

FUND STABILITY RATINGS

Rating Methodology

Fund Stability Ratings (FSRs) measure the sensitivity of a fund's Net Asset Value (NAV) and total return to changing market conditions, with particular emphasis on downside risk.

FSRs are assigned to fixed income funds, including money market and bond/sukuk funds. These ratings incorporate an assessment of investment strategy and policies of a fund, in order to develop maximum risk estimates. These estimates are adjusted for actual investment allocations, wherever these exceed policy limits.

FSRs also capture the key features of an asset manager that affect the ability to manage funds, including the profile of management, quality of IT infrastructure and supervisory environment. JCR-VIS places significant emphasis on the qualitative processes involved in managing risk. Akin to evaluation of fixed income selection criteria in the domestic market, the same will also be evaluated for funds planning to undertake international exposures.

Funds claiming to follow a particular investment policy may drift in their investment styles. To evaluate the fund's risk profile, JCR-VIS also

examines changes in the fund's investment style and approved investment policy over time. It is also pertinent to mention here that alignment of fund's risk profile with the criterion for just one of the various sources of risks for a given rating may not enable a fund to achieve the desired rating in the absence of actual asset allocation being in line with all risk related parameters. Given the minimum risk regulatory guidelines and our rating criteria, money market funds are expected to achieve higher ratings than income funds.

Pre-IPO FSR assessment of a fund is primarily based on target investment policy of the fund, in addition to our assessment of asset management expertise. Once the fund is launched, rating assessment may need to be revised for actual asset allocation in addition to the investment policy. In case, asset allocation is more aggressive in relation to investment policy, ratings may be adjusted accordingly.

Credit Risk

Fundamental to the rating analysis is a detailed evaluation of the risk profile of the assets in the

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fund's investment portfolio. The asset selection criteria for a fund are reviewed in context of its investment policy and objective.

The evaluation of credit risk appetite of a fund requires an analysis of the investment policy in terms of proposed credit risk profile including relevant maturity and percentage holdings of these instruments. Credit quality of the portfolio is determined through an analysis of credit ratings of assets and their proportion in the fund. Where assets are not rated by JCR-VIS, shadow ratings may be assigned for evaluation of risk profile.

Table 1 provides a broad outline of the expected asset quality indicator of funds with ratings in higher bands.

Asset Allocation % of NAV**					
FSR	Issue / Issuer Rating				
	AAA	AA+	AA	AA-	A+
AAA	Min. 85%	Max. 15%	-	-	-
AA+	Min. 50%	Max. 30%*		-	-
AA	Min. 25%	Max. 15%*		-	-
AA-					Max. 10%*

* all else in higher rating categories, subject to minimums specified

** These are indicative weights and may experience some variation over the rating horizon

By way of example and to further elaborate on Table 1, for a Fund Stability Rating of 'AAA(f)', at least 85% of net assets of the fund have to be invested in 'AAA' rated exposures and investment in 'AA+' rated exposures is allowed up to 15% of net assets. The idea is to ensure that exposures of a fund are concentrated in instruments having risk profile that is in line with the rating of the fund. For funds rated in the 'A(f)' category, allowable exposure in assets rated one notch below the

rating of the fund, is capped at 15%, subject to the caveat that for 'A-(f)' rating, only 10% exposure may be taken in 'BBB+' rated credits. If changes in a fund's risk profile over time result in assets with significantly higher or lower risk profile than indicated above, ratings may be adjusted, depending on the proportion of such assets.

Proportion of high risk assets i.e. exposures in default or under distressed restructuring, is also assessed in relation to fund size. The extent to which the return from performing assets can absorb current / future losses that may arise from high risk assets in case of missed payments or default is evaluated. In a high interest rate scenario, the cushion available for absorbing losses arising from capital erosion may be greater, subject to the fact that performing instruments in the fund are either short-term or re-priceable.

JCR-VIS also reviews the fund's investments to evaluate the extent of diversification. Funds can be diversified at several levels to diminish risks associated with a certain category. JCR-VIS examines mitigation of risk through investments in different industries and different security issues within an industry, a common practice by mutual funds. Risk profile of funds is determined based on the level of diversification in the economy. However, since risk cannot be entirely eliminated through diversification, the goal should be to minimize unsystematic risk.

Market Risk

Overall fund risk is determined through market risk assessment in

conjunction with credit risk analysis. Price fluctuations of fixed-income instruments can stem from a number of factors including interest rate movements, maturity, liquidity, credit risk and shifts in the supply & demand for each type of security. These factors combined can impact the NAV of a fund and increase its volatility. Also, price risk on TFCs remains a source of concern for income funds at large, given the lack of depth in the local debt market.

Quantitative measures such as weighted average maturity/ duration provide an important framework for evaluation of a fund's sensitivity to interest rate movements. A portfolio with lower sensitivity to changes in the interest rate has a more favorable impact on the fund's rating. Table 2 below outlines risk evaluation in terms of portfolio duration. This criteria applies to all fixed income instruments held by a fund, other than deposits/TDRs/placements

Fund Rating	Wtd. Avg. Duration
AAA	45 days
AA+	60 days
AA	90 days
AA-	180 days
A band	1 year

Criteria for weighted average maturity of deposits/TDRs/placements are laid down in Table 3 below:

Fund Rating	Wtd. Avg. Maturity
AAA	45 days
AA+	60 days
AA	90 days
AA-	180 days
A band	1 year

An analysis of trend of the fund's performance, its historical yield and NAV variability combined with the present investment portfolio, level of market risk exposure and market risk appetite as an indication of future composition of the investment portfolio provides a reasonable measure of NAV stability. Although an analysis of historical NAV variation does not necessarily allow us to estimate future NAV declines with high certainty, a study of empirical results nevertheless provides a good foundation for the assessment of the fund.

