



Methodology Asset Manager Rating

Table of Contents

Introduction	2
Profile	2
Ownership	3
Governance	4
Management	5
Investment Risk Management	7
Portfolio Management	8
Customer Relationship	9
Performance	10

Summary

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

Effective Date: 1st July, 2020

This methodology updates and replaces “Asset Manager”, last updated in June, 2019.

Analyst Contacts

Adnan Dilawar
Unit Head - Ratings
+92-42-3586 9504
adnan.dilawar@pacra.com

Usama Liaquat
Assistant Manager - Criteria
+92-42-3586 9504
usama.liaquat@pacra.com

The Pakistan Credit Rating Agency Limited

FBI Awami Complex
Usman Block, New Garden Town
Lahore
Phone +92 42 3586 9504 - 6

0. Introduction

Introduction

- Scope
- Quality Rating framework

0.1 Scope: The primary purpose of PACRA’s Asset Manager Rating is to provide users with an independent opinion on the quality and expertise deployed by an asset management company and potential vulnerability to investment management and operational challenges. It is important to understand that Asset Manager Rating differs fundamentally from the traditional credit rating, which refers to an entity/issuer’s ability to meet its financial obligations. At the same time, Asset Manager Rating is not a determinant for the future performance of a fund, portfolio or other investment vehicle.

0.1.1 An asset management company (AMC) is exposed to multiple major and minor risks. Major risks include but are not limited to i) inadequacy of investment decision making body ii) weak investment oversight, iii) inconsistency in decision making, iv) liquidity and asset-liability mismatches (leading to redemption delays and distressed sale of investments, which ultimately impact the value of assets under management. Other risks include i) poor communication ii) business disruption, and iii) operational errors in valuation, settlement and redemption processes, amongst others.

0.2 Quality Rating Framework: PACRA follows a comprehensive approach to form an opinion on the quality and expertise deployed by an asset management company. It attempts to analyze an AMC not only on a standalone basis but also in the relative universe. Factors underlying the methodology are grouped under two segments – Anchors and Modifiers. Anchoring factors help to understand design and objectives of an AMC. PACRA evaluates i) Profile, ii) Ownership, iii) Governance, iv) Management, vi) Investment Risk Management vi) Portfolio Management and vii) Customer Relationship. By this, it is easy to read the thought process of an AMC’s sponsors (board) and the management team; since an AMC’s design has to be reflection of the objectives conceived by the sponsoring group. Factors classified as modifiers capture an AMC’s progress and achievements using its design and against its objectives. PACRA forms this view by evaluating Investment Performance in terms of Assets Under Management and Financial Sustainability. Conceptually, Anchors are the attributes available to the AMC from its inception, though these continue to evolve. On the other hand, Modifiers are factors where initially a prospective view is formed. As actual performance is demonstrated, it is compared to anchor view. If these are aligned, anchor opinion leads to AM rating. In case of deviation, opinion is modified.

1. Profile

Profile

- Background
- Market Share
- Diversification of Fund Mix
- Investor Concentration

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

1.1.1 PACRA considers asset manager’s experience in the industry and views favorably asset managers that have gained several years’ track record, navigating through market cycles, developing sound processes and a well nurtured expertise to offer asset management services.

1.2 Market Share: The size provides sustainability to the asset manager and longevity to its operations. Thus, analysis of Assets Under Management (AUM) and the product base is central to PACRA’s assessment. The aim is to assess company’s ability to work with clients and to provide asset

management services well-suited to their needs. Market share of an asset manager and its growth over a period of time is incorporated in PACRA’s assessment of an asset manager’s standing and competitive positioning amongst peers.

1.3 Diversification of Fund Mix: PACRA considers that, apart from the sheer size, a good investment manager has a well-diversified product slate. Not only the asset manager offers a full bouquet of products, AUMs invested in each product are also well-diversified. PACRA looks at diversification from two angles: a) AUMs represented by the top fund, b) AUMs represented by single asset class. Concentration in either of these is not considered good.

