



## KASB FUNDS LIMITED (KFL)

### Asset Manager Rating

(December 2006)

AM3+

### Analysts

Maimoon Rasheed  
+92 42 5869504  
maimoon@pacra.com

Shahzad Saleem  
+92 42 5869504  
shahzad@pacra.com

### SUMMARY

- KFL has been assigned an Asset Manager Rating of 'AM3+'. The rating reflects KFL's capacity to establish a strong asset management platform in an increasingly competitive operating environment. This capacity emanates from (1) its association with KASB group, having extensive capital market exposure (2) technical assistance and equity investment by an asset manager of international standing – Merrill Lynch Investment Managers Group Limited – and (3) an experienced and well-qualified management team. This is further supported by a strong focus on corporate governance, a structured investment process, and effective supporting systems and risk management policies. While the management has developed a well-conceived business strategy to overcome inherent constraints – limited assets under management – primarily an outcome of short track record, the extent of success in achieving these plans and the related timeline remains to be seen.
- KFL, sponsored by KASB group, commenced operations in January 2005. Founded by (Late) Mr. Khadim Ali Shah Bukhari in early fifties, KASB group has gained extensive experience in the domestic financial market. Stock market operations and advisory services remained the mainstay of the group till its acquisition of KASB Bank Limited (KBL) in 2002. Now, within financial services, the group's interests include commercial banking, brokerage (KASB Securities Limited – KSL) and asset management business. At the same time, the group has increasing interest in other sectors. The Chief Executive of KFL has over 13 years of experience in the financial markets of Pakistan, and has been associated with the group since the beginning of her career.
- Currently KFL has one fund under management – KASB Liquid Fund – launched in May 2006 with an asset base of PKR 505mln. This is an open-end *money market fund*, having net assets of over PKR 1.3bln at end-Oct 2006 (Investor Mix: 13% retail, 87% institutions). The fund invests in different fixed income asset classes, including placements, TFCs, CFS and spread transactions. The company plans to launch an open-end equity fund shortly – KASB Stock Market Fund (KSF). Thereafter, in FY08, the management plans to launch three more funds, two of which will be closed-end funds. One of the funds will explore the untapped alternative investment market and the other will focus on equity market by raising funds from regional markets, foreign investors and expatriate Pakistanis.
- KFL intends to utilize the branch network of associated companies and create synergies with the bank's and brokerage clients, which would help in minimizing the related costs and simultaneously strengthen the distribution function. The company has prepared a comprehensive marketing and distribution strategy divided into two areas: (1) Retail and (2) Corporate. The group has clearly laid down strategy to capitalize on the diverse range of financial services that it would be offering by integrating services of its different companies to cater to diversified needs of customers. This is expected to help the group in terms of access to retail customers. The association with KSL provides the company access to KASB Direct, the online trading platform of the brokerage house. Apart from its local extensive coverage, KASB Direct also provides impetus for tapping international clientele. While the target market of KASB Liquid Fund is mainly institutions and high net-worth individuals, the retail side would be fully explored subsequent to launch of KSF. Meanwhile the institutional and high net-worth sales are conducted directly by KFL and other institutions hired as distribution agents.
- Merrill Lynch Investment Managers Group Limited, UK (MLIM), - recently merged with BlackRock Inc. – one of the leading global asset management companies, acquired a minority equity stake in KFL with an option to increase it through a share subscription agreement. This arrangement further adds to KASB's brand image and is expected to help KFL in attracting investors. The agreement covers human resource training, setting up relationship contacts, and assisting KFL in business understanding and development. In addition to refining of investment process, KFL would benefit from MLIM's expertise on product development, fund management and risk management.
- KFL has a clear and well-defined investment process. The Investment Committee (IC), comprising (1) CEO, (2) Fund Manager, (3) Head of Investment Banking (KSL), (4) Head of Research, (5) CFO (a non-voting member), and (6) Ex Group Head of Research, makes the investment decisions. The research function is integrated with the fund management team. The Fund Manager, assisted by two research analysts and a junior analyst, prepares investment proposals and recommendations, backed by detailed analysis. Meanwhile, a two-member team has been designated for execution of portfolio management transactions.
- The management has developed a policy for risk management including credit/counter-party, market and liquidity risks. Meanwhile, a disaster recovery plan also exists and scheduled back-ups of all data take place on daily basis. Although Portfolio Management and Accounting Software has built in checks to monitor investment constraints and compliance with regulations laid down by SECP, the company is one of the few asset managers that has also hired an audit firm for the compliance audit on an ongoing basis.