



The Pakistan Credit Rating Agency Limited

RATING REPORT

AKD INVESTMENT MANAGEMENT LIMITED

	CURRENT [JUNE-17]	PREVIOUS [JUNE-16]
Asset Manager Rating	AM3++	AM3+
Outlook	Stable	Stable

JUNE 2017

Profile & Governance

- AKDIML is sponsored by Aqeel Karim Dhedhi Securities (Pvt) Limited (AKDSPL). AKDSPL owns 99.97% shares of AKDIML. The remaining stake is held by three directors and an ex-CEO of the company. AKDSPL is majority owned by Mr. Aqeel Karim Dhedhi - Chairman of the AKD Group - a renowned figure in Pakistan's capital market
- During CY16, one of the group company AKD Securities was under investigation. The case has been resolved. The company continues to operate without any redemption runs

Assessment

- AKDIML's existing fund slate remained unchanged during the year, comprising 5 funds; two equity funds, one index-tracker fund, one aggressive income fund and one money market fund. Going forward, the AMC plans launch new fund in Shariah Compliant Income and Equity category
- During CY16, AKDIML's AUM base observed a strong growth of 47%, surpassing the industry growth of 28%. The company's low base of AUMs resulted in a slight increase in the system share (Dec16:0.98%, Dec15:0.86%). AKDIML's AUM base remains highly concentrated with most of the funds having top10 concentration of ~80%
- The SMA segment also observed growth during the period PKR 590mln as at Dec-16 (June-16: PKR ~486mln)

Sales & Marketing

- During the year, AKDIML has beefed up its sales team, totaling to 16 sales staff divided into Corporate & Retail segment. The management hired a foreign resource in a Business Development department to elevate its market position under AKD's brand
- The retail team under the purview of Mr Ubaid ur Rahman Khan as head of retail sales. During the year, the company successfully opened its branch in Lahore.
- Mr. Nadeem Saulat, an executive director, as Head of Public Relations, carrying extensive experience, is responsible for building investor relations

Investment Decision Making

- AKDIML has a structured investment decision making process. The Investment Committee (IC), approved by the BoD, comprises six members. These include: a) CEO, b) CIO, c) COO, d) Head of Public Relations, e) Head of Risk, and f) Fund Manager. Members of the research department may also join the IC through invitation. The IC meets on a daily basis. The investment proposal is presented to the IC by the CIO
- Currently the research department fall under the purview of CIO. The company is in the process of hiring a competent resource as the Head of Research. The research team at AKDIML consists of four analysts with reasonable experiences. The management's aim to strengthen the department is a positive step

Risk & Compliance

- The risk management department is headed by Ms. Naureen Nadir, as Mr. Carrow Michael stepped down from his position and taken charge as an Head of HR & Administrations
- The scope of the company's risk management involves investment risk management. The department has started generating liquidity report for the equity funds along with fixed income portfolio of the fund management
- During the year, compliance is segregated from audit department, Mr. Rashid Ahmed, with more than 18 years of experience, is the Head of Compliance.
- The department generates reports and distribute to IC members highlighting breaches of specific regulations on a daily basis

Technology & Investors Services

- The company has a reasonably user-friendly website. The website is used as a reporting platform for dissemination of information pertaining to the company, management, dividend announcements, NAV history, fund performance, product characteristics and other important announcement
- Going forward, the department plans to deploy trade portal for unitholders. Furthermore, the AMC look forward to partner with 1-Link to facilitate its investors to make ATM redemption from the country's popular banks along with Over-The-Counter (OTC) facilities

RATING RATIONALE

The rating captures the company's improved investment process, reasonably experienced management team, and enhancement in operating platform. The AUM growth of the company remained in line with the industry resulting in a largely maintained system share. The company continues to expand its human resource base in order to strengthen the organizational structure and enhance the quality of processes. The group strive to give positive grandeur to AKD's brand after adjournment of the legal investigation against the group. The rating takes cognizance of the company's ability to outperform peer funds in equity category, distinguishing AKDIML in the domestic industry. However, it needs to witness performance improvement in the fixed income category. High concentration - both in terms of investors and type of mutual fund, and low contribution from the retail segment needs attention.

