

RATING REPORT

Al-Meezan Investment Management Limited (AMIML)

REPORT DATE:

January 8, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
MQ Rating	AM1	AM1
<i>Rating Date</i>	<i>December'29, 2017</i>	<i>March'17, 2017</i>
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Upgrade

COMPANY INFORMATION

Incorporated in February 1995

External auditors:

AMC – EY Ford Rhodes Chartered Accountants

Funds – A.F. Ferguson and Co. Chartered Accountants
(Funds other than VPS)

– Deloitte Yousuf Adil (VPS)

Key Shareholders

Meezan Bank Limited (65%)

Pak Kuwait Investment Company (30%)

Chairman of the Board: Arif-ul-Islam

Chief Executive Officer: Mohammad Shoaib, CFA

APPLICABLE METHODOLOGY(IES)

Mutual Funds Rating (March 2016): <http://www.jcrvis.com.pk/docs/AMC-Methodology-201603.pdf>

Al-Meezan Investment Management Limited

OVERVIEW OF THE AMC	RATING RATIONALE
<p>Al-Meezan Investment Management Limited (AMIML) was incorporated in 1995 as a private limited company and changed its status to a public unlisted company in 2001.</p> <p>Shareholding pattern of the AMC did not alter over FY17 with majority stake of 65% and 30% is owned by Meezan Bank Limited (MBL) and Pak Kuwait Investment Company Limited (PKIC), with the remaining shares owned by CEO and CIO.</p> <p>As per regulatory requirement, rotation of auditors in AMIML and funds (except pension fund) was due for FY 2017-18. As a result, E & Y was appointed in AMIML and A.F. Ferguson was appointed in all funds except pension fund. M/s Deloitte Yousuf Adil & Co. were appointed as external auditors of the pension fund schemes. The Shariah Supervisory Board of MBL is authorized to act as the Shariah advisors of AMIML and their funds.</p>	<p>Assets under Management (AUM) AUMs (adjusted for fund of funds) increased by a healthy 51% to Rs. 108.9b (FY16: Rs. 71.9b) in FY17 vis-à-vis industry growth of 36%. Moreover, proportion of retail investments has been maintained at 59% of total AUMs and is the highest amongst peer AMCs. In line with industry trend, a sizeable decline in AUMs has been witnessed in the first five months of the ongoing fiscal year resulting in total AUMs being lower at Rs. 94.6b at end-November'2017. Decline in AUMs is primarily a function of lower Net asset values while redemptions have been witnessed on a limited scale. Despite the challenging operating environment, AMIML has managed to generate sizeable AUMs from new clients. The same has been facilitated by increased contribution of AUMs from distribution channel (primarily Meezan Bank Limited). Management expects AUMs from the same channel to contribute significantly to growth in AUMs, going forward. Despite the sluggish equity market performance (where a sizeable proportion of AUMs are concentrated), AUMs growth is expected to remain in line with industry trend on account of strong franchise that the institution enjoys. Separately Managed Accounts have also posted a notable increase during FY17.</p> <p>Product Suite The AMC offers a wide array of Shariah compliant investment schemes comprising equity funds, fixed income and money market funds, FoF plans, pension funds and other miscellaneous funds. Post FY16 to date, the AMC has launched equity funds, FoF plans, and a commodity fund. Meezan Islamic Fund remains the flagship fund of the company.</p> <p>Investment Management The investment decision making process is well-structured and combines a top down view with fundamental bottom-up analysis. The decision making process is committee based with the participation of key senior management personnel. Investment Committee (IC) comprises CEO, CIO, Head of Research, Head of Risk Management, and all fund managers. Composition and functioning of IC is considered adequate. 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.</p> <p>Fund Performance Performance of equity funds under management have depicted weakening in the ongoing year but are competitive over a longer time horizon. Performance of fixed income funds depicted a mixed trend with peer ranking of Meezan Cash Fund and Meezan Sovereign Fund improving while peer ranking of Meezan Islamic Income Fund was lower in FY17 vis-à-vis FY16. Given the investment management expertise, JCR-VIS expects fund performance of equity funds under management to show substantial improvement, going forward. As a key rating driver, performance of funds under management will continue to be tracked by JCR-VIS.</p> <p>Governance and Control Framework Overall corporate governance framework is supported by adequate board composition and oversight. Recently, Board Risk Management Committee has been formed which is expected to enhance risk related oversight. Senior management team comprises seasoned professionals and has largely remained stable over the years ensuring continuity of business strategy.</p> <p>Scope and operations of compliance and audit function are considered satisfactory. However, compliance with best practices requires segregation of these functions. The primary role of risk management is generating alerts for the management through regular reports on market and liquidity risk. Scope also extends to operations risk while a risk register also been put in place since last review. While credit risk reports are prepared by the investment team, the same is overseen by the risk management function.</p>

