

RATING REPORT

Faysal Asset Management Limited

REPORT DATE:

March 20, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Management Quality	
MQ Rating	AM3	AM3+
Rating Outlook	Rating Watch – Developing	Stable
Rating Date	March 19, 2018	October 12, 2017

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 – 30.00%	
Mr. Razi ur Rahman Khan – 19.97%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Rating Methodology - Asset Management Companies (March 2016) -

<http://jcrvis.com.pk/docs/AMC-Methodology-201603.pdf>

Faysal Asset Management 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 FY17 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. Razq 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.

RATING RATIONALE

Faysal Asset Management Limited (FAML) was established as an asset management company in 2003. FAML also functions as an investment advisor for High Net Worth Individuals (HNWIs). Licenses for these two business lines expired in 2016; renewal of the same is awaited.

The rating takes into account profile of the sponsors including Islamic Investment Company of the Gulf (Bahamas) Ltd and Faysal Bank Limited. However, given the historical operational losses incurred by FAML over time, the company's equity level remains below regulatory minimum capital requirement of Rs. 230m. In order to bridge this gap, management plans to undertake a capital restructuring plan by way of which an equity injection / a sponsor subordinated loan would be obtained; regulatory approval for this loan is awaited. While this will aid FAML in fulfilling the capital requirement, operational breakeven would be achieved once a sufficient level of Assets under Management (AUMs) is reached. In case of capitalization through a priced subordinated loan, this would increase the liquidity and capitalization levels of the company. Nonetheless, its effective utilization to generate sustainable AUMs and control operational losses would be seen over time. Faysal Bank Limited also plans to buy stake of existing shareholders in the coming year; developments in this regard are yet to seen.

Total AUMs amounted to Rs. 8.2b (1Q18: Rs. 8.7b; FY17: Rs. 7.9b) at end-February 2018. As per management projections, achieving a targeted AUM level of Rs. 30b is expected to aid in achieving breakeven by end-FY20. FAML manages a total of nine Collective Investment Schemes. Barring two income funds, majority of funds' performance belonged in the lower quartiles; returns from these funds depict significant room for improvement relative to peers.

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

Faysal Asset Management Limited

FINANCIAL SUMMARY			Appendix I
<u>Faysal Money Market Fund</u>	8M18	FY17	FY16
Fund Size (in Rs. millions)	2,459	783	757
Return (%)	5.05	7.14	5.34
Benchmark (%)	5.21	5.25	5.34
Retail Proportion (% of Net assets) – HY18	-	19.2	13.6
Ranking Against Peers	12/22	7/22	11/22
Launch date: December 2010			
<u>Faysal Savings Growth Fund</u>			
Fund Size (in Rs. millions)	2,348	3,148	2,847
Return (%)	4.20	5.99	7.75
Benchmark (%)	6.21	6.10	6.50
Retail Proportion (% of Net assets) – HY18	-	34.8	32.7
Ranking Against Peers	26/29	13/29	9/28
Launch date: May 2007			
<u>Faysal Financial Sector Opportunity Fund</u>			
Fund Size (in Rs. millions)	142	102	191
Return (%)	4.28	5.27	7.08
Benchmark (%)	6.21	6.10	5.88
Retail Proportion (% of Net assets) – HY18	-	56.3	70.4
Ranking Against Peers	27/29	17/29	16/28
Launch date: July 2013			
<u>Faysal Islamic Saving Growth Fund</u>			
Fund Size (in Rs. millions)	1,137	1,254	636
Return (%)	4.13	5.30	5.50
Benchmark (%)	2.47	3.11	4.68
Retail Proportion (% of Net assets) – HY18	-	34.1	62.4
Ranking Against Peers	11/19	10/16	4/15
Launch date: June 2010			
<u>Faysal Income & Growth Fund</u>			
Fund Size (in Rs. millions)	934	1,003	1,836
Return (%)	4.63	4.56	9.41
Benchmark (%)	6.51	6.40	6.59
Retail Proportion (% of Net assets) – HY18	-	19.2	45.0
Ranking Against Peers	3/7	6/7	4/7
Launch date: October 2005			
<u>Faysal Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	318	702	739
Return (%)	-16.51	4.67	-2.46
Benchmark (%)	-4.14	20.73	9.14

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Retail Proportion (% of Net assets) – HY18	-	62.70%	36.8
Ranking Against Peers	11/12	9/11	10/11
Launch date: July 2006			
<u>Faysal Balanced Growth Fund (renamed as Faysal Stock Fund in FY18)</u>			
Fund Size (in Rs. millions)	186	311	107
Return (%)	-12.55	14.30	7.39
Benchmark (%)	-3.05	17.32	8.60
Retail Proportion (% of Net assets) – HY18	-	47.80	31.0
Ranking Against Peers	15/22	6/7	2/6
Launch date: April 2004			
<u>Faysal Islamic Asset Allocation Fund</u>			
Fund Size (in Rs. millions)	448	374	193
Return (%)	-14.10	23.04	-4.02
Benchmark (%)	-3.59	15.40	14.45
Retail Proportion (% of Net assets) – HY18	-	62.90	69.2
Ranking Against Peers	9/11	2/10	9/9
Launch date: September 2015			
<u>Faysal Margin Trading System Fund</u>			
Fund Size (in Rs. millions)	275	173	176
Return (%)	5.29	6.14	5.96%
Benchmark (%)	6.21	6.10	5.51%
Retail Proportion (% of Net assets) – HY18	-	53.0	32.5%
Ranking Against Peers	7/29	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.

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.

For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

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	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
	19-Mar-18	AM3	Rating Watch – Developing	Downgrade
	12-Oct-17	AM3+	Stable	Downgrade
	4-May-16	AM3++	Stable	Harmonized
	25-Mar-16	AM3+	Stable	Reaffirmed
	11-Jun-15	AM3+	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.			
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