



Rating Action

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PACRA REVISES STABILITY RATING OF NAFA INCOME OPPORTUNITY FUND

The Pakistan Credit Rating Agency (PACRA) has revised the fund stability rating of the fund to “**A(f)**” (Single A – Fund Rating) [Previous Rating: “**A+(f)**” (Single A Plus – Fund Rating)] of the NAFA Income Opportunity Fund (NIOF) (Formerly; NAFA Cash Fund) , an open-end income fund. The fund’s rating denotes a strong capacity to manage relative stability in returns and low exposure to risks.

The fund primarily invests in money market and debt securities having good credit quality and aims to provide a reasonable rate of return and maximum possible capital preservation to its unit holders. The rating reflects fund’s adequate credit quality, low exposure against interest rate volatility and reasonable diversification in its TFC portfolio. It also incorporates relatively low liquidity profile due to very high allocation towards TFCs (~73%). The credit quality of the fund has experienced significant deterioration lately with non-performing instruments rising to 8.5% of net assets at end-Nov10. The remaining portion comprised daily cash balances with scheduled banks. The TFC portfolio has been under pressure and some of the issuers are going through restructuring. Furthermore, the unit holding pattern has increased to an even higher concentration level with top10 investors holding majority of the fund’s units.

The fund planned on reducing exposure in TFCs to a large extent and subsequently increasing placements with scheduled banks (rated A and above), however it has yet to materialize. The main risk factor affecting the stability of returns emanates from volatility in prices of TFCs amidst largely illiquid market for this segment and rising discount rate. At the same time, the fund may be highly vulnerable to redemptions keeping in view concentrated unit holding pattern.

About the Management Company: NBP Fullerton Asset Management Limited [Formerly; National Fullerton Asset Management Limited] (NAFA) is the management company for the NIOF and is rated ‘AM2-’ by PACRA. NAFA is a subsidiary of Pakistan’s largest Bank, National Bank of Pakistan. The other major shareholder is Alexandra Fund Management Pte Limited (a member of Fullerton Fund Management Group, a wholly owned subsidiary of Tamasek Holdings, Singapore). NAFA is currently managing ten mutual funds with aggregate AUM of around PKR 15.65bln as at end Nov10.

The management team of NAFA consists of qualified and experienced personnel. Dr. Amjad Waheed, CFA, the CEO of NAFA, holds a Doctorate in Business Administration with majors in Finance/Investments, besides having extensive experience in the asset management industry. The fund manager of NIOF, Mr. Usman Khan, joined NAFA in Aug 09. Meanwhile, the quality of risk management systems and control environment of the management company are sound.

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