

## RATING REPORT

### Al-Meezan Investment Management Limited

**REPORT DATE:**

January 15, 2016

**RATING ANALYSTS:**

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**RATING DETAILS**

	Latest Rating	Previous Rating
Rating Category	<b>MQR</b>	<b>MQR</b>
MQ Rating	AM2+	AM2+
Rating Date	Dec' 31, '15	Dec 3, '14

**COMPANY INFORMATION**
**Incorporated in February 1995**
**External auditors:** AMC – A.F. Ferguson and Co.  
Chartered Accountants  
Funds – KPMG Taseer Hadi & Co.

**Key Shareholders:**
**Chairman of the Board:** Arif-ul-Islam

**Chief Executive Officer:** Mohammad Shoaib, CFA

Meezan Bank Limited – 65%

Pak Kuwait Investment Company Limited – 30%

Mohammad Shoaib, CFA – 4.9%

**APPLICABLE METHODOLOGY(IES)**
**Mutual Funds Rating (December 2006):** <http://www.jcrvis.com.pk/Images/MFund-20061201-2.pdf>

**Al-Meezan Investment Management Limited****OVERVIEW OF THE AMC**

AMIM was incorporated in February 1995 as a private limited company under the Companies Ordinance, 1984. The AMC has the required licensing to provide investment advisory and asset management services under the Non-Banking Finance Company Rules, 2003. The company registered itself as a Pension Fund Management under the Voluntary Pension Scheme Rules, 2005.

**RATING RATIONALE**

Al-Meezan Investment Management Limited (AMIM) operates in the mutual fund industry as the largest private asset management company (AMC) offering exclusively Shari'ah compliant products to customers. Barring fund of funds investment, the AMC was managing net assets worth Rs. 61b at end-FY15 (FY14: Rs. 54b) and representing a market share of 12.6% (FY14: 13.1%) (Calculated net fund of funds and associate investment). Growth in Assets under Management (AUMs) is primarily being driven by retail market penetration which AMIM prioritizes. Retail proportion has grown in quantum representing 56.8% of total AUMs at end-FY15 (FY14: 47.4%). The comparatively sticky nature of retail investment provides stability in AUMs. Growth in retail is the targeted factor for achieving the investor goal of 50,000 clients by end-FY17.

AMIM is a subsidiary of Meezan Bank Limited (MBL). Despite drawing strength from the common name and presence of 'Meezan' in Shari'ah compliant financial services, AMIM receives support via operational capacity and AUM investment. The MBL Shari'ah Supervisory Board acts as the Shari'ah advisors for the AMC and its funds under management. Furthermore, the sponsor has provided AMIM with its Temenos T24 front and back office system.

AMIM currently manages 13 funds covering a vast array of schemes. Change in investor perception due to a declining interest rate scenario, the Islamic equity fund (Meezan Islamic Income Fund) operates as the largest fund representing almost 45% of total AUMs. During the earlier months of the ongoing year the AMC launched a commodity fund by the name of 'Meezan Gold Fund'. The fund is a Shari'ah compliant commodity scheme giving investors exposure to gold prices and deployed against deliverable gold contracts traded on the Pakistan Mercantile Exchange (PMEX). Performance of the equity based funds, which represent majority of net assets, has weakened in comparison to peers. Funds maintained concentration in the Oil & Gas sector where weak price performance had a negative impact. However, the loyalty of retail customers is signified by the low-beta portfolio generated by the fund which aims to reduce lower-tail risk. The potential for upside in income and money market funds is limited by investment avenues available to Shari'ah compliant funds; low interest rates and availability of GoP (Government of Pakistan) Ijarah Sukuk has decreased yield on investment while volatility in prices is fueled by the re-pricing model of the same and of corporate sukuks. As such, going forward, the company will look to attract investors via avenues in equity and hybrid schemes, where returns are generally higher.

