

RATING REPORT

Al-Meezan Investment Management Limited (AMIML)

REPORT DATE:

January 10, 2019

RATING ANALYSTS:

Talha Iqbal

talha.iqbal@jcrvis.com.pk

Muhammad Tabish

muhammad.tabish@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
MQ Rating	AM1	AM1
<i>Rating Date</i>	<i>December'28, 2018</i>	<i>December'29, 2017</i>
Rating Outlook	Negative	Stable
<i>Rating Action</i>	Maintained	Reaffirmed

COMPANY INFORMATION

Incorporated in February 1995	External auditors: <u>AMC</u> – EY Ford Rhodes Chartered Accountants <u>Funds</u> – A.F. Ferguson and Co. Chartered Accountants (Funds other than VPS) – Deloitte Yousuf Adil (VPS)
Unlisted Public Company	Chairman of the Board: Arif-ul-Islam
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mohammad Shoaib, CFA
Meezan Bank Limited ~ 65%	
Pak Kuwait Investment Company ~ 30%	

APPLICABLE METHODOLOGY(IES)

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

Al-Meezan Investment Management Limited

OVERVIEW OF THE AMC	RATING RATIONALE
<p>Al-Meezan Investment Management Limited (AMIML) was incorporated in 1995 as a private limited company and changed its status to a public unlisted company in 2001.</p> <p>External auditors are EY Ford Rhodes, A.F. Ferguson & Co. and Deloitte Yousuf Adil & Co. The Shariah Supervisory Board of MBL is authorized to act as the Shariah advisors of AMIML and their funds.</p> <p>Shareholding pattern of the AMIML remained unchanged in FY18 with majority stake of 65% and 30% owned by Meezan Bank Limited (MBL) and Pak Kuwait Investment Company Limited (PKIC), respectively.</p>	<p>Al-Meezan Investment Management Limited (AMIML) has a track record of over two decades in Shariah compliant investment management. AMIML is a subsidiary of Meezan Bank Limited (MBL) while the remaining shareholding is vested with Pak Kuwait Investment Company Limited (PKIC) and other Individuals.</p> <p><u>Key Rating Drivers</u></p> <p>Market share witnessed a decline in FY18. Market share is expected to remain under pressure in the ongoing year given the high interest rate environment and less favorable returns for Shariah compliant money market funds vis-à-vis conventional money market funds.</p> <p>Total Assets Under Management (AUMs adjusted for fund of funds) declined by 14% to Rs. 93.7b (FY17: Rs. 108.8b) at end-FY18 vis-à-vis industry decline of around 2%. Resultantly, market share witnessed a decline to 15.5% (FY17: 17.5%) at end-FY18. Decline in market share is attributable to higher contribution of equity funds which posted negative returns and rising competition for Shariah compliant AUMs with conventional AMCs increasingly focusing towards this segment. Moreover, returns on conventional money market funds compare favorably vis-à-vis Islamic funds where impact on AUMs has been compounded given increasing interest rates and sluggish equity market performance. Total AUMs as at end-Oct’2018 stood at Rs. 89.9b. Net assets of SMAs increased to Rs. 13.5b (FY17: Rs. 10.8b). Market share is expected to remain under pressure in the ongoing year given prevailing high interest rate environment along with the reliance on equity funds to generate the bulk of the AUMs.</p> <p>Aggressive branch and sales force expansion along with strong focus on digital marketing initiatives to enhance customer base.</p> <p>The Sales & Distribution (S&D) function is categorized into two distinct channels comprising direct sales force and alternate delivery channel (ADC). Around three-fourth of the total sales are generated by AMC’s own branches and head office while the outstanding sales are contributed through ADC. MBL and Standard Chartered Bank (SCB) are major contributors to sales generated through ADCs. Retail clientele is catered through a branch network of 20 branches spread nationwide; 4 of these branches were added during the outgoing year. Moreover, sales force increased by 67% during FY18. Going forward, management envisages aggressive expansion of sales force and entering new geographical markets through opening of new branches. This will facilitate in reducing currently high region-wise concentration in sales.</p> <p>Over the last 18 months, significant emphasis has been placed on digital marketing initiatives which have translated into healthy lead generations and client additions. The company has also partnered with a digital media agency for targeted marketing to potential clients. Other initiatives on this front include planned opening of online accounts and redesigning of mobile app which will be accessible for all (previously only for AMIML unit holders).</p> <p>Significant retail client base along with high proportion of retail AUMs vis-à-vis peer AMCs is a competitive advantage</p> <p>As of end-Oct’2018, total client base crossed 87,000 clients. Around two-third of the client base comprises active clients. Significant retail client base has translated into high proportion of retail AUMs vis-à-vis peer AMCs. Proportion of retail investment in relation to total AUMs has increased marginally to 62% (FY17: 61%). However, concentration in retail AUMs continues to be on the higher side. While number of new clients added declined on a timeline basis, the same continues to be sizeable. Given the aggressive branch expansion and planned addition of new clients, significant increase in new clients is targeted over the next one year.</p>

