

# The Pakistan Credit Rating Agency Limited



## Asset Manager Rating Criteria *Assessment Framework*

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### Summary

This methodology outlines PACRA's approach to assigning its Asset Manager rating. The asset manager rating is an independent opinion on the expertise, quality of services, and potential vulnerability to investment management and operational challenges of an asset management company (AMC). PACRA's opinion is based on an evaluation of the following factors: i) Profile, ii) Ownership, iii) Governance, iv) Management, v) Investment Risk & Portfolio Management, vi) Customer Relationship, and vii) Investment Performance. PACRA also compares the standing of the asset management company with peers in its relative universe.

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### 1. Introduction

**Scope:** An opinion on the quality and expertise deployed by an asset manager.

**1.1 Scope:** The primary purpose of PACRA’s Asset Manager Rating is to provide investors with an independent opinion on an asset manager’s expertise, quality of services, and its potential vulnerability to investment management and operational challenges. It is important to understand that the Asset Manager Rating differs fundamentally from a traditional credit rating. A traditional credit rating refers to an issuer’s ability (in this case, an AMC’s ability) to meet its financial obligations. That said, the Asset Manager Rating is not a determinant for the future performance of an AMC’s fund, portfolio or other investment vehicle.

**1.2 Risks:** AMCs are exposed to multiple risks, including but are not limited to inadequacy of investment decision-making body, weak investment oversight, inconsistency in decision making, liquidity, and asset-liability mismatches leading to redemption delays and/or distressed sale of investments, which ultimately impact the value of assets under management (AUM). Other risks include poor communication, business disruptions, and operational errors in valuation, settlement, and redemption processes, amongst others.

### 2. Quality Rating Framework

**Rating Framework:** Qualitative and quantitative factors. All factors are assessed on standalone *and* relative basis.

**2.1** PACRA follows a comprehensive approach to form an opinion on the quality of and the expertise deployed by an AMC. PACRA analyzes AMCs not only on a standalone basis, but also by observing their relative position within the broader industry. Factors underlying the methodology to understand the design and objectives of AMCs include: i) Profile, ii) Ownership, iii) Governance, iv) Management, v) Investment & Portfolio Management, vi) Customer Relationship, and vii) Investment Performance. By this, it is easy to understand the perspective of an AMC’s shareholders, board and its management team; since an AMC’s design has to be a reflection of the objectives conceived by the shareholding group. Furthermore, PACRA’s assessment also involves corroborating an AMC’s compliance with all regulatory requirements and updates.

Profile	Ownership	Governance	Management	Investment & Portfolio Management	Customer Relationship	Investment Performance
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### 3. Profile

**Background:** Evolution and past strategy.

**3.1 Background:** PACRA reviews the background of the AMC to understand its evolution from where it started to where it currently stands. We analyze how and through what means the AMC has achieved the desired expansion. PACRA looks at the progress of the AMC from its historical past to help determine the ability of the AMC to successfully realize its strategy. The significant factor here for PACRA is to assess whether the AMC has achieved the desired expansion through organic growth, or through acquisitions. Meanwhile, the source of funding for desired growth is also critical.

PACRA considers an asset manager’s experience in the industry and favorably views asset managers with established track records of several years of navigating through market cycles, developing sound processes, and having well nurtured expertise to offer asset management services.

**Market Share:**  
Analysis of size in terms of asset base.

**3.2 Market Share:** Size provides sustainability to an asset manager and longevity to its operations. Thus, analysis of Assets Under Management (AUM) and an AMC’s product base is central to PACRA’s assessment. The aim is to assess an AMC’s ability to work with clients and provide asset management services that are well-suited to the clients’ needs. The market share of an asset manager, and the growth of the market share over time, is incorporated in PACRA’s assessment of an asset manager’s standing and competitive position among peers.

**Diversification of Fund Mix:**  
Diversification in terms of funds and asset classes.

**3.3 Diversification of Fund Mix:** PACRA considers that, apart from sheer size, a good investment manager has a well-diversified product slate. PACRA expects asset managers to not only offer a diverse assortment of products, but have adequate diversification of assets within each product offering. PACRA observes diversification from two angles: (1) AUM represented by the top fund, (2) AUM represented by a single asset class. Concentration in either of these is not considered favorable.

