



The Pakistan Credit Rating Agency Limited

RATING REPORT

BMA ASSET MANAGEMENT COMPANY LIMITED

	CURRENT [DEC-17]	PREVIOUS [MAY-17]
Asset Manager Rating	AM3	AM3
Outlook	Stable	Stable

DECEMBER 2017

Profile & Governance

- BMA Funds, incorporated in April 2005 as a public limited company, is licensed to carry out asset management and investment advisory services under the NBFC Regulations. The company is a fully owned subsidiary of BMA Capital Management (BMA Capital).
- BMA Funds has a five member board including CEO. The other board members comprise two independent directors and a found member of the sponsoring family. Mr. Muhammad Iqbal, acts as the chairman of the board. He possesses over four decade of expertise in financial sector.
- Mr. Khaldoon bin Latif, holds Bachelor degree holder in Economics. He has over a decade experience in the capital markets in Pakistan and Bahrain. Previously, he was working as the CIO in JS Investments Limited. Prior to that he was the CEO of KASB Funds.

Assessment

- The management has planned to formulate a focused strategy with regards to regain its position as a leading player in the SMA segment by utilizing its historical long-term relationship of sponsors with HNW clients.
- BMA Funds plans to launch equity funds in its conventional and shariah variant. The timeline for launch of the new funds is expected in the mid-term.
- BMA Funds has two funds under management (BMA Empress Cash Fund (BECF) – money market, BMA Chundrigar Road Saving Fund (BCRSF) – aggressive income) both in the fixed income category. BCRSF experienced decline in its AUM base by 36% clocking in at ~PKR 209 mln as at Jun'17 (CY16: ~PKR 343mln). During 1QFY18, the decline in the AUM base was offset on the back 46% surge in AUM clocking in at PKR 306 as at Sept'17.
- The company, previously a leading player in the SMA niche segment, is currently struggling to gain its lost momentum. The managed portfolio has witnessed increase in mandates reflected in terms of growth in its AUMs (1QFY18: PKR 7,931, FY17: PKR 7,931mln). Top 5 concentration remains high representing 89% of the SMA book

Sales & Marketing

- During the year, the company hired experience resource, Mr Nisar Khan, as Head of Sales & Marketing. The department along with CEO is currently making efforts to tap the potential HNW and corporate clients.
- BMA Funds has established arrangement with various third party distributors & with existing clientele of the parent company, BMA Capital.

Investment Decision Making

- BMA Funds has an adequately structured investment process. The Investment Committee comprises CEO, CIO, CFO, Risk Manager, and Fund Manager. The IC meets on a monthly, or at ad-hoc, basis in order to determine the prospective strategic allocation of the all funds sector-wise.
- BMA Funds has not established a formal and independent research department. Resultantly, the company primarily relies on the relevant sector updates and specific reports formulated by its parent company – BMA Capital. The research reports from different brokerage houses are also discussed. Presently, the functioning of the research department is being primarily undertaken by the fund management department.

Risk & Compliance

- BMA Funds has an in-house Risk Management Department (RMD), lead by Mr. Sandeep Kumar. The scope of the RMD is limited to ensure the company's compliance with all applicable regulatory guidelines. The RMD prepares compliance related reports for the management's review on a daily basis.

Technology & Investor Services

- The Company uses Asset Connect as the core software. CRM software – BIZMATE has been deployed for investor facilitation

RATING RATIONALE

The rating reflects the company's adequate positioning in the specific niche of separately managed accounts segment. Limited fund slate coupled with the stagnancy in the AUMs have resulted in a decline in its system share in the mutual fund segment. Adequately structured investment decision making process resulted in an average performance for both the segments. With the advent of new CEO, the company plans to enhance its position in institutions and high net worth investor space. In this regard, the management has planned to formulate a focused strategy with regards to three key segments: (a) regain its position as a leading player in the SMA segment by utilizing its brand name and historical long-term relationship of sponsors with HNW clients, (b) entering into the private equity segment by capitalizing on the synergies build through the strong presence of its sponsoring companies corporate finance division, (c) capitalizing on the potential opportunities for inorganic growth in the mutual fund segment.

KEY RATING DRIVERS

The rating is dependent on the formulation and execution of its strategy resulting in enhancement in the company's competitive position in the industry. Strengthening of the requisite human resource with a focused skill set would remain important for the enhancement of the investment management platform. Improvement in the investor services platform to cater to the targeted niche segment of the industry would be crucial.

INDUSTRY SNAPSHOT

During 9MCY17, the industry AUM's dropped by 2.5% 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% (9MCY17: 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 complaint active allocation schemes remained favorite amongst the Asset Managers



Financial Summary								
Sr. #	Fund	Category	Asset Under Management		Return – FY17	Benchmark Return – FY17	Top 10 Investors Concentration	Performance Ranking (Jun-17) /Stability Rating(Jul-17)
			Sep-17 (PKR mln)	Dec-16 (PKR mln)				
1.	BMA Empress Cash Fund	Money Market	101	64	4.5%	5.3%	95%	AA+(f)
2.	BMA Chundrigar Road Saving Fund	Aggressive Income	205	279	5.5%	6.4%	79%	A+(f)

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

BMA Asset Management Company Limited
AMC
Solicited

[Purpose of the Rating](#)

Regulatory Requirement

[Rating History](#)

Dissemination Date	Asset Manager Rating	Outlook	Action
22-Dec-17	AM3	Stable	Maintain
13-Nov-17	AM3	Stable	Maintain
16-May-17	AM3	Stable	Maintain
8-Jun-16	AM3	Stable	Harmonized
31-Mar-16	AM3-	Stable	Downgrade

[Related Criteria and Research](#)

Master Methodology:
Specific Methodology:
Research:

Asset Management Rating Methodology [2017]
-
Asset Management Sector Review -Jun'2017

[Rating Analysts](#)

Ahmed Sheikh ahmed.sheikh@pacra.com (92-42-35869504)	Rai Umar Zafar rai.umar@pacra.com (92-42-35869504)
--	--

[Rating Team Statement](#)

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

PACRA maintains principle of integrity in seeking rating business. PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest.

The analysts and members of the rating committees including the external members(s) have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Office PACRA.

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities.

PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity.

PACRA ensures that the credit rating assigned to an entity or instrument should not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports

Confidentiality

PACRA has framed a confidentiality policy to prevent; abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent.

[Probability of Default \(PD\)](#)

Asset Manager Rating is a forward-looking assessment of relative qualifications and capabilities of an asset manager (asset management company/Investment advisor). There is no probability of default associated with Asset Manager Rating.