Comprehensive Shariah compliant product portfolio but absence in conventional funds is a disadvantage vis-à-vis conventional peers

AMIML offers a wide range of portfolio of all Shariah compliant products to meet varying investor requirements. Meezan Islamic Fund (MIF) remains the flagship fund of the company, accounting for around two-fifth of total AUM size as at end-FY18. Investment schemes comprise equity funds, fixed income and money market funds, gold fund, Fund of funds (FoF) plans, pension funds and other miscellaneous funds. As an investment advisor, AMIML also manages 25 (FY17: 19) discretionary and non-discretionary portfolios for Separately Managed Accounts (SMAs). During the outgoing fiscal year, the company launched one equity fund and four financial planning funds. Post FY18 to date, three additional FoF plans have been introduced.

Well-structured investment decision making process; investment management team has been strengthened in the ongoing year.

The investment decision making process is well-structured and combines a top down view with fundamental bottom-up analysis. The decision making process is committee based with the participation of key senior management personnel. Investment Committee (IC) comprises CEO, CIO, Head of Research, Head of Risk Management, and all fund managers. Composition and functioning of IC is considered adequate. Two senior resources have been added to the investment team in the ongoing year. Strength and experience of the investment management team are consistent with the assets being managed, backed by adequate analytical resources and clear segregation of responsibilities.

Fund performance remains weak

Performance of equity funds under management remained weak for the second consecutive year with large funds posting returns weaker than benchmark and in the 4th quartile. As per management, decision making continues to be backed by research and fundamentals in companies with sound management and strong corporate governance framework. However, given higher allocation towards equities (given investors objective of investing in equity fund) and sizeable foreign selling in large scrips held by AMIML, overall returns were impacted. Moreover, select exposures taken from a diversification perspective also contributed to lower returns given significant rupee depreciation. With projected improvement in economic indicators, expectation of foreign selling bottoming out and exposure in blue chip scrips with strong growth prospects, management expects fund performance of equity funds to improve, going forward.

Relative performance ranking of Meezan Cash Fund (MCF) and Meezan Asset Allocation Fund weakened in FY18 vis-à-vis FY17 while performance ranking of Meezan Islamic Income Fund has been maintained.

Adequate internal audit and compliance framework

With the staff strength of 6 personnel including the newly hired head Mr. Salman Muslim, the department ensures collective operations of both the functions i.e. Internal Audit (IA) and Compliance. Moreover, in terms of workflow, function-wise roles are distributed among the resources with a separate person assigned as a designated compliance officer. The department follows a risk-based audit methodology for evaluation of pre-defined processes. Depending upon assessed risk, the processes are classified into high, medium and low risk categories where the frequency of audits depends on the assigned risk category. During 2018, enhancing branch controls with surprise audits and increased coverage for branches in the North segment. On the compliance front, focus remained on enhancing adherence to employee trading and KYC policy and updating of policy and procedural framework.

Satisfactory risk management

A Board Risk Management Committee (BRMC) is in place for effective risk oversight. Composition and functioning of the department is considered adequate. Scope extends to development and oversight of risk strategy, policy, framework, and methodology, with active support and involvement of the business, operations and the other groups/functions, for ensuring compliance with the applicable SECP regulations and generally accepted risk management practices within the mutual

funds industry or according to best practices. Weekly risk management reports are generated covering market, liquidity and credit risk.

Balance Sheet strength remains strong vis-à-vis peers but has weakened in FY18

While income earned from management fee remained stable in FY18, overall operating profit (excluding impact of investment income) increased on a timeline basis. Increase in operating profit was a function of lower aggregate expenses due to higher marketing expense reimbursement claimed from funds under management. Due to sizeable loss on investments, overall profitability declined during FY18. Equity base declined as at end-FY18 due to dividend paid for the period being higher than profit for FY18.

