

**Date: December 28, 2018**

**Analyst:** Talha Iqbal  
Muhammad Tabish

**Investment Objective**

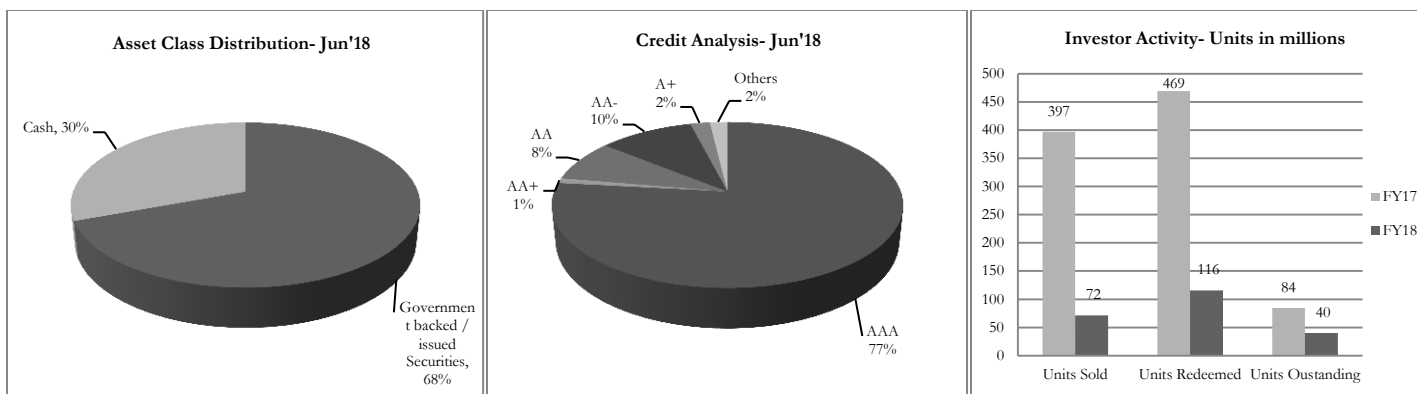
To seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in Government Securities

<b>Meezan Sovereign Fund</b>		
<b>Rating Category</b>	<b>Latest</b>	<b>Previous</b>
	<b>AA- (f)</b>	<b>AA- (f)</b>
Fund Stability Rating	<i>Dec 28, 2018</i>	<i>Dec 29, 2017</i>
Asset Management Company	Al Meezan Investment Management Limited	
Shariah Advisor	Meezan Bank Ltd	
External Auditor - Fund	A.F. Ferguson and Co. Chartered Accountants	
Fund Manager	Mr. Zain Malik, CFA	
Trustee	Central Depository Company Ltd.	
Front-end Load	0.5%	
Back-end Load	Nil	
Management Fee	1%	
Benchmark	6-months PKISRV rates	

<b>MSF</b>	<b>FY17</b>	<b>FY18</b>
Type of Scheme	Income	
Return (%)	6.6%	2.6%
Peer Average (%)	5.3%	4.3%
Benchmark (%)	4.7%	5.0%
Relative Ranking	1 out of 2	2 out of 2
Fund Size (in Rs. m)	4,334	2,121
Retail (%)	46%	70%
Associates (%)	29%	0%
Number of Investors	4,274	3,977
Top 10 Investors / AUMs	41%	21%
Fund Stability Rating	AA- (f)	AA- (f)
Management fee	1.00%	1.00%
WATM	1.33 years	0.44 year
Modified Duration (at end-June)	0.88 years	0.44 years
<b>Asset Allocation (at end-June)</b>		
<i>Corporate Sukuk</i>	-	-
<i>Government backed / issued Securities</i>	65%	68%
<i>Placements with Banks</i>	-	-
<i>Cash &amp; Others Inc. Rec.</i>	35%	32%
Total non-performing Investments	-	-

# JCR-VIS Credit Rating Company Limited

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



Meezan Sovereign Fund (MSF) is an open ended Shariah compliant sovereign fund designed to offer competitive returns to investors through deploying resources primarily in government backed Shariah compliant debt securities. During FY18, net assets declined to Rs. 2.1b (FY17: Rs. 4.3b) owing to the high redemptions by associates.

