



The Pakistan Credit Rating Agency Limited

Rating Report

MCB-Arif Habib Savings and Investments Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
08-Jun-2016	AM2++	-	Stable	Harmonize	-
31-Mar-2016	AM2+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the Company's positioning as one of the 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 ~48% at the end Jun'21 on a YoY basis. While the market shared showed an increase of ~1% and is currently standing at ~9.3%. The growth momentum is expected to continue with management focusing on strengthening its digital presence and outreach. 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. The Company has segregated its Compliance and Risk Management function in line with the best practices to strengthen its control environment. The Company has a large retail customer base with improving granularity resulting in sticky AUMs. With a comprehensive portfolio of fifteen 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 FY21 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 1.6bln as at end-Jun'21.

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

Name of Rated Entity	MCB-Arif Habib Savings and Investments Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating(Jun-21)
Related Research	Sector Study Asset Managers(Jun-21)
Rating Analysts	Muhammad Junaid muhammad.junaid@pacra.com +92-42-35869504



Profile

Structure MCB-Arif Habib Savings and Investments Limited (MCB-AH or the "Company") is a public listed company.

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. Resultantly, the Company was changed to MCB-Arif Habib Savings and Investments Limited. The Company holds licenses for Asset Management, Investment Advisory, and Pension Fund Management.

Market Share MCB-AH managed to improve its market share during the challenging past year, amid COVID-19. The improvement in the market share is a testament to the management quality of the Company. The market share of MCB-AH stood at ~9.3% at end-Jun'21 (Jun'20: 8.6%).

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Fund Mix

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. Nishat Group has a presence in numerous business sectors of the country including textile, cement, and insurance. Arif Habib Corporation is the flagship company of the Arif Habib Group (AHG). AHG 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 179bln at end-Jun'21 accompanied by profit after tax of ~PKR 15bln for 1HCY21. 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. Previously, he was a member of the Prime Minister's Economic Advisory Council.

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 M/S KPMG Taseer Hadi & Co. (Category A Auditor)

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, Research & Product Development.

Management Team The management team comprises experienced and qualified professionals. The CEO, Mr. Saqib Saleem, possesses ~20 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 ~21 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 successfully strengthened its technological platform to enhance its outreach and improve customer services. MCB-AH has an in-house unit holder accounting system, which contains interactive dashboards providing real-time information to fund managers, facilitating investment decision-making.

Oversight Of Third-Party Service Providers

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 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. Awais Abdul Sattar. The department comprises seven 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 MCB-AH manages customer relationship using a specially developed software which provides a centralized platform for facilitating and monitoring of sales and marketing activities. The company provides a digital platform whereby its customers can not only monitor their investments but also perform online transactions like Investment, Conversion and Redemption using their personal computers or smart phones. MCB-AH is the only AMC providing round the clock online account opening and call center services for its valued investors.

Investor Reporting MCB-AH disseminates unit holder statements and publishes the fund manager reports on its website. The FMR comprehensively covers developments on the macroeconomic 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 fifteen branches across the country and agreements with third-party distributors. The management is focusing on enhancing its digital presence and geographical presence.

Performance

Asset Under Management The AUMs base increased to ~PKR 98bln at end-Jun'21 (Dec'20: ~PKR 83bln). The overall funds' performance remained above the benchmark.

Asset Manager MCB-AH reported core income of ~PKR 752mln (FY20: ~PKR 674mln) and net profit was reported at ~PKR 376mln for FY21 (FY20: ~PKR 258mln). The Company reported net cashflow from operating activities at ~PKR 354mln (FY20: ~PKR 291mln). The equity stood at ~PKR 1.6bln at end-Jun'21, which is well above the minimum capital requirement of PKR 230mln.

The Pakistan Credit Rating Agency Limited

Fund's Performance | MCB-AH Savings and Investments Limited

Sr. No	Fund Name	Category	Weight (%)	AUMs (PKR' mln)			Return 12 M Trailing (%) (Jun'20 to Jun'21)			12 M Trailing		Top Ten Investors Concentration	Stability Rating (Jun'21)
				Jun'21	Dec'20	Jun'20	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.		
1	Pakistan Income Enhancement Fund	Aggressive Fixed Income	0.8%	630	668	707	7.3%	6.3%	8.1%	1.0%	-0.8%	41%	A+
2	MCB Pakistan Asset Allocation Fund	Asset Allocation	1.8%	912	1,469	1,299	26.2%	23.2%	29.4%	3.0%	-3.2%	55%	-
3	Pakistan Capital Market Fund	Balanced	0.6%	467	477	415	23.1%	22.8%	31.1%	0.3%	-8.0%	26%	-
4	MCB Pakistan Stock Market Fund	Equity	14.4%	12,397	11,872	8,804	33.9%	40.3%	37.6%	-6.5%	-3.7%	54%	-
5	MCB DCF Income Fund	Income	4.6%	3,646	3,775	4,033	6.7%	6.3%	7.7%	0.4%	-1.1%	29%	AA-
6	MCB Pakistan Sovereign Fund	Income	1.7%	738	1,402	1,816	5.7%	6.3%	7.6%	-0.6%	-1.9%	47%	AA-
7	Pakistan Income Fund	Income	3.5%	9,595	2,914	2,076	7.4%	6.3%	7.7%	1.1%	-0.4%	34%	A+
8	Alhamra Islamic Money Market Fund	Money Market	5.0%	15,258	4,103	152	6.7%	6.1%	3.3%	0.6%	3.3%	91%	AA
9	MCB Cash Management Optimizer	Money Market	42.5%	34,030	35,148	28,106	7.0%	6.1%	6.7%	0.8%	0.3%	59%	AA+
10	Pakistan Cash Management Fund	Money Market	3.2%	3,119	2,664	3,693	7.0%	6.1%	6.7%	0.8%	0.3%	80%	AA+
11	Alhamra Islamic Asset Allocation Fund	Shariah Compliant Asset Allocation	3.2%	2,335	2,638	1,964	24.4%	16.2%	35.6%	8.2%	-11.2%	37%	-
12	Alhamra Islamic Stock Fund	Shariah Compliant Equity	4.2%	3,380	3,514	2,656	29.9%	33.6%	39.3%	-3.7%	-9.4%	65%	-
13	Alhamra Daily Dividend Fund	Shariah Compliant Income	2.5%	2,279	2,092	3,237	6.4%	6.3%	3.6%	0.2%	2.9%	43%	AA-
14	Alhamra Islamic Income Fund	Shariah Compliant Income	8.2%	5,484	6,774	3,953	6.5%	6.3%	3.5%	0.2%	3.0%	43%	AA-
15	VPS	VPS	3.7%	3,287	3,073	2,781				-	-		-

Asset Manager Rating

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.

<p>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’.</p>	<p>Rating Watch 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>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.</p>	<p>Withdrawn 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>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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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Conduct of Business

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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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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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)

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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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