

RATING REPORT

Faysal Asset Management Company Limited

REPORT DATE:

30 March 2016

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Management Quality	
MQ Rating	AM3+	AM3+
Rating Outlook	Stable	Stable
Rating Date	25 Mar 2016	11 Jun 2015

COMPANY INFORMATION

Incorporated in October 2007

External auditors: **M/s A. F. Ferguson & Co., Chartered Accountants**

Unlisted Public Limited Company

Chairman of the Board: **Mr. Nauman Ansari**

Key Shareholders (with stake 5% or more):

Chief Executive Officer: **Mr. Enamullah Khan**Islamic Investment Company of the Gulf (Bahamas) Ltd
(50.00%)

Faysal Bank Limited (29.99%)

Mr. Razi ur Rahman Khan (19.97%)

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria

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

Faysal Asset Management Company Limited

OVERVIEW OF THE INSTITUTION

Faysal Asset Management Limited (FAML) was incorporated as a public unlisted company in 2003.

FAML is licensed to provide asset management and advisory services.

Financial statements of the AMC for FY15 were audited by M/s A. F.

Ferguson & Co and the internal audit department is outsourced to KPMG M/s

Taseer Hadi And Co., Chartered Accountants.

RATING RATIONALE

Faysal Asset Management Company Limited (FAML) is jointly owned by Faysal Bank Limited and Islamic Investment Company of the Gulf (Bahamas) Ltd (IICGB), both of which fall under Dar Al-Maal Al-Islami Trust (DMI). It is licensed to provide both asset management and advisory services.

The Asset Management Company (AMC) has a total of eight funds in its portfolio including income, money market, balanced and asset allocation funds. In tandem with industry trends, following tax implication in the latter half of FY15, FAML's Assets under Management (AUMs) declined from Rs. 8.7b in May 2015 to Rs. 7.7b as of June 2015. AUMs have increased subsequently and stood at Rs. 8.8b (December 2014: Rs. 8.1b) at end-December 2015. Given the declining interest rate environment, growth in AUMs has been manifested in income funds. This is due to high duration of said funds which has led to excess return because of substantial gain in underlying assets.

Investor profile has improved with growth in retail AUMs and decline in related party contribution in total AUMs. Proportion of retail investment represented almost one-third of total AUMs at end-December'2015 (FY15: 27%, FY14: 16%) while related party's contribution in total AUMs declined to 15% over six months ending December'2015 (FY15: 23%, FY14: 14%). There was a minute reduction in portfolio concentration as manifested in decreased investment by top 10 investors whose weighted average amounted to 59% (FY15: 63%, FY14: 68%) of total AUMs.

Rating Drivers

- Rating of FAML incorporates support of Faysal Bank Limited, one of the top ten banks of Pakistan with assets worth Rs. 430b as of September 2015. Further, both the parents companies i.e. FBL and IICGB fall under the banner of DMI trust, a holding company based in Bahrain.
- During FY15, Faysal Islamic Asset Allocation Fund (FIAAF) was launched. Additionally, FAML plans to launch two new funds in capital protected category and a pioneer MTS fund, which is in its pre-IPO stage. A pure equity and commodity fund is absent from the company's product suite.
- As of December 2015, 6 out of 8 funds outperformed their benchmarks. FSGF the largest fund, which accounts for approximately 50% of AUMs as of December 2015, has depicted improvement in performance and featured in the 1st quartile (during 1HFY16). Relative to peers, there is room for improvement in return as 4 funds were ranked in the 3rd quartile & 2 funds were ranked in the 4th quartile.
- FAML has revamped its distribution strategy and is targeting clients through its in-house sales team, parent bank's branches and distributors. During 1HFY16, the sales force increased to 32 employees from 16 as of June 2015. Enhanced focus on retail penetration is reflected in the increased retail AUMs to Rs. 2.9b as of December 2015 (FY15: Rs. 2.2b, FY14: Rs. 1.4b).
- Current systems and support functions adequately account for the organization's requirement. Going forward, FAML plans to employ upgraded modules like Unit Management System II (UMS) which would facilitate provision of value added services to clients, for instance ATM facility and NAV updates on SMS.
- An investment process is in place that integrates the relevant parties to facilitate decision making; Manager Risk and Head of Research are members of the Investment Committee, as well. However, the positions of Head of Internal Audit & Compliance and Manager Risk have been vacant since end January 2016 and May 2015 respectively indicating control weakness.
- Financial performance improved as the AMC reported a reduced loss of Rs. 9.85m for FY15 (FY14: Rs. 15.64m). Also, the company is short of Rs. 4m to meet the minimum capital requirement of Rs. 230m, which it plans to bridge through profit generation.

