



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah GHP Investment Management Limited

Report Contents

1. Rating Analysis
2. Rating Scale
3. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Aug-2019	AM2+	-	Positive	Maintain	-
08-Feb-2019	AM2+	-	Stable	Maintain	-
10-Aug-2018	AM2+	-	Stable	Maintain	-
22-Dec-2017	AM2+	-	Stable	Maintain	-
16-May-2017	AM2+	-	Stable	Upgrade	-
08-Jun-2016	AM2	-	Stable	Harmonize	-
31-Mar-2016	AM2-	-	Stable	Maintain	-
15-Apr-2015	AM2-	-	Stable	Upgrade	-
20-Jun-2014	AM3+	-	Stable	Upgrade	-
02-Dec-2013	AM3	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the company's superior ability to increase its market share in distressed macro economic environment. The rating incorporates the management's focus towards strengthening client base through digital initiatives, own branches and team expansion and sponsor bank's distribution network. The rating also reflects the company's sound governance structure, seasoned management team, structured investment process and the competitive performance of the company's funds when compared to peers. While the industry witnessed decline of ~11% in FY19, the AUM of the company increased by 22%. The growth in AUM has translated into higher system share. Alfalah GHP, through its own initiatives and capitalizing on parent bank's network, has gained momentum towards increasing its AUM. The company has prominent position in the investment advisory domain. The company's association and effective synergies with Bank Alfalah, a renowned financial institution, provides support to the rating.

The positive outlook captures the company's augmented ability to expand its AUM base in light of the business strategy. The rating is dependent on the organization's capacity to effectively execute its business plan leveraging on group synergies to strengthen its system share. Sustainable fund performance, increasing market share and translation of initiatives to increase retail AUM will be positive rating drivers.

Disclosure

Name of Rated Entity	Alfalah GHP Investment Management Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	PACRA_Methodology_AMC_FY19(Jun-19)
Related Research	Sector Study Asset Manager(Jun-19)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504



Profile

Structure Alfalah GHP Investment Management Limited is a public unlisted company.

Background Alfalah GHP Investment Management Limited was incorporated in October 2004 and commenced operations in March 2005. It is registered as an Asset Management Company and Investment Advisor under the Non-Banking Finance Companies Regulations. The company operates through its head office in Karachi and have branches in the major cities.

Market Share The market share of the company was ~5.9% at end June-19 (June-18: ~4.3%).

Diversification Of Fund Mix The company's fund slate is composed of sixteen open-end funds belonging to all the major fund categories. During FY19, the company launched two plans under the category of Shariah compliant fund of funds.

Investor Concentration At end June-19, the weighted average top ten concentration of the funds was ~65%.

Ownership

Ownership Structure The shareholding of the company is held by MAB Investment Inc (~42%), Bank Alfalah Limited (~40%), GHP Beteiligungen Holding Limited (~14%) and Mr. Muhammad Shoaib (4%).

Business Acumen The business acumen is considered strong. MAB Investment Inc is one of the investment companies of H.H. Sheikh Nahayan bin Mubarak Al Nahayan, a member of the Abu Dhabi Ruling Family. Bank Alfalah Limited is a private bank in Pakistan owned by the Abu Dhabi Group and is amongst the largest banks of Pakistan.

Financial Strength The financial strength of the sponsors remains strong emanating from profitable businesses.

Governance

Board Structure The company's eight-member board includes the CEO along with two representatives of Bank Alfalah, one representative of GHP Beteiligungen Limited, two representatives of MAB Investments and two directors are independent.

Members' Profile The CEO, Ms. Maheen Rahman has over fourteen years of experience in investment banking, research and asset management. The board is chaired by Ms. Dominique Russo. She is the CEO of Dhabi Group based in Abu Dhabi, United Arab Emirates.

Board Effectiveness There are three board namely audit, human resource and risk management committees. The committees provide guidance and oversight to the management.

Financial Transparency The internal audit function has been outsourced to a reputable firm, Deloitte Pakistan, which reports directly to the audit committee on a quarterly basis. The external auditor of the company is EY Ford Rhodes, which falls into the 'A' category of SBP's audit firm rankings.

Management

Organizational Structure The company has a well-defined and formalized organizational structure, with appropriate departmentalization. It operates through nine departments, each with its well-defined and specific functions.

Management Team The senior management team comprises experienced and qualified professionals and has demonstrated stability over the past few years. The COO, Mr. Noman Ahmed Soomro carries experience of over sixteen years.

Technology Infrastructure The company is currently using ERP developed by Sidat Hyder Morshad and Co. (Pvt.) Limited as its core software.

Control Environment The company has devised detailed policies for IT, operations, research and risk management. The company uses excel based models to monitor the exposure limits and margins. The compliance function ensures adherence with all applicable internal and external rules and regulations.

Investment Risk Management

Credit Risk The company used excel based credit risk models with a combination of qualitative and quantitative analysis. The models also provide statistical estimates for counter party credit risk.

Liquidity Profile The risk management department vigilantly monitors the liquidity profile of the company. Sufficient liquidity is maintained by investing a significant portion of funds assets in liquid investment avenues.

