



The Pakistan Credit Rating Agency Limited

Rating Report

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

Report Contents

1. Rating Analysis
2. Rating Scale
3. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Aug-2023	AM2++	-	Stable	Upgrade	-
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	-

Rating Rationale and Key Rating Drivers

The rating reflects Alfalah Asset Management Limited's (the "AMC" or "AAML") prominent position in the asset management industry, supported by i) a structured investment process ii) sound governance structure and iii) proficient and qualified management. A new management team is in place now and changes on the board of directors are also done. On the back of these initiatives, the Company has gained significant market share through aggressive growth in AUMs, which currently stands at PKR ~108bln representing a market share of 6.3%. The new management team intends to enhance the fund slate while strengthening overall risk management and control processes. Going forward, the AMC is planning to diversify its product slate further, thereafter in addition to CIS, Advisory ETF, and VPS, i) REIT schemes and ii) private equity schemes would be added. The addition of new product streams would reap the benefits in the form of growth in revenue base. The digital platform is also being strengthened for better retail penetration, enhanced customer services and to create synergies with the parent bank. The current AUM mix depicts an adequate with retail vs. corporate ratio of 40:60. inclusive of HNWIs. Considering the high-interest rate environment, the fund slate is tilted more towards money market funds with ~80% of total assets concentrated in this category (Islamic and conventional). However, the Company has also further diversified its fund's slate by introducing plans in Fixed Rate/Return categories. At the Investor's concentration level, concentration risk is to be reduced both at the fund level and at the company level. While the funds' performance remained well above satisfactory levels with majority of the funds performed positively in comparison to peers.

The management fee of the Company improved to PKR 227mln during 6MCY23 (6MCY22: PKR 153mln). The profit after tax stood at PKR 94mln during the 6MCY23 (6MCY22: PKR 71mln). The equity of the Company stood at PKR 1.9bln at the end Jun'23, 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 the established presence of the sponsor bank's branch network.

Sustainable profitability, market share, and fund performance would provide support to the ratings. While materialization of the initiatives as represented by the management would remain imperative to the ratings.

Disclosure

Name of Rated Entity	Alfalah 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-23)
Rating Analysts	Madiha Sohail madiha.sohail@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.

Market Share Since Jun'22, the market share of the Company increased to 6% (Jun'22: 4.8%).

Diversification Of Fund Mix The Company is currently managing an extensive product slate of Twenty-one open-ended mutual funds in Sixteen different conventional and shariah-compliant categories and two VPS. The Company has recently launched Fixed Rate/Return plans and Alfalah Islamic Money Market Fund to further strengthen its fund slate.

Investor Concentration Top 10 mutual fund investor concentration stood at ~60% at end Jun'23 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 of the largest commercial banks in Pakistan with a network of over 857 branches across Pakistan, 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 104bln at end Mar'23. 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 four non-executive and two independent directors.

Members' Profile Mr. Atif Bajwa is the chairman of the Board. He has an extensive international career spanning more than 40 years of executive leadership roles in banking, and of multiple boards and public interest positions. Mr. Bajwa received his education at Columbia University, New York.

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 KPMG Taseer Hadi & Co. Chartered Accountants for effective monitoring of control systems. The external auditor of the company is M/s A.F Ferguson & Co. Chartered Accountants, 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. Khuldoon Bin Latif has recently joined Alfalah AMC. Mr. Latif was associated with Faysal Asset Management Limited as its Chief Executive Officer (CEO). He has been associated with the capital markets for over 18 years. Saad Qureshi is the Chief Strategy Officer (CSO) with over 20 years of experience in the fields of strategy formulation execution, sales and business development, product structuring, marketing, investment advisory and HR management. 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 is in the process of replacing its old back-office system with a much improved and technologically advanced ERP system of DirectFN, which has separate modules as per the requirement of relevant departments for smooth functioning of operations.

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, Chief Compliance officer, Head of Equities, Head of Fixed Income, Head of Risk 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 researches 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 stood at PKR 108bln. Majority of the funds performed better than benchmarks and peers.

Asset Manager The management fee of the Company improved to PKR 227mln during 6MCY23 (6MCY22: PKR 153mln) & Management Fee was PKR 324mln for CY22 (CY21: PKR 312mln) The Company reported a Profit after tax of ~PKR 94mln for the 6MCY23 (6MCY22: PKR 71mln, CY22: PKR 174mln, CY21: PKR 148mln). The equity stood at ~PKR 1.5bln for 6MCY23 (CY22: PKR 1.7bln ~ CY21:1.5bln), which is well above the minimum capital requirement of PKR 230mln.