AMIM benefits from the expertise of an experienced senior management team in place. While turnover in the mid-tier and junior cadres is common, stability at the top management level has provided strength to the overall organization structure. Most recently, the company has also filled in the positions of Head of Sales & Marketing and Head of Special Projects. The former is an experienced sales manager charged with leading a force of 121 personnel to achieve growth targets set out by the Board of Directors. The Special Projects department has been established to work in hand with I.T and other customer related departments for providing increased value-added services to customers with the aim of improving their overall experience with AMIM. In order to meet increased work-load due to growth in size, the company has hired an additional fund manager dedicated towards SMAs (Separately Managed Accounts). The Board is expected to make a decision on the SECP (Securities & Exchange Commission of Pakistan) recommendation of segregation between the internal audit and compliance departments due to conflict of interest and adherent risk.

A core attribute of performance by the AMC is the support provided by the research department to the investment decision making process. Research is conducted purely on fundamental analysis of both listed equities and underlying entities of fixed income securities. In the case of the latter, the department undertakes a 'willingness-to-pay vs. ability-to-pay' analysis when considering investments. Strategies for portfolio composition of all funds are determined by the Investment Committee (IC). The introduction of Head of Risk Management in the IC has further strengthened the decision making ability of the committee. The IC aims to maintain risk at minimal levels, even in equity portfolios where continuous positive returns are preferred to short term gains.

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

### Al-Meezan Investment Management Limited

FINANCIAL SUMMARY		Appendix I		
<b><u>MEEZAN ISLAMIC FUND (MIF)</u></b>		<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)		27,403	16,622	9,476
Return (%)		21.6%	29.0%	51.0%
Benchmark (%)		20.1%	30.0%	54.0%
Retail Proportion (% of Net assets)		44.4%	49.3%	53.8%
Ranking Against Peers		8 out of 11	5 out of 8	1 out of 6
<b><u>AL-MEEZAN MUTUAL FUND (AMMF)</u></b>		<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)		4,007	2,847	2,190
Return (%)		22.0%	29.8%	51.0%
Benchmark (%)		20.1%	30.0%	54.0%
Retail Proportion (% of Net assets)		44.8%	36.7%	34.6%
Ranking Against Peers		7 out of 11	4 out of 8	2 out of 6
<b><u>KSE-MEEZAN INDEX FUND (KMIF)</u></b>		<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)		1,159	1,176	901
Return (%)		17.1%	26.5%	49.6%
Benchmark (%)		20.1%	29.9%	54.4%
Tracking Error (%)			3.4%	4.8%
Retail Proportion (% of Net assets)		25.1%	25.2%	
<b><u>MEEZAN ISLAMIC INCOME FUND (MIIF)</u></b>		<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)		4,263	4,918	2,645
Return (%)		8.2%	11.9%	14.5%
Benchmark (%)		5.0%	5.4%	5.5%
Retail Proportion (% of Net assets)		41.9%	30.4%	52.3%
Ranking Against Peers		4 out of 10	1 out of 10	1 out of 11
<b><u>MEEZAN SOVEREIGN FUND (MSF)</u></b>		<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)		8,657	20,281	19,654
Return (%)		6.8%	8.5%	9.1%
Benchmark (%)		6.2%	6.6%	6.9%
Retail Proportion (% of Net assets)		36.4%	33.1%	34.3%
Ranking Against Peers		1 out of 3	2 out of 3	2 out of 2
<b><u>MEEZAN CASH FUND (MCF)</u></b>		<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)		7,618	3,049	6,511
Return (%)		8.62%	8.24%	8.8%
Benchmark (%)		6.2%	6.6%	6.9%
Retail Proportion (% of Net assets)		40.0%	65.1%	47.0%
Ranking Against Peers		1 out of 4	1 out of 4	1 out of 2
<b><u>MEEZAN BALANCED FUND (MBF)</u></b>		<b>FY15</b>	<b>FY14</b>	<b>FY13</b>

