



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pak Oman Asset Management

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2019	AM3+	-	Stable	Maintain	-
26-Feb-2019	AM3+	-	Stable	Maintain	-
28-Aug-2018	AM3+	-	Stable	Upgrade	-
08-Dec-2017	AM3	-	Positive	Maintain	-
08-Jun-2017	AM3	-	Positive	Maintain	-
17-Nov-2016	AM3	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating recognizes the company's association with an established financial institution, Pak Oman Investment Company Limited. The rating reflects the company's experienced management, structured investment decision making process and diversified fund slate. The corporate governance framework is considered strong on the backdrop of sound board oversight and presence of seasoned professionals in the management team. Going forward, the management is eyeing growth in SMA business and retail client base which would support the revenue stream. To enhance the assets under management, a number of initiatives are being taken including the expansion of sales force and ongoing focus on alternative distribution channels for enhanced retail market penetration.

The rating is dependent on the company's ability to enhance its market position, gain in terms of assets under management and maintaining strong performance of its funds. Meanwhile, upholding high governance standards and strengthening of risk management is crucial for the rating.

#### Disclosure

<b>Name of Rated Entity</b>	Pak Oman Asset Management
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	PACRA_Methodology_AMC_FY19(Jun-19)
<b>Related Research</b>	Sector Study   Asset Manager(Jun-19)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504



## Profile

**Structure** Pak Oman Asset Management Company Limited was incorporated on July 28, 2006 as a public unlisted company.

**Background** On 31st May 2017, 100% shares of Askari Investment Management Limited were acquired by Pak Oman Asset Management for an amount of PKR 551mln. The merger was successfully completed and effective from October 31, 2017. After the completion of merger, all funds of Askari Investment Management Limited are controlled and managed by Pak Oman Asset Management.

**Market Share** The company's market share was ~0.6% at end June-19 as compared to 0.9% at end June-18.

**Diversification Of Fund Mix** The company's diversified fund slate includes eleven open-end funds, representing asset allocation, equity, income, aggressive fixed income, money market, balanced and other shariah compliant categories.

**Investor Concentration** The average top ten investors concentration is above 90%, making it vulnerable to high redemption pressure. The average related party holdings represents ~27% of total assets under management of the company as at end Jan-19.

## Ownership

**Ownership Structure** The company is a majority owned subsidiary of Pak Oman Investment Company Limited (97%) and remaining shareholders include Oman International Development and Investment Company (1.2%), Bank Muscat (0.6%) and National Logistic Cell (1.2%).

**Business Acumen** The parent company, Pak Oman Investment Company Limited, was formed as a joint venture between the Governments of Pakistan and Sultanate of Oman in July 2000. Pak Oman Investment Company, along with its subsidiaries, provides corporate banking, investment banking and treasury services.

**Financial Strength** The company derives its financial strength from Pak Oman Investment Company. Collectively, Pak Oman Investment company's asset base is ~PKR 58bln supported by equity of ~PKR 8bln with total comprehensive income of ~PKR 449mln at end Dec-18.

## Governance

**Board Structure** The company's board of directors comprise seven members with three independent directors.

**Members' Profile** The board members have strong educational backgrounds and carry extensive diversified experience. The Chairman, H.E. Yahya Bin Said has vast experience as a commercial banker and is the Minister of the Special Economic Zone Authority at A'Duqum, Sultanate of Oman.

**Board Effectiveness** To ensure its effectiveness, the board has formulated the audit and HR and remuneration committees.

**Financial Transparency** The internal audit function is in-house and reports to the audit committee on quarterly basis. The external auditors are Ernst & Young, which fall into the 'A' category of SBP audit firm rankings.

## Management

**Organizational Structure** The organizational structure aligns with the operations of the company. The company operates through eight main departments which fall under the purview of the CEO except for the internal audit department which reports to the audit committee.

**Management Team** The company's management team consists of qualified and experienced professionals. The current CEO, Ms. Sadaf Kazmi holds a Masters degree in public administration and carries substantial experience of over a decade in the asset management industry. Mr. Syed Adeel Shahid is the senior vice president and CFO. He has been associated with the asset management industry and has an overall experience of over a decade.

**Technology Infrastructure** The company has outsourced its back office systems, fund management, dividends management and unit holder accounting processes to IT Minds. The company has deployed ERP software developed by Sidat Hyder & Co. (Pvt.) Limited which provides additional business modules of investments, unit management and general ledger. The modules also generate tailor-made MIS reports for analytical purposes.

