



The Pakistan Credit Rating Agency Limited

RATING REPORT

BMA ASSET MANAGEMENT COMPANY LIMITED

	CURRENT [MAY-17]	PREVIOUS [JUN-16]
Asset Manager Rating	AM3	AM3
Outlook	Stable	Stable

MAY 2017

Profile & Governance

- BMA Funds, incorporated in April 2005 as a public limited company, is licensed to carry out asset management and investment advisory services under the NBFC Regulations. The company is a fully owned subsidiary of BMA Capital Management (BMA Capital).
- BMA Funds has a five member board including CEO. The other board members comprise two independent directors and a found member of the sponsoring family. Mr Muhammad Iqbal, acts as the chairman of the board. He possesses over four decade of expertise in financial sector.
- Mr. Khaldoon bin Latif has been elected by the board members on April 2016. The CEO, holds Bachelor degree holder in Economics. He has over a decade experience in the capital markets in Pakistan and Bahrain. Previously, he was working as the CIO in JS Investments Limited. Prior to that he was the CEO of KASB Funds.

Assessment

- The management has planned to formulate a focused strategy with regards to regain its position as a leading player in the SMA segment by utilizing its historical long-term relationship of sponsors with HNW clients.
- BMA Funds plans to enter into the private equity segment by capitalizing on the synergies build through the strong presence of its sponsoring companies corporate finance division, capitalizing on the potential opportunities for inorganic growth in the mutual fund segment.
- BMA Funds has two funds under management (BMA Empress Cash Fund (BECF) – money market, BMA Chundrigar Road Saving Fund (BCRSF) – aggressive income) both in the fixed income category. BCRSF experienced fresh mobilization with AUMs clocking in at PKR 279.3 mln as at Dec-16 (CY15: ~PKR 215mln). The fund AUMs clocked in ~PKR 63.9mln (CY15: ~PKR 143mln). The company's system share remains below 1%.
- The company, previously a leading player in the SMA niche segment, is currently struggling to gain its lost momentum. The managed portfolio has witnessed increase in mandates reflected in terms of growth in its AUMs (Dec13: PKR 7,416, Dec14: PKR 6,702, Dec15: PKR 7,445, Nov16: PKR 8,300mln). Top 5 concentration remains high representing 92% of the SMA book

Sales & Marketing

- During the year, the company hired experience resource, Mr Nisar Khan, as Head of Sales & Marketing. The department along with CEO is currently making efforts to tap the potential HNW and corporate clients.
- BMA Funds has established arrangement with various third party distributors & with existing clientele of the parent company, BMA Capital.

Investment Decision Making

- BMA Funds has an adequately structured investment process. The Investment Committee comprises CEO, CIO, CFO, Risk Manager, and Fund Manager. The IC meets on a monthly, or at ad-hoc, basis in order to determine the prospective strategic allocation of the all funds sector-wise.
- BMA Funds has not established a formal and independent research department. Resultantly, the company primarily relies on the relevant sector updates and specific reports formulated by its parent company – BMA Capital. The research reports from different brokerage houses are also discussed. Presently, the functioning of the research department is being primarily undertaken by the fund management department.

Risk & Compliance

- BMA Funds has an in-house Risk Management Department (RMD), lead by Mr. Sandeep Kumar. The scope of the RMD is limited to ensure the company's compliance with all applicable regulatory guidelines. The RMD prepares compliance related reports for the management's review on a daily basis.

Technology & Investor Services

- The Company uses Asset Connect as the core software. CRM software – BIZMATE has been deployed for investor facilitation

RATING RATIONALE

The rating reflects the company's adequate positioning in the specific niche of separately managed accounts segment. Limited fund slate coupled with the stagnancy in the AUMs have resulted in a decline in its system share in the mutual fund segment. Adequately structured investment decision making process resulted in an average performance for both the segments. With the advent of new CEO, the company plans to enhance its position in institutions and high net worth investor space. In this regard, the management has planned to formulate a focused strategy with regards to three key segments: (a) regain its position as a leading player in the SMA segment by utilizing its brand name and historical long-term relationship of sponsors with HNW clients, (b) entering into the private equity segment by capitalizing on the synergies build through the strong presence of its sponsoring companies corporate finance division, (c) capitalizing on the potential opportunities for inorganic growth in the mutual fund segment.

KEY RATING DRIVERS

The rating is dependent on the formulation and execution of its strategy resulting in enhancement in the company's competitive position in the industry. Strengthening of the requisite human resource with a focused skill set would remain important for the enhancement of the investment management platform. Improvement in the investor services platform to cater to the targeted niche segment of the industry would be crucial.

INDUSTRY SNAPSHOT

During CY16 the AMC industry observed a healthy growth of ~25% in the overall AUMs. The growth was primarily driven by sound performance of the domestic stock market showing an uptick of ~46% during the period. The performance of the stock market alongwith fresh influx resulted in substantial increase in the asset base of equity funds (~30%) increasing their system share. The increase in the number of funds mainly in the asset allocation and active allocation categories also resulted in the fresh inflows of AUMs. The continuity in the low interest rate environment causing a low attractiveness for the money market and income fund categories resulted in a net outflow of AUMs. Going forward, the innovation in the product slate alongwith the performance of the capital market would remain beneficial for the AUM growth of the industry.

Financial Summary								
Sr. #	Fund	Category	Asset Under Management		Return – CY16	Benchmark Return – CY16	Top 10 Investors Concentration	Performance Ranking (Dec -16) /Stability Rating
			Dec-16 (PKR mln)	Dec-15 (PKR mln)				
1.	BMA Empress Cash Fund	Money Market	64	143	4.8%	5.3%	95%	AA+(f)
2.	BMA Chundrigar Road Saving Fund	Aggressive Income	279	215	5.5%	6.4%	79%	A+(f)

RATING SCALE & DEFINITIONS: Asset Management Industry

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be determined solely by investors

ASSET MANAGER RATINGS

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.

+ = (Plus)

++ = (Double Plus)

FUND STABILITY RATINGS

AAA(f)

An exceptionally strong capacity to maintain relative stability in returns and possesses negligible exposure to risks.

AA+(f), AA (f), AA-(f)

A strong capacity to maintain relative stability in returns and possesses low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions

A+(f), A (f), A-(f)

A fund with stable performance generally in line with its peers with adequate capacity to respond to future opportunities or stress situations.

BBB+(f), BBB (f), BBB-(f)

An adequate capacity to maintain relative stability in returns and possesses high exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.

BB+(f), BB (f), BB-(f)

A low capacity to maintain stability in returns and possesses very high exposure to risks

B(f)

A very low capacity to maintain stability in returns and possesses very high exposure to risks.

The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

FUND PERFORMANCE RANKINGS

5-Star Very good performance

4-Star Good performance

3-Star Average performance

2-Star Below average performance

1-Star Weak performance

CAPITAL PROTECTION RATINGS

CP1

Very strong certainty of capital protection.

CP2+ CP2

Strong certainty of capital protection.

CP3+ CP3

Good certainty of capital protection.

CP4+ CP4

Adequate certainty of capital protection.

CP5

Weak capital protection.

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.

Rating Outlooks: Indicates the potential and direction of a rating in response to a) trends in economic and/or fundamental business/financial conditions and/or deviation from expected trend. 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'.

Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.

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, a suspended rating should be considered withdrawn.

Withdrawn:

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

