

Al-Meezan Investment Management Limited

Chairman: Mr. Arif-ul-Islam; Chief Executive: Mr. Mohammad Shoaib, CFA

Date: January 08, 2015

Rating Rationale

Analysts: Amir Shafique
Faiq Sattar

	Latest	Previous
Rating	AM2+	AM2
Outlook	Stable	Stable
	Dec 03, 2014	May 14, 2013

As the only asset management company exclusively offering Shari'ah compliant investment products in Pakistan, the franchise of Al Meezan Investment Management Limited (Al-Meezan) has continued to strengthen over time, as manifested in consistent increase in market share to 13.4% (FY13: 12.7%; FY12: 10.1%) by end-June 2014. Al-Meezan is also the largest private sector asset management company in terms of total Assets under Management (AUMs). The AMC's penetration in retail segment compares favorably to peers with retail investment representing 41.6% of AUMs of open-end schemes at end-June 2014. In view of this, the company is less likely to be affected by the recent changes in relation to income tax on mutual funds investments by corporate entities introduced in Finance Bill and others introduced by the State Bank of Pakistan.

Franchise of the institution is also supported by the sound performance indicators of funds under management. The company is managing nine funds, in addition to a voluntary pension scheme and Separately Managed Accounts (SMAs). Over an extended timeframe, equity portfolios under management have generated competitive returns in relation to peers. Income funds have also posted more or less consistent performance over time. Market factors such as availability of GoP Ijarah Sukuk may continue to instigate some degree of volatility in returns of income funds, which have significant exposure in these instruments. The inability of Islamic income funds to lock in long term returns may affect the returns of these funds more significantly than their conventional counterparts, in a declining rate scenario. This may result in withdrawals, as seen in case of Meezan Cash Fund, which witnessed substantial redemptions in the out-going year. In general, the limited availability of Shari'ah compliant income/money market instruments may pose challenge for managing Islamic funds.

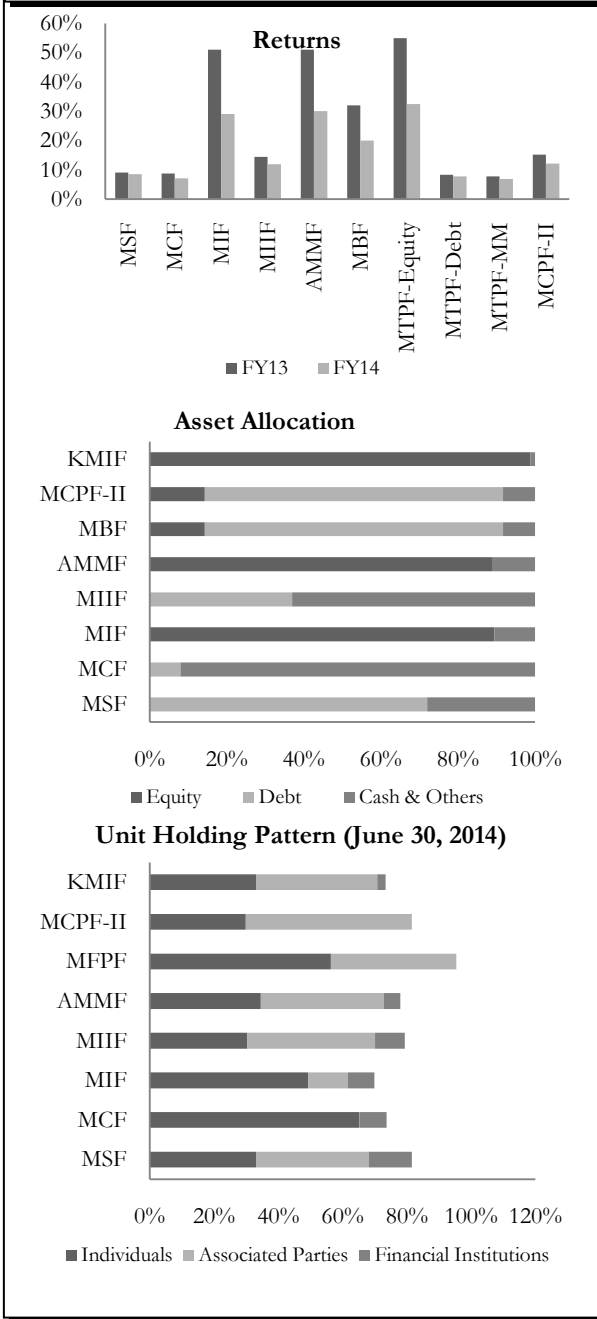
The rating assessment draws comfort from the investment management process in place and the profile of personnel holding key management positions; which have now had a lengthy association with the company. There has however been turnover in control functions including risk and internal audit, in addition to support function. Stability in these areas is also considered essential. These vacancies have been filled by qualified personnel. The company currently has three funds managers; moreover, the CIO also officiates as a fund manager for two funds. Given the increasing number and size of funds under management, the role of CIO may need to be segregated from that of fund manager. Over time, the company plans to completely segregate the managers of mutual funds from those of SMAs; currently, some fund managers are also assigned SMAs. Policy documentation and implementation remains largely a well addressed area across the organization. Documentation in relation to SMAs may also need to be undertaken.

The research function is well established and provides adequate support to the investment management team. Al-Meezan follows a top-down approach in investment selection. The investment process is initiated with findings by the research function while portfolio investment and re-balancing decisions are executed through the Investment Committee (IC). A review of sample minutes of the IC reflects discussion on relevant factors during the IC meetings.

With majority stake in the AMC held by Meezan Bank Limited (MBL), three out of the eight members on the Board are representatives of the bank, including the Chairman. In addition to a shared franchise, Al-Meezan draws support from MBL in the area of IT. The asset management module of T-24 is being implemented at Al-Meezan; the bank has recently deployed T-24 for its core banking operations. Moreover, MBL is the Shari'ah Advisor to the AMC's funds. The bank continues to hold sizeable investment of Rs. 8.3b in the funds under management, representing 12.8% of AUMs at end June 2014.

Overview of the Institution

Al-Meezan is engaged in asset management and investment advisory services and operates under the Non-Banking Finance Companies (NBFC) Rules, 2003. Al-Meezan is a subsidiary of Meezan Bank Limited (MBL) which holds 65% stake in the company, followed by Pakistan Kuwait Investment Company Limited (PKIC) with a stake of 30%. The AMC's financial statements for FY14 were audited by M/s A.F Ferguson & Co. Chartered Accountants JCR-VIS



JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Management Quality</u>				
03-Dec-14	AM2+	Stable		Upgrade
14-May-13	AM2	Stable		Reaffirmed
08-Mar-12	AM2	Stable		Reaffirmed
15-Apr-11	AM2	Stable		Reaffirmed
04-Feb-10	AM2	Stable		Upgrade