MCB-ARIF HABIB Savings and Investments Limited

ALHAMRA الحمراء

BACHAT SHARIAT KE MUTABIQ

MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED
MINUTES OF THE 171ST MEETING OF THE BOARD OF DIRECTORS
HELD ON FRIDAY, OCTOBER 22, 2021 AT 03:00 P.M.
ADAMJEE HOUSE, I. I. CHUNDRIGAR ROAD, KARACHI

IN ATTENDANCE

SR. NO.	NAME	INITIALS	DESIGNATION
1.	Mr. Haroun Rashid	HR	Chairman
2.	Mr. Nasim Beg	NB	Vice Chairman / Director
3.	Mr. Ahmed Jahangir	AJ	Director
4.	Mirza Qamar Beg	QB	Director
5.	Syed Savail Meekal Hussain	SMH	Director
6.	Mr. Kashif Arif Habib	KAH	Director
7.	Ms. Mavra Adil Khan	MAK	Director
8.	Mr. Muhammad Saqib Saleem	MSS	Chief Executive Officer
9.	Mr. Muhammad Asif Mehdi Rizvi	MAR	Chief Operating and Financial Officer
10.	Mr. Altaf Ahmed Faisal	AAF	Company Secretary

INVITEES

10.	Mr. Junaid Qamar	JQ	Head of Sales
11.	Mr. Waqas Baig	WB	

All directors attended the meeting through Zoom.

QUORUM

Welcoming the Board members at the 171st meeting of the Board of Directors, the Company Secretary declared the quorum being present.

AGENDA

1) To confirm the minute of the 170th meetings of the Board of Directors held on October 18, 2021;

2) To review progress on the issues discussed in the previous Board meetings;

3) To consider and approve matters discussed in Audit Committee meetings held on October 20 and October 21, 2021;

4) To consider and approve the un-audited annual financial statements of MCB-Arif Habib Savings and Investments Limited as recommended by the Audit Committee for the period/quarter ended September 30, 2021 and Directors' Report thereon;

5) To consider and approve the un-audited Financial Statements of the Funds under management as recommended by the Audit Committee for the period/ quarter ended September 30, 2021 and Directors' Report thereon;

6) To ratify the resolutions approved through circulations by the Board of Directors from the date of last Board Meeting;

7) To ratify decisions made by the Investment Committees of various funds to apply mark-up/mark-down in the valuation of debt securities in accordance with the SECP Circular No. 001 of 2009;

8) Any other matter with the permission of the Chair.

AGENDA ITEM 1

TO CONFIRM THE MINUTES OF THE 170TH MEETING OF THE BOARD OF DIRECTORS HELD ON OCTOBER 18, 2021

AAF informed the members that 170th meeting minutes held on October 18, 2021 have been circulated just before the start of meeting. Since the directors have not review the minutes it was decided to defer the Agenda item for next meeting.

AGENDA ITEM 2

TO REVIEW PROGRESS ON THE ISSUES DISCUSSED IN THE PREVIOUS BOARD MEETINGS;

MAR informed the members apart from other contents from this quarter status on Five Years KPIs (2022-2026) have been made part of the Presentation. MAR shared the slide of Executive Summary with the Board members. MAR informed the members that during the three months AUMs increased by Rs. 5 billion to Rs. 163 billion. MAR further informed the members that the market share in the same period increased from 12.8% to 12.9%. MAR furthered that due to increase of AUM and one off recording of management fee and reimbursements of Rs. 44.6 million helped the Company earn operating profit of Rs. 115.64 million compared to budgeted operating profit of Rs. 35.24 million and Rs. 61.67 million for corresponding period. MAR furthered that during the quarter PSX decreased by 5% compared to 18% in the corresponding period resultantly Company earned profit after taxation of Rs. 65.02 million compared to Rs. 44.5 million in the same corresponding period. On SMH MSS informed the members that trading portfolio is actively switched between Fixed Income Funds and Equity Funds, however, for Pension Funds the management has adopted passive approach.

