



The Pakistan Credit Rating Agency Limited

## Rating Report

MCB Investment Management Limited (Formerly: MCB-Arif Habib Savings and Investments Limited)

### Report Contents

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### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Oct-2023	AM1	-	Stable	Maintain	-
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	-

### Rating Rationale and Key Rating Drivers

MCB Investment Management Limited (Formerly: MCB-Arif Habib Savings and Investments 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 ~25.4% at the end of Jun'23 on a YoY basis. The market share stood at ~9.5% at the end of Jun'23. The growth is expected to continue with management focusing on customer service enrichment. The AMC has won best digital customer service award and best CRM technology award at Pakistan Digital Awards 2023. The Company is managing one of the largest AUMs portfolios and holds a significant share of the investment advisory domain. With a portfolio of nineteen 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 have shown consistent and good long-term performance compared to peers. The profitability of the Company has improved notably in FY23 due to improvement in overall AUM base and related fee rate from the collective investment schemes and stood at PKR ~378.2mln (FY22: PKR ~173mln). 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 1.7bln as at end-Jun'23 (FY22: PKR 1.4bln).

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 Investment Management Limited (Formerly: 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-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Asset Managers(Jun-23)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504



## Profile

**Structure** MCB Investment Management Limited (MCBIM or "the Company") is a public listed company, regulated by the SECP.

**Background** MCBIM was incorporated in 2000 as Arif Habib Investment Management 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. Pursuant to the merger of MCB AMC with and into AHIL, the name of AHIL was changed to MCB-Arif Habib Savings and Investments Limited. On April 18, 2023, MCB Bank Limited (MCB), being the parent company of MCB-AH, has acquired 30.09% shares of MCB-AH from AHCL. By virtue of this transaction, MCB Bank Limited's shareholding in MCB-AH has increased from 51.33% to 81.42% and AHCL no longer holds any shares in MCB-AH. Moreover; the name of the Company has been changed from MCB Arif Habib Savings and Investments Limited to MCB Investment Management Limited (MCBIM).

**Market Share** The market share of MCBIM stood at -9.5% at the end Jun'23 (Jun'22: 9.8%).

**Diversification Of Fund Mix** MCBIM caters to both conventional and shariah-compliant clientele and is currently managing a diverse product slate of nineteen open-end funds and two voluntary pension schemes.

**Investor Concentration** The average top-ten investor's concentration at fund level stood at -57% at the end of June 23. The average related party holding was -16% of the total AUMs. `

## Ownership

**Ownership Structure** The major shareholders of MCBIM are MCB Bank Limited - 81.42% and Adamjee Insurance Company Limited -7.6%. 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.

**Financial Strength** MCB Bank Limited (rated 'AAA') has an asset base of -PKR 2,280bln at the end-Jun'23 accompanied by profit after tax of -PKR 26.7bln for the Jun'23. Comfort can be drawn from the strong financial profiles and the support expected by sponsors if needed.

## Governance

**Board Structure** MCBIM's control vests in an eight-member board of directors, including the CEO. There are four non-executive directors, while three directors are independent.

**Members' Profile** The Chairman, Mr. Haroon Rashid besides holding this office also serves at senior positions of several prestigious organizations.

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, MCBIM has constituted an Audit Committee and HR Committee at the board level.

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

## Management

**Organizational Structure** MCBIM has a well-defined organizational structure having departments and sub-departments reporting to independent MAN-COM members.

**Management Team** The management team of MCBIM comprises experienced and qualified professionals. The CEO, Mr. Saqib Saleem, possesses -25 years of experience. He has primarily worked for JS Investments, Atlas Asset Management, and Habib Bank Limited. The CFO, Mr. Asif Mehdi Rizvi, possesses overall -25 years of experience. The Company has witnessed a very low turnover rate in the key management positions, resulting in stable management.

**Technology Infrastructure** MCBIM has successfully strengthened its technological platform to enhance its outreach and improve customer services. MCBIM has an in house unit-holder accounting system, which contains interactive dashboards providing real-time information to Investor Services, Compliance and fund managers, facilitating investment decision-making. Also our investor now can invest via RAAST & MCB Live platform.

**Control Environment** In line with the best practices, MCBIM is operating 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** MCBIM 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, Head of Research 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.

**Investment Research And Analysis** MCBIM have an in-house research department headed by Mr. Raza Inam, CFA. The department comprises seven experienced and qualified individuals. The research team follows a rigorous framework of top down approach with extensive coverage of macro economy, listed sectors and companies. This is achieved through detailed macro, sectors and companies financial models, which are linked with the research terminal to generate real-time comparisons within and across sectors.

## Customer Relationship

**Investor Services** The company manages customer relationship using specially developed software that provides a platform for facilitating and monitoring of customers. 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 a Debit Card and also use Request a Call service to get connected with its 24/7 Helpline using their personal computers or smart phones. MCBIM 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. MCBIM has adopted Net Promoter Score(NPS) as a metric to ascertain customer sentiments.

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

**Distribution And Sales Network** MCBIM has a strong distribution network of seven branches across the country and agreements with third-party distributors.

## Performance

**Asset Under Management** The AUMs base increased to -PKR 153bln at the end-Jun'23 (Jun'22: -PKR 122bln). The overall funds' performance remained satisfactory and above the benchmark.

**Asset Manager** The management fee increased by 30% to -PKR 1100mln as of Jun'23 (Jun'22: PKR 850mln) whereas operating profit also increased to -PKR 614mln in FY23 (FY22: PKR 294mln). The PAT increased to -PKR 378mln in FY23 (FY22: -PKR 173mln). The Company's equity stood at -PKR 1.7bln at the end of Jun'23 and total assets stood at -PKR 2,711mln at the end of Jun'23 (FY22: PKR 2,233mln).