Outlook

Keeping in view the expansion plans of the company, the ability of the same to improve control infrastructure with respect to employing commensurate personnel as well as keeping portfolio allocation in line with operational limits will have a bearing on future ratings. Furthermore, performance of the AMC with regard to funds' return and the financial position of the AMC itself will be examined in the future in order to assess value provided to key stakeholders and will be noted from a ratings perspective.

BOARD OF DIRECTOR'S PROFILE

Appendix I

NAUMAN ANSARI

Chairman

Mr. Nauman Ansari is the Chairman of FAML and operates as the President and CEO of Faysal Bank Limited, as well. He has attained a Bachelor of Science degree in Business Studies from the USA. Having served in several banks including Standard Chartered Bank (Karachi), Bank of America (Karachi), ABN AMRO (in Pakistan, Middle East and Asia Pacific regions), Fortis Bank (Middle East) and Crescent Commercial Bank (Pakistan), Mr. Ansari has a vast experience of credit and banking.

ENAMULLAH KHAN

Chief Executive Officer & Director

Mr. Khan holds several FSA (Financial Services Authority) accreditations. He has 20 years of experience includes serving as Consultant with Nasdaq OMX, Managing Director - Cannon Bridge Corporation, Head of Pakistan Initiative - Cantor Fitzgerald and as Head of Sales and Trading Asia at Berkeley Futures Ltd.

OSMAN ASGHAR KHAN

Independent Director

Mr. Osman Asghar Khan is the CEO of SG Technical (Pvt.) Ltd. He is a Certified Public Accountant from USA and a Chartered Accountant from Canada and Pakistan. Moreover, he has completed his BA in Economics & International Relations and MBA from Brown University (USA) and Boston University (USA) respectively. Mr. Khan has also served as Director of National Clearing Company of Pakistan Ltd, KSE (Karachi Stock Exchange (Guarantee) Limited) and LSE (Lahore Exchange (Guarantee) Limited).

RAZI UR REHMAN

Director

Mr. Razi ur Rehman is a Chartered Accountant by profession and has held important positions like Chairman of Securities and Exchange Commission of Pakistan (SECP) and National Investment Trust (NIT) and Country Manager for Pakistan at JP Morgan Chase. He has ample experience in banking, open and close-end mutual funds management, equity brokerage and private equity investment.

SYED IBAD UR REHMAN CHISTI

Director

Mr. Chisti is serving as General Manager of the Islamic Investment Company of the Gulf (Bahamas) Limited. He has completed his BBA and MBA from Institute of Business Administration, Karachi. With emphasis on investments, real estate, private equity, trade finance, syndication, project finance and fund management, he has a broad experience of over 23 years in financial services industry.

MOHAMMAD ZAHID AHMED

Director

Mr. Ahmed is a certified Chartered Accountant from the Institute of Chartered Accountants Pakistan. He has had associations with organizations including Allergan Pharmaceuticals Inc, Pak Kuwait Investment Company, ABN Amro Bank, Dubai Islamic Bank, GIGA Group of Companies, Silk Bank and Meezan Bank. Moreover, he has also been affiliated with Pakistan Bankers Association, Sub-Committees of State Bank of Pakistan and ICAP.

MANAGEMENT PROFILE

Appendix II

UMAIRULLAH KHAN

Chief Financial Officer and Company Secretary

Mr. Umairullah Khan has obtained chartered accountant (ACA), Qualified Public Finance Accountant (APFA) and Certified Financial Consultant (CFC) certifications. He has served as a Senior Consultant in GRMS (Global Risk Management Services). His experience includes over 9 years of audit, advisory and consultancy with PricewaterhouseCoopers, Pakistan.

NADEEM BHURGRI

Chief Distribution Officer

Mr. Bhurgri has completed his Masters in Economics. With experience of over 18 years and association with banks like Standard Chartered Bank and United Bank Limited, his expertise lies in Retail Banking Sales and Marketing. Before joining Faysal, he acted as the Head of Marketing at Pakistan Remittance Initiative.

NAJAM UL HASSAN

Chief Operating Officer

Mr. Hassan has completed MBA from Institute of Business Administration and obtained Cost & Management Accountant certification. His experience spans over 17 years and includes association with organizations including Pakistan Kuwait Investment Company Ltd, JS Investment Ltd, Rahimtoola Group of Companies and TAS Engineers. Moreover he has served as CFO and Company Secretary for Pak Oman Asset Management Company Ltd, as well.