1.4 Investor Concentration: Composition and concentration of unit holder base is considered. Unit holder concentration is analyzed to judge the potential redemption risk that asset manager may face in the event of crisis and probable redemption run. The yardstick is AUMs represented by Top Twenty investors. Higher the asset manager rating, lower the concentration by top twenty investor. The other yardstick is the total contribution of AUMs by the retail. While HNWs are sometimes included in retail, PACRA looks at the pure number to distinct between financial savvy and general investors. Run-rate of retail AUMs, its overall contribution in total AUMs and fee from retail are some of the important indicators in the eyes of PACRA.

2. Ownership

- Structure
- Ownership
- Business Acumen
- Financial Strength

Ownership

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

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

***Financial Institutions which are owned by private individuals and families:** On the one hand, the concentration of equity ownership might indicate that the majority 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 entity as source of income or to fund other business activities, potentially undermining the financial stability of the entity.*

2.2 Stability: In order to analyze the stability of ownership, a particularly important factor to be taken into account is succession planning. A very important part of our background analytical work is an attempt to assess whether, and under right of succession, the entity’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 entity. A stable ownership with clarity in succession, perhaps major stakes residing with one family or group, is considered

positive for ratings. On the contrary, high free float (in case of listed concerns) leads to risk of take over and may anchor lower ratings.

2.3 Business Acumen: PACRA gauges the sponsors’ business acumen. Having a strong business acumen set has been critical for sustainable success. PACRA analyzes business acumen through two primary areas: i) industry-specific working knowledge, and ii) strategic thinking capability. Meanwhile, a deep and applicable understanding of the system is critical in order to determine how a business achieves its goals and objectives. The scope includes the assessment and understanding of how the sponsors of the entity deliberate over and successfully make the right business decisions.

2.4 Financial Strength: PACRA analyzes the ability and willingness of the major shareholders to support the entity both on a continuing basis, and support in times of crisis. Here, PACRA gives due importance to: 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, incase such need arises, iii) other businesses of sponsors, and iv) the level of commitment of the major shareholder with the entity in providing capital support. In case of no explicit commitment, PACRA attempts to form a view on availability of likely support. Support, in this context, refers strictly to financial support, rather than operational support. The scope for looking at other business of sponsors includes overall profiling of the key sponsors in the context of identifying the resources they have, outside the entity. If, in a group structure, the financial strength of the sponsor is deemed to be weaker than that of the entity, this may bode negatively for the entity’s standalone rating given the possibility that the entity may at some point of time be bound to extend financial support to its weaker parent.

Table 1. Information Required on Ownership

- Shareholding pattern
- Details of sponsors’ other businesses
- Sponsors’ financial information
- Past pattern of sponsor support

3. Governance

Governance

- Board Structure
- Members’ Profile
- Board Effectiveness
- Transparency

3.0 PACRA’s assessment of governance involves both systematic analyses of governance data and information, and the more contextual review of the entity’s governance practices. PACRA considers four main factors while assessing the governance structure of the entity: i) board structure, ii) members profile, iii) board effectiveness, and iv) transparency.

3.1 Board Structure: This comprises assessment of board on various criteria including overall size, presence of independent members, and duration of board members’ association with the entity, overall skill mix and structure of board committees. Size of the board may vary as per the scope and complexity of the operations of the entity. While a very small board is not considered good, similarly, reaching a decision in an effective and efficient manner may not be possible in case of a large board. A healthy composition of board includes the presence of independent/non-executive members having limited relationship with the sponsoring group of the entity. Meanwhile, same individual holding chairman and CEO positions is considered weak governance practice. The chairman is expected to have a non-executive role. Compliance with the code of corporate governance is also examined. PACRA also 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.

3.2 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. Moreover, diversification in terms of knowledge background and experience is considered positive. However, a fair number of board members should have related experience.

3.3 Board Effectiveness: In PACRA’s view, the role of the board is to work with management in steering the entity to its performance objectives and to provide critical and impartial oversight of management performance. PACRA analyzes the type and extent of information shared with board members, and quality of discussions taking place at board and committee levels. Effective oversight requires frequent sharing of detailed information covering various aspects of business and market development. Meanwhile, 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.

