

RATING REPORT

JS Investments Limited

REPORT DATE:

January 26, 2017

RATING ANALYSTS:

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RATING DETAILS		
	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2	AM2 (Harmonised)
Rating Date	January 05, 17	May 04, 16

COMPANY INFORMATION

Incorporated in February 1995	External auditors: AMC – E&Y Ford Rhodes Sidat Hyder, Chartered Accountants
	Chairman of the Board: Mr. Basir Shamsie
Key Shareholders: (above 5%)	Chief Executive Officer: Dr. Ali Akhtar Ali
JS Bank Limited – 65%	
Individuals – 19%	
Organizations – 5%	

APPLICABLE METHODOLOGY(IES)

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

JS Investments Limited

OVERVIEW OF THE AMC

JS Investments Limited (JSIL) was incorporated in 1995 as a public listed company under the Companies Ordinance 1984. The company is a subsidiary of JS Bank Limited. JSIL has obtained required licensing for offering asset management, pension fund management and investment advisory services

Profile of Chairman

Mr. Basir Shamsie has been associated with JS Group since 1994 and is presently overseeing the Treasury, Wholesale and International Banking Group of JS Bank. Mr. Shamsie is a debt markets specialist and has closed various landmark debt transactions.

Profile of CEO

Dr. Ali has over 15 years of active experience in both Fixed Income and Equity markets of Pakistan. Dr. Ali has been associated with other financial institutions such as KASB Capital Limited, KASB Securities and BMA Capital Management.

Financial Snapshot

Net Equity: 9M16 – Rs. 2.20b, Dec'15 – Rs. 2.31b,

Net Profit: 9M16 – Rs. 32m, Dec'15 – Rs. 174m

RATING RATIONALE

Market Share and Product suite: As at end June 2016, JS Investment Limited (JSIL), the oldest private asset management company accounts for 1.7% (FY15: 1.9%; FY14: 3.2%; FY13: 3.6%) of total market Assets Under Management (AUMs) adjusted for fund of funds and associates. The Asset Management Company (AMC) offers 10 collective schemes and 2 voluntary pension fund schemes, including both conventional and Shariah compliant products.

Sponsor support: The company operates as a subsidiary of JS Bank limited, which is the majority stakeholder (FY16: 65.2%, FY15: 52.2%). During FY16, the organization bought back 19.8m shares, reducing total shares outstanding to 80.2m. The company gains support from parent bank through 'Space Utilization and Facilitation Agreement', as per which the AMC utilizes bank's branches to sell its products

Assets under Management (AUMs): AUMs have been on a declining trend since 2010; however it has shown an uptick in the ongoing year and recouped at 2010 levels. Over FY16, AUMs remained stagnant at Rs. 8.7b (FY15: Rs. 8.6b), however it has improved to Rs. 11.2b as at end November 2016. Around 40% (FY16: 42%; FY15: 40%) of AUMs pertain to retail investors and it has been maintained on a timeline basis. However, top 10 investors account for a sizeable percentage (Nov'16: 73%; FY16: 65%; FY15: 67%), making the entity susceptible to concentration risk.

Management Team: During FY16, Head of Research moved to the fund management department and Chief Investment Officer resigned from his position, thus the positions remained vacant for around six months. Subsequently, the positions were filled through external hiring; the aforementioned delay in recruiting for key positions is not commensurate with assigned rating.

Sales force: Since last year, the board and management are making on-going efforts to re-vamp the sales force. The management strengthened its sales team to 80 people as at end November'16, against 11 people as at end June'15; the induction was largely from banking sector. Moreover, branch network is extended to 39 branches (FY15: 13 branches). The enhanced sales team is accredited for the uptick evidenced in AUMs. Going forward, the AMC envisages increasing sales staff and branch network to 100 people and 50 branches respectively; performance of which will be monitored over time.

Fund Performance: Seven out of ten funds have outperformed their respective benchmarks. Furthermore, most of the funds have depicted improved performance in the ongoing year, sustainability and validity of the same will be tested over time.

Other observations: Risk and Compliance are headed by the same resource. A segregation of the same is warranted to avoid conflict of interest, best governance practices and given the size of the organization. Furthermore, despite Risk Manager's due significance; he is not a member of Investment Committee.

