



The Pakistan Credit Rating Agency Limited

HABIB ASSET MANAGEMENT LIMITED

RATING REPORT

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

DECEMBER 2017

Profile & Governance

- HAML, incorporated in September 2005 as an unlisted public limited company, is licensed to carry out asset management and investment advisory service under the Non-Banking Finance Companies Regulations.
- Habib family and associates – a distinguished name in Pakistan – own around 90% of shareholding in the company, while Bank AL Habib Limited (BAHL) being the single largest shareholder holds 30%.
- The senior management team of HAML comprises qualified and experienced professionals. Mr. Imran Azim, the CEO, is an MBA and has extensive experience in Pakistan’s mutual fund industry.
- During the year, the management appointed Rida Jiwani as Chief Operating Officer. Ms Jiwani owns vast experience spanning up to 20 years in the Financial Sector.

Assessment

- HAML is currently managing limited funds slate with five open-end funds. A sizeable decline of 18.7% in its overall AUM base led to a drop in the company’s system share (Sep17: 0.52%, Dec16: 0.43%).
- HAML’s penetration in retail segment has improved from 6% in CY16 to 28% in 1QFY18.
- The top ten client concentration in funds is significantly high (above 70%). A slight improvement in the top ten concentration was observed over the year Dec-16: 80%.

Sale & Marketing

- The Marketing & Sales department is headed by Ms. Ishrat Malik, a senior staff member with an experience of 9 years with HAML.
- The company has accrued limited benefits of fund mobilization from group’s platform converse to the other bank-owned AMCs.
- The company plans to launch different campaigns catering institutional and retail clients and establish stable franchise for Habib Funds.

Investment decision making

- The Investment Committee (IC), comprising 1) CEO, 2) CFO, 3) CIO, and 4) Fund Manager, is responsible for the investment decision-making. Currently, the IC formally meets weekly to take decisions and to review broad investment limits.
- The HAML’s management is also making efforts to build size in the specific niche market of separately managed accounts (SMA) portfolio (PKR 546mln at end Jun-17: PKR 360mln at end Dec-16)
- The Management plans to launch new fund under Asset Allocation category followed by the Conventional plans in Active Allocation schemes. These funds are expected to be launched by end of November.

Risk & Compliance

- The company has put in place broad risk management guidelines for management of credit, market, operational and liquidity risk along with an operational procedural manual.
- Compliance will provide additional vigilance on the investment guidelines, internal and NBFC limits to avoid any future breaches with the regulatory requirements.

Technology & Investor Service

- The core software – Asset Connect, a widely used IT system in the asset management industry of the country – has been procured from Softech Systems (Pvt.) Limited with adequate options to support operations.

RATING RATIONALE

The rating reflects that the company meets good investment management standards and benchmarks. The rating captures the company's qualified management team and adequately structured Investment process. The rating incorporates HAML's association with a strong commercial bank - Bank AL-Habib Limited. However, the desired benefits out of this association towards enhancing the AUM base and strengthening the HAML's brand value remains limited. The company remained constrained in expanding in competitive landscape of the industry, it has nominal system share with largely stagnant AUMs. The performance of the funds lag behind its peers highlighting the need to strengthen the decision making process. The company's funds currently have significantly high concentration levels. The company experienced changes in the management where certain key personals resigned. This has given the opportunity to streamline its organizational structure, which is now relatively smart and clear.

KEY RATING DRIVERS

The rating is dependent upon company’s ability to nurture requisite human resource, while continuously improving systems and processes. Developing an effective marketing strategy to bring expansion in its AUMs would remain critical.

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: Habib Asset Management Limited								
Sr. #	Fund	Category	Asset Under Management		Return FY17	Benchmark Return FY17	Top 10 Investor Concentration	Performance Ranking/ Stability Rating
			Sep-17(rupees in mln)	Dec16 (rupees in mln)				
1.	First Habib Cash Fund	Money Market	1,609	1,348	6.56%	5.27%	81.2%	AA (f)
2.	First Habib Income Fund	Income	1,041	1,120	6.29%	6.03%	59.2%	AA- (f)
3.	First Habib Islamic Stock Fund	Shariah Compliant Equity	134	104	21.50%	16.46%	84.3%	2 Star
4.	First Habib Stock Fund	Equity	212	128	21.12%	17.92%	76.5%	1 Star
5.	First Habib Islamic Income Fund	Islamic Income	105	N/A	3.30%	2.22%	96.1%	N/A



Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity
Sector
Type of Relationship

Habib Asset Management 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
15-May-17	AM3+	Stable	Maintain
8-Jun-16	AM3+	Stable	Harmonize
31-Mar-16	AM3	Stable	Maintain

Related Criteria and Research

Specific Methodology:
 Research:

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

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Rating Team Statement

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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.

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.