3.4 Transparency: Quality of 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 quality of external audit by engaging auditors which are included in the State Bank of Pakistan’s panel of auditors and/or have a satisfactory QCR rating.

***Accounting Quality:** PACRA reviews the quality of an entity’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.*

Table 2. Information Required on Governance

- Details of board committees including ToRs
- Profile of BoD members
- Information packs used by the board
- Minutes of board meetings
- Internal auditor detail (if outsourced)
- External auditor detail

4. Management

Management

- Organizational Structure
- Management Team
- Management Effectiveness
- Control Environment

4.0 Human expertise plays a critical role in asset management. The efficiency and reliability of processes at all levels of the organization largely rely on the effectiveness of the team set-up and experience of the people involved. An important aspect of PACRA’s analysis is therefore management team’s ability to conceive and execute stated strategies, ensure efficient coordination and oversight.

4.1 Organizational Structure: PACRA’s analysis of the organizational structure focuses on how the asset management company is organized keeping in view the scope of operations and diversity of product base. PACRA believes that departments should be structured in an AMC keeping in view segregation of duties and importance of the functions to be performed, e.g. risk function has to be separate and independent.

4.2 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

company. Each functional area is covered including portfolio management, risk management, investment research, sales and distribution, marketing, internal audit and compliance.

4.2.1 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 overall standing of the company relative to peers. Hence, HR turnover is reviewed to determine the stability of critical staff, with particular focus on key departments. In addition, company's human resource policies are also reviewed to gauge company's emphasis on retaining and recruiting vital staff and ensuring their redundancy in the structure.

***Key-man Risk:** Key-man risk occurs when an entity 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 common 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 entity is dependent on the expertise of such individual(s) and to ensure policies exist for succession/redundancy to limit the adverse impact of such a person unexpectedly leaving, on the entity.*

4.3 Management Effectiveness: Optimum portfolio management requires adequate technological resources, whether internal, provided by the parent company or affiliate, and/or an external third party (e.g. vendors). Most critical in terms of IT resources are unquestionably the portfolio management and order management systems. Various features of the portfolio management system are explored; robustness, coverage of instruments, time delay before transactions are entered, timely and accurate 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 secure, timely and fair handling of multiple transactions. Electronic order and confirmation also clearly adds 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 MIS and considers such MIS superior which are generated directly from the system. A key measure of management effectiveness is its track record of delivering on past projections and sticking to strategies.

***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 entity is information-based.*

4.4 Control Environment: An analysis of the overall Compliance and Internal Control framework (including Internal Audit procedures) of the company helps in identifying the procedures, control centers and reporting lines, in order to manage conflicts of interest, meet fiduciary responsibility, and to 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. Well-documented and comprehensive internal policies and a structured internal control program are viewed as positive factors for the rating. The compliance function would be evaluated on an enterprise-wide basis. More value would be given to the compliance function integrated into the system of the company.

***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 company'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.

Table 3. Information Required on Management

- Latest organogram
- Details of management committees
- Profile of senior management
- Redundancy pattern
- MIS reports
- Minutes of management committees’ meetings

5. Investment Risk Management

- Framework
- Credit Risk
- Liquidity Risk
- Market Risk

Investment Risk Management

5.1 Framework: Risk management and monitoring culture and platform are the hallmark of a seasoned and mature asset management company. Evaluating the overall risk management framework of the asset management company enables to determine how various risks are identified, monitored and mitigated across the company. The efficiency of controls and risk management within an asset management company is instrumental in mitigating risks arising from operational and investment management failures. The analysis considers role of the Board in formulating risk management policies, quality and extent of such, the independence of the risk management function, and the key risk indicators and IT systems employed by the company 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.

5.1.1 Investment Risk Management permeates the entire investment management process, and consists of two pillars a) macro-economic risks, b) portfolio risks. Macro-economic 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 company. This may be reflected in the overall structure of the investments at AMC level, exposure to different sectors and redemption pressures. Three main categories are 1) Credit Risk, 2) Market Risk, and 3) Liquidity Risk. Each of these risks needs to be viewed separately to gauge the exact nature and source of a particular risk factor and controls in place to mitigate such risks.