**Investor Concentration:**  
Composition of unit holder base.

**3.4 Investor Concentration:** PACRA also considers the composition and concentration of the AMC’s unitholder base. Unitholder concentration helps in judging the potential redemption risks an asset manager may face in the event of withdrawal of funds, crisis, or a probable redemption run. The yardstick used is AUMs represented by the top twenty investors of a fund. The lower the concentration of the top twenty investors, the higher the asset manager rating. Another metric used is the total contribution of AUMs by retail investors. High net worth individuals (HNWs) are sometimes included in the retail client classification, but PACRA looks at the pure number of HNWs to distinguish between financially savvy and general investors. The run-rate of retail AUMs, its overall contribution in total AUMs, and fees from retail are some of the important indicators evaluated by PACRA.

## 4. Ownership

**Ownership Structure:**  
Identification of man at the last mile.

**4.1 Ownership Structure:** The assessment of ownership begins by looking at the legal status of an AMC. The level of perceived stability gradually increases from a sole proprietor to a listed AMC. An in-depth study of the shareholding mix is then conducted to disentangle the structure of ownership of the AMC. Key factors considered for this purpose include: i) the shareholding structure, which includes whether the individual(s) own the AMC directly or indirectly, ii) the composition foreign and local shareholders, iii) whether the AMC is owned by a single group or through a combination of entities and individuals, and iv) whether it is part of a group or is a standalone AMC. All these deliberations are done to identify the man at the last mile. PACRA further considers how an AMC is actually run as, despite being legally structured companies, some AMCs are run as family concerns.

***Complex shareholding/ownership structures:** In cases where an AMC has a complex ownership structure, there are unique challenges in evaluating the decision-making processes, lines of hierarchy, and financial obligations and liabilities. In analyzing these AMCs, the fundamental issue is to explore the underlying reason or motivation for the complexity of the structure.*

***AMCs which are owned by private individuals and families:** On the one hand, the concentration of equity ownership might indicate that the majority of shareholders have a strong vested interest in creating long-term value and closely monitoring management behavior. On the other hand, a potential concern in such cases is that the owners might rely heavily on extracting funds from the AMC as source of income or to fund other business activities - potentially undermining the financial stability of the AMC.*

**Stability:**

Succession planning at shareholder level.

**4.2 Stability:** In order to analyze the stability of ownership, a particularly important factor taken into account is succession planning. A very important part of PACRA’s background analytical work is an attempt to assess whether, and under right of succession, the AMC’s prospects would be supported, and by whom. This is particularly relevant in case of family-owned businesses and joint ventures, whose failures could have a contagious effect on the sustainability of the AMC. An AMC with stable ownership and clarity in succession – perhaps with major stakes residing with one family/group – is considered positive for ratings. On the contrary, AMCs with high free float (in case of listed concerns) can possess high risk of takeover, which may anchor lower ratings.

**Business Acumen:**

Knowledge, skills and experience of key shareholders.

**4.3 Business Acumen:** PACRA gauges the business acumen of the AMC’s sponsors. Having a strong business acumen set is critical for sustainable success. PACRA analyzes business acumen through two primary areas: i) industry-specific working knowledge, and ii) strategic thinking capability. A deep and applicable understanding of the system is critical in determining how a business achieves its goals and objectives. PACRA’s scope includes the assessment and understanding of how shareholders of the AMC deliberate over, and successfully make the right business decisions.

**Financial Strength:**

Willingness and ability of key shareholders to provide extraordinary financial support.

**4.4 Financial Strength:** PACRA analyzes the ability and willingness of the major shareholders to support the AMC both on a continuing basis, and in times of distress. In this context, support refers strictly to financial support, rather than operational support. PACRA gives due importance to the following factors: i) behavior of the major shareholders to provide timely and comprehensive support in times of need in the past, ii) prospective view of key shareholders in case such need arises, iii) other businesses of shareholders, and iv) the level of commitment of the AMC’s major shareholder in providing capital support. The scope for looking at other business of shareholders includes overall profiling of the key shareholders in the context of identifying their resources outside the AMC. If – in a group structure – the financial strength of the shareholder is deemed to be weaker than that of the AMC, this may bode negatively for the AMC’s standalone rating given the possibility that the AMC may at some point in time be bound to extend financial support to its weaker parent.

