



The Pakistan Credit Rating Agency Limited

# MCB ARIF HABIB SAVINGS & INVESTMENTS LIMITED

## RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]	REPORT CONTENTS
<b>Asset Manager Rating</b>	AM 2++	AM 2++	1. PROFILE & OWNERSHIP 2. GOVERNANCE 3. ASSESSMENT
<b>Outlook</b>	Stable	Stable	4. MARKETING 5. MANAGEMENT 6. INVESTMENT DECISION MAKING 7. RISK AND COMPLIANCE 8. FOCUS ON TECHNOLOGY

DECEMBER 2017

### Profile & Ownership

- MCB Arif Habib Savings & Investments Limited (MCBAH) incorporated in August 2000 and listed on the Karachi Stock Exchange, MCBAH is a major player in the mutual fund industry of Pakistan.
- The major shareholders of MCBAH comprise: a) MCB Bank Limited (MCB) [51%], and b) Arif Habib Corporation (30%)

### Governance

- MCBAH's eight members BoD comprise the company's CEO, two representatives from MCB, two representatives from AHG and three independent members. Mian Muhammad Mansha – Chairman MCB – serves as the Chairman on the board. Mr. Nasim Beg – a representative of AHG – acts as the vice chairman.
- Mr. Muhammad Saqib Saleem is the CEO of the company.

### Assessment

- During 9MCY17, MCBAH showed slight increase in its AUM base. The AUMs increased by 6.4% during the mentioned period (Sep17:PKR48, Dec16:PKR45bln). Consequently, the system share registered an increase and was at 7.72% at end Sep-17 (end Dec-16 7.07%).
- Top-10 investor concentration has remained largely the same at 42% reflecting a well-diversified AUM base.
- Category concentration has improved slightly where income based funds represent 52% of the AUMs in Sep-17 compared to 53% in Dec-16.

### Marketing

- MCBAH's well-established Business Development department is divided into five key segments: a) Retail, b) Corporate, c) Retirement Funds, d) Financial Institutions, and e) Foreign Business.
- The company plans to introduce 360 degree financial solution which includes back office task such as book keeping and capital management.
- The management remains focused to strengthen MCBAH's distribution network to make further inroads in the corporate and retail segment.
- The management has successfully branded its Islamic products under a different division, Alhamra, which focuses on Islamic Products.

### Management

- The company appointed Mr. Moiz Ali as Head of Quality Assurance and Mr. Junaid as Head of Corporate Sales.
- Mr. Asif Mehdi is the new COO, previously serving as CFO, whereas Mr. Basit has taken the position of CFO and company secretary.

### Investment decision making

- MCBAH has a streamlined investment decision making process. Separate Investment Committee meetings are held for equity and fixed income funds.
- The investment function, comprising well-qualified and experienced fund managers, is headed by the CIO, Mr. Muhammad Asim, a CFA charter holder.
- The research universe at MCBAH tracks over 70 companies for which detailed valuation and analysis models are in place and updated quarterly.

### Risk & Compliance

- The objective of investment risk management function is to identify, quantify and subsequently manage risks impacting investment decisions.
- The compliance function ensures observance of all applicable NBFCs regulations, listing requirements, corporate regulations, and terms with SMA clients and internal policies, procedures and guidelines issued by the BoD.

### Focus on Technology

- MCBAH also introduced the facility of auto-debit to its clients through which, the customer issues standing instructions to their banks to transfer a certain amount into MCBAH's mutual funds at any given frequency.
- The company is in process to implement capacity building which will empower the investor services person to access important information of the client on real time basis.

### RATING RATIONALE

The rating reflects MCBAH's strong position in the domestic AMC industry augmented by its robust retail base, strong sponsor support, improved organizational structure, innovative technology and sound franchise value. MCBAH's well-structured decision making process supported by continuous improvement in the overall operating platform along with a diversified fund slate. This has helped the company in maintaining the AUM base despite the dip in the industry due to lack luster stock market performance, hence sustaining its system share. The management has effectively integrated separately developed risk management function with investment decision making process. The company has successfully branded its Islamic products under Islamic division - Alhamra. The company has inducted professional and experienced higher management staff. The rating incorporates MCBAH's association with two prominent business conglomerates of Pakistan -Nishat & Arif Habib Groups.

