

## RATING REPORT

### Askari Investment Management Limited

**REPORT DATE:**

January 13, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
MQ Rating	AM3+	AM3++
Rating Date	Dec 30, 2016	May 4, 2016
Rating Outlook	-	Stable
Outlook Date	Dec 30, 2016	May 4, 2016

#### COMPANY INFORMATION

Incorporated in May 2005	<b>External auditors:</b> AMC – A.F. Ferguson and Co. Chartered Accountants; Funds – KPMG Taseer Hadi & Co.
	<b>Chairman of the Board:</b> Mr. Badr-ud-din Khan
<b>Key Shareholders:</b>	<b>Chief Executive Officer:</b> Mr. Saqib Mukhtar
Askari Bank Limited – 99.99%	

#### APPLICABLE METHODOLOGY(IES)

Asset Management (March 2016): <http://www.jcrvis.com.pk/kc-meth.aspx>

## Askari Investment Management Limited

## OVERVIEW OF THE AMC

AIML is licensed to provide asset management and investor advisory services under the Non-Banking Finance Companies (NBFC) Rules, 2003 and NBFC and Notified Entities Regulations, 2008. The AMC operates out of three branches nationwide in Karachi, Lahore and Islamabad which includes the head office in Karachi.

**Profile of Chairman**

Mr. Badr-ud-Khan is a seasoned professional with experience in both public & private sector entities. Prior to joining AIML, he served as Chairman & CEO of National Development Finance Company, Chairman & CEO of Industrial Development Bank of Pakistan and Chairman of Rozgar Microfinance Bank.

**Profile of CEO**

Mr. Mukhtar has over 29 years' experience in senior/general management positions in foreign banks and local financial institutions. Mr. Mukhtar is an MBA from IBA (Institute of Business Administration).

## RATING RATIONALE

Askari Investment Management Limited (AIML) operates as a private asset management company (AMC) offering investment management and advisory services to both institutional and retail clients. The AMC's product suite comprises both conventional and Shari'ah based products.

**Shareholding pattern:** AIML is a wholly owned subsidiary of Askari Bank Limited (AKBL), belonging to Fauji Foundation Group (better known as Fauji Group). In October 2016, AKBL announced its intention of sale of AIML; negotiations are ongoing with the prospective buyers in this regard.

**Assets under management and market share:** Assets under management (AUMs) (adjusted for fund of funds (FoF)) of AIML increased to Rs. 8.8b (FY15: Rs. 8.0b) at end-FY16. Annual growth in AUMs of the company was in line with the growth witnessed in industry as indicated by AIML's consistent market share<sup>1</sup> of 1.9%. However, after adjusting for associate investments, market share of AIML decreased to 1.6% (FY15: 1.8%). Post announcement of intention of sale by AKBL, AUMs of the company exhibited considerable decrease to Rs. 7.6b at end-Nov'16. Subsequently, proportion of retail holding in overall assets declined to 19.7% (FY15: 20.7%), while proportion of associate holding increased to 31.3% (FY15: 25.5%) at end-Nov 2016.

**Funds under management:** The company currently manages seven collective investment schemes including two Shari'ah compliant ones. Besides these, Separately Managed Accounts (SMAs) amounting to Rs. 164.0m are also managed by AIML. Barring two funds, performance of the funds ranked less favorably in comparison to peers. In order to improve performance of its equity funds, management appointed a new fund manager; returns generated by equity funds have improved in the period ending Nov'16, further improvement in this regard is warranted. The AMC is currently looking to attain licensing to provide services as a Voluntary Pension Fund Manager, in both Islamic and conventional funds and is awaiting regulator's approval in this regard. This will further expand product suite available at AIML.

**Organizational structure:** Improvement in the organizational set-up was observed in 2015 with a full-fledged research department established at AIML. The department is currently staffed by 4 resources. These employees are responsible for conducting equity and fixed income research. Based on the limited size of the company, several senior executives hold dual roles within the organization. Furthermore, the board has imposed restrictions on hiring of additional employees until the sale of AMC is completed. Hence, the company remains exposed to turnover risk in key positions.