**Information Required on Ownership:**

- Shareholding pattern
- Details of major shareholders’ other businesses
- Shareholders’ financial information
- Past pattern of support provided by the shareholders

## 5. Governance

**Board Structure:**

Composition of board in terms of size, independence, and committees.

**5.1 Board Structure:** PACRA conducts the assessment of a board on various criterion, including its overall size, the presence of independent members, the duration of the board members’ association with the AMC, the overall skill mix, and the structure of board committees. Size of the board may vary as per the scope and complexity of the operations of the AMC. While a very small board is not considered optimal, effective and efficient decision making may not be possible in the case of a very large board either. A healthy composition of a board includes the presence of independent and non-executive members with a limited relationship with the shareholding group of the AMC. The chairman of a board is expected to have a non-executive role. Moreover, having one individual holding both the chairman and CEO positions is considered a weak governance practice. The AMC’s compliance with

the code of corporate governance is also examined. PACRA also closely examines the independence of governance from major shareholders. Lastly, PACRA evaluates number of board committees, their structure, and how these committees provide support to the board. A board with higher number of members should have higher number of committees in place to assist in performing its role.

### Members Profile:

Relevance and diversity of board members' skills, knowledge, and experience.

**5.2 Members' Profile:** PACRA collects information regarding profile and experience of each board member. This helps in forming an opinion about overall quality of the board. Diversification in terms of knowledge background and experience is considered positive, however, a fair number of board members should have related experience.

### Board

#### Effectiveness:

Extent to which board properly discharges its responsibilities.

**5.3 Board Effectiveness:** In PACRA's view, the role of the board is to work with management in steering the AMC to its performance objectives and to provide critical, impartial oversight of management performance. PACRA analyzes the type and extent of information shared with board members, and the quality of discussions taking place within the board its committees. Effective oversight requires frequent sharing of detailed information covering various aspects of business and market development. PACRA also reviews the number of board meetings held during the year as these should be justified with the number of issues/matters arising. Board members' attendance and participation in meetings is important and is gauged by viewing board meeting minutes.

### Transparency:

Quality and extent of financial and non-financial information disclosure to stakeholders.

**5.4 Transparency:** The quality of the governance framework is also assessed by the procedures designed by the board to ensure transparent disclosures of financial and other information. This can be achieved through: i) ensuring independence of the audit committee, ii) strengthening the quality of internal audit function – which may be in-house or outsourced, and iii) improving the quality of external audit by engaging auditors which are included in the State Bank of Pakistan's panel of auditors (or in the panel of auditors circulated by SECP) and/or have a satisfactory Quality Control Review (QCR) rating.

*Accounting Quality: PACRA reviews the quality of an AMC's accounting policies as reflected in its notes to accounts, auditors' comments and other disclosures which are part of its financial statements. Adherence to accounting standards is assessed, particularly for unlisted concerns.*

#### Information Required on Governance:

- Size and composition of board
- Details of board committees including TORs
- Profile of board members
- Information packs used by the board
- Minutes of board meetings
- Internal auditor detail (if outsourced)
- External auditor detail

### 6. Management

**Organizational Structure:**

Alignment of organogram with AMC size, nature of business, and requirements.

**Management Team:**

Relevance and diversity of skills, knowledge, and experience of top management.

**Management Effectiveness:**

Extent to which top management properly discharges duties and role of technology infrastructure therein.

**6.1 Organizational Structure:** PACRA’s analysis of the organizational structure focuses on how the AMC is organized while keeping in view the scope of its operations and diversity of its product base. PACRA believes that departments should be structured in an AMC while keeping in view segregation of duties and importance of the functions to be performed. In this respect, functional separation of front office from middle and/or back offices is considered important. Furthermore, it is key for PACRA that the risk management function of the AMC be separate and independent.

