

RATING REPORT

HBL Asset Management Limited

REPORT DATE:

February 18, 2016

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2-	AM2-
Rating Outlook	Stable	Stable
Rating Date	January 14, '16	March 13, '15

COMPANY INFORMATION

Incorporated in 2006	External auditors: Ernst & Young Ford Rhodes Sidat Hyder
Unlisted Public Limited Company	Chairman of the Board: Mr. Tawfiq Habib Chinoy
Key Shareholders:	Chief Executive Officer: Mr. Rehan N. Shaikh
Habib Bank Limited – 100%	

APPLICABLE METHODOLOGY(IES)

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

HBL Asset Management Limited

OVERVIEW OF THE INSTITUTION

HBL AMC was incorporated in 2006 as an unlisted public limited company under companies ordinance, 1984. It is licensed to conduct asset management and investment advisory services. The company is a wholly owned subsidiary of Habib Bank Limited. Financial statements of AMC for FY15 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants. Internal Audit is outsourced to M/s A.F. Ferguson, Chartered Accountants

RATING RATIONALE

The ratings assigned to HBL Asset Management Limited (HBL AMC) takes into account presence of a structured investment process and sound control infrastructure. The AMC benefits from parental support and commitment from its single shareholder, HBL, the largest commercial bank in the country.

HBL AMC has a market share of around 4% in the domestic asset management industry. After declining by around 9% during FY15, the AUM's have posted some recovery during the ongoing year. HBL AMC manages a diversified product portfolio of 9 funds catering to conventional and Islamic investors. While management had earlier planned to launch 5 new funds during FY15, only one new fund could be launched. HBL Mustahekum Sarmaya Fund-1, a capital protected fund, was launched in January, 2015 with an initial investment of around Rs. 1.9b. The AMC aims to better align product suit with investors evolving needs and the competitive environment. An Islamic asset allocation fund has been launched on January 07, 2016. Albeit improving on a year-on-year basis, unit holder continues to feature sizeable concentration with retail investors representing 20.9% of total investment at end-FY15 (FY14: 10%). More than 40% of the AUMs represent investment from HBL.

HBL AMC's senior management team is experienced. Vacancies created following the resignation of two fund managers were timely filled by hiring a qualified external resource and an internal promotion. Moreover, the AMC has inducted dedicated head of departments for conventional and Islamic sales. There is room for improvement in the organizational structure of the AMC. The IT platform is adequate and supports the growing operations of the company. HR automated system was implemented during FY15.

HBL AMC has instituted an autonomous investment process along with formalized decision making. Secondary research is well documented. Risk and control functions are separated from investment management. While there is a process in place to monitor key risk metrics on an ongoing basis, risk management framework may be further strengthened with the implementation of various risk limits. There were no material investment breaches during the period under review. Overall investment strategy of the AMC is risk averse. Stocks funds are predominately invested in blue chip companies which have underperformed during the outgoing year. Resultantly, performance of stock funds remained depressed. Returns of the income and money market funds remained largely competitive.

HBL AMC distribution network comprises own sales force, sponsoring bank branches and third party distributors. Strength of the own sales force has been strengthened. A target based approach is followed whereby monthly sales targets are allocated to each team member. Numbers of HBL branches which sell AMC products have been gradually increased to over 250 ((FY14: 82 branches). During the outgoing year, the AMC channelized the sales of the newly launched capital protected fund through HBL branches. Meanwhile, growth of the investment advisory function has been subdued; SMA portfolio was reported well below the target.