Market Risk The company has set appropriate metrics to measure exposure to market risk factors. Excel-based financial models are being used to measure the sensitivity of the portfolio instruments due to changes in interest rates.

Portfolio Management

IC Composition The Investment Committee comprises CEO, COO, CIO, Head of equities, Head of Compliance and Portfolio Manager.

Effectiveness The IC formally meets on a weekly basis to, develop investment strategies, take major portfolio-related decisions and to monitor fund's performance.

Investment Research And Analysis The company's research department comprises four analysts. The research function operates under the supervision of Chief Investment Officer, Mr. Nabeel Malik - MBA (finance). The department is involved in the fundamental analysis of key sectors and stocks to identify attractive investment opportunities. For equity valuation, department employs standard financial models and also considers broker research for investment decision making process.

Customer Relationship

Investor Services The company is actively promoting its online information portal which would allow the investors real-time access to their accounts. The company has launched its personal app where investors can have real-time access to their investment portfolio. The company launched plans which cater to the educational needs of the investors

Investor Reporting The company facilitates its customers in respect of reporting and communication. The fund manager reports of all the funds under management are sent to the investors on regular basis. Valuation report is sent to the customers on weekly basis containing comparison of funds' performance among its peers,

Distribution And Sales Network The corporate sales function is headed by Mehwish Aslam who leads five member team. Retail sales is headed by Mr. Mian Qasim Saeed Ahmed and a sales team of 32 members report directly to him. 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

Performance

Asset Under Management The assets under management were ~PKR 31.6bln at end Jun-19 as compared to ~PKR 25.9bln at end Jun-18 which depicts an increase of ~22%. This increase was largely due to the drastic increase of AUM in Alfalah GHP Money Market fund. Majority of the company's funds under management have shown above average performance against peers in FY19.

Asset Manager The company has reported a net profit of ~PKR 164mln for the year ended CY18 as compared to ~PKR 158mln in CY17. However, the profit of the company declined by ~27% to ~PKR 37mln for 1QCY19 as compared to 1QCY18 (~PKR 51mln) on account of higher administrative and operating expenses. Equity base of the company increased to ~PKR 894mln at end Mar-19 from ~PKR 857mln at end Mar-18 mainly on account of growth in accumulated profits. The equity amount is well above than the minimum capital requirement of PKR 230mln.

Financial Summary: Alfalah GHP Investment Management Limited

	Fund Name	Assets Under Management		Return FY19	Top 10 Investor Concentration	Performance Ranking/Stability Rating
		Jun'19 (PKR '000)	Jun'18 (PKR '000)			
1	Alfalah GHP Cash Fund	9,833	56,304	26%	99%	AA
2	Alfalah GHP Money Market Fund	17,912,174	4,948,117	12%	59%	AA+
3	Alfalah GHP Sovereign Fund	824,152	797,343	9%	70%	AA-
4	Alfalah GHP Income Fund	265,783	329,984	11%	90%	A+
5	Alfalah GHP Income Multiplier Fund	112,470	354,587	14%	80%	A+
6	Alfalah GHP Islamic Income Fund	2,745,170	1,539,222	11%	76%	AA-
7	Alfalah GHP Alpha Fund	982,429	1,636,214	-6%	72%	-
8	Alfalah GHP Stock Fund	1,489,820	2,152,547	-6%	55%	-
9	Alfalah GHP Islamic Stock Fund	2,062,100	3,939,256	-7%	61%	-
10	Alfalah GHP Value Fund	1,276,525	2,137,466	-3%	40%	-
11	Alfalah GHP Prosperity Planning Fund (Active Allocation Plan)	157,745	501,938	-7%	97%	-
12	Alfalah GHP Prosperity Planning Fund (Conservative Allocation Plan)	175,833	383,352	4%	99%	-
13	Alfalah GHP Prosperity Planning Fund (Moderate Allocation Plan)	256,759	546,311	-2%	82%	-
14	Alfalah GHP Islamic Prosperity Planning Fund (Islamic Active Allocation Plan II)	410,899	1,730,870	-6%	77%	-
15	Alfalah GHP Islamic Prosperity Planning Fund (Islamic Active Allocation Plan III)	602,314	980,747	-8%	65%	-
16	Alfalah GHP Islamic Prosperity Planning Fund (Islamic Balance Allocation Plan)	367,702	1,369,288	3%	46%	-
17	Alfalah GHP Islamic Prosperity Planning Fund (Islamic Moderate Allocation Plan)	293,683	849,874	5%	90%	-
18	Alfalah GHP Islamic Prosperity Planning Fund (Capital Preservation Plan IV)	173,753	-	4%	79%	-
19	Alfalah GHP Islamic Prosperity Planning Fund (Capital Preservation Plan V)	55,876	-	4%	90%	-
20	Alfalah GHP Islamic Value Fund	143,244	290,435	-11%	75%	-
21	Alfalah Capital Preservation Fund II	1,049,177	1,118,685	3%	75%	-

Asset Manager Rating Scale & Definitions

An independent opinion on the quality and expertise deployed by an asset management company

Scale	Definition
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.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. 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'.

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.

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, the rating should be considered withdrawn.

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

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (12) 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 fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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