1) Update- Key Performance Indicators

MSS informed the members that status of KPIs have been shared with monthly reports and has been made part of this Presentation. MSS added that compared to budgeted operating profit of Rs. 56 million the Company earned 115 million and even after excluding one off exceptional income of Rs. 44.6 million the operating profit is Rs. 71 million. With respect to Treasury Income, the benchmark return was 0.07% whereas the Company earned negative 0.93% in the same period due to higher allocation in equities. The management is hopeful that going forward the Company would beat the benchmark. MSS furthered that fund performance is compared with three years moving average. With respect to HNW MSS informed that the Company has 131 HNWs and in the presentation, the incumbent heading HNW would share strategies and challenges relating to HNWs. MSS then shared benchmark and status of other KPIs. MSS furthers that due to decrease in equity market the Company is lagging, however, with equity market performing the management expects to catch-up with the benchmark. MSS added that with respect to retail AUMs outside 5 big cities, with SECP approving Circular on digital onboarding the management expects to increase the share in cities outside 5 big cities. MSS added that in last NPS, the Company scored NPS of over 8 points and next NPS is scheduled in December and with improvement in customer service, its team and journey, we expect further improvement in upcoming MPS. MSS furthered that in next BOD meeting the Head of Customer Service would be sharing his KPIs and efforts made by the management to achieve higher NPS.

MSS informed that on three years moving average, equity funds especially Islamic Equity Fund is struggling. MSS informed the members that six months back after hiring a senior resource, the Islamic equity desk has been separated and now the management hopes to improve the ranking in this category. After detailed discussion, it was decided that benchmark returns and peer returns shall be shown along with actual returns and for money market funds and income funds gross return be presented as some of our Funds charge higher expense ratio or some competitors charge low expense ratio and instructed to circulate the same by next week. KAH shared his concerns that with this positioning it is difficult to market equity funds. On members' suggestion MSS agreed that Fund Performance benchmark shall be made part of Fund Performance meeting.

2) <u>Business Update</u>

JQ presented an update on the Corporate and Retail Sales. JQ started with a brief on how the Industry performed during the period and shared the details of AUMs of top seven (7) AMCs including MCBAH as on September 30, 2021 with respect to overall industry size, Discretionary Portfolios Collective Investment Schemes. Following details were shared by JQ with the Board members:

i. Market share of the overall Industry AUM and specifically with respect to shariah compliant AUMs of CISs and changes during the period. Faysal, ABL and HBL AMC growth AND significant decrease in AUMs of Meezan was discussed;
ii. While discussing performance of Conventional and Islamic Money Market Funds expense ratios were discussed in detail;
iii. AUM statistics and net sales of individual and corporate clients generated through own sales channels of the Company and distributors during the PERIOD in terms of AUMs and growth compared to June 30, 2021;
iv. While discussing performance of MCB as a distributor, MSS informed that recently MCB Bank has allowed the Company to station around 30 MCBAH resources in MCB Tier 1 branches. Members discussed profile of Wealth Officers. Since the employees would be under administrative control of MCB Bank on NB suggestion it was agreed that if MCB Bank allow, station Senior Wealth Managers to manage Wealth Management clients in MCB Premier branches;
v. While discussing update on competitors, JQ informed that about 250 employees have recently laid off by NAFA primarily to manage cost whereas Faysal Bank is aggressively selling Faysal Funds products through their bank branches. On QB query MSS informed that lay-offs would have no impact on market share of NAFA;

