



The Pakistan Credit Rating Agency Limited

## Rating Report

### AWT 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
04-Aug-2023	AM3++	-	Positive	Maintain	-
05-Aug-2022	AM3++	-	Positive	Maintain	-
05-Aug-2021	AM3++	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The assigned rating reflects the enhanced positioning of AWT Investments Limited ("AWTIL" or the "Company"). The prominent business acumen of the sponsor bodes well for the rating. The positive outlook finds comfort in structured investment process, sound governance, qualified management and an increase of 221.6% in AUMs since Jun'22, improving the market share from 0.2% in Jun'22 to 0.5% as of Jun'23. The Company has shifted its focus from SMAs to open-ended schemes which is evident from increasing trend in CIS-based AUMs. The asset manager is planning to further diversify its fund slate in voluntary pension schemes, Islamic Money Market and Islamic aggressive income categories. AWTIL's retail clientele stands at ~33% of the AUMs.

The Company has implemented enhanced version of Asset Connect (Java based) for Mutual fund segment. On technology side, the process is well underway for implementation of web portal and a market competitive mobile App. The technological developments will strengthen the retail footprints of the Company in a highly digitalized era. In reference to the organizational structure: qualified and experienced professionals have been hired for the positions of Company Secretary, Chief Financial Officer, Head of Operations, Head of Internal Audit and Head of Risk Management. The process for hiring in the Fund Management department for various positions has also been completed.

On the financial side, management fee has increased while the advisory fee declined, making the total investment income of PKR 65.2mln during 9MFY23 (9MFY22: PKR 57.8mln). The net loss after tax of PKR 62.3mln during the period 9MFY23 (9MFY22: loss after tax of PKR 47.3mln) is majorly attributable to elevated operating expenses from recent revamping of internal functions. Furthermore, the advisory fee declined on the back of decline in total SMA portfolio size. The Company's equity stood at PKR 296.6mln at end Mar'23 which is meeting the minimum equity requirement of PKR 230mln.

The rating is dependent on the Company's ability to continuously strengthen its market position. 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. Diversification in AUM base among various fund categories along with improvements in the overall operating platform will bode well for the Company.

#### Disclosure

<b>Name of Rated Entity</b>	AWT Investments Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	Assessment Framework   Asset Manager Rating(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Asset Managers(Jun-23)
<b>Rating Analysts</b>	Muhammad Azmat Shaheen   azmat.shaheen@pacra.com   +92-42-35869504



## Profile

**Structure** AWT Investments Limited ("AWTIL" or the "Company") is a public unlisted company incorporated in August 2011.

**Background** The Company is registered as an Asset Management Company and Investment adviser under the Non-Banking Finance Companies Regulations by the Securities and Exchange Commission of Pakistan (SECP). Head office of the Company is situated in Rawalpindi.

**Market Share** The market share of the Company stood at 0.5% at end Jun'23 (Jun'22: 0.2%).

**Diversification Of Fund Mix** Currently, the Company is offering investment solutions for both conventional and Islamic markets. And is managing six funds in the Money Market, Income, and Equity categories with the Income category being ~57% of the entire portfolio.

**Investor Concentration** The average Top 10 investor concentration at Mar'23 is ~58% (Jun'22: 79%) and the average related party holding represents ~15% of total AUMs.

## Ownership

**Ownership Structure** AWTIL is a wholly owned subsidiary of Army Welfare Trust (AWT).

**Business Acumen** The existing sponsor, AWT has more than 4 decades of experience in the financial services sector, operating companies under the "Askari" brand in banking, insurance, leasing, financial services and asset management industries. New management and leadership with extensive business experience in financial markets is hired recently.

**Financial Strength** The financial strength of the sponsor, the Askari Group of Companies, remains strong due to its diversified profitable businesses. The support of sponsor is indicated by equity injection of PKR 100m in FY19 and another injection of PKR 100m in January 2020 in the form subordinated loan to ensure compliance of AWTIL with the minimum equity requirement (MER) for Asset Management and Investment Advisory Companies.

## Governance

**Board Structure** The Company's board consists of six members, including the CEO. The board comprises five non-executives and one executive director.

**Members' Profile** The Chairperson, Lt. Gen Naveed Mukhtar is a graduate of Pakistan Military Academy; The Cavalry School, France; Command and Staff College Quetta; Joint Command and Staff College, Philippines; National Defense University, Pakistan; and The United States Army War College. Naveed Mukhtar has served in a variety of command and staff positions at nearly every level during both peace and operations.

**Board Effectiveness** There are two committee, namely 1) Human Resource Committee and 2) Audit Committee for effective monitoring and board assistance.

