



The Pakistan Credit Rating Agency Limited

Rating Report

786 Investments Limited (Formerly: Dawood Capital Management Limited)

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-May-2018	AM3	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the company's adequate positioning in the industry, improved investment process and new but experienced management team. With a limited fund slate, the company managed decent growth in the AUMs in CY17. This has resulted in a rise in its system share in the mutual fund segment, though it is still less than 1%. The company has rebranded itself and is positioning itself in Shariah compliant genre of mutual fund industry. It would be amongst few exclusive Shariah compliant asset manager. The team and processes are in place. Now the focus is on completing basic fund slate by adding an Islamic equity fund, this would be followed by marketing/distribution push. The management is eyeing PKR2 bln AUMs by end of FY19. In CY17, the performance of the funds was comparable to most peers. The management intends to materialise its strategic plans by enhancing its position in industry coupled with major focus on high net worth and corporate clientele.

The rating is dependent on the successful execution of company's strategy resulting in enhancement in the company's competitive position in the industry. Strengthening of the human resource with a focused skill set would remain important for the enhancement of the investment management platform. Relative performance of funds remain critical.

Disclosure

Name of Rated Entity	786 Investments Limited (Formerly: Dawood Capital Management Limited)
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating(May-17)
Related Research	Sector Study Mutual Funds(May-18)
Rating Analysts	Shahzaib Khalid shazaib.khalid@pacra.com +92-42-35869504

786 INVESTMENTS LIMITED

Incorporated	1993
Major business lines	Asset Management, Modarba, Equities, and Investment Advisory.
Legal status	Public Limited
Number of branches	01

INDUSTRY SNAPSHOT

During CY17, the industry AUMs decreased by ~5% (Dec-17 AUMs: 583bln, Dec-16 AUMs: 613bln) mainly led by bearish momentum on PSX's performance on the back of MSCI rebalancing, political noise and deteriorated economic conditions. This consequently resulted in an attrition in the asset base of equity category by 17% (Dec-17 AUMs: 150bln, Dec-16 AUMs: 181bln). On the flip side, the money market funds provided consistent inflow as compared to equity funds and their AUMs grew by ~55% (Dec-17 AUMs: 96bln, Dec-16 AUMs: 62bln). This was a result of continuity of the benign inflation, low interest rate environment, and excess liquidity. The Fund of Funds and Asset Allocation Plans were the main focus of industry players as the fund managers opting in risk averse strategy to bail out deteriorating risk appetite in the capital markets.

PROFILE & GOVERNANCE

- 786 Investments Limited (Formerly: Dawood Capital Management Limited) commenced its business operations in January 1993.
- In 1999, First Dawood group acquired the company and changed the name to Dawood Capital Management Limited. The company was named as 786 Investments Limited in January, 2017.
- The company is 15% owned by First Dawood Investment Bank, 15% by Bank of Khyber, 13% by B.R.R. Guardian Modaraba and 12% by Ms. Tara Uzra Dawood.
- The company's seven board members includes the CEO along with one representative of First Investment Bank Ltd and one representative of BRR Guardian Modaraba. The board is chaired by Mrs. Shafqat Sultana, ex-president and CEO of First Women Bank Limited.
- Ms. Tara Uzra Dawood, the CEO, is on the board of directors of MUFAP and is a faculty member at Danube University Krems (Austria).

ASSESSMENT

- The overall assets under management increased by 9% during CY17 to PKR 657 million as compared to a negative growth of 41% in CY16.
- During CY17, the company witnessed a decline of 11% in its asset base of equity composite funds. This decline is majorly owing to bearish momentum of the stock market. However, asset base of income fund increased by 13%.
- The company's product slate includes three open-end funds of the categories: Income, Shariah Compliant Asset Allocation and Balanced.
- The average top ten client concentration in all three funds is significantly high (above 90%) of which more than 70% are the group investments, thus low redemption risk.

