

RATING REPORT

Pak Oman Asset Management Company Limited

REPORT DATE:

May 27, 2016

RATING ANALYSTS:

Muniba Khan

muniba.khan@jcrvis.com.pk

Danish Mashadi

danish.mashadi@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
	Management Quality Rating	Management Quality Rating
Rating Category	AM4++	AM4++
Management Quality	AM4++	AM4++
Rating Outlook	Positive	Positive
Outlook Date	May 25, 2016	May 4, 2016

COMPANY INFORMATION

Incorporated in 2006	External auditors: Deloitte Yousuf Adil & Co. Chartered Accountants
Non-Banking Finance Company	Chairman of the Board: H.E. Yahya Bin Said Bin Abdullah Al-Jabri
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Adeel Ahmad Khan
<i>Pak Oman Investment Company Limited – 95.7%</i>	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Mutual Fund Rating (March 2016)*

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

Pak Oman Asset Management Company Limited

OVERVIEW OF THE INSTITUTION

Pak Oman Asset Management Company Limited was incorporated in Pakistan on July 28, 2006 as an unlisted public limited company. Financial statements of Pak Oman Asset Management Company Limited for FY15 were audited by M/s M. Yousuf Adil Saleem & Co Chartered Accountants

RATING RATIONALE

Pak Oman Asset Management Company Limited (POAMCL) is majority owned by Pak Oman Investment Company Limited (POICL). Other shareholders of the company include Oman International Development and Investment Company SAOG (OMINVEST), National Logistics Cell Staff Retirement Benefit Fund (NLC SRBF) and Bank Muscat. It is licensed to provide both asset management and investment advisory services.

The Asset Management Company (AMC) has a total of four funds in its portfolio; two of which are conventional and the other two Sharia'h compliant; two of these funds are income funds while the other two are asset allocation funds. At end-March 2016, POAMCL's total assets under management (AUMs) amounted to Rs. 1.1b (FY15: Rs. 1.48b, FY14: Rs. 1.53b). Investment by associates comprises significant proportion of total AUMs, with the same amounting 98.5% at end-FY15, thereafter improving to 88.3% at end-9M16.

Rating Drivers

- **Sponsors:** The AMC enjoys strong sponsorship profile with major shareholding vested with Pak Oman Investment Company Limited (POICL), a joint venture of Government of Pakistan and Sultanate of Oman. Strong financial support was exhibited during 2015 by parent entity through an equity injection of Rs. 230m. This enabled POAMCL to comply with minimum entity requirement of Rs.230m. Moreover, another Rs. 100m is further expected in 2016.
- **Management Induction:** During the period ending March 2016, key management resources were appointed. In October 2015, Mr. Adeel Ahmad Khan was appointed as CEO. Along with him, Head of Internal Audit and Head of Risk & Compliance were also appointed in 2016. Moreover, a resource for business development and a separate fund manager for its SMA portfolio were also hired. To date, POAMCL has a SMA portfolio amounting to Rs. 20m.
- **Revised Business Plan:** New team at POAMCL has developed a business plan for the coming years. According to the plan, the company will primarily focus on developing a track record for its funds. This would, in turn, build investor confidence and bring about growth in AUMs. Higher AUMs would absorb the company's expenses and achieve profitability in a more sustainable manner. In order to save costs, the management intends to utilize the existing infrastructure and branch network of its associate, Pak Oman Microfinance Bank Limited, for distribution of funds. However, outcome of these efforts are yet to be seen.
- **Fund Performance:** Almost all funds have outperformed their benchmarks as at March 2016 with the exception of POAIF. Relative performance of funds, with respect to peers, mostly resides in the higher quartiles on Year to Date basis. Despite POGSF being the largest managed fund of POAMCL, performance of the fund has consistently remained in the lower quartiles during the past two years.
- **Concentration in Funds:** Given reduced investor confidence, total investor base declined on a timeline basis prior to sponsor equity injection. As a result of investment by associates during 2015, concentration of related party investments continues to comprise majority of total AUMs.
- **Financials:** Financial performance improved as the AMC reported a reduced loss of Rs. 0.5m for December 2016 (FY15: loss of Rs. 17.2m). The company will need to grow its management fee base in order to create sustainable operating profitability.

