

## RATING REPORT

### UBL Fund Managers Limited

**REPORT DATE:**

January 3, 2018

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
MQ Rating	AM1 ( <i>Upgrade</i> )	AM2++ ( <i>Reaffirmed</i> )
Rating Date	Dec '29, '17	Dec '30, '16

#### COMPANY INFORMATION

Incorporated in April 2001	External auditors: A.F. Ferguson & Co. Chartered Accountants
	Chairman of the Board: Mr. Azhar Hamid
Key Shareholder:	Chief Executive Officer: Mr. Yasir Qadri
United Bank Limited – 100%	

#### APPLICABLE METHODOLOGY(IES)

Asset Management Companies (March 2016)

<http://jcrvis.com.pk/docs/AMC-Methodology-201603.pdf>

## UBL Fund Managers Limited

### OVERVIEW OF THE INSTITUTION

UBL Fund Managers Limited was established as a Public Limited Company in 2001. It is wholly owned subsidiary of United Bank Limited (UBL) and holds Asset Management Services, Investment advisory services and Pension Fund Management Services license.

#### Profile of Chairman

Mr. Hamid is an international banker with a career spanning over 41 years with Grindlays Bank, ANZ Bank and Standard Chartered Bank.

#### Profile of CEO

Mr. Yasir Qadri has been associated with the asset management industry for over 16 years, last serving as CEO of MCB-Arif Habib Savings & investments. He also serves as Chairman of the Mutual Funds Association of Pakistan (MUFAP). He has earned an M.B.A. and a B.B.A. degree from the University of Central Oklahoma, USA.

### RATING RATIONALE

#### Assets under Management

UBL Fund Managers Limited (UBL FM) is a prominent player in the mutual funds industry, having a market share of about 11.5% (FY16: 10.8%) at end-FY17. AUMs (adjusted for fund of funds) increased by a healthy 45% to Rs. 71.7b (FY16: Rs. 49.38b) in FY17 vis-à-vis industry growth of 36%; this growth has almost entirely emanated from Islamic funds while AUMs from conventional funds have remained stagnant. Given the strong management focus, proportion of retail AUMs in relation to total AUMs has increased further to 55.5% (FY16: 48.7%) and remains sizeable. However, within retail AUMs, investor concentration has improved recently but remains on the higher side. Retail AUMs are projected to continue to increase in absolute terms; JCR-VIS expects proportion of AUMs from retail customers to remain within benchmark for the assigned rating. Growth in AUMs has been broad based with 43% rise in active clients during FY17 and all three channels comprising third-party distributors (Standard Chartered Bank Limited & United Bank Limited), direct sales force and Al-Ameen Islamic Financial Services recording healthy increase in sales. Going forward, maintaining market share and diversity in AUM profile in line with benchmark for the assigned rating is considered important.

#### Product Portfolio & Marketing

Ratings are underpinned by management's inclination to increase the breadth and diversity of both its products and clientele. The AMC has a track record of pioneering new product launches, being the first AMC to introduce CPPI based fund of funds scheme, gold-based commodity fund, Islamic principal preservation fund of funds scheme and Islamic active allocation plans. Planned launch of development real estate investment trust scheme in 2018 will further solidify the company's reputation as a leader in product innovation. The company has also been the first AMC to foray into digital marketing and usage of contextual marketing to target high potential customers. As part of the digital marketing initiative, the AMC is in the process of forming strategic partnerships with telecommunication companies to gain access to targeted customer base. This, along with extensive work on mobile/web application development has led to increase in online transactions from 42% in 2014 to 70% during 10M2017. JCR-VIS expects such initiatives to aid in further growth of AUMs and investor base over the coming years.

#### Control Framework

Risks Management (RM) and compliance structures are dedicated and independent. Significant improvements have been made in the enterprise risk management framework which compares favorably to peers. In tandem with UBL FM's strategic vision, RM has undergone significant restructuring and automation. Regular reports on market and liquidity risk are prepared. For monitoring credit risk, the management has implemented evaluation of top credit risk exposures, risk monitoring on cumulative basis across all funds & SMAs, exposure risk criteria for Margin Trading System (MTS) and a risk health check model for microfinance/other specialized banks. However, room for improvement in the area of analysis of credit risk remains. In order to improve control environment across the organization, the senior management has placed significant emphasis on employee awareness regarding compliance, back-office & support functions. Accordingly, scope of compliance department has been broadened with an aim to create a compliance culture. Since last review, notable changes were witnessed in the organizational structure of the company. An independent Information Security (IS) function was formed within Compliance, RM, IS & Quality Assurance (QA) division to strengthen data security.

#### Investment Management

Since last review, investment process has been fine-tuned with decision making more centralized and a greater research orientation. This has resulted in consistency in decision making and more controlled trade execution. Additionally, extent of automation has been increased for improved decision making and subsequent monitoring. The reorganization is also envisaged to entail regular monitoring and feedback, along with systematic performance evaluation and benchmarking against peer group funds. The investment process combines a top down view with fundamental bottom-up analysis. The decision making process is committee based with the participation of the investment team (Chief Investment Officer, Head of Investment Strategy, Head of Research and Fund Managers) and the Chief Executive Officer and Head of Risk (non-voting member). Strength and experience of the investment management team are consistent with the assets being managed, backed by adequate analytical resources and clear segregation of responsibilities. Changes in the investment process are reflected in improved fund

performance during 2017. Continuity of the same over a longer time horizon is considered important.

**Governance**

Out of seven directors on the Board, two directors are independent while board oversight is considered strong relative to peer AMCs. Given the recent change in board members, continuity in effective board oversight and quality of inputs will continue to be tracked by JCR-VIS. Management team has witnessed changes over the last two years but has largely remained stable in the ongoing year. Senior management team is supported by an adequate training, performance evaluation and succession planning process.

**MANAGEMENT QUALITY RATINGS**

**AM1:**

Asset manager exhibit Excellent management characteristics

**AM2++, AM2+, AM2:**

Asset manager exhibit Very Good management characteristics

**AM3++, AM3+, AM3:**

Asset manager exhibit Good management characteristics

**AM4++, AM4+, AM4:**

Asset manager exhibit Adequate management characteristics

**AM5:**

Asset manager exhibit Weak management characteristics

*For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.*

*For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.*

*For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.*

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

<b>REGULATORY DISCLOSURE</b>		<b>Appendix II</b>		
Name of Rated Entity	UBL Fund Managers Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	<b>Rating Date</b>	<b>Rating</b>	<b>Outlook</b>	<b>Rating Action</b>
	12/29/2017	AM1	Stable	Upgrade
	12/30/2016	AM2++	Stable	Reaffirmed
	5/4/2016	AM2++	Stable	Harmonized
	12/31/2015	AM2+	Stable	Reaffirmed
	12/31/2014	AM2+	Stable	Upgrade
	4/3/2013	AM2	Stable	Reaffirmed
	5/2/2012	AM2	Stable	Reaffirmed
4/20/2011	AM2	Stable	Reaffirmed	
Instrument Structure	Not applicable			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) mentioned herein. This rating is an opinion on management quality only and is not a recommendation to buy or sell any securities.			
Probability of Default	Not Applicable			
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