Sound Governance Framework

Overall corporate governance framework is supported by adequate board composition and oversight. Effective functioning of board committee ensures satisfactory control framework and risk related oversight. Senior management team comprises seasoned professionals and has largely remained stable over the years ensuring continuity of business strategy.

JCR-VIS Credit Rating Company Limited

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

Al-Meezan Investment Management Limited

Appendix 1

FINANCIAL SUMMARY		
<u>MEEZAN ISLAMIC FUND (MIF)</u>	FY17	FY18
Fund Size (in Rs. millions)	54,853	39,115
Return (%)	23%	-17%
Benchmark (%)	19%	-10%
Retail Proportion (% of Net assets)	48%	52%
Ranking Against Peers	13 out of 16	14 out of 16
<u>AL-MEEZAN MUTUAL FUND (AMMF)</u>	FY17	FY18
Fund Size (in Rs. millions)	9,079	6,864
Return (%)	23%	-17%
Benchmark (%)	19%	-10%
Retail Proportion (% of Net assets)	35%	37%
Ranking Against Peers	12 out of 16	13 out of 16
<u>KSE-MEEZAN INDEX FUND (KMIF)</u>	FY17	FY18
Fund Size (in Rs. millions)	1,909	1,687
Return (%)	16%	-11%
Benchmark (%)	19%	-10%
Retail Proportion (% of Net assets)	17%	19%
<u>MEEZAN ISLAMIC INCOME FUND (MIIF)</u>	FY17	FY18
Fund Size (in Rs. millions)	11,781	10,166
Return (%)	5%	4%
Benchmark (%)	3%	2%
Retail Proportion (% of Net assets)	47%	44%
Ranking Against Peers	11 out of 16	11 out of 16
<u>MEEZAN SOVEREIGN FUND (MSF)</u>	FY17	FY18
Fund Size (in Rs. millions)	4,334	2,121
Return (%)	7%	3%
Benchmark (%)	5%	5%
Retail Proportion (% of Net assets)	46%	70%
Ranking Against Peers	1 out of 2	2 out of 2

JCR-VIS Credit Rating Company Limited

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

<u>MEEZAN CASH FUND (MCF)</u>	FY17	FY18
Fund Size (in Rs. millions)	3,350	9,921
Return (%)	6%	4%
Benchmark (%)	3%	3%
Retail Proportion (% of Net assets)	53%	43%
Ranking Against Peers	1 out of 4	4 out of 4
<u>MEEZAN BALANCED FUND (MBF)</u>	FY17	FY18
Fund Size (in Rs. millions)	9,516	7,843
Return (%)	15%	-9%
Benchmark (%)	12%	-4%
Retail Proportion (% of Net assets)	53%	51%
<u>MEEZAN ASSET ALLOCATION FUND (MAAF)</u>	FY17	FY18
Fund Size (in Rs. millions)	3,251	2,877
Return (%)	18%	-13%
Benchmark (%)	15%	-7%
Retail Proportion (% of Net assets)	63%	60%
Ranking Against Peers	4 out of 9	6 out of 9
<u>MEEZAN GOLD FUNF (MGF)</u>	FY17	FY18
Fund Size (in Rs. millions)	457	243
Return (%)	-7%	12%
Benchmark (%)	-3%	13%
Retail Proportion (% of Net assets)	32%	65%
<u>MEEZAN ENERGY FUNF (MEF)</u>	FY17	FY18
Fund Size (in Rs. millions)	1,139	1,637
Return (%)	7%	-1%
Benchmark (%)	9%	-10%
Retail Proportion (% of Net assets)	62%	48%
<u>MEEZAN DEDICATED EQUITY FUND (MDEF)</u>	FY17	FY18
Fund Size (in Rs. millions)	-	1,857
Return (%)	-	-3%
Benchmark (%)	-	4%
Retail Proportion (% of Net assets)	-	-
<u>MEEZAN FINANCIAL PLANNING FUND OF FUNDS</u>		