JS Investments Limited

Annexure - I

Board of Directors	
Name	Profile
Mr. Basir Shamsie – Chairman	Mr. Basir Shamsie joined JS Group in 1994 and is presently overseeing the Treasury, Wholesale and International Banking Group of JS Bank. Mr. Shamsie is a debt markets specialist and has closed over 60 debt capital market transactions, many of which have been landmark for Pakistan. Mr. Shamsie received his Bachelors in Business Administration with a major in Accounting from the University of Texas at Austin. He is also a graduate of the Program for Leadership Development from Harvard Business School.
Dr. Ali Akhtar Ali – Chief Executive Officer	Dr. Ali has over 15 years of active experience in both Fixed Income and Equity markets of Pakistan. Prior to becoming Chief Executive Officer, Dr. Ali was serving in JS Investments as Chief Investment Officer for about 3 years. Dr. Ali has worked at other financial institutions such as KASB Capital Limited, KASB Securities and BMA Capital Management.
Suleman Lalani	Mr. Lalani joined Jahangir Siddiqui & Co. Ltd. (JSCL) in March 2012 as Chief Executive Officer. Prior to joining JSCL he was Executive Director Finance & Operations and Company Secretary of JS Investments Limited where he served as CFO and Company Secretary for seven years. Mr. Lalani has further worked as Chief Operating Officer of Jahangir Siddiqui Investment Bank Limited, a subsidiary of JSCL. He is a Fellow member of the Institute of Chartered Accountants of Pakistan and has 20 years of experience in the financial services sector.
Kamran Jafar	Mr. Jafar is a seasoned banker who began his career with JS Bank in February 2008 as EVP / Regional Head Retail Banking - (North). He joined as a member of the Retail Banking Core Business Team and was instrumental in the countrywide roll-out of the Bank's branches and product suite. He is currently Group Head Retail Banking at JSBL. Prior to joining JSBL, Mr. Jafar has over 10 years of diversified Banking experience in a number of Banking functions such as Retail Banking, Corporate Banking, Branch Banking, Trade and SME Banking. Kamran is a graduate of the University of Houston with a concentration in Marketing and holds two Masters in Business Administration degrees with concentrations in Marketing, Banking and Finance.
Muhammad Yousuf Amanullah	Mr. Muhammad Yousuf Amanullah is a fellow member of the Institute of Chartered Accountants of Pakistan. He is a certified Director from the Pakistan Institute of Corporate Governance. He has been an Elected Director on the Boards of Jahangir Siddiqui Investment Bank Limited, JS Global Capital Limited and JS Value Fund Limited. He joined JS Group in 2003 and is presently the Chief Financial Officer at JS Bank as the Senior Executive Vice President. He has been associated with A. F. Ferguson & Co. Chartered Accountants and Ernst & Young Ford Rhodes Sidat Hyder.
Muhammad Raza Dyer	Mr. Raza is currently serving as Head of Operations at JSBL and has 28 years of diversified experience in commercial banking operations. He started his professional career in 1985 from Bank of America in Visa Card Department. Prior to joining JS Bank, he was working with Arif Habib Bank as Head of Country Operations.
Asif Reza Sana	Mr. Sana is a senior banker. He is a Private Equity, Banking, Finance, marketing and Corporate Advisor. Currently he is also a member of Board of Directors of

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	<p>Askari Bank, Chairman of the Board Audit committee and member of board risk management committee. He was part of the core team managing the former Union Bank of Pakistan. He negotiated and closed the sale of Union Bank to Standard Chartered at a landmark price of Rs. 29b (US\$ 485 million) at the highest multiple in the banking industry. He holds an MBA from Quaid-e-Azam University Islamabad and got his executive training at Institute of Management Development in Lausanne, Switzerland and INSEAD France.</p>
Ahsen Ahmed	<p>Mr. Ahmed is currently serving on the Boards of Abid Industries and Sind Industries. He also served for seven years on the Board of JS Global Capital Limited as a Non-Executive Board Member. Mr. Ahmed holds degree in Bachelor of Arts and Economics from Denison University, Granville, Ohio</p>

