



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
06-Aug-2021	AM3++	-	Stable	Upgrade	-
15-Feb-2021	AM3+	-	Positive	Maintain	-
28-Aug-2020	AM3+	-	Stable	Maintain	-
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 Pak Oman Asset Management Company Limited's ("POAMCL" or the "Company") association with an established and renowned financial institution, Pak Oman Investment Company Limited. The financial risk profile of the AMC is supported by adequate capital structure, which bodes well for the rating. The rating reflects the Company's experienced management, structured investment decision making process and adequate governance framework. The AUMs of the Company has increased by ~47.3% since Jun'20 and stood at PKR 6.25bln at end Jun'21. While the market share remained stagnant at ~0.6%, the funds' performance of the AMC remained volatile except Askari High Yield Scheme and Askari Cash Fund which have beaten the industry averages. 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 fund slate of the Company is tilted more towards income and money market category. However, the Company is also planning to launch new funds in equity and income category. Furthermore, the launch of "Pak Oman Daily Dividend Fund" is under process which will further allow the Company's to penetrate in daily dividend category as well. The Company's equity stood at ~PKR 309mln at end Jun'21. These results is itself indication of efficiency of management and its commitment to bolstering bottom-line.

The rating assigned to the Company reflects the growing AUMs, diversifying fund slate, retail penetration and stable equity base. 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>	Methodology   Asset Manager Rating (Jun-21)
<b>Related Research</b>	Sector Study   Asset Managers(Jun-21)
<b>Rating Analysts</b>	Muhammad Zain Ayaz   zain.ayaz@pacra.com   +92-42-35869504



## Profile

**Structure** Pak Oman Asset Management Company Limited ("POAMCL" or "The Company") 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. POAMCL is licensed to carry out asset management company and investment advisory services under NBFC Rules, 2003 and NBFC Regulations, 2008.

**Market Share** The market share of the Company remained on average at 0.6% during FY21.

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

**Investor Concentration** The average top ten investors concentration is above 83% at end Jun'21, making it vulnerable to high redemption pressure. The average related party holdings represents ~10% of total assets under management of the Company as at end Jun'21.

## Ownership

**Ownership Structure** The Company is a majority owned subsidiary of Pak Oman Investment Company Limited (98%) and remaining shareholders include Oman International Development and Investment Company (0.84%), Bank Muscat (0.43%) and National Logistic Cell (0.84%).

**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** POAMCL derives its financial strength from Pak Oman Investment Company. Pak Oman Investment company is AA+ (long term) rated with net worth of ~PKR 9.2bln at end Dec'20.

## Governance

**Board Structure** The Company's board of directors comprise six members with three non-executive directors, one executive and two independent directors.

**Members' Profile** The board members have strong educational backgrounds and carry extensive diversified experience. The Chairman, H.H Juland Jaifer Salim Al-Said, successor of H.E. Yahya Bin Said has over 15 years of experience at the Oman Investment Authority (OIA) (Previously known as State General Reserve Fund), the largest sovereign wealth fund of the Sultanate of Oman in the areas of Private Equity, Real Estate, and Risk Management.

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

**Transparency** The internal audit function is outsourced to Sarwars & Co. Chartered Accountants. The external auditors are EY Ford Rhodes Chartered Accountants, 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 CEO, Ms. Sadaf Kazmi holds a Masters degree in public administration and carries substantial experience of over a decade in the asset management industry.

**Technology Infrastructure** The Company had outsourced its back-office functions such as unit management, settlement and fund accounting to IT Minds Limited. During the current period, the management has successfully migrated from IT Minds and developed an in-house system for back-office functions. 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 CubeXS Weatherly. 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, fund managers. The CIO, Mr. Mustafa, 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 Company is using researches of top ten brokerage houses.

## Customer Relationship

**Investor Services** The Investor Services Department provides investor education, personalized solutions, and client reporting. The company has deployed an in-house customer relationship management software named "UHA" developed by Sidhat Hyder. The access is given to ISD 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 digital platform of Emlaak.

**Investor Reporting** In addition to publishing fund manager reports on monthly basis, the company also disseminates unit holder statement every month through email (subscribed) which comprises net asset value and month end closing values.

**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.

## Performance

**Asset Under Management** The assets under management of the Company have shown a decrease by ~6% and stood at ~PKR 6.25bln at end Jun'21 (Dec'20: PKR 6.6bln). The overall fund performance of the Company remained above benchmark except asset allocation category which under performed and has limited size.

**Asset Manager** The core income of the Company has increased by ~60.6% and stood at ~PKR 29.9mln (Jun'20: ~PKR -18.6mln). The Company reported net loss of ~PKR 2.9mln at Jun'21 (Jun'20: ~PKR -11.8mln). The equity stood at ~PKR 309mln at end Jun'21 which is above the regulatory limit. The paid up capital is PKR 760mln at end Jun'21.



**Asset Manager Rating**

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.

<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 respective opinion.</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 surveil 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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(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

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- (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)
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- (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.
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- (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)
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- (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)

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- (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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