Al-Meezan Investment Management Limited
Appendix 1

FINANCIAL SUMMARY		Appendix II		
<u>MEEZAN ISLAMIC FUND (MIF)</u>		FY15	FY16	FY17
Fund Size (in Rs. millions)		27,403	32,554	54,853
Return (%)		22%	17%	23%
Benchmark (%)		20%	16%	19%
Retail Proportion (% of Net assets)		44%	48%	48%
Ranking Against Peers		8 out of 11	3 out of 16	14 out of 20
<u>AL-MEEZAN MUTUAL FUND (AMMF)</u>		FY15	FY16	FY17
Fund Size (in Rs. millions)		4,007	5,418	9,079
Return (%)		22%	16%	23%
Benchmark (%)		20%	16%	19%
Retail Proportion (% of Net assets)		52%	46%	35%
Ranking Against Peers		7 out of 11	4 out of 16	13 out of 20
<u>KSE-MEEZAN INDEX FUND (KMIF)</u>		FY15	FY16	FY17
Fund Size (in Rs. millions)		1,159	882	1,909
Return (%)		17%	13%	16%
Benchmark (%)		20%	16%	19%
Retail Proportion (% of Net assets)		25%	31%	17%
<u>MEEZAN ISLAMIC INCOME FUND (MIIF)</u>		FY15	FY16	FY17
Fund Size (in Rs. millions)		4,263	9,051	11,781
Return (%)		8%	6%	5%
Benchmark (%)		5%	4%	3%
Retail Proportion (% of Net assets)		43%	42%	47%
Ranking Against Peers		4 out of 14	3 out of 15	13 out of 18
<u>MEEZAN SOVEREIGN FUND (MSF)</u>		FY15	FY16	FY17
Fund Size (in Rs. millions)		8,657	7,945	4,334
Return (%)		7%	5%	7%
Benchmark (%)		6%	5%	5%
Retail Proportion (% of Net assets)		36%	28%	46%
Ranking Against Peers		9 out of 15	7 out of 18	1 out of 18
<u>MEEZAN CASH FUND (MCF)</u>		FY15	FY16	FY17
Fund Size (in Rs. millions)		7,618	3,432	3,350

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

Return (%)	8%	5%	6%
Benchmark (%)	6%	5%	3%
Retail Proportion (% of Net assets)	40%	66%	53%
Ranking Against Peers	1 out of 3	2 out of 3	1 out of 3
<u>MEEZAN BALANCED FUND (MBF)</u>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	3,383	4,708	9,516
Return (%)	16%	12%	15%
Benchmark (%)	13%	10%	12%
Retail Proportion (% of Net assets)	58%	61%	53%
<u>MEEZAN ASSET ALLOCATION FUND (MAAF)</u>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	460	3,251
Return (%)	-	3%	18%
Benchmark (%)	-	5%	15%
Retail Proportion (% of Net assets)	-	81%	63%
<u>MEEZAN GOLD FUNF (MGF)</u>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	321	457
Return (%)	-	11%	-7%
Benchmark (%)	-	16%	-3%
Retail Proportion (% of Net assets)	-	60%	32%
<u>MEEZAN ENERGY FUNF (MEF)</u>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	-	1,139
Return (%)	-	-	7%
Benchmark (%)	-	-	9%
Retail Proportion (% of Net assets)	-	-	62%
<u>MEEZAN FINANCIAL PLANNING FUND OF FUNDS (MFPE)</u>			
	FY15	FY16	FY17
<i>Aggressive Plan</i>			
Fund Size (in Rs. millions)	356	443	622
Return (%)	17%	13%	17%
Benchmark (%)	15%	12%	14%
Retail Proportion (% of Net assets)	36%	42%	42%
<i>Moderate Plan</i>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	320	367	408