**Transparency** The in-house internal audit department is headed by Mr. Abdul Mannan Mirza - a Chartered Accountant from the Institute of Chartered Accountant of England and Wales (ICAEW) and fellow member of ACCA (UK). He has diversified experience of more than 10 years in regulatory compliance, internal audits, risk advisory and accounting function. The external auditor of the Company is Yousuf Adil & Co, 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 Human Resource Department, Risk Management Department, Compliance Department, IT department, Marketing & product development department and finance department, each with its well-defined and specific functions.

**Management Team** The senior management team of AWTIL comprises qualified and experienced professionals. Mr. Sajjad Anwar is appointed as CEO of the Company in Apr'22, having 15 years of experience in the Investments market. Mr. Saadat Saeed ACA, CFA and FRM is the Head of Risk. Currently, the CIO position is vacant.

**Technology Infrastructure** The Company is revamping its fund management solutions' software designed by Softech Company along with ERP evaluations for internal use.

**Control Environment** The compliance is being led by Mr. Asif, having over 12 years of professional experience in Compliance, operations, audit and assurance. The Company has devised detailed policies to ensure compliance with all applicable statutory regulations and internal investment guidelines using excel based models to monitor the exposure limits and margins.

## Investment Risk Management

**Credit Risk** The Company used excel based credit risk models for credit risk monitoring with focus on qualitative and quantitative analysis with 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 Finance Officer, Head of Risk and Compliance and Fund Manager.

**Effectiveness** The IC comprises of qualified and experienced professionals and meets on weekly basis to review investment strategy of each fund under management and its performance to incorporate 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 are also considered.

## Customer Relationship

**Investor Services** The Company is providing adequate services to its clients. The marketing team is responsible for maintaining relationship with existing and prospective clients. In order to remain competitive, the Company has been implementing strategies for integrating information technology in all processes to facilitate its customers. The mobile app of the Company provides various value-added services such as fund NAVs, investment account details and E-transactions.

**Investor Reporting** The Company disseminates unit holder statement on monthly basis which comprises investment value and asset allocations. The Company disseminates and publishes FMR on its website in a timely manner.

**Distribution And Sales Network** The Company has five branches, of which two are in Karachi, and one each in Lahore, Multan and Rawalpindi.

## Performance

**Asset Under Management** Since Jun'22, the AUMs of the Company increased by 221.6%, currently standing at PKR 7.2bln. Most of AWT funds performed in line with the industry and beat their benchmarks. However, the Conv. income category were not able to beat the benchmarks. While equity funds performed in line with the market. The performance of Mutual Funds under management has improved as most of the funds were able to beat the industry averages and benchmarks.

**Asset Manager** The core income of the Company stood at PKR 65mln during 9MFY23 (9MFY22: PKR 58mln) and reported after-tax loss of PKR 62mln (9MFY22: loss of PKR 47mln). The Company's equity (including sponsor's sub-ordinated loan) stood at PKR 296mln at end Mar'23, which is meeting the minimum equity requirement of PKR 230mln.

Fund's Performance | AWTIL

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR "000")					Return   Jun'22 to May'23			12Months		Performance Ranking & Stability Ratings
				Jun'23	Dec'22	Jun'22	Dec'21	Jun'21	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.	
1	AWT Money Market Fund	Money Market	39.5%	2,882,738	1,316,026	372,765	173,688	2,619	17.6%	17.1%	16.4%	0.57%	1.2%	AA+ (f)
3	AWT Islamic Income Fund	Shariah Compliant Income	24.6%	1,793,652	456,858	261,191	130,705	225,000	16.36%	13.7%	5.8%	2.6%	10.6%	A+ (f)
2	AWT Income Fund	Income	23.6%	1,722,537	1,660,485	1,478,907	1,164,178	1,531,023	16.57%	15.6%	17.8%	1.01%	-1.2%	A+ (f)
5	AWT Financial Sector Income Fund *	Income	9.4%	686,825	229,259	-	-	-	19.3%	6.3%	20.1%	13.0%	-0.8%	A+ (f)
6	AWT Stock Fund	Equity	1.4%	104,254	104,952	52,449	105,474	105,100	-1.5%	-6.1%	-4.1%	4.6%	2.5%	4 star
4	AWT Islamic Stock Fund	Shariah Compliant Equity	1.4%	103,365	106,027	102,922	66,478	100,600	-2.8%	-4.7%	1.9%	1.9%	-4.7%	3 star
Sum/Average:			100%	7,293,371	3,873,607	2,268,234	1,640,523	1,964,342						

\* Six Month's Performance / Average

### 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	<b>Very high quality.</b> Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	<b>High quality.</b> Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	<b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	<b>Adequate quality.</b> Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	<b>Weak.</b> Asset manager does not meet the minimum investment management industry standards and benchmarks.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
---	---	--	---	---

**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.

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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 | Clause 11-(A)(p).
- (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)

### **Independence & Conflict of interest**

- (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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent