



The Pakistan Credit Rating Agency Limited

## Rating Report

### AKD 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
27-Jun-2023	AM3++	-	Positive	Maintain	-
30-Jun-2022	AM3++	-	Positive	Maintain	-
08-Feb-2021	AM3++	-	Stable	Maintain	-
08-Feb-2020	AM3++	-	Negative	Maintain	-
09-Aug-2019	AM3++	-	Stable	Maintain	-
08-Feb-2019	AM3++	-	Stable	Maintain	-
10-Aug-2018	AM3++	-	Stable	Maintain	-
22-Dec-2017	AM3++	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The assigned rating incorporates AKD Investment Management Limited's ("AKDIML" or the "Company") adequate corporate governance structure, and experienced management team. AKDIML is managing an adequate fund slate comprising equity, income, index tracker and money market categories, however, the equity category has a major proportion of total AUMs; on average ~41.2% as of Apr'23. Hence, the performance and AUM's size are majorly linked with the stock market performance which has been extremely volatile throughout the CY22. The Company is following a risk-aggressive approach to generate returns. The average market share of the Company fluctuated between 0.4% and 0.5%, during 9MFY23. The Company has strategized to improve its market share by 1) strengthening retail penetration, 2) improving its technological platform, and 3) launching new products. The retail portion of AKDIML has shown increasing trend throughout the review period and the Company has launched one fund under shariah compliant money market category in Feb'23 to strengthen its footprints in Islamic category. The AMC uses in-house MIS called FundXs, for NAV calculation. At end-Apr'23, the trailing 12-month return showed that the funds' performance in income and money market categories remained above market averages whereas the equity funds remain in line with the peers. Furthermore, in terms of the Performance Ranking of Apr'23, the AKD Cash Fund and AKD Islamic Income Fund of the Company have secured top quartiles, thus supporting the efficacy and proficiency of their research function.

The Company is also managing investment advisory portfolios and generating advisory fees which provides strength to the core income. The management fee of the Company has declined by ~29.1% during 9MFY23 as compared to 9MFY22. The Company remained in losses on the back of unrealized losses on investments and elevated operating expenses. However, the equity of the Company is meeting the capital requirements as at end Mar'23. Going forward, further diversification in AUM base among various fund categories along with improvements in the overall operating platform will bode well for the Company.

Augmentation in equity base which currently is close to regulatory requirements would stand imperative to the assigned rating. The positive outlook signifies income fund's performance and capable research team. The Company's ability to successfully execute its business strategy and optimal utilization of its resources and materialization of initiatives into improved market share would remain imperative.

#### Disclosure

<b>Name of Rated Entity</b>	AKD Investment Management 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** AKD Investment Management Limited ("AKDIML" or the "Company") is a public limited unlisted company.

**Background** The Company was incorporated in 2004 and is part of AKD Group. The group specializes in capital markets through its brokerage, investment advisory and asset management.

**Market Share** The current market share of the Company is 0.4% at end Apr'23.

**Diversification Of Fund Mix** The fund slate is composed of 08 open-end funds belonging to all major categories. These include aggressive fixed income, money market, index tracker, equity, shariah compliant equity, shariah compliant money market and shariah compliant income.

**Investor Concentration** The average top 10 investor concentration at end Mar'23 stood at ~54% of total AUM's, which represents average redemption pressure.

## Ownership

**Ownership Structure** The Company is a wholly owned subsidiary of AKD Group Holdings (Private) Limited (Formerly: Aqeel Karim Dhedhi Securities (Private) Limited), holding ~99.97% stake in the Company. The remaining shares are held by the four directors and Mr. Faisal Bengali, an ex-CEO of the Company.

**Business Acumen** AKD Group is among the leading business conglomerates in Pakistan. It has decades of experience in the asset management, brokerage, energy and real estate sectors of the Country.

**Financial Strength** The financial strength of the sponsor, the AKD Group Holdings (Private) Limited, remains strong due to its diversified profitable businesses.

## Governance

**Board Structure** The Company's board comprises of seven members, including the CEO Mr. Imran Motiwala. Three directors are independent members, two are nonexecutives and two are executives.

**Members' Profile** Mr. Abdul Karim Memon is the Chairman of AKDIML. He holds an MA in Economics degree along with a Masters in International Relations. Mr. Karim is a tax consultant by profession and runs his own consultancy business by the name of Karim & Co.

**Board Effectiveness** The Board of the Company has the overall responsibility for establishment and oversight of risk management framework. The Board has established two committees, (i) Audit & Risk Committee and (ii) Human Resource & Remuneration Committee. The Company has an in-house internal audit department that reports to the Audit Committee.

**Transparency** The Company has reappointed Yousuf Adil Chartered Accountants, classified in 'A' category by SBP, as its statutory auditor for FY23.

## Management

**Organizational Structure** The organizational structure of the Company is well defined and is divided into nine departments that work under the supervision of the CEO. The research and fund management departments reports to the CIO, who in turn, reports to the CEO.