Fund's Performance | Alfalah GHP Investment Management Limited

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR' mln)				Return YTD (Jul'22 to Jun'23)			12 Months		Ranking & Stability Rating (Jun'23)
				Jun-23	Dec-22	Jun-22	Dec-21	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Benchmark	
1	Alfalah GHP Money Market Fund	Money Market	38.1%	37,827	34,853	28,310	24,689	20.2%	12.4%	21.1%	7.9%	-0.8%	
2	Alfalah Islamic Rozana Amdani Fund	Shariah Compliant Money Market	31.2%	30,977	14,899	6,698	5,365	14.8%	10.2%	5.9%	4.7%	9.0%	AA
3	Alfalah GHP Cash Fund	Money Market	3.3%	3,260	10,622	11,622	12,421	19.7%	12.4%	6.8%	7.4%	13.0%	AA+
4	Alfalah Islamic Money Market Fund	Shariah Compliant Money Market	7.5%	7,498	-	-	-	7.2%		19.5%			Non-rated
5	Alfalah GHP Islamic Income Fund	Shariah Compliant Income	2.2%	2,182	3,170	4,749	6,406	20.9%	9.8%	7.1%	11.1%	13.9%	AA-
6	Alfalah GHP Islamic Value Fund	Shariah Compliant Asset Allocation	2.5%	2,449	2,104	400	2,322	1.9%	-1.0%	0.6%	2.9%	1.3%	
7	Alfalah GHP Income Multiplier Fund	Aggressive Fixed Income	7.5%	7,487	2,018	53	50	22.2%	9.7%	22.4%	12.5%	-0.2%	A+
8	Alfalah GHP Islamic Stock Fund	Shariah Compliant Equity	1.3%	1,252	1,263	1,415	1,932	-0.6%	-11.7%	-0.8%	11.0%	0.2%	
9	Alfalah GHP Stock Fund	Equity	1.1%	1,122	1,139	1,291	2,041	-1.0%	-16.5%	0.3%	15.5%	-1.3%	
10	Alfalah Stable Return Fund	Fixed Rate / Return	1.1%	1,072	1,023	-	-	20.0%	2.2%	21.2%	17.8%	-1.2%	Non-rated
	Alfalah Stable Return Plan II	Fixed Rate / Return	0.9%	849	877	-	-	15.3%	2.2%	21.2%	13.1%	-5.9%	Non-rated
	Alfalah Stable Return Plan I	Fixed Rate / Return	0.6%	579	-	-	-	20.8%		7.2%		13.6%	Non-rated
11	Alfalah GHP Alpha Fund	Equity	0.5%	521	544	572	711	-1.7%	-16.5%	0.3%	14.8%	-2.0%	
12	Alfalah GHP Sovereign Fund	Income	0.4%	391	523	579	830	23.7%	10.8%	22.3%	12.9%	1.4%	AA-
13	Alfalah GHP Income Fund	Income	0.4%	390	507	1,299	1,222	20.8%	10.8%	22.2%	10.0%	-1.4%	AA-
14	Alfalah GHP Value Fund	Asset Allocation	0.3%	265	354	1,980	575	0.2%	-3.2%	1.0%	3.4%	-0.8%	
15	Alfalah GHP Dedicated Equity	Dedicated Equity	0.0%	-	-			0.8%		0.3%		0.5%	
16	Alfalah GHP Islamic Dedicated Equity	Islamic Dedicated Equity	0.0%	-	-			-1.4%		-0.8%		-0.6%	
17	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Balance Allocation Plan)	Shariah Compliant Fund of Funds	0.2%	187	179	176	209	1.3%	-2.3%	0.4%	3.6%	0.9%	Non-rated
	Alfalah GHP Islamic Prosperity Planning Fund II (Alfalah Islamic Capital Preservation Plan VI)	Shariah Compliant Fund of Funds - CPPI	0.2%	173	164	157		1.5%	3.1%	2.0%	-1.6%	-0.6%	Non-rated
	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Active Allocation Plan II)	Shariah Compliant Fund of Funds	0.1%	83	91	341	358	0.9%	-2.3%	0.0%	3.2%	0.9%	Non-rated
	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Moderate Allocation Plan)	Shariah Compliant Fund of Funds	0.1%	72	69	65	78	1.3%	-2.3%	0.5%	3.6%	0.8%	Non-rated
	Alfalah GHP Islamic Prosperity Planning Fund (Capital Preservation Plan IV)	Shariah Compliant Fund of Funds - CPPI	0.0%	-	21	43	48	15.3%	3.1%	17.8%	12.2%	-2.5%	Non-rated
	Alfalah GHP Islamic Prosperity Planning Fund (Alfalah GHP Islamic Active Allocation Plan III)	Shariah Compliant Fund of Funds	0.0%	-	-	69	72	3.5%	-2.3%	2.5%	5.8%	1.0%	Non-rated
	Alfalah GHP Islamic Prosperity Planning Fund (Capital Preservation Plan V)	Shariah Compliant Fund of Funds - CPPI	0.0%	-	-	23	25	-12.7%	3.1%	0.3%	-15.7%	-13.0%	Non-rated
18	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Active Allocation Plan)	Fund of Funds	0.0%	45	43	167	175	2.2%	-2.5%	1.1%	4.7%	1.1%	Non-rated
	Alfalah GHP Prosperity Planning Fund (Alfalah GHP Conservative Allocation Plan)	Fund of Funds	0.2%	222	212	201	198	1.6%	-2.5%	1.5%	4.0%	0.1%	Non-rated
19	Alfalah Consumer Index Exchange Traded Fund	ETF	0.0%	9	8	10	68	-15.1%		-14.4%	-15.1%	-0.7%	Non-rated
20	Alfalah pension funds VPS (Islamic and Conventional)	VPS	0.5%	454	408	395	-				0.0%	0.0%	Non-rated
Sum/Average:			100%	99,368	75,091	60,615	59,798				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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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)

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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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(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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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)

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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

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(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)

Monitoring and review

(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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