



The Pakistan Credit Rating Agency Limited

Rating Report

Alfaluh Asset Management Limited (Formerly: Alfalah GHP Investment Management Limited)

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Mar-2023	AM2+	-	Stable	Maintain	-
03-Mar-2022	AM2+	-	Stable	Maintain	-
03-Mar-2021	AM2+	-	Stable	Maintain	-
08-Aug-2020	AM2+	-	Positive	Maintain	-
09-Aug-2019	AM2+	-	Positive	Maintain	-
08-Feb-2019	AM2+	-	Stable	Maintain	-
10-Aug-2018	AM2+	-	Stable	Maintain	-
22-Dec-2017	AM2+	-	Stable	Maintain	-
16-May-2017	AM2+	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating reflects Alfalah Asset Management Limited's (Formerly: Alfalah GHP Investment Management Limited) (the "Company") prominent position in the domestic asset management industry, supported by a structured investment process, sound governance structure, proficient and qualified management, and diversified product slate. The Company has also established its presence in the competitive investment advisory domain, supplementing its revenues. Since Jun'22, the Company's AUMs grew by 10.3% to stand at PKR 67bln at end-Jan'23 (Jun'22: PKR 61bln). However, the Company's market share contracted to ~4.6% (Jun'22: 4.9%) due to industry's higher growth rate (~17.2%). The AMC has also strengthened its digital platform for better retail penetration, enhanced customer services and to create synergies with the parent bank. The Company's product slate is tilted towards money market funds with more than 80% of total assets concentrated in this category. However, the Company has also further diversified its fund's slate by introducing plans in Fixed Rate/Return categories. The funds performed positively in comparison to peers and most of the funds remained above their respective benchmarks.

The investment income of the Company improved to PKR 338mln during 9MCY22 (9MCY21: PKR 301mln). The profit after tax stood at PKR 123mln during the 9MCY22 (9MCY21: PKR 118mln). The equity of the Company stood at PKR 1.4bln at end Sep'22, which is well above the minimum capital requirement. The ratings find comfort from the Company's association with Bank Alfalah Limited and potential synergies due to established presence of sponsor banks branch network.

The rating is dependent on the Company's ability to strengthen its market position along with its peers while sustaining superior fund performance. At the same time, stability in key human resource, structured improvement in risk management framework and success of initiatives to increase retail AUM will remain crucial for the rating.

Disclosure

Name of Rated Entity	Alfaluh Asset Management Limited (Formerly: Alfalah GHP Investment Management Limited)
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Assessment Framework Asset Manager Rating(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Asset Managers(Jun-22)
Rating Analysts	Muhammad Azmat Shaheen azmat.shaheen@pacra.com +92-42-35869504



Profile

Structure Alfalah Asset Management Limited (Formerly Alfalah GHP Investment Management Limited) (the "Company") was incorporated on October 18, 2004 as an unlisted public limited company.

Background The Company was established as joint venture of Bank Alfalah Limited and GHP Arbitrium. Later on, GHP Arbitrium divested its stake in the asset manager. The AMC is registered as an Asset Management Company and Investment adviser under the NBFC Regulations by the Securities and Exchange Commission of Pakistan (SECP). The head office of the Company is situated in Karachi.

Market Share The market share of the Company decreased to 4.6% (Jun'22: 4.9%) while the total AUMs grew to PKR 67bln at end-Jan'23 (Jun'22: PKR 61bln).

Diversification Of Fund Mix The Company is currently managing an extensive product slate of sixteen open ended mutual funds in twelve different conventional and shariah compliant categories and two voluntary pension schemes. The Company has recently launched Fixed Rate/Return plans, to further strengthen its fund slate.

Investor Concentration Top 10 mutual fund investor concentration stood at ~37% at end Dec'22 and the average related party holding represents ~4.5% of total AUMs.

Ownership

Ownership Structure The current shareholding of the Company is held by MAB Investments Inc. (~59.8%) and Bank Alfalah Limited (~40.2%).

Business Acumen MAB Investments Inc. is one of the investment companies of H.H. Sheikh Nahayan bin Mubarak Al Nahayan, a member of the Abu Dhabi Ruling Family. Bank Alfalah Limited is one the largest commercial bank in Pakistan with a network of over 857 branches in more than 200 cities across Pakistan. The bank also has international presence and is owned and operated by the Abu Dhabi Group.

Financial Strength Bank Alfalah Limited has an unconsolidated net assets base of ~PKR 103bln at end Sep'22. The long-term credit rating of Bank Alfalah Limited is 'AA+' and the short-term rating is 'A1+'.

Governance

Board Structure The Company's eight-member board comprises the CEO, two representatives of MAB Investments, two representatives of Bank Alfalah Limited. There are five non-executive and two independent directors.