Pak Oman Asset Management Company Limited

FINANCIAL SUMMARY Appendix I			
<u>Pak Oman Advantage Asset Allocation Fund</u>	FY14	FY15	9M16
Net Assets (Rs. in Millions)	101.4	114.2	158.0
Return	8.74%	12.62%	3.61%
Benchmark	25.49%	12.5%	0.65%
Peer Average	16.96%	15.33%	1.46%
Relative Ranking	9 out of 11	8 out of 12	5 out of 11
<u>Pak Oman Islamic Asset Allocation Fund</u>	FY14	FY15	9M16
Net Assets (Rs. in Millions)	106.7	123.1	119.7
Return	17.32%	15.61%	6.78%
Benchmark	18.21%	13.32%	2.82%
Peer Average	17.12%	22.99%	-0.47%
Relative Ranking	4 out of 5	4 out of 5	1 out of 7
<u>Pak Oman Advantage Islamic Income Fund</u>	FY14	FY15	9M16
Net Assets (Rs. in Millions)	147.0	100.4	201.2
Return	3.43%	4.77%	4.28%
Benchmark	6.54%	6.55%	4.99%
Peer Average	8.02%	7.05%	5.18%
Relative Ranking	12 out of 12	13 out of 13	13 out of 15
<u>Pak Oman Government Securities Fund</u>	FY14	FY15	9M16
Net Assets (Rs. in Millions)	47.7	105.1	614.6
Return	7.08%	8.63%	7.69%
Benchmark	8.67%	8.12%	5.93%
Peer Average	8.29%	13.91%	7.89%
Relative Ranking	6 out of 6	7 out of 8	4 out of 8

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: MUTUAL FUNDS

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be solely determined by investors.

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

FUND PERFORMANCE RANKINGS

MFR 5-Star (top 10%) Very good performance

MFR 4-Star (next 22.5%) Good performance

MFR 3-Star (next 35%) Average performance

MFR 2-Star (next 22.5%) Below average performance

MFR 1-Star (last 10%) Weak performance

Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.

FUND STABILITY RATINGS

AAA(f)

Highest degree of stability in Net Asset Value; Risk is negligible with very low sensitivity to changing economic conditions.

AA+(f), AA(f), AA-(f)

High degree of stability in Net Asset Value; Risk is modest but may vary slightly from time to time because of changing economic conditions.

A+(f), A(f), A-(f)

Moderate degree of stability in Net Asset Value; Risk factors may vary with possible changes in the economy.

BBB+(f), BBB(f), BBB-(f)

Adequate degree of stability in Net Asset Value; Risk factors are considered variable if changes occur in the economy.

BB+(f), BB(f), BB-(f)

Low degree of stability in Net Asset Value; Risk factors are sensitive to changes in the economy.

B(f)

Very low degree of stability in Net Asset Value; Risk factors are capable of fluctuating widely if changes occur in the economy.

The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

While no outlook is assigned to the fund stability rating, the same may be placed under 'Rating Watch' if JCR-VIS views that the status of the assigned rating is uncertain and there are conditions present that necessitate reevaluation of the assigned rating. JCR-VIS also designates direction, Positive, Negative or Developing, to ratings placed under 'Rating Watch'. This shows JCR-VIS's opinion regarding the likely direction of a rating. Developments in factors other than those that necessitated the 'Rating Watch' may result in a rating change, while the rating continues to be placed under 'Rating Watch'.

REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	Pak Oman Asset Management Company Limited			
Sector	Non-Banking Finance Company			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	5/25/2016	AM4++	Positive	Reaffirmed
	5/4/2016	AM4++	Positive	Harmonized
	6/11/2015	AM4+	Positive	Maintained
	3/6/2015	AM4+	Stable	Downgrade
	12/31/2014	AM3-	Rating Watch – Developing	Reaffirmed on Rating Watch
	7/15/2013	AM3-		Rating Watch- Developing
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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