



The Pakistan Credit Rating Agency Limited

## Rating Report

### MCB-Arif Habib Savings and Investments Limited

#### Report Contents

1. Rating Analysis
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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Oct-2022	AM1	-	Stable	Maintain	-
06-Oct-2021	AM1	-	Stable	Maintain	-
06-Oct-2020	AM1	-	Stable	Upgrade	-
08-Oct-2019	AM2++	-	Positive	Maintain	-
08-Apr-2019	AM2++	-	Positive	Maintain	-
08-Oct-2018	AM2++	-	Positive	Maintain	-
28-Dec-2017	AM2++	-	Stable	Maintain	-
23-Jun-2017	AM2++	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

MCB-Arif Habib Saving and Investment Limited (or the 'company') is amongst the largest leading players in the AMC industry, supported by a strong control environment, structured Investment processes, good governance framework, and qualified management team. The assigned rating takes into account improvement across key performance areas including investment management, fund performance, control framework, and growth & diversity in assets under management. The rating reflects the sizable growth in the AUMs of the Company, which have increased by ~25% at the end Jun'22 on a YoY basis. While the market share showed an increase of ~2.5% and is currently standing at ~9.8% in Jun'22. The growth momentum is expected to continue with management focusing on customer service enrichment. The AMC has won best digital customer service award at Pakistan Digital Awards 2022. The Company is also managing one of the largest AUMs portfolios under the SMA segment and holds a significant share of the investment advisory domain. MCBAH is operating separate risk management and compliance departments and both departments are headed by different individuals. The Company has a large retail customer base with improving granularity resulting in sticky AUMs. With a comprehensive portfolio of eighteen open-end mutual funds and two voluntary pension schemes, the Company offers a wide range of products for its customers. The Company's association with MCB Bank Limited – one of the largest commercial banks – and ensuing synergies have supplemented growth. The funds under management have shown consistent and good long term performance compared to peers.. The profitability of the Company has improved notably in FY22 on the back of improving revenue generation ability from the collective investment schemes and the SMA portfolio. The company enjoys sound liquidity and has sufficient lines available if the need arises. The equity base of the company is well above the minimum regulatory requirement and stood at ~PKR 1.4bln as at end-Jun'22.

The rating is dependent upon the Company's ability to sustain its market share and upholding strong investment processes and control environment. Meanwhile, consistent performance of funds compared to benchmark and peers is critical. Any sustained downturn in fund performance and/or significant loss in market share will impact the rating

#### Disclosure

<b>Name of Rated Entity</b>	MCB-Arif Habib Savings and Investments Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	Assessment Framework   Asset Manager Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Asset Managers(Jun-22)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504



## Profile

**Structure** MCB-Arif Habib Limited Savings and Investments Limited (MCB-AH or "the Company") is a public listed company, regulated by the SECP

**Background** MCB-AH was incorporated in 2000 as Arif Habib Investments Limited and subsequently merged with MCB Asset Management Company in 2011, to achieve synergies in asset management business and access to a wider distribution network. The Company holds licenses for Asset Management, Investment Advisory, and Pension Fund Management.

**Market Share** The market share of MCB-AH slightly increased to ~9.8% at the end-Jun'22 (Jun'21: 9.3%).

**Diversification Of Fund Mix** MCB-AH caters to both conventional and shariah-compliant clientele and is currently managing a diverse product slate of eighteen open-end funds and two voluntary pension schemes. The AMC has recently launched two fixed rate return Fund and one Asset Allocation Scheme Fund.

**Investor Concentration** The average top-ten investor's concentration at fund level stood at ~57% at the end-Jun'22. The average related party holding was ~22% of the total AUMs.

## Ownership

**Ownership Structure** The major shareholders of MCB-AH are MCB Bank Limited ~51%, Arif Habib Corporation Limited ~30%, and Adamjee Insurance Company Limited ~8%. The general public holds the remaining ~11% of the shares.

**Business Acumen** MCB Bank Limited is one of the oldest and prestigious banks in Pakistan since 1947. The majority stake of the bank is owned by the Nishat Group, a premier enterprise group of Pakistan. Arif Habib Corporation is the flagship company of the Arif Habib Group. Arif Habib Group is a leading multi-sector group with interests spanning across the real estate, financial services, energy, cement, steel, and fertilizer sectors

**Financial Strength** MCB Bank Limited (rated 'AAA') has an asset base of ~PKR 2,095bln at the end-Mar'22 accompanied by profit after tax of ~PKR 8.9bln for the Mar'22. Comfort can be drawn from the strong financial profiles and the support expected by sponsors if needed.

## Governance

**Board Structure** MCB-AH's control vests in the eight-member board, comprises the CEO, two representatives from MCB Bank Limited, two representatives from Arif Habib Group. There are three independent directors.

**Members' Profile** The Chairman, Mr. Rashid besides holding this office also serves at senior positions of several prestigious organizations. The Vice Chairman/Director, Mr. Nasim Beg, has served at senior positions in asset management and the automobile industry.