**6.2 Management Team:** PACRA’s evaluation of human resources is based on an objective criterion that focuses on the back ground of management and staff both individually and collectively. Assessment is based on the years of relevant work experience, prior track record, and tenure with the AMC. Each functional area is covered, including: portfolio management, risk management, investment research, sales and distribution, marketing, internal audit, and compliance. Loss of key personnel, particularly members of senior management and senior portfolio managers, can have potentially adverse effects on performance of funds under management and the overall standing of the AMC relative to peers. Hence, human resource turnover is reviewed to determine the stability of critical staff, with particular focus on key departments. In addition, the AMC’s human resource policies are also reviewed to gauge its emphasis on retaining and recruiting vital staff members, and ensuring their redundancy in the structure. It is important for AMCs to ensure adequate knowledge and training of staff/employees when dealing with clients, potential clients, or managing client portfolios and assets.

***Key-man Risk:** Key-man risk occurs when an AMC is heavily reliant on an individual, or a limited number of individuals, who are accepted as the key holder(s) of important intellectual capital, knowledge or relationships. While this type of risk is more commonly identified in small to medium-sized entities, it can also exist in larger entities and is relatively challenging to benchmark, and hence, mitigate. PACRA attempts to identify the extent to which an AMC is dependent on the expertise of such individual(s) and to ensure policies exist for managerial succession to limit the adverse impact of such a person unexpectedly leaving the AMC.*

**6.3 Management Effectiveness:** Optimum portfolio management requires adequate technological resources, provided by the parent AMC, an affiliate, and/or an external third party (e.g., vendors). The most critical IT resources are the portfolio management and order management systems. Various features of the portfolio management system are explored including its robustness, coverage of instruments, time delay before transactions are entered, timeliness and accuracy of portfolio pricing, and ability to monitor value added indicators and order simulation. PACRA assesses the quality and reliability of the order management process in terms of systems and procedures to ensure the security, timeliness, and fair handling of multiple transactions. Electronic ordering and order confirmation also add value and security, notably when trading is a risk. The integration of custodians and fund administrators within the systems is also cautioned. PACRA places high value on management information systems (MIS) - system generated MIS reports are considered superior. Lastly, another key measure of management effectiveness is the management’s track record of delivering on past projections and sticking to strategies.

**Control Environment:**  
Robustness of systems and processes.

***MIS:** System generated – real-time based – MIS reports add more efficiency in decision making whether related to operational, financial or strategic issues. PACRA evaluates the quality and frequency of the MIS reports used by the management team to ascertain that decision-making within the AMC is information-based.*

**6.4 Control Environment:** An analysis of the overall Compliance and Internal Control framework (including Internal Audit procedures) of the AMC helps in identifying the procedures, control centers, and reporting lines in order to manage conflicts of interest, meet fiduciary responsibilities, and verify the accuracy of financial and accounting information prepared for unit-holders and other stakeholders. This analysis would assess the strength of the overall compliance and control environment beyond regulatory requirements. Positive factors for rating the AMC include having well-documented and comprehensive internal policies overseeing: investment, risk management, segregation of duties, the information barriers between various functions of the internal audit, the safeguarding (cybersecurity) of the flow of sensitive information within the company (by establishing necessary firewalls) along with having a structured internal control program. The compliance function is evaluated on an enterprise-wide basis. More value would be given to the independence of the compliance function and its integration into the overall systems of the AMC.

***Operational Risk:** Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. An analysis of the AMC’s Disaster Recovery (DR) procedures, infrastructure security and monitoring of third-party activities helps to determine the viability of the operational control environment against unanticipated business disruptions, personnel slippage and inadvertent data entry errors. In addition, PACRA evaluates capacity to promote ethics and monitor enforcement thereof.*

**Information Required on Management:**

- Latest organogram
- Details of management committees
- Profile of senior management
- Redundancy pattern
- MIS reports
- Minutes of management committees’ meetings
- AMC’s policies and SOPs

## 7. Investment Risk and Portfolio Management

**Investment Risk Management Framework:** Quality of policies and systems surrounding credit, liquidity and market risk management.