**Table 1: Offering document (extract)**

Description	Min. Rating	Min- Max Limits	
Shariah compliant fixed income Government securities (including sukus)	N/A	70%-100%	
Cash in bank accounts of Islamic banks & Islamic windows of conventional banks. Government securities with <90 days maturity	A+	25%	10%
	AA		30%
Shariah compliant spread transactions in government securities	N/A	0%-40%	
Bank deposits in licensed Islamic banks & Islamic windows of conventional banks	AA	0%-15%	
Any other Shariah compliant government security	N/A	0%-15%	
Subject to SECP and other regulatory approval, investment in Shariah compliant debt and money market securities	N/A	0%-30% (<\$15m)	

The Investment Committee (IC) comprises Chief Executive Officer (CEO), Chief Investment Officer (CIO), Head of Research, Head of Risk Management and fund managers. Decision making is done on consensus basis.

## Asset Allocation

**Table 2: Asset Allocation**

Asset Allocation	Jun'17	Jun'18	Average
Government backed / issued Securities	65%	68%	71%
Cash	22%	30%	25%

During FY18, Funds' asset allocation has largely remained in line with the stipulations of the offering document. Major holding at end-June'18 was concentrated in government backed instruments at 68% (June'17 – 65%) while remaining chunk of the portfolio was parked in cash and placements with banks.

## Credit Quality

**Table 3: Credit Quality Summary- FY18**

Credit Quality	Average	Maximum	Minimum
AAA	81%	96%	72%
AA+	3%	17%	0%
AA	4%	10%	1%
AA-	5%	14%	0%
A+	4%	10%	0%

As per the credit risk criteria of JCR-VIS, funds with the FSR rating of AA- can deploy a maximum of 10% in A+ rated investment. Furthermore an exposure in investments rated two notches below the fund's rating is not allowed. The fund complied with the credit quality requirement during the outgoing year. On a month-on-month average,

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around 81% of the fund's assets were deployed in AAA rated issue/issuer.

### Market Risk

**Table 4: Modified Duration**

Month	Modified Duration (Days)
July'17	248
Aug'17	234
Sept'17	201
Oct'17	256
Nov'17	245
Dec'17	288
Jan'18	237
Feb'18	226
Mar'18	197
Apr'18	179
May'18	150
Jun'18	161

During the period under review, modified duration has consistently exceeded the 180 days criteria for an AA-rated fund; however since April 2018, the fund has become compliant with the requirements of the assigned ratings. Moreover, given the increasing interest rate scenario and low remaining time to maturity of existing GoP Ijara sukuks, the same is expected to remain low in the coming period. Maximum duration during FY18 was reported at 288 days at end-Dec'2017. Higher duration vis-à-vis was on account of non-availability of GoP Ijara Sukuk during previous year.

### Liquidity Profile

Sizeable portion of the fund base is provided by retail clients comprising 70% at end-June'18 (June'17- 46%). Given the weak returns posted by the fund, number of investors has declined significantly in FY18 to 3,977 from 4,274. Top-10 investor concentration improved to 21% (FY17: 41%) as at end-FY18 JCR-VIS

## Rating History

Rating Type	Rating Date	Medium to Long Term	Rating Action
Fund Stability	12/28/2018	AA-	Reaffirmed
Fund Stability	12/29/2017	AA-	Downgrade
Fund Stability	12/30/2016	AA(f)	Reaffirmed
Fund Stability	1/12/2016	AA(f)	Reaffirmed
Fund Stability	10/28/2014	AA(f)	Reaffirmed
Fund Stability	8/29/2013	AA(f)	Reaffirmed
Fund Stability	3/29/2012	AA(f)	Harmonized
Fund Stability	5/4/2010	AA+(f)	Final
Fund Stability	2/2/2010	AA+(f)	Preliminary