



The Pakistan Credit Rating Agency Limited

# ALFALAH GHP INVESTMENT MANAGEMENT LTD.

## RATING REPORT

	NEW [DEC-17]	PREVIOUS [MAY-17]	REPORT CONTENTS
<b>Asset Manager Rating</b>	AM 2+	AM 2+	1. PROFILE & GOVERNANCE 2. ASSESSMENT
<b>Outlook</b>	Stable	Stable	3. SALES & MARKETING 4. INVESTMENT DECISION MAKING 5. RISK AND COMPLIANCE 6. TECHNOLOGY & INVESTOR SERVICES

DECEMBER 2017

### **Profile & Governance**

- Alfalah GHP Investment Management Limited (AGIML) was incorporated on October 18, 2004 as a public limited company with Bank Alfalah Limited (BAFL) as one of the main sponsors.
- AGIML's six-member BoD includes the CEO along with two representatives of BAFL, one representative of GHP Beteiligungen Limited, one representative of MAB Investments and one director independent of key sponsors. The board is chaired by Mr. Ali Sultan, Group Head – Treasury, Investments & Financial Institutions, Bank Alfalah Limited.
- Ms. Maheen Rahman, CEO of AGIML, has an extensive experience of over sixteen years in the local & international financial market.
- AGIML's total shareholder's equity stands at PKR 605mln at end-Jun17 (Dec-16: 534bln), which is well above the minimum capital requirement as per revised NBFC regulations (AMC: PKR 230mln).

### **Assessment**

- AGIML has observed a major attrition by ~15% compared to the industry decline of 2.4% in its assets under management during 9MCY17, deteriorating company's market share (Sep17: 4.6%, Dec16: 5.3%). Such decline is majorly owing to negative outflow across Islamic Income Category.
- During the year, the company launched its new fund in Islamic Asset Allocation category. The company's product slate includes 17, funds belonging to all the major categories. AGIML through capitalizing on parent bank's network has gained momentum towards increasing its penetration in the retail segment – representing 27% of the overall AUM base.
- The group investments represent ~5% of AUMs. Most of the funds depict high unit holder concentrations around 70%.

### **Sales & Marketing**

- The Marketing & Sales department is headed by Mr. Ahsan Chishty who leads a five member team. A Retail Sales team consisting of 28 members who report to the Head of Marketing.
- The company has developed an extensive marketing strategy primarily focused to increase its size in the retail sales through capitalizing on the parent banks network and strengthening its retail sales team.
- The future growth of the company depends on penetration into the retail industry.

### **Investment decision making**

- The primary investment decision making body is the Investment Committee (IC), comprising CEO, COO, Head of Investments, Head of Compliance and Fund Managers. The IC formally meets on a weekly or on ad-hoc basis to take major portfolio-related decisions, and also monitor funds' performance.
- The Investment department consists of one fund manager for mutual funds and one Senior Fund Manager for SMA portfolio of the company.
- The presence of head of research as independent member in the IC would add strength to the decision making process.

### **Risk & Compliance**

- The company recently separated the risk function which is headed by Mr. Zafar Mehdi. Primary focus of risk department is to manage investment and operational risk.
- AGIML has established a comprehensive compliance function, which is led by Mr. Shariq Hashmi as the Head of Compliance.
- The function of this department is to ensure compliance with listing regulations, constitutive documents and internal manuals.

### **Technology & Investor Service**

- The company is currently using ERP developed by Sidat Hyder Morshad & Co. (Pvt.) Limited as its core software.
- The company revamped website is more user and information friendly.
- Furthermore, the company has developed "Online Information Portal" and plans to launch its personal app where customers can have real time access to their investment portfolio.

### **RATING RATIONALE**

The rating reflects AGIML's well-structured investment management framework, sound operating platform, and an experienced management team. It incorporates well diversified product slate and enhanced integration with the parent bank. Timely launch of new funds has attracted decent investments; hence, lending support towards enhancement of the system share. Retail portion adds diversity to the AUM base and provides support to the business. The company has planned to strengthen its marketing team to further penetrate the retail market. The fund performance went under duress for some time. However, lately it has managed to get back to its historical performance levels, comparable to industry. Furthermore, it plans to form a separate research team which will support the investment decision making process.