**7.1 Investment Risk Management Framework:** A strong risk management framework, monitoring culture, and platform are the hallmark of a seasoned and mature AMC. Evaluating the overall risk management framework of the AMC enables determining how various risks are identified, monitored, and mitigated across the AMC. The efficiency of controls and risk management within an AMC is instrumental in mitigating risks arising from operational and investment management activities. The analysis considers role of the Board in formulating risk management policies, the independence of the risk management function, and the IT systems and key risk indicators employed by the AMC to monitor risk. At the same time, the involvement of senior management in the overall

risk management function is assessed to understand organization's emphasis on risk and its overall risk culture.

**7.2** Investment Risk Management permeates the entire investment management process, and consists of two pillars – macroeconomic risks, and portfolio risks. Macroeconomic risks are the risks to the operating environment of the asset management industry and overall economy of the country. Portfolio risks are risks related to the portfolio investments of the AMC. Portfolio risk may be reflected in the overall structure of the investments at AMC level, the exposure to different sectors, and redemption pressures on the investments. The three main categories of an AMC's risk are 1) Credit Risk, 2) Market Risk, and 3) Liquidity Risk. Each of these are viewed separately to gauge the nature and source of a particular risk factor along with the controls in place to mitigate the risk.

**7.3** PACRA reviews the coverage and appropriateness of risk indicators used by an AMC, the capacity of the portfolio managers to measure such indicators and monitor the exposures against explicit and meaningful limits. The extent of risk indicators used by the AMC depend on the scope of activities and nature of product base. Reconciliation between expected and actual risk levels is equally important and requires regular comparisons, analysis of discrepancies, and corrections.

**7.3.1 Credit Risk:** For Credit Risk, it is important to periodically monitor the financial strength and creditworthiness of the various counterparties and to take appropriate actions in case of any adverse changes. Credit risk can arise from breaches of internally defined allocation limits, internal rating guidelines for investment purposes, and high concentration in individual investments, sectors, and/or groups.

**7.3.2 Liquidity Risk:** Liquidity risk management has is a key challenge for AMCs. An evaluation of the liquidity profile of the underlying investments in a particular fund, present asset/liability mismatches that could trigger a potential liquidity wipeout, and availability of external sources of contingent funding (e.g., unutilized bank credit lines) are key factors in liquidity risk evaluation. Steps taken by an AMC to mitigate redemption risks and related MIS are also considered. While considering the liquidity, an AMC's own liquid resources may also be considered.

*The importance of having a clear investment objective was highlighted during the liquidity crises of 2008. Investors were inadvertently misled to believe that income funds were a highly liquid asset class. However, owing to evaporation of liquidity of the underlying investments (mostly TFCs) in the market and the ensuing panic redemption, some asset managers had to resort to distressed sales and/or suspend their funds altogether. This, while highlighting increased investor aversion to liquidity risk, also led to strict regulatory guidelines that distinguished highly liquid money market funds as a separate asset class from income funds.*

**7.3.3 Market Risk:** Market risk can arise primarily from adverse movements in interest rates and asset prices (mainly equity market). High volatility in market conditions may result in significant losses on an AMC's investment portfolio. Therefore, it is important to assess the measures used by an asset manager to mitigate market risks (e.g., stress testing for interest rate shocks, duration analysis, beta analysis, cut-offs for exit from stock market, repositioning strategy, etc.) that can adversely impact the value of the overall portfolio.

### **Portfolio Management:**

Knowledge, skills and expertise of investment decision making personnel; soundness of policies, extent to which investment policies are documented and consistently adhered to.

**7.4 Portfolio Management:** The complex nature of financial markets requires asset managers to have clearly-defined and solid investment processes and the ability to demonstrate consistency in implementation while maximizing risk adjusted performance and meeting various qualitative benchmarks. Within this framework, PACRA specifically focuses on clarity of investment styles and adherence to stated investment strategies.