KEY RATING DRIVERS

The rating is dependent upon the company's ability to successfully execute its business strategy encompassing enhancement in system share and expanding the retail investor base. Diversification of its existing fund slate in the Shariah-Compliant category would help in boosting the AUM base of the company. Upholding existing organization structure along with retention of key human resource remains imperative for AKDIML. At the same time, liquidity management, given certain exposure to illiquid stocks, remains important.

INDUSTRY SNAPSHOT

During CY16, the AMC industry experienced a massive increase of 28% in its AUMs. The growth was mainly led by the bullish momentum observed in the PSX during the second half contributing more than 90% of the overall AUM growth during this period. This consequently resulted in a rise in the asset base of equity funds increasing their system share. Low interest rate environment contributed towards the outflow of AUMs from fixed income category. The Fund of Funds and Asset Allocation Plans were the main focus of industry players and was successful in attracting sizeable fresh mobilization building a healthy share in the overall AUM mix. Lately, Shariah compliant investment schemes also gained popularity among the investors.

Financial Summary

Sr. #	Fund	Category	Asset Under Management		Return – CY16	Benchmark Return – CY16	Top 10 Investors Concentration	Performance Ranking (Jun 16) / Stability Rating
			Dec-16 (PKR mln)	Dec-15 (PKR mln)				
1.	AKD Cash Fund - CF	Money Market	101	345	8.7%	6.5%	97%	AA+(f)
2.	AKD Opportunity Fund – AKDOP	Equity	2,519	1,305	50.7%	45.7%	46%	4-Star
3.	Golden Arrow Selected Stocks Fund – GASSF	Equity (close-End)	2,136	1,559	59.7%	45.7%	Not applicable owing to the fund’s closed end structure	4-Star
4.	AKD Aggressive Income Fund - AKDAIF	Aggressive Income	941	651	8.7%	6.5%	89%	BBB+(f)
5.	AKD Index Tracker Fund - AKDITF	Index Tracker	535	391	38.4%	45.7%	96%	N/A

RATING SCALE & DEFINITIONS: Asset Management Industry

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be determined solely by investors

ASSET MANAGER RATINGS

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.

+ = (Plus)

++ = (Double Plus)

FUND STABILITY RATINGS

AAA(f)

An exceptionally strong capacity to maintain relative stability in returns and possesses negligible exposure to risks.

AA+(f), AA (f), AA-(f)

A strong capacity to maintain relative stability in returns and possesses low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions

A+(f), A (f), A-(f)

A fund with stable performance generally in line with its peers with adequate capacity to respond to future opportunities or stress situations.

BBB+(f), BBB (f), BBB-(f)

An adequate capacity to maintain relative stability in returns and possesses high exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.

BB+(f), BB (f), BB-(f)

A low capacity to maintain stability in returns and possesses very high exposure to risks

B(f)

A very low capacity to maintain stability in returns and possesses very high exposure to risks.

The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

FUND PERFORMANCE RANKINGS

5-Star Very good performance

4-Star Good performance

3-Star Average performance

2-Star Below average performance

1-Star Weak performance

CAPITAL PROTECTION RATINGS

CP1

Very strong certainty of capital protection.

CP2+ CP2

Strong certainty of capital protection.

CP3+ CP3

Good certainty of capital protection.

CP4+ CP4

Adequate certainty of capital protection.

CP5

Weak capital protection.

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.

Rating Outlooks: Indicates the potential and direction of a rating in response to a) trends in economic and/or fundamental business/financial conditions and/or deviation from expected trend. 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'.

Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.

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, a suspended rating should be considered withdrawn.

Withdrawn:

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity or c) the rating remains suspended for six months or d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