JCR-VIS Credit Rating Company Limited

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

(MFPPF)		
<i>Aggressive Plan</i>	FY17	FY18
Fund Size (in Rs. millions)	622	497
Return (%)	17%	-12%
Benchmark (%)	14%	-6%
Retail Proportion (% of Net assets)	42%	34%
<i>Moderate Plan</i>	FY17	FY18
Fund Size (in Rs. millions)	408	290
Return (%)	13%	-7%
Benchmark (%)	12%	-3%
Retail Proportion (% of Net assets)	69%	66%
<i>Conservative Plan</i>	FY17	FY18
Fund Size (in Rs. millions)	413	309
Return (%)	10%	-2%
Benchmark (%)	8%	0%
Retail Proportion (% of Net assets)	81%	70%
<i>Meezan Asset Allocation Plan-I</i>	FY17	FY18
Fund Size (in Rs. millions)	1,251	829
Return (%)	19%	-6%
Benchmark (%)	17%	-5%
Retail Proportion (% of Net assets)	44%	39%
<i>Meezan Asset Allocation Plan-IV</i>	FY17	FY18
Fund Size (in Rs. millions)	860	508
Return (%)	17%	-14%
Benchmark (%)	14%	-7%
Retail Proportion (% of Net assets)	60%	47%
<u>MEEZAN STRATEGIC ALLOCATION FUND (MSAF)</u>		
<i>Meezan Strategic Allocation Plan I</i>	FY17	FY18
Fund Size (in Rs. millions)	2,629	1,945
Return (%)	9%	-13%
Benchmark (%)	8%	-7%
Retail Proportion (% of Net assets)	63%	58%

JCR-VIS Credit Rating Company Limited

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

<i>Meezan Strategic Allocation Plan II</i>	FY17	FY18
Fund Size (in Rs. millions)	1,662	1,289
Return (%)	-1%	-13%
Benchmark (%)	-3%	-10%
Retail Proportion (% of Net assets)	48%	44%
<i>Meezan Strategic Allocation Plan III</i>	FY17	FY18
Fund Size (in Rs. millions)	1,766	1,423
Return (%)	-3%	-13%
Benchmark (%)	-5%	-7%
Retail Proportion (% of Net assets)	70%	68%
<i>Meezan Strategic Allocation Plan IV</i>	FY17	FY18
Fund Size (in Rs. millions)	1,973	1,666
Return (%)	-3%	-12%
Benchmark (%)	-7%	-6%
Retail Proportion (% of Net assets)	66%	64%
<i>Meezan Strategic Allocation Plan V</i>	FY17	FY18
Fund Size (in Rs. millions)	-	521
Return (%)	-	-3%
Benchmark (%)	-	3%
Retail Proportion (% of Net assets)	-	69%
<i>Meezan Capital Preservation Plan III</i>	FY17	FY18
Fund Size (in Rs. millions)	-	1,365
Return (%)	-	0%
Benchmark (%)	-	0%
Retail Proportion (% of Net assets)	-	70%
MEEZAN STRATEGIC ALLOCATION FUND - II (MSAF-II)		
<i>Meezan Capital Preservation Plan IV</i>	FY17	FY18
Fund Size (in Rs. millions)	-	2,115
Return (%)	-	0%
Benchmark (%)	-	-1%
Retail Proportion (% of Net assets)	-	68%
<i>Meezan Capital Preservation Plan V</i>	FY17	FY18

JCR-VIS Credit Rating Company Limited

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

Fund Size (in Rs. millions)	-	733
Return (%)	-	0%
Benchmark (%)	-	0%
Retail Proportion (% of Net assets)	-	81%
MEEZAN TAHAFFUZ PENSION FUND (MTPF)		
<i>Equity sub-fund</i>	FY17	FY18
Fund Size (in Rs. millions)	5,806	5,432
Return (%)	20%	-17%
<i>Debt sub-fund</i>	FY17	FY18
Fund Size (in Rs. millions)	2,511	2,762
Return (%)	5%	3%
<i>Money market sub-fund</i>	FY17	FY18
Fund Size (in Rs. millions)	663	1,014
Return (%)	4%	3%
<i>Gold sub-fund</i>	FY17	FY18
Fund Size (in Rs. millions)	43	50
Return (%)	-9%	12%

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.

For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

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

JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	Al-Meezan 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
	12/28/2018	AM1	Negative	Maintained
	12/29/2017	AM1	Stable	Reaffirmed
	3/17/2017	AM1	Stable	Upgrade
	5/4/2016	AM2++	Stable	Harmonized
	12/31/2015	AM2+	Stable	Reaffirmed
	12/3/2014	AM2+	Stable	Upgrade
	5/14/2013	AM2	Stable	Reaffirmed
	3/8/2012	AM2	Stable	Reaffirmed
4/15/2011	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 Management quality only and is not a recommendation to buy or sell any securities.			
Probability of Default	N/A			
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.			