**7.4.1 Investment Committee (IC) Composition:** PACRA assesses how investment/divestment decisions are formulated, reasoned, and analyzed. From this perspective, composition of an IC, the experience of its members, frequency of its meetings, its independence from other functions, and composition of IC packages are reviewed to determine the overall effectiveness of and AMC's decision-making process. An IC and its functions are an integral part of the decision-making process, as the IC is the primary point of reference for any investment decisions made and implemented. PACRA reviews the quality of IC composition by reviewing the profile of individual IC members in order to gauge the investment acumen of the IC. Meanwhile, dominance of any particular member is carefully scrutinized through review of Investment Committee minutes.

***Investment Advisory:** The framework installed for separately managed accounts (SMA), discretionary and non-discretionary, is assessed. The emphasis is laid on independence of decision making and fair treatment to the SMAs. Neither funds under management should suffer on behalf of SMAs nor otherwise. An AMC may be designed to focus primarily on SMAs; hence such AMC would be evaluated based on factors relevant to SMAs.*

**7.4.2 IC Effectiveness:** The investment decision making process is the pivotal stone of portfolio management. PACRA reviews the degree of clarity in investment objectives and the philosophy on the part of asset managers. Adherence to the stated investment objectives and philosophy is important to ensure that investment avenues are consistent with the stated mandate of the collective investment schemes. While PACRA reviews the investment philosophy inscribed in the offering documents, these are normally generalized statements. Hence, PACRA considers management approach and the philosophy of governing in the investment committees more relevant for the overall assessment. The effectiveness of the IC needs to be evaluated to ensure that it is discharging its responsibilities in the best possible manner and in the best interest of the unit holders.

***Execution Quality:** The overall quality and transparency of the AMC's trading and dealing practices is important in determining consistent implementation of investment decisions across funds. Quality of trading systems and criteria for selection of brokers is evaluated to assess whether the asset manager provides fair price and best execution for investors. The quality of supervision over the trading function, and extent of compliance with trading policies, provides insight on the monitoring and control environment instituted by the management team on the trading function.*

**7.4.3 Investment Research and Analysis:** Strong investment research and analytical frameworks are critical for prudent investment management. The degree of independence enjoyed by the research staff in its operational activities and investment recommendations – both from the fund management team and from the reference shareholder – is an important determinant in assessing its effectiveness in the investment management chain. The structure of the research department is critical in identifying the reporting lines and how the roles and responsibilities of the division have been delegated amongst

various staff members comprising the research division. In particular, the experience and educational profile are considered. A mix of different skillsets in the team is considered good when supervised by a strong Head of the department. The quality, reliability, completeness, and relevance of quantitative models and statistical techniques employed, and the complexity and extent of risk analysis and ratios commensurate with the investment scheme enable us to assess the overall quality and viability of the various tools used by the research department in formulating investment recommendations/decisions. Likewise, the extent and quality of the research output (including the scope of the investment universe and depth of analytical input) needs to be assessed to determine the relevance and timeliness of the research to the investment process. An analysis of how research data gathered through various sources is documented for guidance and future reference is important to gauge the quality and extent of the research database for future investment-related decisions.

**Information Required on Investment Risk & Portfolio Management:**

- Investment policy and guidelines
- Risk policy/manual
- Details of risk management systems
- Details of investment committee (incl. members profile and ToRs)
- Details of research function

## 8. Customer Relationship

**Investor Services:**  
Relationship management system, capacity and quality.

**8.1 Investor Services:** PACRA examines the investor services platform of an asset manager for evaluating overall service quality and resource availability for the education and facilitation of investors. Examining client relationships focuses on evaluating an asset manager’s ability to manage relations through determining investment objectives, and thoroughly understanding client constraints, and then to manage day-to-day relationships. PACRA evaluates the asset manager’s capacity to provide appropriate responses tailored to client requests, and keep abreast of local regulations. Criteria are, inter-alia, staffing, technical knowledge of sales people, systems (such as client relationship management tools), value-added services, and access to information. The platform afforded to advisory clients, if any, from the stand-point of its adequacy and robustness is also evaluated. A formal mechanism to solicit feedback from clients and handle complaints must also be in place. Nature and number of complaints received is an important indicator to measure the quality of services provided and, in turn, client satisfaction. PACRA also looks at an AMC’s client attrition overtime on a standalone basis and compared to industry peers as a yardstick to judge the quality and effectiveness of investor services.

