



Rating Action

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PACRA Revises Stability Rating of KASB Income Opportunity Fund

The Pakistan Credit Rating Agency (PACRA) has revised the stability rating of KASB Income Opportunity Fund (KIOF) (Formerly; KASB Liquid Fund) to **‘BBB(f)’ (Triple B – Fund Rating)** [Previous rating: ‘BBB+(f)’ (Triple B Plus – Fund Rating)], an open-end income fund. The fund’s rating denotes an adequate capacity to manage relative stability in returns and high exposure to risks.

The rating reflects adequate credit quality of fund’s assets and relatively modest liquidity profile due to high allocation towards TFCs (~82% at end-Jan11). The fund has experienced deterioration in the credit quality of its TFCs portfolio with non-performing instruments representing ~31% of net assets. This may lead to further downward pressure on return and relative stability, particularly if restructuring efforts for the non-performing instruments do not materialize in a timely manner. The exposure against individual issuers is also high and poses greater risk if asset quality deteriorates further. In addition, the unit holding pattern is highly concentrated, with top five investors holding more than 90% of fund’s units. However, comfort can be drawn from significant sponsor’s holdings in the fund.

Going forward, the fund plans to reduce exposure in TFCs to around 70% of net assets and subsequently invest in government securities, while maintaining sufficient cash balance. Timely materialization of the proposed asset-mix remains to be seen. Main risk factors affecting the stability of returns emanate from provisioning for non-performing instruments and volatility in prices of TFCs, amidst largely illiquid market for this segment. The fund may also be vulnerable to redemptions keeping in view the declining size of the fund and highly concentrated unit holding pattern.

About the Management Company: KASB Funds Limited (KFL) is the management company for KIOF and has been rated ‘AM3+’ by JCR-VIS. The main sponsors of KFL are KASB Group and BlackRock Inc. KFL is currently managing six open-end mutual funds with aggregate AUM of around PKR 2.5bln at end-Jan11.

The management team of KFL consists of experienced and qualified personnel. The acting CEO, Mr. Muhammad Imran Khalil, an associate member of ICAP, carries diverse experience of over seven years in asset management industry.

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