



The Pakistan Credit Rating Agency Limited

Rating Report

National Investment Trust Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-May-2023	AM1	-	Stable	Maintain	-
24-May-2022	AM1	-	Stable	Maintain	-
24-May-2021	AM1	-	Stable	Upgrade	-
05-Nov-2020	AM2++	-	Positive	Maintain	-
05-Nov-2019	AM2++	-	Stable	Maintain	-
06-May-2019	AM2++	-	Stable	Maintain	-
05-Nov-2018	AM2++	-	Stable	Maintain	-
08-Dec-2017	AM2++	-	Stable	Maintain	-
25-May-2017	AM2++	-	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

National Investment Trust Limited ("NITL" or the "Company") is the oldest AMC which reaps the benefit of being the first AMC in Pakistan. The rating incorporates fund slate diversification, structured decision-making process and experienced management team. The rating also takes comfort from strong control environment and satisfactory governance framework. Given the sponsorship of the Government of Pakistan, the business acumen of the Company is considered strong. Also, the strong equity base and financial profile of the Company bodes well to the rating. Previously NITL managing Separately Managed Account (SMA) non-discretionary portfolio of single entity amounting to ~PKR 77bln at end-Sep'22. However, the SMA are now matured at the end Dec'22. NITL is focusing to capture market share under IAs and focusing on the arrangements with prominent entities to provide investment advisory services under SMA. Currently the market share of NITL including private mix fund (NIT-SEF & NIT-EMOF) as of Dec'22 stood at 6.1% (Dec'21: 8.3%). The AUMs of the Company slightly decreased by ~0.6% to stand at PKR 95.4bln at end Dec'22 (Jun'22: PKR 96bln). A slight decrease in AUMs of NITL is attributed to NITL's signature equity fund National Investment Unit Trust (NIUT) with a weight of ~54% in overall AUMs. The decrease in AUMs of NIUT Fund was primarily due to stock market performance. The market capitalization decline by ~15.5% from Dec'21 to Dec'22. However, the market's inclination is towards less riskier funds like Money Market and Income funds. The growth in NIT Money market Fund is volatile as of Dec'22 and Mar'23 as compared to Jun'22 with reason being redemption trends after CY closure. The overall fund's performance remained satisfactory with majority of the funds performing better and beating the industry average as at Dec'22. The NIT Social Impact Fund under microfinance income category has also outperformed the industry average. The AUMs of NIT Social Impact Fund increased by 44% to PKR 1,280mln at the end Mar'23 (Jun'22: PKR 735mln). On Financial side, the net loss of the Company decreased to ~22% to PKR -163mln at the end Dec'22 (SPLY: loss PKR -211mln) due to un realized loss on re-measurement of investment. The total equity of the Company is reported at PKR 10.1bln at the end Dec'22.

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 may impact the rating.

Disclosure

Name of Rated Entity	National Investment Trust 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	Wajeeha Asghar wajeeha.asghar@pacra.com +92-42-35869504



Profile

Structure National Investment Trust Limited (NITL or “The Company”) is an unlisted public limited company.

Background National Investment Trust Limited is the first asset management company of Pakistan. It was established in 1962 and National Investment Unit Trust, Pakistan’s first open-end equity fund was launched in the same year by the Company.

Market Share The market share of the Company stood at 6.1% at end Dec’22 (Dec’21: 8.3%).

Diversification Of Fund Mix The Company currently manages twelve open-end mutual funds and two pension funds. The two open-end funds (NIT –State Enterprise Fund and NIT –Equity Market Opportunity Fund) are not available to public investors. Previously NITL managing Separately Managed Account (SMA) non-discretionary portfolio amounting to ~PKR 77bln at end-Sep’22. However, the SMA are now matured at the end Dec’22.

Investor Concentration From AMC’s perspective, 38% of the AUMs are owned by top ten investors.

Ownership

Ownership Structure The Government of Pakistan directly and indirectly, through public sector entities, holds ~41.65% shareholding in the Company, whereas the private sector institutions and individuals hold the remaining ~58.35% of shares.

Business Acumen Given the sponsorship of the Government of Pakistan, the business acumen of the Company is considered strong as the Government has the outreach to appoint qualified experts.

Financial Strength The sponsors have the ability and willingness to support the Company on a continuing basis and in times of crisis.

