

RATING REPORT

Faysal Asset Management Limited

REPORT DATE:

October 16, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Management Quality	
MQ Rating	AM3+	AM3++
Rating Outlook	Stable	Stable
Rating Date	October 12, 2017	May 4, 2016

COMPANY INFORMATION

Incorporated in August 2003	External auditors: M/s A. F. Ferguson & Co., Chartered Accountants
Unlisted Public Limited Company	Chairman of the Board: Mr. Salman Ahmed Usmani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Razi ur Rahman Khan
Islamic Investment Company of the Gulf (Bahamas) Ltd – 50.00%	
Faysal Bank Limited – 30%	
Mr. Razi ur Rahman Khan – 19.97%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Asset Management Companies (March 2016) - <http://jcrvis.com.pk/kc-meth.aspx>

Faysal Asset Management Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

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 FY16 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.

Profile of Chairman

Mr. Salman Ahmed Usmani is Head of Treasury at FBL. He has an extensive experience of over 28 years in both the multinational and local banking sector. Prior to joining FBL, he was associated with MCB Bank Limited as Global Treasurer and Head Investment Banking Group.

Profile of CEO

Mr. Razi ur Rehman is a Chartered Accountant by profession and has previously held prominent positions including 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.

In 2003, Faysal Asset Management Limited (FAML) was incorporated as an unlisted public limited company. FAML's licenses for asset management and investment advisory expired on June 9, 2016 and November 17, 2016 respectively. As per Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003 regulations, the company has applied for renewal of the same.

Compliance with Minimum Capital Requirement: The company's equity level remains below regulatory minimum capital requirement of Rs. 230m. In order to bridge this gap, management is undertaking capital restructuring plan by way of a subordinated loan from its main sponsor, Faysal Bank Limited (FBL). This would enable regulatory compliance and facilitate in launching new funds. However, carrying return would not provide the revenue support given that proceeds from the loan will be placed in one of its funds; return from the fund is expected to offset cost of the loan.

Governance & Management Profile: Rating continues to be underpinned by operational losses being experienced by the company and turnover witnessed at key senior management positions since last review. Position of Manager Risk, which remained vacant since 2015, was filled in August 2017. Going forward, stability of the management team, an issue that is being addressed, is considered important to achieve long term objectives of the company.

Internal Controls & Compliance: The rating is also constrained by observed weaknesses in operational infrastructure of the organization. Despite presence of compliance and risk functions, existing information technology infrastructure for supporting aforementioned departments is not completely automated and needs to be revamped. Compliance with regulations will be regularly monitored and will be important from rating perspective.

Assets under Management: Although the AMC has revamped its sales and distribution model, the total Assets Under Management (AUMs) amounted to Rs. 8.7b (FY17: Rs. 7.9b; FY16: Rs. 8.7b; FY15: Rs. 7.7b) at end-September 2017. As per projections, AUMs are targeted to reach Rs. 30b which are likely to aid in achieving breakeven by end-FY20. Proportion of retail investment has increased over past two years with continued growth efforts in this area.

Fund Performance: FAML currently manages nine collective investment schemes including two Shariah compliant funds. Besides these, Separately Managed Accounts (SMAs) are also managed by FAML. During FY16, Faysal Margin Trading System was launched. Although performance of the company's smaller funds has depicted improvement - with respect to all other larger funds, there is room to deliver comparable returns relative to peers. Going forward, the company plans to launch new products in Shariah compliant fund of funds, plans and pure equity (conventional and Shariah compliant) categories. Moreover, the AMC is in process of converting its Faysal Balanced Growth Fund to a pure equity fund, subject to regulatory approvals.

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

Faysal Asset Management Limited

FINANCIAL SUMMARY			Appendix III
<u>Faysal Money Market Fund</u>	FY17	FY16	FY15
Fund Size (in Rs. millions)	783	757	3,330
Return (%)	7.14%	5.34%	8.64%
Benchmark (%)	5.25%	5.34%	7.72%
Retail Proportion (% of Net assets)	19.2%	13.6%	11%
Ranking Against Peers	7/22	11/22	14/22
Launch date: December 2010			
<u>Faysal Savings Growth Fund</u>			
Fund Size (in Rs. millions)	3,148	2,847	2,004
Return (%)	5.99%	7.75%	12.81%
Benchmark (%)	6.10%	6.50%	6.61%
Retail Proportion (% of Net assets)	34.8%	32.7%	45%
Ranking Against Peers	13/29	9/28	8/21
Launch date: May 2007			
<u>Faysal Financial Sector Opportunity Fund</u>			
Fund Size (in Rs. millions)	102	191	204
Return (%)	5.27%	7.08%	7.41%
Benchmark (%)	6.10%	5.88%	8.22%
Retail Proportion (% of Net assets)	56.3%	70.4%	73%
Ranking Against Peers	17/29	16/28	21/21
Launch date: July 2013			
<u>Faysal Islamic Saving Growth Fund</u>			
Fund Size (in Rs. millions)	1,254	636	887
Return (%)	5.30%	5.50%	8.22%
Benchmark (%)	3.11%	4.68%	6.61%
Retail Proportion (% of Net assets)	34.1%	62.4%	37%
Ranking Against Peers	10/16	4/15	3/10
Launch date: June 2010			
<u>Faysal Income & Growth Fund</u>			
Fund Size (in Rs. millions)	1,003	1,836	557
Return (%)	4.56%	9.41%	12.14%
Benchmark (%)	6.40%	6.59%	9.03%
Retail Proportion (% of Net assets)	19.2%	45.0%	27%
Ranking Against Peers	6/7	4/7	6/8
Launch date: October 2005			
<u>Faysal Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	702	739	588
Return (%)	4.67%	-2.46%	16.16%
Benchmark (%)	20.73%	9.14%	13.44%

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Retail Proportion (% of Net assets)	62.70%	36.8%	34%
Ranking Against Peers	9/11	10/11	6/12
Launch date: July 2006			
<u>Faysal Balanced Growth Fund</u>			
Fund Size (in Rs. millions)	311	107	130
Return (%)	14.30%	7.39%	19.83%
Benchmark (%)	17.32%	8.60%	12.42%
Retail Proportion (% of Net assets)	47.80%	31.0%	23%
Ranking Against Peers	6/7	2/6	5/7
Launch date: April 2004			
<u>Faysal Islamic Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	374	193	
Return (%)	23.04%	-4.02%	
Benchmark (%)	15.40%	14.45%	
Retail Proportion (% of Net assets)	62.90%	69.2%	
Ranking Against Peers	2/10	9/9	
Launch date: September 2015			
<u>Faysal Margin Trading System Fund</u>			
Fund Size (in Rs. millions)	173	176	
Return (%)	6.14%	5.96%	
Benchmark (%)	6.10%	5.51%	
Retail Proportion (% of Net assets)	53.0%	32.5%	
Ranking Against Peers	12/29	26/28	
Launch date: April 2016			

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.

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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

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

REGULATORY DISCLOSURE		Appendix V		
Name of Rated Entity	Faysal Asset 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-Oct-17	AM3+	Stable	Downgrade
	4-May-16	AM3++	Stable	Harmonized
	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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