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JS Investments Limited

FINANCIAL SUMMARY		Appendix I		
UNIT TRUST OF PAKISTAN (UTP)		FY16	FY15	FY14
Fund Size (in Rs. millions)		1,350	1,347	1,363
Return (%)		7.0%	13.5%	23.6%
Benchmark (%)		3.8%	7.9%	18.2%
Retail Proportion (% of Net assets)		20%	22%	20%
Ranking Against Peers		3 out of 6	6 out of 7	4 out of 6
JS GROWTH FUND (JS-GF)		FY16	FY15	FY14
Fund Size (in Rs. millions)		2,128	2,396	4,974
Return (%)		3.9%	12.4%	40.1%
Benchmark (%)		0.4%	5.7%	26.0%
Retail Proportion (% of Net assets)		51%	48%	33%
Ranking Against Peers		15 out of 20	16 out of 21	6 out of 23
JS VALUE FUND (JS-VF)		FY16	FY15	FY14
Fund Size (in Rs. millions)		1,073	924	2,075
Return (%)		13.7%	9.7%	35.5%
Benchmark (%)		0.4%	5.7%	26.0%
Retail Proportion (% of Net assets)		28%	32%	25%
Ranking Against Peers		5 out of 20	18 out of 21	9 out of 23
JS LARGE CAP FUND (JS-LCF)		FY16	FY15	FY14
Fund Size (in Rs. millions)		665	899	802
Return (%)		4.8%	31.7%	39.6%
Benchmark (%)		0.4%	5.7%	26.0%
Retail Proportion (% of Net assets)		39%	36%	31%
Ranking Against Peers		15 out of 20	4 out of 21	7 out of 23
JS ISLAMIC FUND (JS-ISF)		FY16	FY15	FY14
Fund Size (in Rs. millions)		462	514	447
Return (%)		5.9%	42.9%	38.4%
Benchmark (%)		15.5%	20.1%	29.9%
Retail Proportion (% of Net assets)		71%	65%	34%
Ranking Against Peers		11 out of 16	1 out of 11	1 out of 8
JS FUND OF FUNDS (JS-FoF)		FY16	FY15	FY14
Fund Size (in Rs. millions)		190	171	141

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Return (%)	9.1%	20.4%	40.1%
Benchmark (%)	4.0%	21.2%	19.8%
Retail Proportion (% of Net assets)	44%	31%	30%
JS CASH FUND (JS-CF)			
	FY16	FY15	FY14
Fund Size (in Rs. millions)	782	825	1,371
Return (%)	5.7%	9.3%	8.2%
Benchmark (%)	5.7%	8.2%	8.7%
Retail Proportion (% of Net assets)	56%	22%	14%
Ranking Against Peers	9 out of 22	10 out of 19	19 out of 19
JS INCOME FUND (JS-IF)			
	FY16	FY15	FY14
Fund Size (in Rs. millions)	879	871	1,832
Return (%)	6.3%	10.7%	7.7%
Benchmark (%)	6.7%	9.4%	10.3%
Retail Proportion (% of Net assets)	14%	19%	6%
Ranking Against Peers	21 out of 28	17 out of 20	15 out of 20
JS ISLAMIC GOVERNMENT SECURITIES FUND (JS-IGSF)			
	FY16	FY15	FY14
Fund Size (in Rs. millions)	192	178	244
Return (%)	3.7%	6.2%	8.8%
Benchmark (%)	5.5%	7.6%	7.2%
Retail Proportion (% of Net assets)	6%	9%	41%
Ranking Against Peers	3 out of 3	2 out of 3	1 out of 3
JS PENSION SAVINGS FUND (JS-PSF)			
	FY16	FY15	FY14
<i>Equity sub-fund</i>			
Fund Size (in Rs. millions)	159	154	96
Return (%)	3.4%	22.9%	61.5%
<i>Debt sub-fund</i>			
Fund Size (in Rs. millions)	147	173	157
Return (%)	5.3%	10.8%	4.4%
<i>Money market sub-fund</i>			
Fund Size (in Rs. millions)	112	128	122
Return (%)	4.1%	6.7%	6.9%
JS ISLAMIC PENSION SAVINGS FUND (JS-IPSF)			
	FY16	FY15	FY14
<i>Equity sub-fund</i>			
Fund Size (in Rs. millions)	124	117	86
Return (%)	4.1%	32.0%	49.0%

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<i>Debt sub-fund</i>			
Fund Size (in Rs. millions)	62	61	53
Return (%)	3.9%	3.9%	6.8%
<i>Money market sub-fund</i>			
Fund Size (in Rs. millions)	53	55	49
Return (%)	2.4%	5.3%	6.6%

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	JS Investments 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
	1/05/2017	AM2	Stable	Reaffirmed
	5/04/2016	AM2	Stable	Hamonised
	12/31/2015	AM2-	Stable	Reaffirmed
	8/20/2014	AM2-	Stable	Reaffirmed
	6/26/2013	AM2-	Stable	Reaffirmed
	1/11/2012	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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