Members' Profile Mr. Tanveer Awan is the chairman of the Board. He has over 15 years of experience in Investment management, Mr. Awan earned a master's degree in engineering from Norwegian University of Science and Technology in Trondheim Norway, and an MBA from IMD in Lausanne Switzerland. Overall, the Board members possess strong profile and skills suited to the financial services industry.

Board Effectiveness There are three committees at the board level, (i) Audit Committee, (ii) HR and Remuneration Committee and (iii) Risk Management Committee for effective monitoring and board assistance.

Transparency The internal audit department is outsourced to M/S Yousaf Adil Chartered Accountants for effective monitoring of control systems. The external auditor of the company is M/S EY Ford Rhodes, which falls in the 'A' category of SBP Panel of Auditors.

Management

Organizational Structure The Company has a well-defined and formalized organizational structure, with appropriate departmentalization. It operates through nine departments, each with its well-defined and specific functions.

Management Team The management team comprises of experienced and qualified professionals. The CEO - Mr. Nabeel Malik has diversified experience in the field of fund management and fixed income trading/facilitation. Mr. Malik has done his MBA from SZABIST and holds a B.Sc degree in Computing & I.T from Staffordshire University U.K. Mr. Noman Soomro is the Chief Operating Officer and a qualified Chartered Accountant from ICAP and carries experience over sixteen years.

Technology Infrastructure The Company has implemented a Unit Management System and ERP Application by Sidat Hyder Morshad and Company Private Limited. The ERP system has separate modules as per the requirement of relevant departments for smooth functioning of operations. The Company is also in the process of ERP evaluation.

Control Environment The compliance is being led by Mr. Shariq Mukhtar Hashmi. The Company has devised detailed policies to ensure compliance with all applicable statutory regulations and internal investment guidelines. The company uses excel based models to monitor the exposure limits and margins.

Investment Risk Management

Credit Risk The Company uses excel based credit risk models for credit risk monitoring with focus on qualitative and quantitative analysis. The Company has controls in place to ensure exposure limits.

Liquidity Profile The risk management department vigilantly monitors the liquidity profile of the Company. Sufficient liquidity is maintained by investing a significant portion of funds assets in liquid investment avenues.

Market Risk For managing market risk, various techniques such as VaR analysis, beta analysis and stress testing are being used. The exposure limits are clearly communicated to portfolio managers along with periodic review of appropriateness of limit structure.

Portfolio Management

IC Composition The investment committee comprises of the Chief Executive Officer/Chief Investment Officer, Chief Operating Officer, Head of Equities, Head of Fixed Income, Head of Compliance and Fund Managers.

Effectiveness The investment committee comprises of qualified and experienced professionals. The investment committee meets on weekly basis and reviews the investment strategy of each fund under management and its performance on regular basis to incorporate the impact of market circumstances on funds' performance.

Investment Research And Analysis The research function operates under the supervision of Chief Investment Officer. The department uses various techniques including the fundamental analysis of key sectors and stocks to identify attractive investment avenues. For equity valuation, standard financial models are used and broker researchs also considered.

Customer Relationship

Investor Services The Company has provided its investors with an online platform which allows real time access to their accounts. The mobile app of the Company provides various value-added services such as fund NAVs, investment account details and E-transactions. The Company has also integrated the Alfa app to facilitate the account holders of Bank Alfalah.

Investor Reporting The Company disseminates unit holder statement on monthly basis which comprises investment value and asset allocations along with dissemination and publication of FMR on its website in a timely manner. The customers are also provided with SMS and e-mail services for transaction alerts and NAV prices alerts.

Distribution And Sales Network The Company has a network of eight investment centers spread across major cities of Pakistan. The Company is focused on to increase its retail customers by capitalizing the well-established branch network of Bank Alfalah with distribution agreements which relevant relationship managers are creating awareness in respective areas to increase sales.

Performance

Asset Under Management The total AUMs of the company have shown growth of ~10.3% from Jun'22 to Jan'23. Majority of the funds performed better than benchmarks and peers.

Asset Manager The Company reported a profit after tax of ~PKR 123mln for the 9MCY22 (SPLY: ~PKR 118mln). The equity stood at ~PKR 1.4bln at end Sep'22, which is well above the minimum capital requirement of PKR 230mln.