Fund's Performance | MCBIM AMC

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR "mln")					Jun'23 - 12 Months Return			12 Months		Ranking and Stability Rating
				Jun'23	Mar'23	Dec'22	Jun'22	Dec'21	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.	
1	MCB Cash Management Optimizer	Money Market	37.9%	58,153	66,738	75,483	64,153	38,261	17.4%	15.3%	17.0%	2.1%	0.3%	AA+(f)
2	Pakistan Cash Management Fund	Money Market	11.4%	17,480	24,304	16,456	5,705	14,525	17.4%	15.3%	17.0%	2.1%	0.4%	AA+(f)
3	Alhamra Islamic Money Market Fund	Shariah Compliant Money Market	16.6%	25,505	28,831	28,732	11,894	13,610	17.0%	13.2%	6.2%	3.8%	10.7%	AA+(f)
4	MCB Pakistan Stock Market Fund	Equity	3.1%	4,821	5,815	5,930	8,875	11,304	-2.6%	-2.9%	-0.2%	0.3%	-2.4%	3 Star
5	Alhamra Islamic Income Fund	Shariah Compliant Income	2.7%	4,193	5,812	6,613	4,680	7,616	15.6%	14.8%	6.1%	0.8%	9.5%	AA-(f)
6	Pakistan Income Fund	Income	1.8%	2,724	2,808	3,387	3,210	4,725	16.2%	14.1%	20.1%	2.1%	-3.9%	AA-(f)
7	MCB DCF Income Fund	Income	5.0%	7,706	6,632	5,937	4,617	4,313	15.5%	14.1%	20.1%	1.3%	-4.7%	AA-(f)
8	Alhamra Islamic Stock Fund	Shariah Compliant Equity	1.6%	2,453	2,653	2,646	2,395	3,097	-1.0%	-2.8%	2.9%	1.8%	-3.9%	3 Star
9	Alhamra Daily Dividend Fund	Shariah Compliant Income	2.0%	2,991	3,006	3,820	7,652	3,153	15.7%	14.8%	6.1%	1.0%	9.7%	AA-(f)
10	Alhamra Islamic Asset Allocation Fund	Shariah Compliant Asset Allocation	0.8%	1,289	1,490	1,490	1,689	2,255	1.4%	5.8%	3.1%	-4.4%	-1.7%	2 Star
11	Pakistan Income Enhancement Fund	Aggressive Fixed Income	0.8%	1,201	1,302	1,511	870	1,212	17.2%	11.8%	20.5%	5.5%	-3.2%	A+(f)
12	MCB Pakistan Asset Allocation Fund	Asset Allocation	0.4%	611	606	669	838	1,179	0.6%	5.2%	3.4%	-4.6%	-2.7%	2 Star
13	MCB Pakistan Sovereign Fund	Income	0.4%	674	610	669	610	708	15.5%	14.1%	19.9%	1.4%	-4.4%	AA-(f)
14	Pakistan Capital Market Fund	Balanced	0.2%	333	334	339	382	457	3.5%	3.8%	4.5%	-0.4%	-1.0%	2 Star
15	Alhamra Islamic Active Allocation Fund	Shariah Compliant Asset Allocation	0.1%	115	122	112	145	171	10.2%	1.0%	5.4%	9.2%	4.8%	
19	MCB Pakistan Opportunity Fund (MCB Pakistan Dividend Yield Plan)	Asset Allocation	0.1%	209	185	174	110	-	11.4%	5.2%	5.6%	6.2%	5.8%	3 Star
20	Alhamra Cash Management Optimizer (Launch date: May'23)	Shariah Compliant Money Market	2.8%	4,338	-	-	-	-				0.0%	0.0%	
21	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan II)	Fixed Rate / Return	0.0%		1,494	1,457	-	-				0.0%	0.0%	
22	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan VI)	Fixed Rate / Return	0.0%		4,348	-	-	-				0.0%	0.0%	
23	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan V)	Fixed Rate / Return	0.0%		8,187	-	-	-				0.0%	0.0%	
24	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan VII) (Launch date: Oct'22)	Fixed Rate / Return	0.1%	225	228	225	-	-				0.0%	0.0%	AA+(f)
25	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan X) (Launch date: Jun'23)	Fixed Rate / Return	0.4%	676	-	-	-	-				0.0%	0.0%	AA+(f)
26	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan XII) (Launch date: Dec'22)	Fixed Rate / Return	4.2%	6,408	-	-	-	-				0.0%	0.0%	AA+(f)
27	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan IX)	Fixed Rate / Return	0.0%		4,182	-	-	-				0.0%	0.0%	
28	MCB Pakistan Fixed Return Fund (MCB Pakistan Fixed Return Plan XIII) (Launch date: Jun'23)	Fixed Rate / Return	3.1%	4,759	-	-	-	-				0.0%	0.0%	AA+(f)
29	Alhamra Wada Plan (Alhamra Wada Plan VII) (Launch date: Apr'23)	Shariah Compliant Fixed Rate / Return	1.3%	2,021	-	-	-	-				0.0%	0.0%	AA(f)
30	VPS	VPS	2.9%	4,475	4,202	4,021	3,557	3,426				0.0%	0.0%	
Sum/Average:			100%	153,360	173,889	159,671	121,384	110,012						

### Asset Manager Rating

An independent opinion on an asset manager's expertise, quality of services and potential vulnerability to investment management and operational challenges

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</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 surveill 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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(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 | Clause 11-(A)(p).

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(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)

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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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