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Return (%)	14%	11%	13%
Benchmark (%)	13%	10%	12%
Retail Proportion (% of Net assets)	70%	57%	69%
<i>Conservative Plan</i>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	237	327	413
Return (%)	10%	9%	10%
Benchmark (%)	9%	7%	8%
Retail Proportion (% of Net assets)	95%	79%	81%
<i>Meezan Asset Allocation Plan-I</i>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	1,278	1,251
Return (%)	-	12%	19%
Benchmark (%)	-	15%	17%
Retail Proportion (% of Net assets)	-	47%	44%
<i>Meezan Asset Allocation Plan-II</i>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	925	978
Return (%)	-	15%	18%
Benchmark (%)	-	18%	16%
Retail Proportion (% of Net assets)	-	44%	40%
<i>Meezan Asset Allocation Plan-III</i>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	2,851	2,922
Return (%)	-	14%	18%
Benchmark (%)	-	17%	16%
Retail Proportion (% of Net assets)	-	47%	43%
<i>Meezan Asset Allocation Plan-IV</i>			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	532	860
Return (%)	-	1%	17%
Benchmark (%)	-	0%	14%
Retail Proportion (% of Net assets)	-	91%	60%
<u>MEEZAN STRATEGIC ALLOCATION FUND (MSAP)</u>			
	FY15	FY16	FY17
<i>MSAP I</i>			
Fund Size (in Rs. millions)	-	-	2,629
Return (%)	-	-	9%

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Benchmark (%)	-	-	8%
Retail Proportion (% of Net assets)	-	-	63%
MSAP II			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	-	1,662
Return (%)	-	-	-1%
Benchmark (%)	-	-	-3%
Retail Proportion (% of Net assets)	-	-	48%
MSAP III			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	-	1,766
Return (%)	-	-	-3%
Benchmark (%)	-	-	-5%
Retail Proportion (% of Net assets)	-	-	71%
MSAP IV			
	FY15	FY16	FY17
Fund Size (in Rs. millions)	-	-	1,973
Return (%)	-	-	-3%
Benchmark (%)	-	-	-7%
Retail Proportion (% of Net assets)	-	-	66%
MEEZAN TAHAFFUZ PENSION FUND (MTPF)			
	FY15	FY16	FY17
Equity sub-fund			
Fund Size (in Rs. millions)	2,740	4,099	5,806
Return (%)	27%	18%	20%
Debt sub-fund			
Fund Size (in Rs. millions)	1,399	1,997	2,511
Return (%)	6%	5%	5%
Money market sub-fund			
Fund Size (in Rs. millions)	338	453	663
Return (%)	7%	4%	4%
Gold sub-fund			
Fund Size (in Rs. millions)	-	-	43
Return (%)	-	-	-9%

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.

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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

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

REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	Al-Meezan Investment Management Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Outlook	Rating Action
	12/29/2017	AM1	Stable	Reaffirmed
	3/17/2017	AM1	Stable	Upgrade
	5/4/2016	AM2++	Stable	Harmonized
	12/31/2015	AM2+	Stable	Reaffirmed
	12/3/2014	AM2+	Stable	Upgrade
	5/14/2013	AM2	Stable	Reaffirmed
	3/8/2012	AM2	Stable	Reaffirmed
4/15/2011	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 credit 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			
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