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Fund Size (in Rs. millions)	3,383	1,930	1,747
Return (%)	16%	20%	32.0%
Benchmark (%)	13%	18%	30.0%
Retail Proportion (% of Net assets)	57.7%	39.1%	30.1%
<b>Ranking Against Peers</b>			
<b>MEEZAN FINANCIAL PLANNING FUND OF FUNDS (MFPFOF)</b>			
	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
<i>Aggressive Plan</i>			
Fund Size (in Rs. millions)	356	330	255
Return (%)	16.5%	22.1%	9.0%*
Benchmark (%)	15.1%	21.7%	7.9%
Retail Proportion (% of Net assets)	35.6%	39.1%	
<i>*80 days of operations</i>			
<i>Moderate Plan</i>			
Fund Size (in Rs. millions)	320	255	158
Return (%)	13.6%	17.3%	6.5%*
Benchmark (%)	12.9%	18.2%	6.2%
Retail Proportion (% of Net assets)	70.2%	75.6%	
<i>*80 days of operations</i>			
<i>Conservative Plan</i>			
Fund Size (in Rs. millions)	237	341	285
Return (%)	10.1%	12.6%	3.8%*
Benchmark (%)	8.6%	11.2%	3.6%
Retail Proportion (% of Net assets)	95.1%	58.5%	
<i>*80 days of operations</i>			
<i>Meezan Capital Preservation Plan-I</i>			
Fund Size (in Rs. millions)	1,590	-	
Return (%)	7.8%**		
Benchmark (%)	8.5%		
Retail Proportion (% of Net assets)	46.9%		
<i>**303 days of operations</i>			
<i>Meezan Capital Preservation Plan-II</i>			
Fund Size (in Rs. millions)	3,082	-	
Return (%)	0.4%***		
Benchmark (%)	2.0%		
Retail Proportion (% of Net assets)	59.2%		
<i>***196 days of operations</i>			
<b>MEEZAN TAHAFFUZ PENSION FUND</b>			
	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
<i>Equity sub-fund</i>			
Fund Size (in Rs. millions)	2,712	1,537	804
Return (%)	26.6%	32.4%	54.9%
<i>Debt sub-fund</i>			
Fund Size (in Rs. millions)	1,399	1,047	640
Return (%)	6.4%	7.7%	8.3%
<i>Money market sub-fund</i>			

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Fund Size (in Rs. millions)	338	299	303
Return (%)	6.9%	6.9%	7.8%
<b><u>MEEZAN CAPITAL PRESERVATION FUND-II</u></b>			
	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)	2,236	-	
Return (%)	10.3%		
Benchmark (%)	8.5%		
Retail Proportion (% of Net assets)	41.7%		
Ranking Against Peers			
<b><u>MEEZAN CAPITAL PRESERVATION FUND-III</u></b>			
	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Fund Size (in Rs. millions)	3,380	3,111	
Return (%)	12.09%	5.6%	
Benchmark (%)	11.96%	5.0%	
Retail Proportion (% of Net assets)	56.9%	58.2%	
Ranking Against Peers			

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**MANAGEMENT QUALITY RATINGS**

**AM1:** Highest Management Quality

**AM2+, AM2, AM2-:** High Management Quality

**AM3+, AM3, AM3-:** Good Management Quality

**AM4+, AM4, AM4-:** Adequate Management Quality

**AM5+, AM5, AM5-:** Weak Management Quality

*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.*

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**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)

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REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	<b>Al-Meezan Investment Management Limited</b>			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Outlook</b>	<b>Rating Action</b>
	<b>12/31/2015</b>	AM2+	Stable	Reaffirmed
	<b>12/3/2014</b>	AM2+	Stable	Upgrade
	<b>5/14/2013</b>	AM2	Stable	Reaffirmed
	<b>3/8/2012</b>	AM2	Stable	Reaffirmed
	<b>4/15/2011</b>	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 credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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