

AKD INVESTMENT MANAGEMENT

Chairman: Mr. Farrukh Shaukat Ansari; Chief Executive: Mr. Imran Motinvala

Date: July 9, 2013

Analysts: Zia Usmani / Raza Lakhani

	Latest	Previous
Rating	AM3- Jun 19, '13	AM3- Mar 27, '12
Outlook	Positive	Stable

Rating Rationale

Product offering of AKD Investment Management Limited (AKDIML) includes an aggressive income fund, a money market fund and three funds in the equity market category including an index tracker fund. Performance of equity funds under management has showcased improvement in CY12. While the overall market has also recorded an uptick during the period, returns of second and third tier stocks in which the funds were mainly invested, have been superior. Both equity funds (excluding the stylized fund) managed by the AMC were the best performing funds in their respective peer groups in FY12 and 1HFY13. The funds' investment strategy for the equity market entails taking exposure in second and third-tier growth and value stocks offering higher potential for gains; as a result, equity funds feature thinly traded securities. Holding of thinly traded stocks may create liquidity concerns in the open-end fund, as has happened in the past when the management company had to invest in the fund at a time of large redemption. The management may consider communicating its investment strategy to the investors by stating the same in the fund manager reports, as the funds' policy may require longer holding period before returns may be realized.

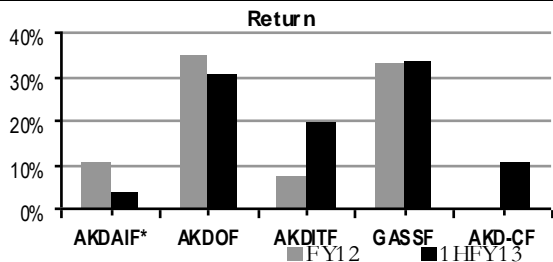
AKD Index Tracker Fund has consistently underperformed its benchmark; this could be attributed to 0.75% management fees, WWF provisioning and other transaction costs that the fund had to incur in order to track the performance of the market. However, tracking error has remained within the limit specified in the fund's investment objective. Performance of aggressive income fund has remained weak due to mark to market losses on TFCs/Sukuk. Money market fund featured in the first quartile of the peer group in terms of returns, given that the fund had waived off management fees in order to attract investors; after adjusting returns of all funds for management fees relative performance of AKD Cash Fund (AKDCF) in the peer group was weak.

While assets under management (AUMs) showcased some growth given the launch of a money market fund (AKDCF) and growth in net assets of the closed-end equity fund (Golden Arrow Selected Stocks Fund Limited – GASSFL); marketing & sales activities of the AMC were lackluster in FY12 with redemptions being higher than sales; however, there has been an improvement during HY13. Net assets of AKDCF have remained limited despite management fee exemption to attract investors. AUMs of the AMC were recorded at Rs. 2.6b (Jun'11: Rs. 2.0b) at end-Dec'12, representing under 1% of the industry's AUMs; these have increased to Rs. 3.15b by end April' 13. The shareholders of GASSFL, the largest fund under management, rejected both proposals regarding converting it into an open-end scheme or winding up the fund; moreover, the AMC has challenged the Securities & Exchange Commission of Pakistan's circular in this respect in court. In case of an unfavorable decision, AUMs may come under pressure. At end-Dec'12, net assets of GASSFL comprised around half of total AUMs managed by the AMC.

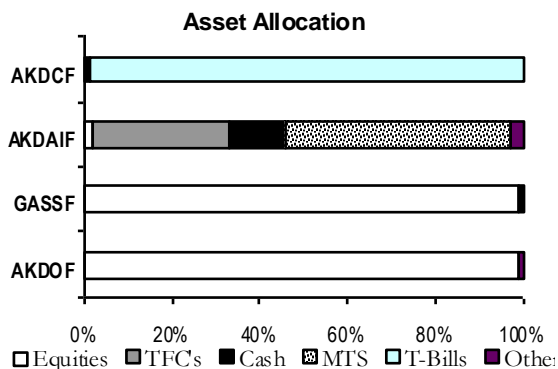
Net equity of AKDIML was reported at Rs. 330.5m (Jun'11: Rs. 202m) at end-Dec'12. Had the investment in GASSFL been recorded at market value instead of NAV, net equity of the AMC would have been lower by Rs. 85.1m (Jun'11: Rs. 87.5m). Nonetheless, net equity of the AMC would have still been higher than the minimum capital requirement for FY12 and FY13. Profitability indicators of AKDIML have improved on the back of gains on investment position. Net profit of the AMC was reported at Rs. 49.8m in FY12 as against Rs. 11.2m in FY11. Adjusting for investment income, the company's operational losses have increased. Revenues from management fee (net of Sindh sales tax) were lower at Rs. 34.3m (FY11: Rs. 41.0m) in FY12, given lower average net assets for the year. The company has undertaken various cost cutting measures wherein replacements in case of turnover have been made internally. Management resources available with the organization are limited, with high turnover at the middle management level. Capacity building is required in both the investment management and support departments. Internal Audit & Compliance have been set up in-house though it may need to be further strengthened. With the establishment of the department, the company intends to terminate the outsourcing arrangement with M/s Rafaqat Mansha Mohsin Dossani, Chartered Accountants, from FY14 onwards. Several observations highlighted by the outgoing internal auditors are repetitive while policy documentation has remained a weak area though six policies and manuals including compliance, internal audit and research manuals have been approved in the ongoing year. The AMC may also consider setting up a risk management function.

Overview of the Institution

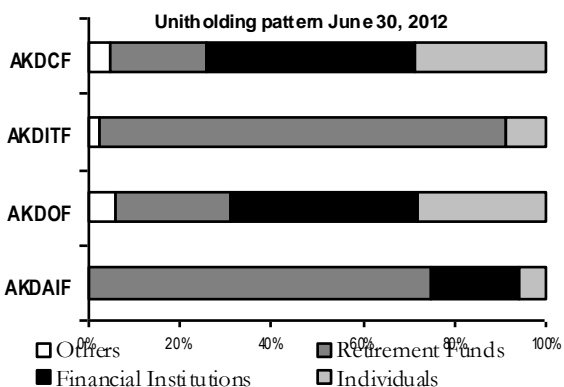
AKDIML is an unquoted public limited company incorporated in Pakistan on July 30, 2004. The company is a wholly owned subsidiary of Aqeel Karim Dhedhi Securities (Pvt.) Limited. Financial statements of the AMC for FY12 were audited by M/s Anjum Asim Shahid Rehman [JCR-VIS]



*YTD FY13 returns have been annualized



As of December-end 2012



JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Management Quality</u>				
15-Jul-13	AM3-		A-1+	Rating Watch - Developing
19-Jun-13	AM3-	Positive	A-1+	Maintained
29-Mar-12	AM3-	Stable	A-1+	Downgrade
14-Sep-10	AM3	Stable	A-1+	Reaffirmed