5.1.2 PACRA reviews coverage and appropriateness of risk indicators used by the company, the capacity of the portfolio managers to measure such indicators and monitor exposures against explicit and meaningful limits. The extent of risk indicators used by the company depends 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.

5.2 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 also arise from breach of internally defined allocation limits, internal rating guidelines for investment purposes and high concentration in individual investments, sectors and or groups.

5.3 Liquidity Risk: Liquidity risk management has recently emerged as a key challenge for asset managers. An evaluation of the liquidity profile of the underlying investments in particular fund, any asset / liability mismatch that could trigger a potential liquidity wipeout and availability of external

sources of contingent funding (e.g. unutilized bank credit lines) are key factors. Steps taken by the company to mitigate redemption risks and related MIS are also considered. While considering the liquidity, 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 lead to strict regulatory guidelines that distinguished highly liquid money market funds as a separate asset class from income funds.

5.4 Market Risk: Market risk can arise primarily from adverse movements in interest rates and asset prices. High volatility in market conditions may result in significant losses on the investment portfolio. Therefore, it is important to assess the measures used by the 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) that can adversely impact the overall portfolio value.

6. Portfolio Management

- IC Composition
- IC Effectiveness
- Investment Research and Analysis

Portfolio Management

6.0 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.

6.1 IC Composition: PACRA assesses how investment/divestment decisions are formulated, reasoned and analyzed. From this perspective, the composition of Investment Committee, experience of its members, frequency of meetings and review of investment committee packages are reviewed to determine the overall effectiveness of decision making process. Investment Committee and its functions are an integral part of the decision-making process, as the Investment Committee 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.

6.2 IC Effectiveness: The investment decision making process is the pivotal stone of portfolio management. PACRA reviews the degree of clarity in investment objectives and 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 philosophy governing in the investment committees more relevant for the overall assessment. The effectiveness

of the Investment Committee 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 asset management company’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.*

6.3 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. 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. The experience and educational profile is considered. A mix of different skill set in the team is considered good when it is supervised by a strong Head of the department.

6.3.1 The quality, reliability, completeness and relevance of quantitative models and statistical techniques employed, 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-related recommendations / decisions.

6.3.2 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.

7. Customer Relationship

- Investor Services
- Investor Reporting
- Distribution and Sales Network

Customer Relationship

7.1 Investor Services: PACRA examines the investor services platform of an asset manager for evaluating overall service quality and resource availability for investors education and facilitation. Examining client relationships focuses on the asset manager’s ability to manage relations through determination of investment objectives and a thorough understanding of constraints, and then to day-to-day relationships. PACRA evaluates the asset manager’s capacity to provide appropriate responses tailored to client requests, as well as keeping abreast of local regulations. Criteria are, inter alia, staffing, technical knowledge of sales people, systems such as Client Relationship Management (CRM tool), 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.

7.2 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. The agency, 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 to data accuracy.

7.3 Distribution and Sales Network: PACRA examines the distribution and sales network of an asset manager. Particular focus is given to asset managers' association with commercial banks, third-party distributors and exclusivity of such arrangements. At the same time, asset manager's emphasis on brand management, strength of sales team, training routines for sales agents and related performance reviews is also incorporated in analysis.

8. Investment Performance

- Assets Under Management
- Financial Sustainability

Investment Performance

8.1 Asset Under Management: Achieving competitive investment results is the principal objective of an asset management company. Over the long run, poor performances lead to a poor reputation; poor reputation leads to outflows; and outflows lead to deterioration in profitability and ultimately in the standing of the asset manager.

8.1.1 PACRA's analysis of performance focuses on the star-rankings of all 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.

8.2 Financial Sustainability: PACRA looks at financial position of the asset management company with an objective to assess sustainability. For this, both balance sheet analysis and profit analysis is undertaken. Several aspects of the company's income statement are considered: revenue and diversification of revenue stream: revenue from fee and 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 company'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.

Asset Manager Rating

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.

<p>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’.</p>	<p>Rating Watch 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 respective opinion.</p>	<p>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.</p>	<p>Withdrawn 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>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
---	---	--	---	---

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from 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. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.