HBL Asset Management Limited

FINANCIAL SUMMARY		Appendix I		
<u>HBL Money Market Fund</u>		1QFY16	FY15	FY14
Fund Size (in Rs. millions)		5,333	5,079	9,778
Return (%)		5.70%	8.79%	8.08%
Benchmark (%)		5.92%	7.88%	8.46%
Retail Proportion (% of Net assets)		-	23%	10%
Ranking Against Peers		14 out of 22	5 out of 22	16 out of 21
<u>HBL Islamic Money Market Fund</u>		1QFY16	FY15	FY14
Fund Size (in Rs. millions)		470	457	446
Return (%)		4.84%	6.70%	6.86%
Benchmark (%)		5.72%	6.75%	6.62%
Retail Proportion (% of Net assets)		-	16%	18%
Ranking Against Peers		2 out of 4	2 out of 4	2 out of 4
<u>HBL Income Fund</u>		1QFY16	FY15	FY14
Fund Size (in Rs. millions)		5,478	3,374	2,767
Return (%)		9.28%	12.44%	9.91%
Benchmark (%)		6.97%	9.00%	9.82%
Retail Proportion (% of Net assets)		-	33%	20%
Ranking Against Peers		12 out of 28	16 out of 28	2 out of 27
<u>HBL Stock Fund</u>		1QFY16	FY15	FY14
Fund Size (in Rs. millions)		4,188	4,391	4,078
Return (%)		-4.74%	8.04%	27.40%
Benchmark (%)		-6.14%	16.01%	41.16%
Retail Proportion (% of Net assets)		-	2%	2%
Ranking Against Peers		11 out of 21	20 out of 21	20 out of 23
<u>HBL Islamic Stock Fund</u>		1QFY16	FY15	FY14
Fund Size (in Rs. millions)		757	784	779
Return (%)		-7.01%	11.63%	30.17%
Benchmark (%)		-5.56%	20.10%	29.89%
Retail Proportion (% of Net assets)		-	13%	8%
Ranking Against Peers		10 out of 13	11 out of 13	2 out of 9
<u>HBL Pension Fund</u>		1QFY16	FY15	FY14
Fund Size (in Rs. millions)		408	422	325
Return (%) - Debt		10.46%	11.01%	7.44%
Ranking Against Peers		3 out of 8	6 out of 8	4 out of 6
Return (%) – Money market		4.67%	6.88%	7.13%
Ranking Against Peers		6 out of 8	5 out of 8	5 out of 6
Return (%) - Equity		-2.57%	31.58%	25.56%
Ranking Against Peers		4 out of 8	4 out of 8	6 out of 6
<u>HBL Islamic Pension Fund</u>		1QFY16	FY15	FY14
Fund Size (in Rs. millions)		282	285	233
Return (%) - Debt		3.43%	4.97%	7.04%
Ranking Against Peers		7 out of 9	6 out of 9	6 out of 7
Return (%) – Money market		3.06%	5.28%	6.08%
Ranking Against Peers		7 out of 9	7 out of 9	7 out of 7
Return (%) - Equity		-5.09%	25.92%	44.41%
Ranking Against Peers		5 out of 9	7 out of 9	2 out of 7

<u>HBL Multi Asset Fund</u>	1QFY16	FY15	FY14
Fund Size (in Rs. millions)	723	767	744
Return (%)	-2.05%	4.83%	23.75%
Benchmark (%)	-2.20%	12.5%	25.49%
Retail Proportion (% of Net assets)	-	13%	14%
Ranking Against Peers	2 out of 7	7 out of 7	3 out of 6
<u>HBL Mustahekum Sarmaya Fund1</u>	1QFY16	FY15	
Fund Size (in Rs. millions)	1,943	1,933	
Return (%)	0.97%	1.73%	
Benchmark (%)	-0.55%	2.42%	
Retail Proportion (% of Net assets)	-	45%	
Ranking Against Peers	1 out of 2	2 out of 2	

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

REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	HBL 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
	01/14/2016	AM2-	Stable	Reaffirmed
	3/13/2015	AM2-	Stable	Reaffirmed
	10/21/2013	AM2-	Stable	Upgrade
	12/26/2012	AM3+	Positive	Reaffirmed
	10/20/2011	AM3+	Positive	Maintained
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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