Fund's Performance | Alfalah Asset Management Limited (Formerly: Alfalah GHP Investment Management Limited)

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR' min)					Return YTD (Jan'22 to Dec'22)			12 Months	
				Dec-22	Jun-22	Mar-22	Dec-21	Jun'21	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Benchmark
1	Alfalah GHP Money Market Fund	Money Market	46.4%	34,853	28,310	19,966	24,689	26,820	15.3%	12.4%	14.8%	2.9%	0.5%
2	Alfalah Islamic Rozana Amdani Fund	Shariah Compliant Money Market	19.8%	14,899	6,698	4,537	5,365	5,107	14.8%	10.2%	5.9%	4.7%	9.0%
3	Alfalah GHP Cash Fund	Money Market	14.1%	10,622	11,622	10,229	12,421	4,507	15.1%	12.4%	15.0%	2.8%	0.1%
4	Alfalah GHP Islamic Income Fund	Shariah Compliant Income	4.2%	3,170	4,749	5,908	6,406	5,708	12.1%	9.8%	5.4%	2.2%	6.7%
5	Alfalah GHP Islamic Value Fund	Shariah Compliant Asset Allocation	2.8%	2,104	400	2,580	2,322	2,288	7.3%	-1.0%	2.7%	8.3%	4.6%
6	Alfalah GHP Income Multiplier Fund	Aggressive Fixed Income	2.7%	2,018	53	52	50	78	16.0%	9.7%	16.4%	6.3%	-0.4%
7	Alfalah GHP Islamic Stock Fund	Shariah Compliant Equity	1.7%	1,263	1,415	1,841	1,932	2,325	-1.3%	-11.7%	-0.7%	10.4%	-0.5%
8	Alfalah GHP Stock Fund	Equity	1.5%	1,139	1,291	1,631	2,041	2,080	-3.2%	-16.5%	-2.7%	13.3%	-0.5%
9	Alfalah Stable Return Fund	Fixed Rate / Return	1.4%	1,023					11.6%	2.2%	15.2%	9.4%	-3.6%
10	Alfalah Stable Return Plan II	Fixed Rate / Return	1.2%	877					16.8%	2.2%	15.8%	14.6%	0.9%
11	Alfalah GHP Alpha Fund	Equity	0.7%	544	572	657	711	834	-2.4%	-16.5%	-2.7%	14.1%	0.3%
12	Alfalah GHP Sovereign Fund	Income	0.7%	523	579	752	830	1,072	13.4%	10.8%	15.9%	2.6%	-2.5%
13	Alfalah GHP Income Fund	Income	0.7%	507	1,299	1,347	1,222	1,786	13.8%	10.8%	16.0%	3.0%	-2.2%
14	Alfalah GHP Value Fund	Asset Allocation	0.5%	354	1,980	472	575	603	-0.1%	-3.2%	1.1%	3.1%	-1.3%
15	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Conservative Allocation Plan)	Fund of Funds	0.3%	212	201	203	198	192	6.2%	-2.5%	7.3%	8.7%	-1.1%
16	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Balance Allocation Plan)	Shariah Compliant Fund of Funds	0.2%	179	176	199	209	212	4.9%	-2.3%	2.3%	7.3%	2.6%
17	Alfalah GHP Islamic Prosperity Planning Fund II (Alfalah Islamic Capital Preservation Plan VI)	Shariah Compliant Fund of Funds - CPPI	0.2%	164	157	155			5.6%	3.1%	2.0%	2.5%	3.5%
18	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Active Allocation Plan II)	Shariah Compliant Fund of Funds	0.1%	91	341	359	358	394	4.2%	-2.3%	2.7%	6.5%	1.5%
19	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Moderate Allocation Plan)	Shariah Compliant Fund of Funds	0.1%	69	65	77	78	63	5.0%	-2.3%	2.4%	7.4%	2.7%
20	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Active Allocation Plan)	Fund of Funds	0.1%	43	167	177	175	179	2.4%	-2.5%	3.6%	4.9%	-1.2%
21	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Moderate Allocation Plan)	Fund of Funds	0.0%	34	173	175	172	172	4.1%	-2.5%	6.0%	6.6%	-1.9%
22	Alfalah GHP Islamic Prosperity Planning Fund (Capital Preservation Plan IV)	Shariah Compliant Fund of Funds - CPPI	0.0%	21	43	44	48	51	4.2%	3.1%	1.7%	1.2%	2.6%
23	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Active Allocation Plan III)	Shariah Compliant Fund of Funds	0.0%	-	69	71	72	74	3.5%	-2.3%	2.5%	5.8%	1.0%
24	Alfalah GHP Islamic Prosperity Planning Fund (Capital Preservation Plan V)	Shariah Compliant Fund of Funds - CPPI	0.0%	-	23	25	25	25	-12.7%	3.1%	0.3%	-15.7%	-13.0%
25	Alfalah Consumer Index Exchange Traded Fund	ETF	0.0%	8	10	11	68		-14.5%		-16.0%	-14.5%	1.5%
26	Alfalah pension funds VPS (Islamic and Conventional)	VPS	0.5%	408	395	391	-	394				0.0%	0.0%
Sum/Average:			100%	75,125	60,788	51,858	59,970	54,964				0.0%	0.0%

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	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</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 surveill 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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2) Conflict of Interest

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- 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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- (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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- (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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