



The Pakistan Credit Rating Agency Limited

Rating Report

Lakson Investments 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
27-Feb-2019	AM2+	-	Stable	Maintain	-
28-Aug-2018	AM2+	-	Stable	Maintain	-
22-Dec-2017	AM2+	-	Stable	Maintain	-
15-May-2017	AM2+	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The rating reflects sound profile of the sponsor, Lakson Group, which is one of the leading business conglomerates of Pakistan. The rating takes into account the strong corporate governance framework and risk management practices, seasoned management team, consistent funds' performance and growing market share, currently at ~3.4%. Sizable growth has been witnessed in the separately managed accounts in CY18 which provides support to the revenue. The rating also incorporates the company's high top ten investor concentration, in line with its focus on institutional investors.

The rating takes into account company's ongoing efforts to diversify its revenue stream. In this regard, the company has launched a private equity fund in Oct-18 with primary focus on healthcare sector. The company plans to launch a venture capital fund as well, which would provide further revenue diversification. Dedicated team of qualified individuals is build to lead the private equity and venture capital funds.

The rating is dependent upon upholding high governance standards, strong control environment, enhancement in competitive position by gaining further in terms of assets under management, dilution in investment concentration and maintaining strong funds' performance.

Disclosure

Name of Rated Entity	Lakson Investments Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-18)
Related Research	Sector Study Asset Managers(Dec-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504



Profile

Structure Lakson Investments Limited is an unlisted public company.

Background The company was incorporated in Jan-09 as an asset management company and started operations in Nov-09 by initially launching three funds. It is the only asset management company in Pakistan which offer both domestic and internationally focused funds.

Market Share The company's market share is ~3.4% at end Dec-18, depicting an increase of ~0.4% as compared to Dec-17.

Diversification Of Fund Mix The company's fund slate is composed of six open-end funds belonging to all major categories. The categories are asset allocation, equity, income, shariah compliant asset allocation and money market.

Investor Concentration At end Dec-18, the average top ten investors concentration is ~89% of total assets under management, making it vulnerable to redemption pressure.

Ownership

Ownership Structure Lakson Investments is a wholly owned subsidiary of Lakson Group, through its holding company SIZA Services (Private) Limited.

Business Acumen Lakson Group was established in 1954 and is owned by Lakhani family. It is among the leading business conglomerates in Pakistan and has interests in multiple sectors, including agri-business, consumer non-durables, fast food, information technology, financial services, media, paper and board manufacturing, printing and packaging, surgical instruments and travel.

Financial Strength The financial strength of the sponsor (Lakson Group) remains strong due to its diversified profitable businesses.

Governance

Board Structure The control of the company vests in eight member board of directors, including the CEO. The remaining members include three non-executive and four independent.

Members' Profile The company's board is chaired by Mr. Iqbal Ali Lakhani, who is also the chairman of the Lakson Group. He holds extensive experience of over four decades in consumer marketing, finance, manufacturing industry and government relations. The CEO, Mr. Babar Lakhani has over two decades of investment and portfolio management experience in domestic and international equity and fixed income markets.

Board Effectiveness There are two board committees, Audit and HR. Audit committee is chaired by Mr. Zahid Zakiuddin, an independent director. Both Audit and HR committee provides guidance and oversight to the management.

Financial Transparency The audit committee ensures accuracy of the company's accounts and effectiveness of internal controls system. The internal audit function is outsourced to Grant Thornton Anjum Rahman which reports to the audit committee on quarterly basis. The external auditor of the company is Deloitte, which fall into the 'A' category of SBP's audit firm rankings.

Management

Organizational Structure The company has a well-defined and formalized organizational structure, with appropriate departmentalization. It operates through twelve main departments each with its specific functions and reporting directly to the CEO.

Management Team The senior management team comprises experienced and qualified professionals. The CEO, Mr. Babar Ali Lakhani, possesses research and portfolio management experience with domestic and international institutions. Mr. Kashif Mustafa, Executive Director and COO has more than a decade's experience of capital markets with local and international brokerage houses and leading asset management companies.

Technology Infrastructure The management has acquired Asset Connect software for portfolio management, unit holder accounting and general accounting.

