improving majorly on the back of unrealized gains on investments. The equity of the Company which has come under pressure due to losses is now recovered on the back of improving profits.

Fund's Performance Summary: AKD Investment Management Limited

Sr. No	Fund Name	Category	Assets Under Management		Return Dec-20 (Rolling 12 months) (%)	Benchmark Return Dec-20 (Rolling 12 months) (%)	Top 10 Investor Concentration	Performance Ranking / Stability Rating (Dec-20)
			Dec'20 (PKR mln)	Dec'19 (PKR mln)				
1	AKD Oppourtunity Fund	Equity	2,661	1,811	47.81%	7.41%	46.42%	5 star (1 year), 5 star (3 year), 5 star (5 year)
2	AKD Aggressive Income Fund	Aggressive Fixed Income	754	617	9.95%	9.10%	90.94%	A (f)
3	AKD Index Tracker Fund	Index Tracker	456	445	5.59%	7.41%	95.48%	
4	AKD Cash Fund	Money Market	489	1,065	9.10%	8.69%	85.27%	AA+ (f)
5	Golden Arrow Stock Fund	Equity	1,530	1,130	51.07%	7.41%	41.87%	5 star (1 year), 5 star (3 year), 5 star (5 year)
6	AKD Islamic Income Fund	Shariah Compliant Income	362	215	8.63%	5.24%	78.23%	A+ (f)
7	AKD Islamic Stock Fund	Shariah Compliant Equity	276	152	10.48%	7.78%	62.33%	4 star (1 year)
	Total AUM		6,528	5,435				

Asset Manager Rating

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.

<p>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’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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- 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

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- (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)

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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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- (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)

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