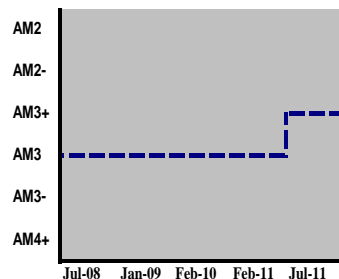


**RATINGS (JULY 2011)
ASKARI INVESTMENT
MANAGEMENT LIMITED
(AIM)**

RATING HISTORY

Assets under Management
Amount in PKR mn

Funds	Size	
	May-11	May-10
Open-end		
Askari Asset Allocation Fund	158	228
Askari Income Fund	1,533	1,471
Askari Islamic Asset Allocation Fund	124	112
Askari Islamic Income Fund	262	229
Askari Sovereign Cash Fund	6,435	1,548
Total AUM	8,514	3,590

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RATING RATIONALE AND KEY DRIVERS

- The rating reflects the company's experienced and qualified management team, a structured investment process, and refreshed attention from the parent bank - Askari Bank Limited. The rating incorporates the management's efforts towards establishing sound systems and processes and strengthening of the overall investment management function. Lately, AIM has achieved substantial growth in assets under management, as against some of the more established players in the industry. Moreover, most of the company's funds have shown good performance in comparison to most peers.
- The rating is dependent on the management's initiatives to diversify its product slate through launch of new funds. Moreover, establishing an independent and effective risk management function along with stable and strong funds' performance would be important.

ASSESSMENT

- AIM, a wholly owned subsidiary of Askari Bank Limited (AKBL), commenced its business in May-05. AKBL is the country's eighth largest commercial bank in terms of total assets at end-Sep-10 (PKR 289bln). The majority shareholding in the bank is held by Army Welfare Trust (AWT), which has interests in real estate, financial, cement, and pharmaceutical sectors. The bank has a very strong financial position, evidenced by a long-term entity rating of "AA" by PACRA. The seven-member BoD of AIM includes two independent directors. All directors are professionals, mainly, from the financial sector and provide valuable guidance in the development of strategy. The CEO, Mr. Adnan Siddiqui, has recently taken the charge of the company at June 2010 was previously the Deputy CEO at Arif Habib Investments.
- AIM's paid-up capital stands at PKR 135mln (end-Jun 10 Equity: PKR 123mln), which meets minimum equity requirement as per revised NBFC regulations. Owing to significant decline in assets under management (since Jun08), amidst a very tough operating environment, the company could not achieve financial break even during FY09. Nonetheless, the company's revenue is expected to benefit from incremental management fee through new funds and investment return on surplus equity, going forward.
- With launch of three new funds in Sep09, AIM has further diversified its fund slate and currently has five funds under management – Askari Income Fund (AIF), Askari Asset Allocation Fund (AAAF), Askari Sovereign Cash Fund (ASCF), Askari Islamic Asset Allocation Fund (AIAAF) and Askari Islamic Income Fund (AIIF). Performance of AIF and AAAF has been modest relative to their benchmarks since launch. Meanwhile, ASCF is an open-end money market fund and primarily invests in government securities and money market placements. As of Dec09, ASCF has outperformed its benchmark since inception. AIAAF is an open-end Shariah compliant asset allocation fund. A major portion of AIAAF's portfolio remains invested in E&P and OMC stocks while maintaining a significant cash balance. Since launch, the fund has been underperforming its benchmark. AIIF is an open-end Shariah compliant income fund with mandate to invest up to 75% of assets in Shariah compliant debt instruments (Sukuks) along with placements with Islamic banks. As of Dec09, AIIF has outperformed its benchmark since launch.
- The company plans to launch conventional and Shariah compliant capital protected schemes along with investment plans in the current year. Over the long-term, the management aims to launch voluntary pension schemes and venture into REIT and Private Equity. The company's ability to effectively execute these plans remains dependent upon developing requisite infrastructure, in particular human and technological resources. To date, AIM has made limited progress in this regard.
- Despite having agreement with AKBL for marketing and distribution of units, AIM had limited success in capitalizing upon AKBL's platform. Nonetheless, the management is coordinating closely with AKBL to improve fund mobilization through the bank's network, and in addition to training the bank's staff, it is exploring various options to improve monetary incentive. The company also intends to utilize third-party distribution channels for achieving desired level of growth in AUM.
- The senior management team of AIM is fairly independent from the reference shareholder, and consists of qualified professionals, having both domestic and international exposure. The company strengthened its core fund management team through hiring of adequately experienced fund managers, keeping in view expanding fund slate. However, there are vacancies in senior management cadres including research, marketing and sales; owing to which the current senior management team is performing multiple duties. While filling vacant positions in marketing and sales function, the company also plans to establish an in-house research department headed by an experienced resource to provide crucial support to investment management team. Nonetheless, effective execution of these plans in current subdued operating environment is challenging.
- The composition of Investment Committee (IC) has been strengthened after launch of new funds. It now comprises CEO, CFO, Head of Fixed Income, Head of Equity and relevant fund manager. After witnessing turn-over in the research department during the year, it now comprises only one research analyst with basic research experience. The research analyst is assisted by Head of Product development. Presently, the company is operating from three offices, including the recently shifted head office in Karachi and branch offices in Islamabad and Lahore.