### **KEY RATING DRIVERS**

The rating is dependent on the company's ability to successfully capitalize on its parent bank's network for achieving growth in AUM's while improving fund mobilization from retail segment. Meanwhile, consistency of fund performance remains crucial.

### **INDUSTRY**

During 9MCY17, the industry AUM's dropped by 3.6% mainly led by the bearish momentum on PSX's performance on the back of political instability and deteriorated economic conditions.

This consequently resulted in an attrition in the asset base of equity category of 9% (8MCY17: 40%; CY16:46%) decreasing their system share. On the flip side, the money market funds benefited from the consistent inflow from the Equity and fixed Income based funds. This was a result of continuity of the benign inflation, low interest rate environment, excess liquidity. The Fund of Funds and Asset Allocation Plans were the main focus of industry players as the fund managers opting in risk averse strategy to bail out deteriorating risk appetite in the capital markets. Resultantly, Shariah compliant active allocation schemes remained favorite amongst the Asset Managers



Financial Summary: Alfalah GHP Investment Management Limited								
Sr. #	Fund	Category	Asset Under Management		Return FY17 / Since Inception	Benchmark Return FY17 / Since Inception	Top 10 Investor Concentration	Performance Rankings(Jun-17)/ Stability Ratings
			Sep17 (rupees in'mln)	Dec16 (rupees in'mln)				
1.	Alfalah GHP Alpha Fund	Equity	1,514	1,657	29.0%	23.2%	85.11%	4-Star
2.	Alfalah GHP Cash Fund	Money Market	52	1,375	6.8%	5.0%	97.54%	AA+
3.	Alfalah GHP Income Fund	Income	681	1,318	5.2%	6.3%	83.25%	A+
4.	Alfalah GHP Income Multiplier Fund	Aggressive Fixed Income	1,469	2,266	5.9%	6.4%	65.41%	A+
5.	Alfalah GHP Islamic Income Fund	Shariah Compliant Income	1,431	4,838	5.3%	3.2%	99.55%	A+
6.	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Active Allocation Plan II)	Shariah Compliant Fund of Funds	1,916	2,214	N/A	N/A	99.54%	N/A
7.	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Active Allocation Plan)	Shariah Compliant Fund of Funds	1,580	1,755	N/A	N/A	90.49%	N/A
8.	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Balance Allocation Plan)	Shariah Compliant Fund of Funds	3,068	3,088	N/A	N/A	68.93%	N/A



9.	Alfalah GHP Islamic Stock Fund	Shariah Compliant Equity	2,328	6,815	24.8%	18.8%	72.66%	5-Star
10.	Alfalah GHP Money Market Fund	Money Market	2,832	1,378	5.7%	5.0%	90.10%	AA+
11.	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Active Allocation Plan)	Fund of Funds	525	263	N/A	N/A	53.62%	N/A
12.	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Conservative Allocation Plan)	Fund of Funds	440	395	N/A	N/A	31.34%	N/A
13.	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Moderate Allocation Plan)	Fund of Funds	827	411	N/A	N/A	31.34%	N/A
14.	Alfalah GHP Sovereign Fund	Income	1,058	2,376	5.5%	5.8%	53.97%	AA-
15.	Alfalah GHP Stock Fund	Equity	2,328	2,331	28.7%	23.2%	60.12%	3-Star
16.	Alfalah GHP Value Fund	Asset Allocation	2,389	1,298	26.2%	17.6%	61.64%	4-Star

## 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.



## Regulatory and Supplementary Disclosure

### Rated Entity

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

Alfalalah GHP Investment Management Limited  
 AMC  
 Solicited

### Purpose of the Rating

Regulatory Requirement

### Rating History

Dissemination Date	Asset Manager Rating	Outlook	Action
22-Dec-17	AM2+	Stable	Maintain
15-May-17	AM2+	Stable	Upgrade
8-Jun-16	AM2	Stable	Harmonize
31-Mar-16	AM2-	Stable	Maintain
15-Apr-15	AM2-	Stable	Upgrade

### Related Criteria and Research

Master Methodology:  
 Specific Methodology:  
 Research:

Asset Management Rating Methodology [2005]  
 Management Rating Methodology [2016]  
 Asset Management Sector Review -2017

### Rating Analysts

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