For HNW Mr. Waqas Baig was invited. WB informed that HNW are categorized as HNW if either they have investment value or income is over Rs. 30 million, have paid large taxes as per Tax Directory or is sponsor of any leading Group. WB added that IT is extensively used for data mining and client deepening. Strategy including risks was discussed in detail especially for individuals who though have white income but do not pay taxes or are PEP. WB informed that currently we have 131 HNWs with over Rs. 12 billion AUMs with over 16% investment in equity portion. WB added that primarily HNW team is focused on equity funds. WQ added that considering the risk appetite and cash flow requirements SMA option is also pitched. Members discussed in detail profile of HNW including their training needs. WB furthered that on daily basis team is updated on equity and money market. AJ suggested that apart from soft skills and update on interest rate, equities HNW staff should be well versed with commodities prices, and world economy for which may engage internal and external Research teams who can update them on atleast weekly basis. AJ furthered that before meeting with clients the team members should be briefed on HNW business. Afterwards challenges face by HNWs was discussed in detail. Members suggested that linkage may be created by engaging HNWs with tax advisor, legal advisor formation of trust would help in increasing HNW business.

3) Management Analysis Report

MAR then shared the details of budget v/s actual results and comparative number of September 30, 2020 and discussed in detail the variances. Major variance being increased revenue due to higher AUMs and one off exceptional revenue of Rs. 44.6 million because of management fee and reimbursements and an additional charge made for recording sales tax provision of Rs. 12 million. NB suggested variance analysis should be shown in favourable and unfavourable basis. Thereafter, following slides were shared and discussed with the Board members:

i. AUMs break-up into Funds and SMA;
ii. Funds AUMs break-up into fund category wise, segment wise and channel wise;
iii. Top Five Funds -AUM wise and fees wise;
iv. Management fee & reimbursements- category wise;
v. Management fee earned- channel wise;
vi. Yields earned by the Company on each segment; and
vii. Fund wise Net Assets, fees including reimbursements earned and growth compared to June 20, 2021; and
viii. SMA Net Assets segregating into Adamjee and other SMAs and fees earned and growth compared to June 20, 2021.

4) Progress on business through MCB Bank

MAR informed the members that in September quarter AUMs generated by the MCB Bank increased by over Rs. 120 million. Afterwards MAR shared fund wise revenue earned by the Company and MCB Bank.

5) Regulatory Compliance Certificate

a. Regulatory Non- Compliances

MSS apprised the Board members that duly signed Compliance Certificate is available in the portal. Moreover, MAR informed members that significant issues highlighted in Compliance Certificate by Head of Compliance was relating to non-compliance with respect to withdrawals made by dormant account.

b. Financial Institution Risk Management breaches

MAR apprised the Board members that Risk Management Department in its Report has highlighted list of breaches with respect to Financial Institution and MTS. The Report is available in the portal.

6) Summary of Credit Committee Decisions for the Quarter

AAF briefed the details of all decisions of the Credit Committee taken since the last Board meeting. MAR informed the members that during the quarter ex CFO of Saudi Pak Leasing Company (SPLC) wanted to purchase TFC of SPLC and after various meetings with ex CFO; the management was not comfortable and sought guidance from Credit Committee who concurred with management view and rejected the offer.

7) Progress on pending issues

MAR shared the status on pending matters with the Board members, which were noted by the members.

MAR informed the members that Fund wise Risk Policy has been circulated and Credit Committee would consider it within next few weeks. MAR further informed the members that SECP has approved Circular on Digital On-boarding and the management is evaluating and after incorporating changes in KYC/ CFT Manual if required, the management would present to sub-committee comprising of NB, MAK and SMK for their review. MAR informed the members that review of Evaluation Forms has now been made part of the Agenda of HR&R Committee. After deliberation, it was decided to schedule HR&R Committee on Saturday November 06, 2021 at 11:00 pm.

With respect to obtaining licence of Private Fund Manager MSS informed that in meeting with Chairman SECP he had requested SECP to allow the Company to make Fund that can have concentrated exposure in selected securities for which company limit and sector limit be waived off. MSS suggested that since it would be an aggressive fund we have suggested SECP to enhance risk profiling and would keep minimum balance at a higher level to encourage only well informed investors who have risk appetite to make investment in the Fund. Tax impact of the Fund and unit holder was discussed including tax in case the Fund was launched under license of Private Fund Manager.