NAFEES MALIK

Head of Business Development & Investment Advisory

Mr. Malik has vast experience encompassing both local and multinational financial services with a focus on business development, Product restructuring, Marketing & Investment advisory. He is also associated with Management association of Pakistan, Institute of Capital Market & Technical committee of MUFAP. He was the Head Business Units at Primus Investment Management Ltd (A wholly owned subsidiary of Pak Brunei Investment Company), prior to joining Faysal Asset Management Company Limited.

AYUB KHUHRO

Head of Research

Mr. Khuhro earned Bachelors' degree in Economics from Lahore University of Management Sciences (LUMS). He has over 6 years of experience pertaining to Capital Market Research & Investment Advisory, which includes his association with Faysal Group as a Research Analyst for 3 years.

VASSEH AHMED

Chief Investment Officer

Mr. Ahmed has completed his Bachelors from Hull University, United Kingdom and Masters in Management from University of Surrey. He has earned a DCCP certification from the Dubai, Gold and Commodity Exchange (DGCX) as well. Prior to joining Faysal group, he worked as a spread trader in United Kingdom. His experience spans over 6 years in Treasury and Portfolio management.

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

Faysal Asset Management Company Limited

FINANCIAL SUMMARY			Appendix III
<u>Faysal Money Market Fund</u>	Dec'15	FY15	FY14
Fund Size (in Rs. millions)	1,965	3,330	5,192
Return (%)	5.63%	8.64%	8.35%
Benchmark (%)	5.56%	7.72%	8.44%
Retail Proportion (% of Net assets)	13%	11%	6%
Ranking Against Peers	12/21	14/22	11/21
Launch date: December 2010			
<u>Faysal Savings Growth Fund</u>			
Fund Size (in Rs. millions)	4,373	2,004	1,418
Return (%)	8.90%	12.81%	8.81%
Benchmark (%)	6.71%	6.61%	9.76%
Retail Proportion (% of Net assets)	35%	45%	33%
Ranking Against Peers	4/21	8/21	5/21
Launch date: May 2007			
<u>Faysal Financial Sector Opportunity Fund</u>			
Fund Size (in Rs. millions)	218	204	395
Return (%)	7.58%	7.41%	9.12%
Benchmark (%)	6.10%	8.22%	8.96%
Retail Proportion (% of Net assets)	74%	73%	33%
Ranking Against Peers	8/21	21/21	7/21
Launch date: July 2013			
<u>Faysal Islamic Saving Growth Fund</u>			
Fund Size (in Rs. millions)	641	887	665
Return (%)	4.91%	8.22%	7.65%
Benchmark (%)	4.94%	6.61%	6.92%
Retail Proportion (% of Net assets)	57%	37%	42%
Ranking Against Peers	7/10	3/10	8/10
Launch date: June 2010			
<u>Faysal Income & Growth Fund</u>			
Fund Size (in Rs. millions)	585	557	460
Return (%)	9.26%	12.14%	8.82%
Benchmark (%)	6.80%	9.03%	9.87%
Retail Proportion (% of Net assets)	26%	27%	28%
Ranking Against Peers	4/7	6/8	5/8
Launch date: October 2005			
<u>Faysal Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	659	588	126
Return (%)	0.20%	16.16%	17.01%

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Benchmark (%)	-3.20%	13.44%	30.21%
Retail Proportion (% of Net assets)	54%	34%	14%
Ranking Against Peers	7/10	6/12	5/12
Launch date: July 2006			
<u>Faysal Balanced Growth Fund</u>			
Fund Size (in Rs. millions)	144	130	120
Return (%)	9.67%	19.83%	14.69%
Benchmark (%)	-1.51%	12.42%	23.53%
Retail Proportion (% of Net assets)	23%	23%	28%
Ranking Against Peers	1/7	5/7	5/6
Launch date: April 2004			
<u>Faysal Islamic Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	245		
Return (%)	-2.80%		
Benchmark (%)	0.78%		
Retail Proportion (% of Net assets)	74%		
Ranking Against Peers	6/6		
Launch date: September 2015			

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 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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REGULATORY DISCLOSURE					Appendix V
Name of Rated Entity	Faysal Asset Management Company 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	
	25-Mar-16	AM3+	Stable	Reaffirmed	
	11-Jun-15	AM3+	Stable	Reaffirmed	
	27-Dec-13	AM3+	Stable	Reaffirmed	
	18-May-12	AM3+	Stable	Downgrade	
	20-Jan-12	AM2-		Rating Watch- Developing	
	5-May-11	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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