

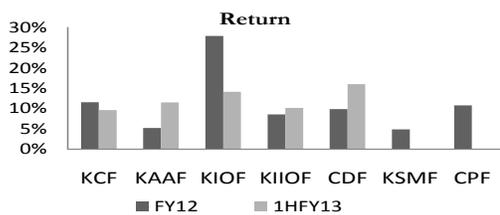
## KASB Funds Limited

Chairman: Mr. Robert John Richard Owen; Chief Executive Officer: Mr. Amer Maqbool  
**Rating Rationale**

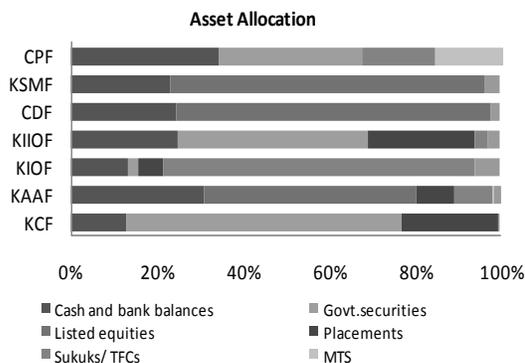
Date: March 15, 2013

Analysts: Zia Usmani / Maria Wasti

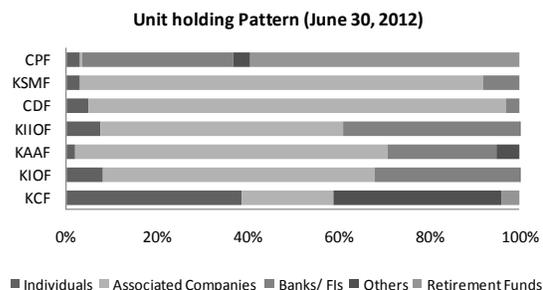
	Latest	Previous
<b>Rating</b>	<b>AM3</b> Mar 6, '13	<b>AM3</b> May 27, '11
<b>Outlook</b>	<b>Positive</b> Mar 6, '13	<b>Stable</b> May 27, '11



\*1HFY13 returns have been annualized



Quarterly Average for year ended June 2012 (in relation to total assets)



### Overview of the Institution

KFL was incorporated in January 2005 under the Companies Ordinance as an unlisted public limited company. The company is registered as a Non Banking Finance Company (NBFC), licensed by Securities and Exchange Commission of Pakistan (SECP) to undertake asset management and investment advisory services. AMC's financial statements for FY12 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder JCR-VIS

Since last review, the management of KASB Funds Limited (KFL) successfully completed consolidation of funds under management with the same reducing to five from nine in July 2011 leading to reduction in redundancy in operations. KFL is now managing one fund each in the money market, equity and asset allocation categories and two in the aggressive income category (one each of conventional & Islamic). Total AUMs amounted to Rs. 2.7b at end-Dec'12 (FY12: Rs. 2.5b; FY11: Rs. 2.1b). Market share of KFL (adjusted for investment by related parties) among open-end funds remains minimal at under 1%. Akin to AUMs of other AMCs in the market, more than 50% of KFL's AUMs are in the money market fund.

Performance of money market fund showed weakening vis-à-vis other funds in the peer group in HY13 as the management did not anticipate a discount rate cut in Aug'12. Equity fund's performance was also weak in the period. However, over a shorter duration i.e. last 3 months, relative performance of both funds has improved considerably. Return of aggressive income fund showed improvement in FY12 and HY13 on account of reversals booked during the period. Islamic aggressive income fund performed well during HY13. Exceptional gains booked in Aug'12 alone on GoP Ijarah sukuks due to cut in policy rate resulted in KASB Islamic Income Opportunity Fund (KIIOF) becoming the top performing fund amongst peers during HY13. Although posting weak performance in FY12, asset allocation fund not only outperformed the benchmark but also posted a higher return than peer group average in HY13; thus ranking of KAAF among peers improved from the lower quartile to median level in the ongoing year. Over the last 90 days the fund has posted returns in the top quartile. Performance of funds will continue to be tracked for ability of the management to consistently deliver competitive returns in line with the mandates of the funds under management.

The management intends to utilize its expertise in managing distressed assets to offer high returns and high risk products to high net worth individuals. Of the existing funds, KIOF and KAAF will be managed as per these lines. Investments solicited under managed accounts will also be channeled into the funds under management.

Following the acquisition of Crosby, the management team has undergone restructuring. Currently, KFL employs five senior personnel including the CEO who were previously associated with Crosby and became part of KFL's team on merger. Under new management, high expenses incurred on group shared services have been discontinued with these services/functions being managed in-house at lower cost. In place of Webtech system, Softech has been implemented which integrates unit management and accounting systems. Hence, AMC's monthly expenses reduced to Rs. 4.4m (CY11: Rs. 5.4m) in CY12. Moreover, management has also made efforts for improvement in controls like revision of policies and manuals and has communicated plans for strengthening of risk and research functions. However, there has been notable turnover at various senior management positions during the ongoing financial year including resignation of the previous Chief Investment Officer and Fund Manager (KCF and KIIOF). Steps to bring about depth in senior management team & control employee turnover may be considered for sustainability of performance.

Funds are also being actively sold through KASB Bank Limited's (KBL) branches since July'12. Almost Rs. 0.5b of KCF was sold via KBL in HY13. Going forward, KFL plans to actively sell KIIOF as well as the distressed/aggressive funds (KAAF and KIOF), though there are no plans to sell the equity fund through this distribution channel. KFL is also tapping other sales channels for growth.

Following the recent rights issue, shareholding pattern has witnessed changes. Largest shareholder is KASB Finance Private Limited with a shareholding of 46%. Remaining shares are held by KBL (43.9%) and Black Rock Group Limited (3.8%) with almost 6.2% shares held by other directors and employees. Paid up capital of the AMC increased by Rs. 45m to Rs. 285m at end Sept'12 with equity being Rs. 183.7m against MCR of Rs. 230m required by end FY13. The management expects to achieve MCR compliance by internal capital generation with any shortfall to be met through investment by the sponsors.

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## JCR-VIS Credit Rating Company Limited

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

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Management Quality</u>				
19-Dec-13	AM3	Stable		Maintained
06-Mar-13	AM3	Positive		Maintained
27-May-11	AM3	Stable		Downgrade
17- May -10	AM3+	Stable		Reaffirmed