



The Pakistan Credit Rating Agency Limited

RATING REPORT

ATLAS ASSET MANAGEMENT LIMITED

	NEW [DEC-17]	PREVIOUS [APR-17]
Asset Manager Rating	AM2+	AM2+
Outlook	Stable	Stable

DECEMBER 2017

Profile & Governance

- Atlas Asset Management Limited (AAML), incorporated in August 2002 and a part of Atlas Group (AG), is a wholly owned (100%) subsidiary of Shirazi Investments (Pvt.) Limited (SIL) – the holding company of Atlas Group
- AAML’s total shareholder’s equity stands at PKR 661mln at end-Jun17 (Jun-16: 543bln), which is well above the minimum capital requirement as per revised NBFC regulations (AMC: PKR 230mln).
- AAML demonstrate strong Governance structure representing strong board structure, skilled management profile, structured board processes & effectiveness along with financial transparency

Assessment

- The AUMs posted a decent growth of ~10% during 9MCY17, resulting in an enhanced system share (Sep17: 4.9%, Dec16: 4.3%)
- AAML possess high unit holder concentrations with most of the funds having top10 concentrations of ~84%.
- The company has a diversified fund slate with seven open end funds with a pension and Islamic pension scheme. AAML also manages a gold fund in the commodity fund category.
- The performance of most of the company’s funds has shown similar performances in comparison to its peers. The performance of pension and Islamic pension funds have remained in the strong category.

Sales & Marketing

- The company currently has 11 distributors (Institutions: 6, Independent Registered Service Provider: 5) for its funds and pension schemes. Majority proportion of business in CY16 was routed through Head & Regional Offices (90%), followed by various distributors (10%).
- The Sales and Sales support department is headed by Mr. Abbas Sajjad. The department comprises three Zonal Managers (Karachi, Lahore and Rawalpindi), with a team of sales staff.
- Currently the company has twelve branches across Pakistan with a branches Hyderabad & Multan are scheduled to be opened during the year. The Sales Managers are engaged in Corporate as well as Retail Sales utilizing regional offices of Atlas Group Companies for focusing on retail penetration.

Investment Decision Making

- The investment committee includes 1) Mr. Habib-ur-Rehman (CEO), 2) Mr. Ali H. Shirazi (Non-Executive Director), 3) Mr. Muhammad Abdul Samad (COO), 4) Mr. Khalid Mahmood (CIO), along with respective fund managers. Mr. Shirazi attends IC on ad-hoc basis.
- Each IC comprises CEO, COO, Non-Executive Director, CIO and fund managers as permanent members.
- The research department is well equipped with an extensive data base pertaining to various macro and micro economic indicators and global and domestic industry specific trends along with company level research derived by sophisticated in-house based model

Risk & Compliance

- The department is headed by Mr. Faizan Ghori, a new addition with exorbitant professional experience along with MBA (Finance) qualification and an overall experience of 2 years in Financial & Audit sector.
- The detailed Risk scorecard highlighting various risk parameters, with newly developed stress-test & redemption models, are presented into the RC along with recommendations of the department. The compliance department reports directly to the COO. A separate area has been created to cover Anti Money Laundering (AML) / KYC.

Technology & Value Added Services

- AAML is using in-house developed asset management application as its core business software.
- The company has deployed real-time and state of the art software for customer relationship management (CRM). Going forward, cross-platform Mobile App is under development which includes value added services such as ATM redemption service (planned), conversion of funds, daily statements & monthly statement accessible from their smartphones. The developments is scheduled to be launch during 3QFY17

RATING RATIONALE

The rating reflects the company’s retention of experienced management team, improved investment process, and exceptional quality of system and processes. It also signifies the enhancement in the company’s AUM base resulting in an increased system share owing to the management’s concerted efforts to demonstrate exorbitant fund performances. The focus towards increasing the outreach in remote areas and strengthening the sales team would benefit in augmenting the retail penetration. The enhanced focus towards strengthening decision making process lends support to the sustained fund performance on the back of strong research & risk management function. The present management team has long association with the company; a well-structured succession process benefits the company in the long run. The affiliation of AAML with an acknowledged business group - Atlas Group - lends support to the rating.

KEY RATING DRIVERS

The rating is dependent upon the company’s ability to successfully execute its business strategy encompassing enhancement in system share while further diluting the AUM concentration and expanding the retail investor base. Moreover, improvement and consistency in superior funds’ performance remains important.

INDUSTRY SNAPSHOT

During 9MCY17, the industry AUM’s dropped by 2.5% mainly led by the bearish momentum on PSX’s performance on the back of political instability and deteriorated economic conditions.

This consequently resulted in an attrition in the asset base of equity category of 9% (9MCY17: 40%; CY16:46%) decreasing their system share. On the flip side, the money market funds benefited from the consistent inflow from the Equity and fixed Income based funds. This was a result of continuity of the benign inflation. low interest rate environment, excess liquidity. The Fund of Funds and Asset Allocation Plans were the main focus of industry players as the fund managers opting in risk averse strategy to bail out deteriorating risk appetite in the capital markets. Resultantly, Shariah complaint active allocation schemes remained favourite amongst the Asset Managers

Financial Summary								
Sr. #	Fund	Category	Asset Under Management		Return – FY17	Benchmark Return FY17	Top 10 Investors Concentration	Performance Ranking (Jun-17) / Stability Rating
			Sep-17 (PKR mln)	Dec-16 (PKR mln)				
1.	Atlas Money Market Fund -AMF	Money Market	5,856	4,841	6.14%	5.20%	90%	AA(f)
2.	Atlas Sovereign Liquid Fund-ASLF	Money Market	248	601	5.26%	5.40%	99%	AA(f)
3.	Atlas Income Fund -AIF	Income	12,595	8,714	5.48%	6.10%	91%	AA-(f)
4.	Atlas Islamic Income Fund -AIIF	Islamic Income	1,616	2,471	5.97%	3.26%	86%	AA-(f)
5.	Atlas Stock Market Fund -ASMF	Equity	5,112	5,795	33.74%	23.24%	75%	Un-rated
6.	Atlas Islamic Stock Fund -AISF	Islamic Equity	2,387	2,713	29.25%	18.80%	81%	Unrated
7.	Atlas Gold Fund -AGF	Commodities	207	195	-3.32%	-3.13%	96%	Unrated

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.



Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity
Sector
Type of Relationship

Atlas Asset Management Limited
 AMC
 Solicited

Purpose of the Rating

Regulatory Requirement

Rating History

Dissemination Date	Asset Manager Rating	Outlook	Action
22-Dec-17	AM2+	Stable	Maintain
3-May-17	AM2+	Stable	Upgrade
8-Jun-16	AM2	Stable	Harmonize
15-Apr-16	AM2-	Stable	Maintain
17-Apr-15	AM2-	Stable	Maintain

Related Criteria and Research

Master Methodology:
 Specific Methodology:
 Research:

Asset Management Rating Methodology [2005]
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 Asset Management Sector Review -2017

Rating Analysts

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Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

Reporting of Misconduct

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Confidentiality

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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