



The Pakistan Credit Rating Agency Limited

Rating Report

National Investment Trust Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Nov-2018	AM2++	-	Stable	Maintain	-
08-Dec-2017	AM2++	-	Stable	Maintain	-
25-May-2017	AM2++	-	Stable	Upgrade	-
18-Aug-2016	AM2+	-	Positive	Maintain	-
08-Jun-2016	AM2+	-	Stable	Harmonize	-

Rating Rationale and Key Rating Drivers

The rating emanates from the company's shareholding structure and strong competitive position in the domestic asset management industry. It is one of the largest and the oldest players in the industry. The rating reflects long operational history, extensive outreach and sizeable penetration in the retail segment. The company's well-structured decision making process supported by proficient and qualified management team lends support to the fund performance. Further diversification in the fund slate will bode well in strengthening the company's profile among its peers. Continuous improvements in the overall operating platform along with a diversified fund slate would help in growing the AUM base. The company's investment risk management platform along with a sizeable share of retail investors provides an edge over most of the peers in the investment management business.

The rating is dependent on upholding existing organization structure along with retention of key human resource. Meanwhile diversity in the income stream, customer outreach through different channels and superior fund performance in line with the rating remains imperative.

Disclosure	
Name of Rated Entity	National Investment Trust Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-18)
Related Research	Sector Study Asset Management(Jun-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504

NATIONAL INVESTMENT TRUST LIMITED

Incorporated	1962
Major business lines	Asset Management
Legal status	Public Unlisted
Number of branches	23

INDUSTRY SNAPSHOT

During FY18, the industry AUMs increased meagerly by ~0.4% (June-18 AUMs: ~PKR589 bln, June-17 AUMs: ~PKR587 bln). Nominal growth in FY18 is the result of contradicting economic indicators and high political noise. The twin deficits and debt repayments led to the steep slide in falling foreign exchange reserves which created a negative impact. On the other side, high GDP growth, amiable inflation and healthy LSM growth contributed positive to the economy. In the equity market for FY18, the cumulative return was negative 10%. Foreigner's interest seemed low as they kept offloading local equities since MSCI rebalancing last year. The money market has shown an upwards trajectory and is anticipated to grow further at the back of increasing interest rates.

PROFILE & GOVERNANCE

- National Investment Trust Limited, an unquoted public limited company, established in 1962, is the pioneer of domestic mutual fund industry.
- Government of Pakistan directly and indirectly through public sector entities holds ~41.7% shareholding in the company whereas private sector institutions and individuals hold ~58.3% shareholding in the company.
- The company's Board of Directors currently comprise eleven members with ten non-executive directors. Audit, Risk Management and HR and Remuneration Committees exist at board level.

ASSESSMENT

- Company's AUMs decreased by ~10% during FY18 to ~PKR 87 billion at end Jun-18 from ~PKR 96 billion at end Jun-17.
- The company's diverse product slate includes six open-end funds belonging to all major categories and two voluntary pension schemes.
- Average retail penetration in AUMs is ~20% while the average institutional concentration is ~80% at end Jun-18. The system share across the industry was 14.8% at end Jun-18. The average top ten investor concentration represents 40% of the overall AUM base (including the pension funds).

SALES AND MARKETING

- The company has a successfully established marketing division which oversees Institutional and Retail sales across NIT's branch network. Better marketing with the interplay of technology has placed the company in a better position to grasp competitive landscape.
- NIT has established an Investor Facilitation Centre in Karachi that provides personalized service and handles queries from customers.
- Sales staff strength of over a hundred along with the company's distribution arrangements with the country's leading commercial banks has resulted in build-up of a sizeable pool of retail investors.

INVESTMENT DECISION MAKING

- The investment decision making process is well structured. The Investment Committee comprise the Managing Director/Chief Operating Officer, Head of Finance, Head of Marketing, Head of Trading, Head of Research, Head of Compliance and Manager Risk Management along with relevant fund managers.
- The research department is headed by Mr. Ali Kamal, an MBA, reporting directly to the Chief Operating Officer. A detailed macro-economic model has been developed. Detailed excel-based valuation and scoring models have been developed which are updated on semi-annual basis.
- The fund management team consists of experienced fund managers having vast experience in Equity and Fixed Income categories. The fund managers reports directly to Chief Operating Officer.

RISK AND COMPLIANCE

- The Company has institutionalized an independent Risk Management Department with a focus towards enhancing the investment risk management function. Risk Management Department has an independent representation on the board through the Risk Management Committee.
- The compliance function monitors regulatory guidelines and limits as specified in the regulations. The department also monitors compliance with the internal investment limits set by the Investment Committee.
- For business continuity, the management has adequate systems in place for scheduled back-ups.

TECHNOLOGY AND INVESTOR SERVICE

- NIT is using Asset Connect as the core asset management software procured from Softech Systems.
- The Company has a separate Investor Services Section to address customer's queries and complaints on timely basis. Fund Manager Reports pertaining to benchmark comparison, trend in asset allocation and breakup of asset quality are offered to investors on monthly basis.
- Instant redemption of mutual funds are offered to its unit holders through 1 Link ATM outlets in collaboration with Summit Bank. Moreover, Client Reporting System enables investors to retrieve their investment profile through a web page.

Asset Manager Rating Scale & Definitions

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

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

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

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

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

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

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

Surveillance. PACRA shall not keep the Asset Manager Rating under constant surveillance. The rating will be reviewed at least once every six months. Any material happening during a period that may warrant a revision of rating will be incorporated in the following review.

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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)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

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

Probability of Default

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

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