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, MCB-AH has constituted an Audit Committee and HR Committee at the board level. Meeting minutes are formally recorded with strong follow-up.

**Transparency** MCB-AH has an in-house internal audit department to monitor the internal controls. The external auditors of the Company are A.F. Ferguson & Co Chartered Accountants . They have a satisfactory QCR rating and are classified in the 'A' category of the SBP Panel of Auditors.

## Management

**Organizational Structure** MCB-AH has a well-defined organizational structure having departments and sub-departments reporting to independent MAN-COM members. The departments are mainly, i) Internal Audit ii) Finance & Taxation iii) Fund Accounting iv) Operations & Settlement v) Risk Management vi) Quality Assurance and CS vii) Compliance viii) Marketing xi) Information Technology x) Human Resources xi) Sales and marketing xii) Investment, xiii) Research xiv) Business Transformation & xv) Product development.

**Management Team** The management team of MCB-AH comprises experienced and qualified professionals. The CEO, Mr. Saqib Saleem, possesses ~21 years of experience. He has primarily worked for JS Investments, Atlas Asset Management, and Habib Bank Limited. The Chief Operating & Financial officer, Mr. Asif Mehdi Rizvi, possesses overall ~22 years of experience. The Company has witnessed a very low turnover rate in the key management positions, resulting in stable management.

**Technology Infrastructure** MCB-AH has introduced Digital Account Opening with no manual intervention required, Real-time investment option available via IBFT inflow, bill payments , digital onboarding platform to distributors for smoother integration, 24/7 live Support (Human) and in-house UHA system.

**Control Environment** In line with the best practices, MCB-AH is operating separate Risk Management and Compliance departments and both departments are headed by different individuals. The departments ensure compliance with all applicable statutory regulations and internal investment guidelines.

## Investment Risk Management

**Credit Risk** The Risk management department regularly issues investment evaluation reports for debt instruments after conducting a thorough analysis for every collective investment scheme. The debt instruments are assessed by the Risk management and ratings are assigned based on internal rating methodology.

**Liquidity Profile** MCB-AH ensures sufficient liquidity is maintained by investing a significant portion of funds' assets in liquid investment avenues. The risk management department vigilantly monitors the liquidity profile to avoid any mismatch between portfolio allocations and redemption patterns.

**Market Risk** The Risk management department has developed in-house risk measures to monitor market risk. Different tools and methods are being used to calculate volatility and value at risk estimates for marketable securities.

## Portfolio Management

**IC Composition** The Investment Committee comprises the CEO, CIO, head of equity, head of fixed income, research analysts, and respective fund managers

**Effectiveness** The Investment Committee reviews the investment strategy of each fund under management and its performance regularly to incorporate the impact of various factors on funds' performance. The induction of an independent research head will further enhance effectiveness.

**Investment Research And Analysis** MCB-AH have an in-house research department headed by Mr. Raza Inam. The department comprises six experienced and qualified individuals. The models are linked with the research terminal to generate real-time comparisons within and across sectors.

## Customer Relationship

**Investor Services** The company provides a digital platform whereby its customers can not only monitor their investments but also perform online transactions like Instant Investment and Redemption via iPay Services as well as Convert between funds, apply for Debit Card and also use Request a Call service to get connected with its 24/7 Helpline using their personal computers or smart phones. MCB-AH is the only AMC providing round the clock Customer Services to its valued investors across all touch points which includes call, email and all major social media platforms. MCB-AH has adopted Net Promoter Score(NPS) as a metric to ascertain customer sentiments and align its efforts to service customers as per the insights generated through this feedback mechanism.

**Investor Reporting** MCB-AH disseminates unit holder statements and publishes the fund manager reports on its website promptly. The FMR comprehensively covers developments on the macroeconomics front and also includes a review of the equity and money market segment.

**Distribution And Sales Network** MCB-AH has a strong distribution network of Fourteen branches across the country and agreements with third-party distributors. The Management is focusing on enhancing its digital presence and geographical presence, going forward

## Performance

**Asset Under Management** The AUMs base increased to ~PKR 122bln at the end-Jun'22 (Dec'21: ~PKR 110bln, Jun'21: ~PKR 98bln). The overall funds' performance remained satisfactory and above the benchmark.

**Asset Manager** The management fee of the company increased by 13% to -PKR 850mln at the end of Jun'22 (SPLY: -PKR 752mln) whereas operating profit stood at -PKR 308mln in Jun'22 (Jun'21:-PKR 507mln). The PAT stood at -PKR 173mln in Jun'22 (Jun'21: -PKR 376mln). The Company's equity stood at -PKR 1.4bln at end Jun'22 (Jun'21: -PKR 1.6bln). The Company's total assets stood at ~PKR 2,232mln at the end Jun'22 (Jun'21: 2,375mln).

