

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

RATING REPORT

HBL Asset Management Limited

REPORT DATE:

February 13, 2017

RATING ANALYSTS:

Jazib Ahmed, CFA
jazib.abmed@jcrvis.com.pk

Momina Masood

momina.masood@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2	AM2 (Harmonized)
Rating Outlook	Positive	Stable
Rating Date	December 30, '16	January 14, '16

COMPANY INFORMATION

Incorporated in 2006	External auditors: A. F. Fergusons
Unlisted Public Limited Company	Chairman of the Board: Mr. Taufiq Habib Chinoy
Key Shareholders:	Chief Executive Officer: Mr. Farid Ahmed Khan
Habib Bank Limited – 100%	

APPLICABLE METHODOLOGY(IES)

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

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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.

Profile of Chairman

Mr. Towfiq Habib Chinoy was associated with International Industries Ltd. (IIL) and International Steels Ltd. (ISL) since 1964. Mr. Chinoy is currently serving as non-executive Chairman of Jubilee General Insurance Company Ltd. and Packages Ltd.

Profile of CEO

Mr. Farid Ahmed Khan, CFA has been involved with capital markets for over 22 years. He has previously served in same capacity at other AMCs as well. Mr. Khan serves on the Board of various organizations as well.

Financial Snapshot

Net Equity: 9M16 – Rs. 618m, Dec'15 – Rs. 585m,
Net Profit: 9M16 – Rs. 33m, Dec'15 – Rs. 89m

RATING RATIONALE

Acquisition of PICIC AMC: During FY16, HBL AMC acquired 100% stake in PICIC AMC; the acquisition increased HBL AMC's market share to 8.5% from 3.2%. The combined entity has a greater footprint, which may give it a launching pad to grow further.

Sponsor Support: The AMC is a wholly owned subsidiary of HBL bank, the largest private sector bank asset-wise. The parent bank provides support through funding subsidiary's business ventures, retail penetration through HBL's wealth management and shared infrastructure.

Corporate Governance: Complying with best practices of corporate governance, the chairperson of Board Audit Committee was changed to an independent director. Moreover, in accordance with SECP's directives, the management segregated Risk Management and Compliance functions. In light of the merger, the company has engaged in process of revising policies and Standard Operating Procedures (SOPs). Post-merger, evolving internal control structure, policies consolidation and common SOPs are important from governance perspective.

Management Team: Over the period under review, management has made dedicated efforts to improve the organizational structure by re-defining roles and reporting lines. Moreover, the re-vamped management team includes seasoned professionals from asset management industry with a proven track record of performance. As part of restructuring, the management has inducted Chief Investment Officer, who has relevant experience in the same industry. Stability of management team remains significant from rating's perspective. Smooth integration of Human Resource (HR) culture of two merging entities would be a rating driver, going forward.

Assets Under Management (AUMs): As at end June'16, PICIC AMC and HBL AMC's AUMs amounted to Rs. 23.0b and Rs. 20.9b respectively; these two entities were subsequently merged in September 2016. Currently, the AMC manages a product suite of 18 funds; 2 close ended, 2 voluntary pension schemes and 14 open ended funds including Shariah compliant and conventional schemes. The management is in the process of altering investment schemes to offer products aligned to client requirements and address overlapping concerns, if any.

Over FY16, AUMs profile was altered; retail holdings stood higher at 35% (FY15: 24%), associated declined to 24% (FY15: 48%) and unrelated corporates accounted for higher 41% (FY15: 27%).

Fund Performance: Over FY16, fund performance was compromised attributable to transitional phase of the organization. 10 out of 14 open ended funds were categorized in third and fourth quartiles. However, given the experienced new team and restructuring we expect fund performance to improve going forward; same will be tested over time.

Although the entities were formally merged in September 2016, FY16 numbers in the report are using amalgamated numbers

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HBL Asset Management Limited

FINANCIAL SUMMARY			Appendix I
HBL Money Market Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	3,523	5,079	9,778
Return (%)	5.1%	8.8%	8.1%
Benchmark (%)	5.5%	7.9%	8.5%
Retail Proportion (% of Net assets)	23%	23%	10%
Ranking Against Peers	19 out of 22	9 out of 22	16 out of 21
HBL Islamic Money Market Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	507	457	446
Return (%)	4.3%	6.7%	6.9%
Benchmark (%)	5.4%	6.8%	6.6%
Retail Proportion (% of Net assets)	15%	16%	18%
Ranking Against Peers	3 out of 3	2 out of 3	2 out of 4
HBL Income Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	6,726	3,376	2,767
Return (%)	6.1%	12.4%	9.9%
Benchmark (%)	6.5%	9.0%	9.8%
Retail Proportion (% of Net assets)	64%	33%	20%
Ranking Against Peers	25 out of 28	15 out of 27	2 out of 27
HBL Stock Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	4,519	4,391	4,078
Return (%)	2.4%	8.1%	27.74%
Benchmark (%)	9.8%	16.0%	41.2%
Retail Proportion (% of Net assets)	3%	2%	2%
Ranking Against Peers	17 out of 20	20 out of 20	20 out of 23
HBL Islamic Stock Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	785	784	779
Return (%)	1.0%	11.6%	30.2%
Benchmark (%)	15.5%	20.1%	30.0%
Retail Proportion (% of Net assets)	11%	13%	8%
Ranking Against Peers	16 out of 16	11 out of 11	2 out of 9
HBL Pension Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	482	422	325
Return (%) - Debt	8.0%	11.0%	7.4%
Return (%) – Money market	9.0%	6.9%	7.1%
Return (%) - Equity	4.2%	31.6%	25.5%
HBL Islamic Pension Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	315	285	233
Return (%) - Debt	3.2%	5.0%	7.0%
Return (%) – Money market	5.6%	5.3%	6.1%
Return (%) - Equity	2.8%	25.9%	44.4%
HBL Multi Asset Fund	FY16	FY15	FY14
Fund Size (in Rs. millions)	766	767	744

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Return (%)	5.9%	4.9%	24.1%
Benchmark (%)	7.4%	11.2%	23.1%
Retail Proportion (% of Net assets)	12%	13%	14%
<u>HBL Mustahekum Sarmaya Fund1</u>	FY16	FY15	FY14
Fund Size (in Rs. millions)	1,906	1,934	-
Return (%)	5.4%	1.7%	
Benchmark (%)	3.4%	1.41%	
Retail Proportion (% of Net assets)	45%	45%	
<u>HBL Islamic Asset Allocation Fund</u>	FY16	FY15	FY14
Fund Size (in Rs. millions)	1,350	-	-
Return (%)	3.34%		
Benchmark (%)	6.71%		
Retail Proportion (% of Net assets)	47%		

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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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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
	12/30/2016	AM2	Positive	Maintained
	5/4/2016	AM2	Stable	Harmonized
	1/14/2016	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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