**Management Team** The senior management of the Company comprises qualified and experienced professionals. The COO, Mr. Muhammad Yaqoob, CFA has more than eighteen years of experience. He is supported by an experienced core management team having long association with the Company. Ms. Anum Aqeel Dhedhi, CIO, holds a BSc in Financial Economics from the City University of London, United Kingdom.

**Technology Infrastructure** The Company is currently using an in-house developed asset management application named "FunDXs" as its core business software. The software comprises four modules: 1) Portfolio Management System, 2) Money Market, 3) Unit holder module, and 4) GL Module.

**Control Environment** The Company has devised detailed policies for IT, operations, research, investment and risk management. The Company uses a dedicated software, which timely notifies any breach in exposure limit and specified margins.

## Investment Risk Management

**Credit Risk** The Company has developed an internal risk assessment system and mechanism to evaluate the risk of the overall portfolio. Exposure and margin limits are properly defined and controls are in place to ensure the allocation limit. Cash is held only with reputable banks with high quality external credit enhancements.

**Liquidity Profile** The risk management department generates liquidity and redemption risk report for equity funds that shows a list of liquid stocks, which are able to meet heavy redemption under both normal and distress conditions without incurring unacceptable losses or risking damage to the Company's reputation.

**Market Risk** The risk management department follows the internal risk management policies and generates stress testing report as per SECP guidelines. The report takes into account the interest rate volatility affecting the fixed income portfolio of the fund management.

## Portfolio Management

**IC Composition** The Investment Committee of the Company comprises six members, including the CEO, COO, CIO, Manager Risk Management, Head of Research and Fund Managers.

**Effectiveness** The IC formally meets on weekly and on ad-hoc basis in order to make investment decisions and monitor funds performance.

**Investment Research And Analysis** The research department reports directly to the CIO. Currently, Research & Investment department has four members.

## Customer Relationship

**Investor Services** The Company releases its fund manager reports on its web site in a timely manner. Furthermore, the Company is looking forward to partner up with I-Link to facilitate its investors to make ATM redemption from the country's banks.

**Investor Reporting** The Company's webpage is used as a reporting platform for dissemination of information pertaining to the Company and its funds under management, which includes NAV history, fund performance, product characteristics and other important announcements.

**Distribution And Sales Network** The Company's sales team comprises ten individuals including director corporate and head of retail sales. The head of retail sales is highly focused on retail clients due to which the number of retail investors accounts have increased.

## Performance

**Asset Under Management** The Company's assets under management currently stood at ~PKR 6.7bln at end Apr'23. (Jun22: PKR 6.7bln). The funds in equity category have shown a declining trend on the back of negative returns at stock market, however, money market and income categories increased during the year. Funds in the income and money market category remained in line with the industry averages and posted returns above benchmarks. Consistent fund performance with above-average returns is imperative.

**Asset Manager** In comparison with 9MFY23, the management fee has decreased by ~29.2% and reached PKR ~66mln. However, the Company was not able to maintain its profitability due to unrealized losses on investments and elevated operating expenses. Going forward, profitability is linked with better stock market performance. The equity of the Company stood at PKR ~237mln, which is marginally above the minimum capital requirement.

**Fund's Performance | AKD Investment Management**

Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR "000")					Returns   12Months (May'22 to Apr'23)				
				Apr-23	Dec-22	Jun-22	Dec-21	Jun-21	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.
1	AKD Islamic Income Fund	Shariah Compliant Income	24.8%	1,654,593	883,759	892,874	707,710	723,889	16.38%	12.60%	5.58%	3.8%	10.8%
2	AKD Cash Fund	Money Market	23.9%	1,591,390	1,639,006	1,273,399	911,643	418,560	16.07%	12.80%	15.75%	3.3%	0.3%
3	Golden Arrow Stock Fund (Formerly: Golden Arrow Selected Stocks Fund)	Equity	20.1%	1,340,076	1,495,067	1,806,441	1,803,200	2,227,604	-13.48%	-10.10%	-8.11%	-3.4%	-5.4%
4	AKD Opportunity Fund	Equity	12.1%	808,861	1,062,543	1,358,192	1,876,684	3,527,232	-10.88%	-10.10%	-8.11%	-0.8%	-2.8%
5	AKD Aggressive Income Fund (Formerly: AKD Income Fund)	Aggressive Fixed Income	9.0%	602,677	724,319	738,628	909,954	813,870	7.21%	11.33%	17.44%	-4.1%	-10.2%
6	AKD Index Tracker Fund	Index Tracker	6.4%	426,442	418,557	427,595	459,627	478,974	-8.71%	-8.71%	-8.11%	0.0%	-0.6%
7	AKD Islamic Stock Fund	Shariah Compliant Equity	2.3%	152,517	192,336	253,327	307,740	425,359	-21.11%	-7.60%	-2.24%	-13.5%	-18.9%
8	AKD Islamic Daily Dividend Fund	Shariah Compliant Money Market	1.4%	94,910	-	-	-	-	-	-	-	-	-
<b>Sum/Average:</b>			<b>100%</b>	<b>6,671,466</b>	<b>6,415,587</b>	<b>6,750,456</b>	<b>6,976,558</b>	<b>8,615,488</b>					

### 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