**Investor Reporting:**  
Quality, accuracy and frequency of information sharing with investors.

**8.2 Investor Reporting:** Much of the information provided to investors is communicated through regular reporting, which PACRA examines in light of its comprehensiveness, clarity, consistency, accuracy, and timing. This capacity to adapt reports to meet varied investors’ requirements is also examined. Beyond mere reporting, PACRA believes that all asset managers should offer performance presentations and performance attribution reports to their clients on a widespread and timely basis. PACRA, therefore, looks at accuracy of performance attribution and consistency with the investment process. PACRA also reviews the resources and the procedures used in the production of reports, particularly with respect to front-office independence and data accuracy.

### **Distribution and Sales Network:**

Distribution arrangements and strength of sales channels.

**8.3 Distribution and Sales Network:** PACRA examines the distribution and sales network of an asset manager. Particular focus is given to an asset manager’s association with commercial banks, third-party distributors, and exclusivity of such arrangements. At the same time, an asset manager’s emphasis on brand management, strength of sales team, training routines for sales agents, and related performance reviews is also incorporated in PACRA’s analysis. Presence of alternative sales channels, particularly online, or availability of a mobile application is viewed favorably.

#### **Information Required on Customer Relationship:**

- Details of value-added services
- Frequency, mode and information of client reporting
- Mechanisms for ensuring confidentiality of client information
- Complaint management policy and systems
- Details of Sales and distribution channels

## 9. Investment Performance

### **Assets Under Management:**

Composition and growth trend of AUMs.

**9.1 Assets Under Management:** PACRA looks at the growth trend in AUMs. This is then compared to industry trends and peer performance over the period. Movement in AUMs is also assessed in light of the overall economic environment during the period. Category-wise composition of AUMs is analyzed to detect significant changes in trends and possible concentration.

### **Performance:**

Competitiveness of investment results reflected in star ranking.

**9.2 Performance:** Achieving competitive investment results to sustain and improve AUMs is the principal objective of an AMC. Over the long run, poor performance leads to poor reputation and makes holding on to AUMs challenging; this lowers the level of income, and leads to deterioration in overall profitability, ultimately deteriorating the standing of the asset manager. PACRA’s analysis of performance focuses on the star-rankings of all of the eligible funds of an asset manager. With the maturity in the domestic industry in terms of availability of long-term performance results, PACRA covers three distinct time periods in star rankings i.e., a star ranking based on fund’s performance during the trailing 12 months (1-Year Ranking); a star ranking based on fund’s performance during the trailing 36-months (3-Year Ranking); and a star ranking based on fund’s performance during the trailing 60-months (5-Year Ranking). PACRA believes that in long run, the funds of an asset manager with noted strengths in other rating factors will usually be superior or at par with peers.

### **Financial Sustainability:**

Standalone and relative financial position as depicted by balance sheet and income statement.

**9.3 Financial Sustainability:** PACRA looks at financial position of an AMC with the objective to assess sustainability. For this, both balance sheet analysis and profit & loss analysis are undertaken. Several aspects of the AMC’s income statement are considered, including revenue, and diversification of revenue streams such as from fees versus capital gains, expense trends, concentrations by client and product. The fee revenue from retail investors is pivotal to PACRA’s comfort, especially when it provides complete coverage against the AMC’s operating expenses. The return on equity is analyzed in conjunction with peer to make a view as to the shareholders’ satisfaction with the investment.

#### **Information Required on Investment Performance:**

- Performance ranking
- Stability rating
- Financial statements
- Financial projections

### Asset Manager Rating

An independent opinion on an asset manager's expertise, quality of services and potential vulnerability to investment management and operational challenges

Scale	Definition
AM1	<b>Very high quality.</b> Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	<b>High quality.</b> Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	<b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	<b>Adequate quality.</b> Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	<b>Weak.</b> Asset manager does not meet the minimum investment management industry standards and benchmarks.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.</p>	<p><b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 watch may accompany rating outlook of the</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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