

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

UBL Fund Managers Limited

REPORT DATE:

January 08, 2019

RATING ANALYSTS:

Muhammad Ibad Desmukh
ibad.desbmukh@jcrvis.com.pk

Muhammad Hamza Amir

hamza.amir@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
MQ Rating	AM1 (Reaffirmed)	AM1(Upgrade)
<i>Rating Date</i>	<i>Dec '27, '18</i>	<i>Dec '29, '17</i>

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>

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

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

Established in 2001, UBL Fund Managers Limited (UBL Funds) provides investment solutions and advisory services to individual and corporate clients. The company reported a market share of 11.6% (FY17: 11.5%; FY15: 10.8%) at end-FY18. In line with marketing strategy, the AMC was rebranded as “UBL Funds” in the outgoing year.

Corporate Governance and Management

Out of seven directors on the Board of Directors (BoD), two directors including the Chairman of the Board are independent while board oversight is considered strong relative to peer AMCs. Since last review, 3 new directors have recently been nominated by UBL and approved by SECP on the board of directors of the company namely Mr. Tauqeer Mazhar, Group Head Branch Banking UBL, Mr. Imran Sarwar Group Executive –Risk and Credit Policy, Chief Risk Officer UBL and Ms. Sadiya Saeed Group Executive–Human Resource. Given the change in board members, continuity in effective board oversight and quality of inputs will continue to be tracked by JCR-VIS. The BoD has voluntarily adopted the Listed Companies (Code of Corporate Governance) Regulations 2017 to enhance corporate governance.

Since last review, turnover was noted at the positions of Head of Internal Audit & Company Secretary and Head of Information Technology (IT). As a result, Mr. Aly Osman was shifted from previous post of Chief Compliance, Risk, Information Security & Quality Assurance to the position of Head of Internal Audit & Company Secretary to fill the vacancy created as a result of resignation of Mr. Fawaz Siddiqui while vacant position of Head of IT was promptly filled. Moreover, there has been a shift in roles and responsibilities for the senior management with a hand over of additional responsibilities to current individuals. Mr. Amin Gulamani was assigned an additional role of administration along with being the Head of Human Resources; Mr. Umair Ahmed has been given the responsibility of overlooking operations alongside being the Chief Financial Officer and Mr. Hadi Hassan Mukhi (previously Head of Compliance) has been designated with the responsibility of Risk Management, Information Security and Quality Assurance. Senior management team is supported by an adequate training, performance evaluation and succession planning process.

Assets under Management

Industry AUMs (adjusted for fund of funds) stood at Rs. 609.3b (FY17: Rs.622.4b) at end-FY18 whereas UBL Funds registered a 2% decline in adjusted AUMs to Rs.70.7b (FY17: Rs. 71.7b). Islamic AUMs declined by 13% over FY18; this was offset by 18% growth in conventional AUMs. Increase in conventional AUMs was primarily driven by higher net assets of UBL Liquidity Plus Fund (ULPF) while decline in Islamic AUMs is attributed to maturity of plan funds coupled with redemptions across other Islamic funds although launch of 4 new Islamic plans provided some support. At end-FY18, Islamic AUMs represented 63% (FY17: 70%) of gross AUMs while conventional funds contributed 37% (FY17: 30%). Retail AUMs in relation to total AUMs stood at 55.4% (FY17: 55.5%) at end-FY18; within retail AUMs investor concentration remains on the higher side. In order to augment retail base, UBL Funds is carrying out launch of new funds, marketing through social media, mobile texts and investor awareness campaigns. Continuing last year’s trajectory, number of active clients increased by 18% with new business generated primarily through retail and corporates while sales through alternative distribution channels also registered significant growth. Going forward, maintaining market share and diversity in AUM profile in line with benchmark for the assigned rating is considered important. With respect to SMAs, AUMs decreased to Rs. 14.5b (FY17: 19.5b) at end-FY18.

Product Portfolio, Marketing and Sales

Ratings continue to be underpinned by management’s inclination to increase the breadth and diversity of both its products and clientele. Accordingly, the company recently launched a new capital protected fund called UBL Special Savings Plan-1 while development real estate investment trust is in pipeline.

Branch network was expanded by 3 new branches taking the aggregate number of branches to 20 nationwide. Since last review, the sales & distribution division has been restructured such that separate heads have been designated for the retail and corporate sales functions. Mr. Ammar Valika (previously Head of Corporate and

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Retail Sales) has been re-designated as Head of Corporate Sales while Mr. Zeeshan Qudus (previously Chief Business Development Officer) has now taken the additional responsibility of Head of Retail Sales. Voluntary turnover in sales was significant at 20% in FY18; as a result, sales force decreased to 328 (FY17: 428). Staff turnover remains an issue for the company; cognizant of this, management is taking measures to increase staff retention.

In order to augment corporate sales, the company is working on enhancing synergies with UBL (utilizing UBL network and call center) while sales strategy has been revamped. With respect to retail sales, high redemptions have drawn management's focus on customer retention as the company has initiated customer satisfaction surveys. The company has an arrangement with telecom companies to circulate a promotional text message to the target audience. As per management, this campaign has been cost efficient with a better and wide outreach. Going forward, focus on synergies with UBL along with digital marketing, sales force empowerment and value added services is expected to continue.

Fund Performance and Investment Management

In terms of AUM proportion, ULPF was the largest fund, followed by Al-Ameen Dedicated Equity Fund and Al-Ameen Shariah Stock Fund. Performance of equity funds has remained in the 1st quartile over FY17 and FY18. With respect to income funds, barring UBL Income and Growth Fund (which has consistently been in the 1st quartile), remaining funds ranked in the 4th quartile over past two years.

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. The Investment Committee (IC) comprises Chief Executive Officer, Chief Investment Officer, Head of Research, Head of Investment Strategy, Head of Fixed Income and SMA (in their respective Fixed Income and SMA ICs); and respective fund managers all as voting members, and Head of Risk as non-voting observer. 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. The overall investment strategy is based on the current and expected economic dynamics of the country coupled with market sentiments. The team takes a forward looking approach and rebalances the portfolio as per its analysis. The company has a segregated research division that functions independently to facilitate the investment management and decision making. Consistent improvement in fund performance over the medium term is considered important.

Control Framework

In line with the extension in scope of compliance, the compliance department also reports to the Board Risk and Compliance Committee (BRCC). Management has appointed the Head of Compliance to oversee Risk Management (RM), Information Security and Quality Assurance functions; therefore, further strengthening in human resources is warranted to reinstate independence of RM and Compliance functions in line with best practices. In tandem with major restructuring planned last year, market, liquidity and credit risk is monitored on a regular basis with the support of newly added systems. Key additions to the RM function include an exposure risk criteria for Margin Trading System along with an interactive model to facilitate the fund manager by providing equity portfolio risk indicators in real time.

RATING SCALE - 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

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

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURE		Appendix II		
Name of Rated Entity	UBL Fund Managers Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Rating	Outlook	Rating Action
	12/27/2018	AM1	Stable	Reaffirmed
	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	N/A			
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	N/A			
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.			