Control Environment The risk management department has implemented reasonably broad risk management guidelines for management of credit, market and liquidity risk. For operational risk management, the company has established and implemented a comprehensive disaster recovery plan and a dedicated disaster recovery site in Lahore city. The compliance function ensures adherence with all applicable internal and external rules and regulations.

Investment Risk Management

Credit Risk The risk management function assesses the creditworthiness of entities to monitor credit risk of existing portfolio and to identify new investment opportunities in debt instruments. The company has developed models to rate debt instruments and issuers which includes various parameters for analyzing credit risk. Financial statements analysis along with business models for each investment are maintained along with risk/returns analysis.

Liquidity Profile The company has internal guidelines for exposure in different avenues to manage liquidity risk. The compliance department ensures adherence to internal limits on daily basis and generates regular reports.

Market Risk For managing market risk, various techniques such as VaR analysis, beta analysis and stress testing are being used. The company has real time dashboards for monitoring currency depreciation, crude oil prices and their impact on investment portfolio.

Portfolio Management

IC Composition The investment committee consists of CEO, COO, CIO, head of fixed income, head of equities, head of research, risk manager and compliance manager.

Effectiveness The investment committee meets twice a week and a separate meeting is held with additional focus on separately managed accounts.

Investment Research And Analysis The research department falls under the purview of the COO and the team is organized, primarily by industry sectors. A customized software exists for equity valuation and credit research. MIS reports containing relevant research are generated regularly for making investment decisions. The company has access to Bloomberg terminal which is integrated with the fund management department.

Customer Relationship

Investor Services The company has a dedicated team headed by an experienced resource for investor services. A value added service namely "Asset Allocation Optimizer" is provided to investors which enables the investors to create their own mix and match strategy pertaining to asset allocation of fund portfolio, among available investment avenues.

Investor Reporting The company issues informative bulletins on daily basis and performance reports for the funds and separately managed accounts on a bi-monthly/monthly basis as requested by the clients. A separate online portal access is provided to discretionary clients.

Distribution And Sales Network The company has distribution arrangements with various third-party distributors. Training sessions are conducted for the new staff and a weekly meeting of the sales staff with the head of department in order to stay updated with the industry developments.

Performance

Asset Under Management The assets under management were ~PKR 19.6bln at end Dec-18 as compared to ~PKR 16.7bln at end Dec-17. Majority of the company's funds under management have shown above average performance against peers in CY18. Lakson Asset Allocation Developed Market fund outperformed with annual return of ~9.25% in CY18 as compared to category average return of negative ~2.73%.

Asset Manager For diversifying the revenue stream, company launched its private equity fund in Oct-18 which is investing primarily in the healthcare sector. Going forward, company plans to launch venture capital fund and focus on retail and high net worth clients in order to have sustained revenue. The company reported net profit of ~PKR 23mln for 9MCY18. The equity amount is ~PKR 891mln at end Sep-18 which is well above the minimum capital requirement of PKR 230mln.

Financial Summary: Lakson Investments Limited						
Sr. no	Fund Name	Assets under management		Return CY18 (%)	Top Ten Investor Concentration (%)	Performance Ranking / Stability Rating
		Dec'18 (PKR mln)	Dec'17 (PKR mln)			
1	Lakson Money Market Fund	11,967	6,641	6.2	82	AA
2	Lakson Income Fund	2,870	5,048	5.9	85	A+
3	Lakson Equity Fund	3,285	3,352	(6.2)	89	3-Star
4	Lakson Tactical Fund	991	1,192	(0.7)	86	4-Star
5	Lakson Islamic Tactical Fund	164	159	(0.6)	93	3-Star
6	Lakson Asset Allocation Developed Markets Fund	287	277	9.3	97	5-Star

Asset Manager Rating Scale & Definitions

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.

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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. 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.

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.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. PACRA shall not keep the Asset Manager Rating under constant surveillance. The rating will be reviewed at least once every six months. Any material happening during a period that may warrant a revision of rating will be incorporated in the following review.

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Rating Team Statements

(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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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (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)

Conduct of Business

- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (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)

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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