SALES AND MARKETING

- The company has successfully established the Sales and Marketing department and intends to expand its sales team as the funds size grow.
- The corporate and HNWI sales are currently handled by CEO and COO.
- The company also avails the distribution services of two companies 1) 4-sight investment and 2) Bluestone Capital.

INVESTMENT DECISION MAKING

- The primary investment decision making body is the Investment Committee (IC), comprising CEO, CFO, CIO, Fund Manager, Head of Research and Risk Analyst. The IC formally meets on weekly or ad-hoc basis for investment decision making and performance monitoring.
- The research department is in development phase and regularly provides fundamental analysis along with macroeconomic data to the CIO.
- The company has no access to external portals like Bloomberg, Reuters, etc.

RISK AND COMPLIANCE

- The company has a separate risk function which is headed by Mr. Shaharyar Ali. The risk management guidelines are in place having primary focus of managing credit, market, and liquidity risk.
- The internal audit function is in-house and reports to the audit committee of board of directors on quarterly basis.
- The internal audit and compliance department is headed by Mr. Kamran Rafique, having a vast experience of 15 years in the asset management industry.
- Internal audit and compliance report is comprehensive, covers almost all of the business operations and department properly report its observations.

TECHNOLOGY AND INVESTOR SERVICE

- The company is currently using Oracle9i, a widely used IT system in the industry.
- A contract has been made with Sidat Hyder Associates to provide the Portfolio Management System, Unit Holder Accounting System and General Ledger System.
- Fund manager reports are issued and are available on company's website on monthly basis, which elaborates the performance, asset allocation and outlook.
- The company is implementing strategies for integrating information technology in all processes of the company.

Financial Summary: 786 Investments Limited

Sr. no	Fund Name (Category)	Asset Under Management		Return CY17	Top Investor Concentration	Performance Ranking / Stability Rating (Dec 17)
		Dec17 (PKR mln)	Dec16 (PKR mln)			
1	Dawood Income Fund (Income)	304	230	16%	85%	AA-(f)
2	Dawood Islamic Fund (Shariah Compliant Asset Allocation)	105	103	(12%)	97%	2
3	First Dawood Mutual Fund (Balanced)	248	269	36%	92%	4

RATING SCALE & DEFINITIONS: Asset Management Industry

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be determined solely by investors

ASSET MANAGER RATINGS

AM1: Very high quality

Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.

AM2++, AM2+, AM2: High quality

Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.

AM3++, AM3+, AM3: Good quality

Asset manager meets investment management industry standards and benchmarks.

AM4++, AM4+, AM4: Adequate quality

Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.

AM5: Weak

Asset manager does not meet the minimum investment management industry standards and benchmarks.

+ = (Plus)

++ = (Double Plus)

FUND STABILITY RATINGS

AAA(f)

An exceptionally strong capacity to maintain relative stability in returns and possesses negligible exposure to risks.

AA+(f), AA (f), AA-(f)

A strong capacity to maintain relative stability in returns and possesses low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions

A+(f), A (f), A-(f)

A fund with stable performance generally in line with its peers with adequate capacity to respond to future opportunities or stress situations.

BBB+(f), BBB (f), BBB-(f)

An adequate capacity to maintain relative stability in returns and possesses high exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.

BB+(f), BB (f), BB-(f)

A low capacity to maintain stability in returns and possesses very high exposure to risks

B(f)

A very low capacity to maintain stability in returns and possesses very high exposure to risks.

The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

FUND PERFORMANCE RANKINGS

5-Star Very good performance

4-Star Good performance

3-Star Average performance

2-Star Below average performance

1-Star Weak performance

CAPITAL PROTECTION RATINGS

CP1

Very strong certainty of capital protection.

CP2+ CP2

Strong certainty of capital protection.

CP3+ CP3

Good certainty of capital protection.

CP4+ CP4

Adequate certainty of capital protection.

CP5

Weak capital protection.

Rating Watch: Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Rating Outlooks: Indicates the potential and direction of a rating in response to a) trends in economic and/or fundamental business/financial conditions and/or deviation from expected trend. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.

Suspension: It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn:

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

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- 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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (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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