**Control Environment** Internal Audit plan, approved by Audit Committee encompasses the review of internal control system which includes policies/procedures, physical safeguards, KYC/AML and monitoring of compliance function pertaining to NBFC regulations. For operational risk management, the company has outsourced its disaster recovery system to CubeAccess. The compliance and risk functions are not segregated and are overseen by one dedicated person.

## Investment Risk Management

**Credit Risk** Internal assessment modules are used with a combination of qualitative and quantitative analysis. Excel based credit risk scorecards are in place which provide statistical estimates for counter party credit risk. The fund managers ensure the credit portfolio of the fund exposed to credit risk is broadly diversified.

**Liquidity Profile** The company invests significant portion of the funds' assets in liquid investment avenues to maintain sufficient liquidity. The compliance department regularly generates liquidity reports along with common statistical tools like VAR analysis for assessing liquidity risks. The portfolio allocations are monitored on ongoing basis and matched to the approved allocation limits and any breach in exposure limit is reported to the investment committee in prompt manner.

**Market Risk** The company has set appropriate metrics to measure its exposure to market risk factors such as sensitivity analysis and stress testing. The company's management places special focus on monitoring exchange rates and global commodity prices and a macro-economic model has been developed in order to have a macroeconomic fundamental review regularly.

## Portfolio Management

**IC Composition** The investment committee comprises CEO, CFO, CIO, head of research, head of risk and fund managers. The CIO, Mr. Jamshaid Aziz, has been hired in Sep-18. He has nearly two decades experience of investment management and management consulting.

**Effectiveness** The investment committee meets formally on fortnightly basis. However, daily informal meetings are held for making decisions pertaining to asset allocations and fund management.

**Investment Research And Analysis** The research function has been outsourced to Akseer Research Private Limited which specializes in providing equity research and corporate finance services.

## Customer Relationship

**Investor Services** The sales department provides investor education, personalized solutions, and client reporting. The company has deployed an online customer relationship management software named 'Agile'. The access is given to sales personnel and it provides quick facilities for customers and saves cost for the company. Retail customer outreach is expected to enhance by allowing investments in company's mutual funds through the use of digital wallet.

**Investor Reporting** In addition to publishing fund manager reports on monthly basis, the company also disseminates unit holder statement every month which comprises monthly net asset values, benchmark return comparisons and asset allocations.

**Distribution And Sales Network** The company has segregated the marketing and distribution department into two departments: i) Sales and Marketing which is responsible for the corporate sales, separately managed accounts and investor services ii) Retail Sales which is responsible for penetration into the retail market. The company has distribution agreement with Askari Bank Limited for retail penetration. Additional sales staff has been hired for improving customer outreach.

## Performance

**Asset Under Management** The assets under management of the company were ~PKR 3.3bln at end June-19 as compared to ~PKR 5.4bln at end June-18, depicting a decrease of ~39%. In FY19, majority of the company's funds posted below average category returns.

**Asset Manager** Going forward, the company plans to launch new funds/plans in the capital protected category to diversify their fund slate. The company reported ~PKR 7.3mln profit in the 1HCY18. The equity amount is ~PKR 275mln which complies with the minimum equity regulatory requirement.

**Financial Summary: Pak Oman Asset Management Limited**

	Fund Name	Assets Under Management		Return FY19	Performance Ranking/Stability Rating
		Jun'19 (PKR '000)	Jun'18 (PKR '000)		
1	Askari Asset Allocation Fund	125,024	161,464	-8.10%	-
2	Askari Equity Fund	68,989	124,695	-21.56%	-
3	Askari High Yield Scheme	1,230,827	3,096,534	8.14%	A
4	Askari Islamic Asset Allocation Fund	66,285	117,175	-16.06%	-
5	Askari Islamic Income Fund	63,251	319,759	3.79%	A+
6	Askari Cash Fund	785,965	437,391	8.52%	AA+
7	Askari Sovereign Yield Enhancer	167,188	171,551	6.16%	A+
8	Pak Oman Advantage Asset Allocation Fund	100,436	123,067	-10.92%	-
9	Pak Oman Advantage Islamic Income Fund	231,390	304,727	6.41%	A+
10	Pak Oman Government Securities Fund	255,170	255,128	6.44%	AA-
11	Pak Oman Islamic Asset Allocation Fund	178,106	269,095	-14.22%	-

## Asset Manager Rating Scale & Definitions

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

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.

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

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

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

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

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

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### **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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