



The Pakistan Credit Rating Agency Limited

Rating Report

ABL Asset Management Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Oct-2021	AM2++	-	Positive	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating of ABL Asset Management Company ("ABL AMC" or the "Company") reflects the adequate market positioning in the competitive asset management industry. The assigned rating incorporates the Company's association with a well-established bank which is one of the dominant players in the banking sector. The rating of the Company takes into account experienced management team, sound governance framework, adequate investment decision making process, and diversified fund slate. The ABL AMC has well established risk management framework and compliance protocols. Since Jun'20 the AUMs of the Company has shown a healthy growth by ~34%, currently standing at PKR 78bln but in terms of market share the Company remained stagnant on average market share of ~7.3%. The Company has adequate retail customer base and the management is focusing on strengthening its digital platform for better retail penetration, distribution and customer services. The ABL AMC is also using potential synergies of ABL Bank to strengthen its retail penetration. The company is also in process of establishing its dedicated Islamic Saving Centers. The Company's product slate is tilted towards fixed income/money market funds but the Company is also planning to enhance AUMs profile in equity based fund. The concentration at fund level remains high. While the fund's performance remained satisfactory and most of the funds beat their benchmark. The Company is also operating under advisory services and is also planning to strengthen its footprint in this domain. Materialization of these initiatives in AUM growth and better market share is important. During CY20, the Company remained profitable majorly on account of increase in fund management fee and huge decline in selling and distribution expenses, further maintaining the same performance in 1HFY21. The Company enjoys sound liquidity and has sufficient lines available, if need arises. At end Jun'21, the equity base of the Company stood at PKR 2.9bln which is well above the minimum regulatory requirements.

The rating is dependent on the management's ability to effectively execute business development plans and leveraging its digital initiatives to strengthen its operations and outreach. Sustaining consistency in fund performance, increasing market share continuation of sound profitability, retention of key management personnel, sound corporate governance and further strengthening investment process remains key rating factors.

Disclosure

Name of Rated Entity	ABL Asset Management Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating(Jun-21)
Related Research	Sector Study Asset Managers(Jun-21)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504



Profile

Structure ABL Asset Management Company Limited (or the “Company”) was incorporated in October’2007 as an unlisted public limited company.
Background The Company was 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). The head office of the Company is situated in Lahore.
Market Share The market share of the Company is 7.8%. Whereas the total AUMs of the company have shown growth of ~34% from Jun’20 to Jun’21.
Diversification Of Fund Mix ABL AMC offers investment solutions for both conventional and Islamic markets. At end of FY21, ABL’s total tally of open end fund offerings is 23. As an investment advisor, ABL AMC also manages discretionary portfolios for Separately Managed Accounts (SMAs). SMA clients have had a long-term association with the company.
Investor Concentration The top 10 mutual fund investor concentration stood at ~69% at end Dec’20 and the average related party holding represents ~23% of total AUMs

Ownership

Ownership Structure Allied Bank Limited (ABL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1942. The bank is quoted on Pakistan stock exchange under the category of commercial banks. ABL was re-capitalized under a scheme of reconstruction by State Bank of Pakistan in 2004 and thereafter renamed Allied Bank Limited (ABL) in 2005. Since then, the bank has taken significant growth and has the sixth position in terms of deposit market share among large banks of Pakistan, at end-Dec20.
Business Acumen With strong customer base of PKR 1,076bln at end Dec’20, the bank holds strong position among peers. It offers universal banking services, while placing major emphasis on retail banking. The bank has a large network of 1400 branches including 117 Islamic branches and 2 overseas branches.
Financial Strength The bank is AAA/A+ rated by PACRA. Its head office is located in Lahore. ABL bank, with its existence of over 75 years, has built itself a foundation with strong equity, asset and deposit base.