Fund's Performance | MCBAM AMC

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR "mln")				Jun'22 - 12 Months Return						Jun'22 - 6 Months Return					
				Jun'22	Dec'21	Jun'21	Dec'20	Return	Ind. Avg.	Bench.	KMI-30/KSE-100	Fund vs. KSE/KMI	Fund vs. Industry	Fund vs. Bench.	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.
1	MCB Cash Management Optimizer	Money Market	52.5%	64,153	38,261	34,030	35,148	10.8%	8.3%	9.3%	-12.3%	23.1%	2.5%	1.6%	12.3%	5.2%	11.2%	7.1%	1.1%
2	Pakistan Cash Management Fund	Money Market	4.7%	5,705	14,525	3,119	2,664	10.9%	8.3%	9.3%	-12.3%	23.2%	2.5%	1.6%	12.11%	5.2%	11.2%	6.9%	0.9%
3	Alhambra Islamic Money Market Fund	Shariah Compliant Money Market	9.7%	11,894	13,610	15,258	4,103	9.8%	6.6%	3.7%	-10.3%	20.0%	3.2%	6.1%	11.5%	4.65%	4.1%	6.9%	7.4%
4	MCB Pakistan Stock Market Fund	Equity	7.3%	8,875	11,304	12,397	11,872	-16.5%	-19.7%	-12.3%	-12.3%	-4.2%	3.2%	-4.3%	-12.7%	-12.7%	-6.9%	0.0%	-5.9%
5	Alhambra Islamic Income Fund	Shariah Compliant Income	3.8%	4,680	7,616	5,484	6,775	8.9%	7.8%	3.3%	-10.3%	19.2%	1.1%	5.6%	9.7%	4.3%	3.6%	5.5%	6.2%
6	Pakistan Income Fund	Income	2.6%	3,210	4,725	9,595	2,914	9.6%	7.8%	11.4%	-12.3%	21.9%	1.8%	-1.8%	10.6%	4.2%	13.4%	6.4%	-2.8%
7	MCB DCF Income Fund	Income	3.8%	4,617	4,313	3,646	3,775	9.0%	7.8%	11.4%	-12.3%	21.3%	1.2%	-2.4%	9.3%	4.2%	13.4%	5.0%	-4.2%
8	Alhambra Islamic Stock Fund	Shariah Compliant Equity	2.0%	2,395	3,097	3,380	3,514	-19.4%	-16.5%	-10.3%	-10.3%	-9.1%	-2.9%	-9.2%	-13.7%	-10.3%	4.1%	-3.4%	-9.6%
9	Alhambra Daily Dividend Fund	Shariah Compliant Income	6.3%	7,652	3,153	2,279	2,092	10.1%	7.8%	3.3%	-10.3%	20.3%	2.3%	6.7%	11.7%	4.3%	3.6%	7.4%	8.1%
10	Alhambra Islamic Asset Allocation Fund	Shariah Compliant Asset Allocation	1.4%	1,689	2,255	2,335	2,638	-17.2%	-5.0%	-9.5%	-10.3%	-7.0%	-12.3%	-7.7%	-11.6%	-3.0%	-3.6%	-8.6%	-8.0%
11	Pakistan Income Enhancement Fund	Aggressive Fixed Income	0.7%	870	1,212	630	668	10.4%	5.9%	11.9%	-12.3%	22.7%	4.5%	-1.5%	10.1%	2.9%	13.7%	7.2%	-3.6%
12	MCB Pakistan Asset Allocation Fund	Asset Allocation	0.7%	838	1,179	912	1,469	-11.6%	-7.2%	-8.8%	-12.3%	0.7%	-4.4%	-2.8%	-10.0%	-4.8%	-4.1%	-5.1%	-5.9%
13	MCB Pakistan Sovereign Fund	Income	0.5%	610	708	738	1,402	9.8%	7.8%	11.3%	-12.3%	22.1%	2.0%	-1.5%	9.5%	4.2%	13.2%	5.3%	-3.8%
14	Pakistan Capital Market Fund	Balanced	0.3%	382	457	467	477	-11.3%	-11.9%	-7.5%	-12.3%	1.1%	0.7%	-3.7%	-8.9%	-9.0%	-3.9%	0.1%	-5.1%
15	Alhambra Islamic Active Allocation Fund	Shariah Compliant Asset Allocation	0.1%	145	171	123	-	1.0%	-5.0%	0.1%	-10.3%	11.2%	5.9%	0.9%	-0.1%	-3.0%	0.5%	2.9%	-0.6%
16	Alhambra Wada Plan (Alhambra Wada Plan I)	Shariah Compliant Fixed Rate / Return	0.5%	658								0.0%	0.0%	0.0%				0.0%	0.0%
17	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan I)	Fixed Rate / Return	0.2%	225								0.0%	0.0%	0.0%				0.0%	0.0%
18	MCB Pakistan Opportunity Fund (MCB Pakistan Dividend Yield Plan)	Asset Allocation	0.1%	110								0.0%	0.0%	0.0%				0.0%	0.0%
19	VPS	VPS	2.9%	3,557	3,426	3,287	3,073					0.0%	0.0%	0.0%				0.0%	0.0%
Sum/Average:			100%	122,267	110,012	97,680	82,584												

9,681 0.01  
11.72%

**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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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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(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 | Clause 11-(A)(p).

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(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)

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(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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