

February 26, 2015

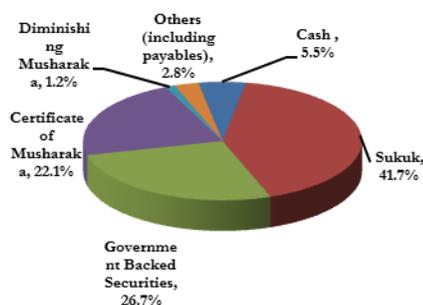
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 Mohammad Arsal Ayub

Investment Objective

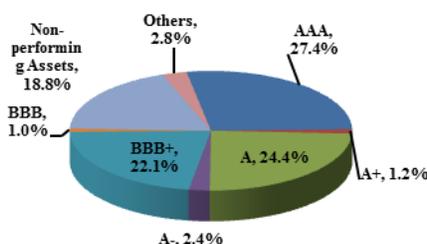
KIIOF seeks to provide an efficient and riba free investment medium whereby investors can participate in a portfolio of Shariah Compliant income products that will seek to generate high level of current income, as well potential for capital growth.

KASB Islamic Income Opportunity Fund (KIIOF)		
Rating Category	Latest	Initial
Fund Stability Rating	BBB-(f)	BBB+(f)
	Feb 16, 2015	May 15, 2013
Management Company	KASB Funds Limited.	
External Auditor – Fund	Avais Hayder Liaquat Nauman Chartered Accountants	
Chief Executive	Mr. Khaldoon Bin Latif	
Fund Manager	Mr. Saqib Shah	
Trustee	Central Depository Company of Pakistan Ltd.	
Front-end Load	1%	
Back-end Load	Nil	
Management Fee	2% per annum	
Benchmark	6M KIBOR	

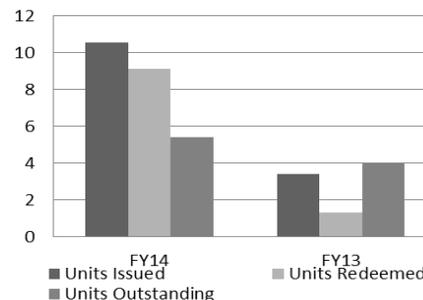
Asset Class Distribution: End Dec'14



Credit Analysis: End Dec'14

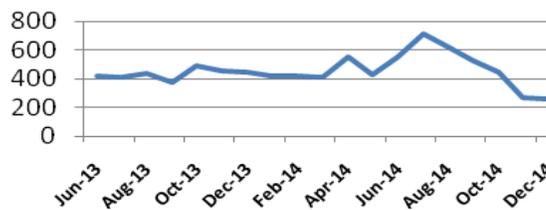


Investor Activity (Units in m)



Launched in 2008, KASB Islamic Income Opportunity Fund (KIIOF) is an open-end Shariah Compliant Aggressive Fixed Income Fund that seeks to generate high levels of current income, as well as potential for capital growth. Fund size remained stagnant in FY14, albeit touching a high of Rs. 710m momentarily after the year-end in July 2014, subsequent to which large redemptions were observed November 2014 which can be attributed to imposition of a moratorium on the AMC’s parent banking institution and the resulting franchise impact sustained by the fund. The fund size declined from Rs. 449m at end-October 2014 to Rs. 267m by end-November 2014. At end December 2014, the fund size was reported at Rs. 257m.

Figure 1: Fund Size



Unit holding concentration has showcased an uptick; top-10 investors held 81% of the outstanding units as of end-November 2014; holdings of KASB Bank Limited (KBL) and KASB Modaraba were reported at 40% and 11% of outstanding units, respectively. As per management, the redemption pressure has eased

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off, while redemption by KBL is not considered likely in the near term.

Investment policy of the fund is governed by its Offering Document (OD) which allows the fund to take on significant exposure to credit and market risk. Terms contained in the OD allow investment in below investment grade instruments whilst the only restriction on the fund is to maintain at least 10% of the assets in form of riba-free cash deposits with Shariah-compliant banks and financial institutions. Permissible investment avenues, along with their respective thresholds, are presented in the table below:

Table 1: Investment Limits-based on net assets

Instruments	Min-Max Exposure
Cols, placements of funds under Mudarabah, Murabaha, and Musharakah, Istisna' and Ijarah arrangements, Shariah Compliant asset-backed securities, spread transactions in Shariah compliant local listed securities, Shariah compliant MTS	0-50%
Placement of funds, contracts, securities, instruments issued by companies, organizations, and establishments issued on the Islamic principles	0-70%
Secured and unsecured, listed or privately placed Shariah compliant debt securities	0-90%
Sukuk	0-90%
Shariah Compliant debt/money market instruments or Government securities.	0-90%
Shariah compliant investments (foreign debt or fixed income Shariah compliant securities) available outside Pakistan	0-15%
Riba free cash deposits with banks and financial institutions offering Shariah compliant accounts	10%-90%

Actual asset allocation during CY14 was dominated by cash balances and placements with banks/NBFCs. Average exposure during CY14, along with current exposures, is presented in the table below:

Table 2: Actual Asset Allocation

	December 2014	Average CY14
Cash	5.5%	37.8%
Sukuk	41.2%	19.2%
Placement with Banks/ NBFCs	-	18.8%
Government Backed Securities	26.7%	4.8%
Certificate of Musharaka	22.1%	14.5%
Diminishing Musharaka	1.2%	2.1%
Others (including payables)	2.8%	2.8%

During the period under review (i.e. June 2013-December 2014), there were a few non-compliances noted with respect to the fund's assigned investment mandate and in some cases with respect to NBFC Rules 2008. As of December 2014, non-compliant holdings, with respect to the assigned investment mandate, included Sukuk issues of Security Leasing Corporation Limited that have been classified as non-performing; these comprised 9.1% of net assets. The fund was also maintaining excess exposure to Certificates of Musharaka of KASB Modaraba Limited, in September 2014 which was regularized subsequently and brought in line with NBFC Rules 2008. However the exposure rose to comprise 22.6% of net assets as of December 2014. Moreover, exposure in Sukuk of Engro Fertilizer Limited was also in excess of the regulatory limits at 23.0% of net assets. The decline in fund size has contributed to the rise in proportion of these exposures.

Credit quality of the fund's assets has weakened since the time of last review. At end-December 2014, high risk assets comprised 18.8% of assets, including Sukuk of BRR Guardian Modaraba (9.7%) and Security Leasing Corporation Limited (9.1%). The management expects to reach an arrangement soon whereby the exposure in BRR Guardian Modaraba will be swapped with property, offering potential upside to the fund's returns.

A cap of 5 years is placed on the Weighted Average Maturity (WAM) of the fund's assets, calculation of which excludes sovereign instruments. Actual WAM of the fund remained considerably within the limits, ranging between 164 – 752 days during CY14, as per month end data. Duration remains much lower, reported at 55 days at end December 2014. Returns are re-set to market benchmark rates even on long term instruments held by the fund, in view of which, exposure to interest rate risk is expected to remain manageable.

Performance of the fund is benchmarked against 6-month KIBOR. Returns of the fund have depicted some degree of volatility though remaining positive on a month-on-month basis throughout CY14. In comparison to benchmark return of 9.83% in FY14, the fund's return was marginally shy at 9.20%. Return for HY15 was reported at 6.6% versus benchmark

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return of 10.6%; volatility in returns is likely to persist in view
of the profile of assets^{JCR-VIS}

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Fund Stability</u>				
16-Feb-15	BBB-(f)			Downgrade
15-May-13	BBB+(f)			Initial