Governance

Board Structure The Company’s board of directors currently comprises of eleven members out of which nine are non-executive. There is no representation of independent directors on the board.

Members’ Profile The board members on average carry a diversified experience of ~35 years in different areas, especially in banking and investment management. The board members possess strong profiles and skills suited to the financial services industry.

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

Transparency The Company has an in-house internal audit department for effective monitoring of control systems. The head of internal audit directly reports to the audit committee. The external auditors of the Company are A.F Ferguson. They have a satisfactory QCR rating and are classified in the ‘A’ category of the SBP Panel of Auditors.

Management

Organizational Structure The Company has a well-defined organizational structure and operates through ten departments with clear segregation of responsibilities.

Management Team The management team comprises experienced professionals carrying requisite experience and skill set. Mr. Adnan Afridi was appointed as the Managing Director of the company in Feb’19. He possesses over two decades of experience and has led a distinguished career in financial services and capital markets. Mr. Manzoor Ahmed is the COO and has a successful track record of managing the operations and investment portfolio of the Company.

Technology Infrastructure The Company’s technology environment uses a robust IT infrastructure and the Business Application includes multiple modules for the effective execution of core business functions, providing digital online services (Portal and Mobile App) to customers and B2B API-based services with partners.

Control Environment The Internal Audit function is overseen by the Head of Internal Audit, Mr. Asim Rafiq, who reports administratively to the managing director and functionally to the audit committee of the board of directors. The Internal audit department conducts regular audits and the scope of the internal audit includes identification and assessment of overall risks and evaluation of internal control framework.

Investment Risk Management

Credit Risk The Company has internal assessment modules in place for monitoring credit risk with a focus on qualitative and quantitative analysis. The Company conducts incisive credit analysis for counterparties at the time of initiation of the relationship

Liquidity Profile The risk management department vigilantly monitors the liquidity profile and presents quarterly reports to the board members. The primary focus is to assess prevailing industry risk dynamics, historical redemption trends, analysis on the liquidity of stocks and comprehensive analysis of interest rates followed by VAR analysis pertaining to the investment portfolio.

Market Risk The risk department has developed in-house risk measures to monitor and mitigate market risk. The department uses various techniques to manage the market risk which includes standard deviation, sorting and information ratios, modified duration, and PVBP. Any significant deviations are highlighted to the investment committee for necessary action.

Portfolio Management

IC Composition The investment decision-making process is well-structured with the MD providing critical support. The members of the investment committee also include the COO, Head of Finance, Head of Fixed Income, Head of Equities and Trading, Head of Research, Head of Compliance, Risk Manager, and 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 further enhances the effectiveness.

Investment Research And Analysis The research department, which falls under the purview of the COO, is headed by Mr. Ali Kamal. He possesses years of diversified experience in equity research. Currently, his team comprises four qualified research analysts.

Customer Relationship

Investor Services The Company has a dedicated investor services section, which provides a better customer experience through the Contact Centre to resolve customer inquiries and complaints on a timely basis. The Company is also progressing on digital initiatives to strengthen its market penetration.

Investor Reporting The Company publishes fund manager reports on its website on monthly basis which contain information pertaining to fund returns, benchmark comparison, MoM trend in asset allocation, and the breakup of asset quality

Distribution And Sales Network The Company has 27 branches in different major cities across Pakistan. The long operational history of the Company, along with its association with the Government of Pakistan and leading financial institutions, has been instrumental in establishing a strong footprint among domestic retail and corporate investors.

Performance

Asset Under Management The AUMs of the Company slightly decreased by ~0.6% to stand at PKR 95.4bln at end Dec’22 (Jun’22: PKR 96bln). The decrease in AUMs was primarily due to stock market performance during 6MFY23.

Asset Manager During 6MFY23, the Company earned management fee of PKR 518mln (SPLY: PKR 570mln). However, the net loss of the Company decreased to PKR (163)mln during Dec’22 (Dec’21: PKR (211)mln) which is mainly attributable to unrealized loss on re-measurement of investment in listed securities and own funds. The total equity of the Company is reported at PKR 10.1bln at the end Dec’22.

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)

2) Conflict of Interest

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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)

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 | Clause 11-(A)(p).
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- (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)
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- (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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