Liquidity Risk

Liquidity is of prime importance for open-end mutual funds, and is consequently assessed in detail. In order to meet redemption requests, funds need to maintain a certain level of liquid assets. Liquidity issues arise due to insufficient cash reserves, investments with longer maturities and a low proportion of readily marketable securities in a period of large cash outflows. Redemptions can force an open-end fund to raise cash by selling less liquid investments at depressed rates.

Average maturity profile of instruments held by a fund is also analyzed; the longer this measure, the higher the liquidity risk that may be associated with a fund. Liquidity assessment is conducted in context of the fund's unit holding pattern. The mix of unit holders in terms of institutional and individual unit-holders, their volumes of investment and average subscription/redemption requests as a percentage of the fund size are analyzed.

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Concentration in unit holding pattern can potentially lead to large redemptions for open-end funds in a short interval, which can pose significant risk to a fund's ability to maintain a stable NAV. Liquidity indicators are sensitized to measure the ability of a fund to service redemptions in a timely manner.

For startup funds this data may not be available and rating ceilings may have to be applied unless specific liquidity related minimums are set by the fund for itself, to be followed till such time unit holder mix matures **JCR-VIS**

FUND STABILITY RATING SCALE

AAA(f)

Highest degree of stability in NAV. Risk is negligible with very low sensitivity to changing economic conditions

AA+(f), AA(f), AA-(f)

High degree of stability in NAV. Risk is modest but may vary slightly from time to time because of changing economics conditions

A+(f), A(f), A-(f)

Moderate degree of stability in NAV. Risk factors may vary with possible changes in the economy

BBB+(f), BBB(f), BBB-(f)

Adequate degree of stability in NAV. Risk factors are considered variable if changes occur in the economy

BB+(f), BB(f), BB-(f)

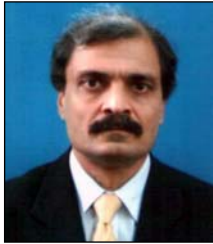
Low degree of stability in NAV. Risk factors are sensitive to changes in the economy

B(f)

Very low degree of stability in NAV. Risk factors are capable of fluctuating widely if changes occur in the economy

The FSR scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

FSRs may be placed under 'Rating-Watch' if JCR-VIS views that the status of the assigned rating is uncertain and there are conditions present that necessitate re-evaluation of the assigned rating. JCR-VIS also designates direction, Positive, Negative or Developing, to ratings placed under 'Rating-Watch'. This shows JCR-VIS's opinion regarding the likely direction of a rating. Developments in factors other than those that necessitated the 'Rating-Watch' may result in a rating change, while the rating continues to be placed under 'Rating-Watch'.



Faheem Ahmad

President & CEO, JCR-VIS
Founder, VIS Group

Faheem Ahmad has diverse experience with international consulting agencies in USA & Middle East. He has also held senior positions with local industrial and financial groups. In 1994, he established Vital Information Services (Pvt.) Limited, which is a leading capital market research house. VIS has the largest data bank of corporate Pakistan. His major research work includes copyrighted F&J financial strength rankings, Musharaka Variable Income Securities and stock market indices. VIS group includes JCR-VIS Credit Rating Company Limited and News-VIS Credit Information Services (Pvt.) Limited, the first private credit bureau of Pakistan. The majority of shareholders in group companies include the largest publication house in Pakistan and major financial institutions. He obtained his B.S in Civil Engineering from NED University of Engineering and Technology, Karachi. He also has Masters degrees in Engineering and Business Administration from USA. His research work has been published in various international journals.



Javed A. Callea

Advisor

Mr. Javed Callea is a professional in the financial sector with 35 years of experience mostly in the financial institutions with certain exposure to service and infrastructure sectors in Pakistan. He has held the position of Chief Executive of a leasing company for 10 years. His core areas of expertise cover leasing, development financing, project management, investment & merchant banking, strategic investment management and real estate. Major financial institutions he worked for include Pakistan Industrial Credit and Investment Corporation, State Life Insurance Corporation, Bankers Equity, Crescent Leasing Corporation and Saudi Pak Ind. & Agri. Inv. Company. He has also served as Member Finance of Water & Power Development Authority of Pakistan and as member of the Inquiry committee on stock exchange crises in 2000 commissioned by the SECP. He earned his MBA degree from the Institute of Business Administration in 1974.



Sobia Maqbool, CFA

Group Head

Sobia Maqbool, CFA is in charge of rating assignments across a diverse range of sectors, including corporates, sub-sovereigns and financial institutions, including commercial banks, insurance companies, investment banks, leasing and modaraba companies (Islamic finance), microfinance institutions, brokerage houses & mutual funds. In addition to this, she is also involved in research activities, development of methodologies & staff training. She has spoken at both local and international forums. She has a Master's degree in Business Administration from the Institute of Business Administration, Karachi and is also a CFA charter holder.



Hina Saleem Mesiya

Manager

Hina Saleem Mesiya has been associated with JCR-VIS since 2008. She has been primarily involved in the credit analysis of various industrial corporates and financial institutions. Ms. Saleem was awarded a Masters Degree in Business Administration from Institute of Business Administration, Karachi in 2008.

Jahangir Kothari Parade (Lady Lloyd Pier)

Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.



*Jahangir Kothari
Parade*

**National Excellence,
International Reach**

JCR-VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve

the domestic financial markets. With its international reach, JCR-VIS is positioned to aim for an international mark. In this regard, the global experience of our principal, Japan Credit Rating Agency, Ltd. has been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors.

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

JCR-VIS Credit Rating Company Limited

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