### KEY RATING DRIVERS

The rating is dependent on the company's ability to sustain its market standing by capitalizing on the self and group distribution platform. At the same time, stability of the quality human resource and consistent fund performance – at par or better than peers will bode well for the company.

### INDUSTRY

During 8MCY17, the industry AUM's dropped by 3.6% 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% (8MCY17: 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 favorite amongst the Asset Managers



Financial Summary: MCBAH Saving and Investment								
Sr. #	Fund	Category	Asset Under Management		Return FYTD	Benchmark Return FYTD	Top 10 Investor Concentration	Performance Rankings(Sep 17)/ Stability Ratings
			Dec16 (rupees in mln)	Sep 17 (rupees in mln)				
1.	Alhamra Islamic Active Allocation Fund-I	Shariah Compliant Fund of Funds	877	1,460	(6.38%)	(8.57%)	22%	N/A
2.	Alhamra Islamic Active Allocation Fund-II	Shariah Compliant Fund of Funds	-	814	(2.37%)	(8.55%)	34%	N/A
3.	Alhamra Islamic Asset Allocation Fund (Formerly: Pak. Intl. Element Islamic Asset Allocation Fund)	Shariah Compliant Asset Allocation	1,187	1,957	(4.98%)	(7.53%)	27%	5 Star
4.	Alhamra Islamic Income Fund (Formerly: MCB Islamic Income Fund)	Shariah Compliant Income	860	2,684	4.07%	2.35%	59%	AA- (f)
5.	Alhamra Islamic Stock Fund (Formerly: MCB Pakistan Islamic Stock Fund)	Shariah Compliant Equity	1,776	2,938	(11.18%)	(9.10%)	67%	4 Star
6.	MCB Cash Management Optimizer	Money Market	6,445	12,080	5.24%	5.18%	52%	AA (f)
7.	MCB DCF Income Fund	Income	7,009	6,112	4.32%	6.10%	35%	A+ (f)
8.	MCB Pakistan Asset Allocation Fund	Asset Allocation	2,286	3,192	(2.35%)	2.08%	26%	3 Star
9.	MCB Pakistan Frequent Payout Fund	Asset Allocation	1,189	743	0.80%	1.47%	29%	3 Star
10.	MCB Pakistan Sovereign Fund	Income	3,842	1,181	4.85%	5.85%	49%	AA- (f)
11.	MCB Pakistan Stock Market Fund	Equity	10,983	9,790	(8.64%)	(8.93%)	31%	3 Star
12.	Pakistan Capital Market Fund	Balanced	694	619	(5.81%)	(5.50%)	20%	4 Star



13.	Pakistan Cash Management Fund	Money Market	1,384	1,026	4.78%	5.21%	79%	AAA (f)
14.	Pakistan Income Enhancement Fund	Aggressive Fixed Income	3,106	1,575	5.91%	6.40%	34%	A+ (f)
15.1	Pakistan Income Fund	Income	1,169	1,550	4.66%	6.00%	39%	A+ (f)
15.2	Pakistan Pension Fund	Debt	448	528	4.23%			N/A
15.3	Pakistan Pension Fund	Equity	740	688	(12.40%)			N/A
15.4	Pakistan Pension Fund	Money Market	165	177	4.28%			N/A
16.1	<b>Pakistan Islamic Pension Fund</b>	Debt	169	207	1.35%			N/A
16.2	<b>Pakistan Islamic Pension Fund</b>	Equity	383	401	(13.60%)			N/A
16.3	<b>Pakistan Islamic Pension Fund</b>	Money Market	70	74	2.83%			N/A

## 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.



Rated Entity

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

MCB Arif Habib Savings & Investments Limited  
 AMC  
 Solicited

Purpose of the Rating

Regulatory Requirement

Rating History

Dissemination Date	Asset Manager Rating	Outlook	Action
28-Dec-17	AM2++	Stable	Maintain
23-Jun-17	AM2++	Stable	Maintain
8-Jun-16	AM2++	Stable	Harmonize
31-Mar-16	AM2+	Stable	Maintain
7-Apr-15	AM2+	Stable	Upgrade

Related Criteria and Research

Master Methodology:  
 Specific Methodology:  
 Research:

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

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Rating Team Statement

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