**Corporate governance:** Overall corporate governance framework is supported by adequate board composition. Board provides oversight to performance of the company through clearly laid down corporate objectives which are reviewed on a quarterly and annual basis. Currently, only one director of the Board is certified at AIML. Timeline for compliance with this requirement has been extended till 2018 by the regulator; hence the management is confident it will be able to comply with the same during the stipulated period.

<sup>1</sup> Net of fund of funds

## JCR-VIS Credit Rating Company Limited

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

### Askari Investment Management Limited

FINANCIAL SUMMARY		Appendix I		
<b>ASKARI SOVEREIGN CASH FUND (ASCF)</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>	
Fund Size (in Rs. millions)	964	1,848	4,093	
Return (%)	5.56%	8.86%	8.07%	
Benchmark (%)	5.87%	8.35%	8.88%	
Retail Proportion (% of Net assets)	34.9%	8.5%	6.7%	
Ranking Against Peers	12 out of 22	6 out of 21	15 out of 21	
<b>ASKARI HIGH YIELD SCHEME (AHYS)</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>	
Fund Size (in Rs. millions)	5,359	4,017	3,592	
Return (%)	8.23%	12.16%	11.63%	
Benchmark (%)	6.53%	8.97%	9.83%	
Retail Proportion (% of Net assets)	17.0%	23.1%	19.5%	
Ranking Against Peers	7 out of 7	5 out of 7	4 out of 8	
<b>ASKARI ISLAMIC INCOME FUND (AIIF)</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>	
Fund Size (in Rs. millions)	447	651	519	
Return (%)	5.08%	6.52%	7.93%	
Benchmark (%)	4.31%	6.41%	7.34%	
Retail Proportion (% of Net assets)	20.5%	12.7%	26.5%	
Ranking Against Peers	7 out of 15	10 out of 14	9 out of 13	
<b>ASKARI SOVEREIGN YIELD ENHANCER (ASYE)</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>	
Fund Size (in Rs. millions)	1,464	918	1,253	
Return (%)	9.21%	10.74%	8.83%	
Benchmark (%)	5.31%	8.33%	8.90%	
Retail Proportion (% of Net assets)	22.3%	41.7%	25.4%	
Ranking Against Peers	1 out of 8	6 out of 7	3 out of 6	
<b>ASKARI ASSET ALLOCATION FUND (AAAF)</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>	
Fund Size (in Rs. millions)	252	304	292	
Return (%)	-6.25%	15.40%	19.31%	
Benchmark (%)	3.84%	7.85%	18.24%	
Retail Proportion (% of Net assets)	9.0%	12.3%	12.1%	
Ranking Against Peers	11 out of 11	6 out of 9	4 out of 12	
<b>ASKARI ISLAMIC ASSET ALLOCATION FUND (AIAAF)</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>	
Fund Size (in Rs. millions)	142	145	104	
Return (%)	-2.82%	12.32%	12.53%	
Benchmark (%)	9.54%	12.44%	17.21%	
Retail Proportion (% of Net assets)	9.4%	17.8%	17.8%	
Ranking Against Peers	8 out of 9	4 out of 5	4 out of 4	

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<b>ASKARI EQUITY FUND (AEF)</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>
<b>Fund Size (in Rs. millions)</b>	218	158	102
<b>Return (%)</b>	-5.25%	17.59%	28.73%
<b>Benchmark (%)</b>	0.37%	5.67%	25.96%
<b>Retail Proportion (% of Net assets)</b>	20.6%	32.4%	13.2%
<b>Ranking Against Peers</b>	20 out of 20	12 out of 20	18 out of 23

**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

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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](http://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](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

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REGULATORY DISCLOSURE		Appendix III			
Name of Rated Entity	Askari Investment 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	AM3+	-	Downgrade on Rating Watch	
	5/4/2016	AM3++	Stable	Harmonised	
	12/31/2015	AM3+	Stable	Initial	
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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