Governance

Board Structure Company’s board consists of seven members, including the CEO. The board comprises two independent, four non-executives and one executive director.
Members’ Profile The Chairperson, Mr. Sheikh Mukhtar Ahmed is a seasoned professional. He has over 56 years of experience in establishing and successfully managing various industrial and financial companies. He has been on the Board of Directors of Allied Bank Limited since 2005 and is a “Certified Director” from Pakistan Institute of Corporate Governance.
Board Effectiveness There are four committee, namely 1) Planning and Monitoring Committee, 2) Risk Management Committee, 3) Human Resource Committee and 4) Audit Committee.
Transparency The external auditors of the Company are A.F Ferguson, Chartered Accountants, which falls under category “A” under the SBP panel.

Management

Organizational Structure The company operates through seven main departments. (i) Finance, (ii) compliance, (iii) IT, (iv) Business Development (v) Customer and training (vi) Risk management and (vii) Internal Audit. Finance, compliance, IT, business development, customer and training, and risk management directly report to the CEO, whereas Internal Audit department directly reports to BOD. The CFO and company’s secretary of the company reports to the board.
Management Team The senior management team of ABL Asset Management Company Limited comprises qualified and experienced professionals. The CEO, Mr. Alee Khalid Ghaznavi is a seasoned professional. He has a vast experience of sixteen years with leading financial institutions including Allied Bank limited, Habib Bank AG Zurich and National of Bank of Pakistan Limited in the area of Corporate and Investment banking.
Technology Infrastructure Comprehensive MIS reports are generated on daily, weekly and monthly basis which are viewed by management on regular basis.
Control Environment The compliance is being led by Mr. Rehan Saif. The Company is in the process of development/testing phase system base controls to monitor 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. 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 Financial Officer, Chief Investment Officer, Head of Risk Management, Head of Equities, Head of Fixed Income, Head of Research and respective 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 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 the processes of the company to facilitate its customers.
Investor Reporting In line with the website, the company also issues Fund Manager’s Report (FMR), elaborating the Fund’s performance and investment strategies. The FMRs cover all the mandatory disclosure requirements. These reports are available on the website on monthly basis for the current and previous years.
Distribution And Sales Network The Company uses 100% branch network of the ABL bank. ABL operates with 1,400 including 117 Islamic banking branches, 7 Digital/Self Service branches including 117 Islamic banking branches) in Pakistan including seven Savings Centers in 7 major cities across the country. The company is also in process of establishing its dedicated Islamic Saving Centers. The company has also initiated a Whatsapp Business Solutions. WhatsApp Business Solution enables the clients to submit messages to WhatsApp network users, as well to receive messages sent from WhatsApp network end-users back to enterprises. It is an opportunity for the organization to have a two-way communication with the customers. The Company is about to launch a Comprehensive Digital Onboarding Solution with a smart solution to facilitate customers and making Onboarding a quick and pleasant journey.

Performance

Asset Under Management ABL's AUMs have shown increase of ~34% and stood at PKR ~78bln at Jun'21 (Jun'20: PKR58bln). The main increase is from Money market and income category, specifically ABL cash fund and ABL Income Fund. The Company have shown a healthy growth of ~45% in SMA portfolio, since Jun'20.

Asset Manager Comparing full year and half year performances, the management fee stood at ~PKR 542mln, at the end CY20 (CY19: PKR 516mln) and ~PKR 297mln, for the 1HFY21 (1HFY20: PKR 267mln), showing an increase of ~5% and ~11% respectively. At end of CY20, the Company reported a profit after tax of ~PKR 348mln (CY19: ~PKR 378mln), and ~PKR 189mln for 1HFY21 (1HFY20: ~PKR 64mln). The profit is attributable to increase in management fee and income from investments at FVTPL. The equity stood at ~PKR 2.9bln at end Jun'21, keeping the Company well above the minimum equity requirement.

Asset Manager Rating

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.

<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 respective opinion.</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 surveil 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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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

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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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- (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.
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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)
- (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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- (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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