MAR informed the members that KYC follow-up with unit holders and system documentation was discussed in detail at Audit Committee. In the Committee, it was agreed that in next two months the Sales team would follow with the unit holders to resolve KYC deficiencies based on which the management would ascertain whether to continue relationship with the unit holder. With respect to system documentation, MAR informed that the system documentation would be completed by December 31, 2021

With respect to appointment of Z2C as PR Manager MSS informed that the Company is in process of making annual plan with them that is expected to be rolled by next month. With respect to Dar ul Uloom online MAR informed that the Company is in process of arranging seminars. MAK suggested informing members on impression generated on the videos. With respect to KPIs MAR informed that Board meeting was held to review KPIs of Mr. Junaid where business plan especially of last two years of five years plan were discussed. Moreover, as part of succession planning incumbents and their direct reportees, Mr. Junaid on September 15, 2021 and today Mr. Waqas has given presentation. MAR furthered that on September 23, 2021 CEO through an email shared main impediments to Mutual Fund growth. MAR added that NTNs were shared with Mr. Savail on August 10, 2021 and as directed by members meeting would be held in November 2021 to review financial numbers of the Competitors. Moreover, in the Presentation of Mr. Junaid competition strategies including success and failures of NBP Funds and Faysal Funds were discussed. MAR informed that training material has been shared placed in the folder whereas videos would be shared on Google Drive. MAR furthered that as on September 30, 2021 16.65%

of HNW AUMs were in equities whereas risk associated with KPIs and quantitative impacts would be included in subsequent KPI meetings. Other actions items, which would be discussed in December 2021, June 2022 or have been deferred till any developments were then briefed by MAR.

AGENDA ITEM 3

TO CONSIDER AND APPROVE MATTERS DISCUSSED IN AUDIT COMMITTEE MEETINGS HELD ON OCTOBER 20 AND OCTOBER 21, 2021;

The Chairman Audit Committee informed the members that with respect to financial statements of the Management Company and the Funds under its management, the Audit Committee has reviewed and discussed and has recommended the financial statements of the Management Company and the Funds to the Board. With respect to audit issues, QB briefed the members that the Committee had a detailed reviewed of Internal Audit Report. With respect to related parties and legal issues QB informed the members that the Audit Committee had a detailed discussed on it.

AGENDA ITEM 4

TO CONSIDER AND APPROVE THE UN-AUDITED ANNUAL FINANCIAL STATEMENTS OF MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED AS RECOMMENDED BY THE AUDIT COMMITTEE FOR THE PERIOD/QUARTER ENDED SEPTEMBER 30, 2021 AND DIRECTORS' REPORT THEREON;

MAR apprised the Board members that the financial statements of the Management Company for the three months were reviewed by the Internal Auditors and discussed in detail in the Audit Committee meeting. MAR added that Committee has recommended the Financial Statements of the Management Company to the Board. MAR also informed that the investment returns of the Company were discussed in detail in the Fund Performance meeting. After detailed deliberation, the Board members unanimously passed the following resolutions:

> ***"RESOLVED THAT***
> *the un-audited financial statements, as recommended by the Audit Committee, for the period / quarter ended September 30, 2021 and the Directors' Report thereon be and are hereby approved;*
>
> ***FURTHER RESOLVED THAT***
> *the Chief Executive Officer, the Chief Financial Officer and one Director shall sign the Un-audited financial statements of the Management Company for the period / quarter ended September 30, 2021, on behalf of the Board;*
>
> ***FURTHER RESOLVED THAT***
> *The Chief Executive Officer and one director of the Company be and are hereby authorized to sign the Directors' Reports of MCB-Arif Habib Savings and Investments Limited and the funds under management for the period / quarter ended September 30, 2021, on behalf of the Board; and*
>
> ***FURTHER RESOLVED THAT***
> *the transactions with related parties as disclosed in un-audited financial statements be and are hereby approved."*

<u>AGENDA ITEM 5</u>

TO CONSIDER AND APPROVE THE UN-AUDITED FINANCIAL STATEMENTS OF THE FUNDS UNDER MANAGEMENT AS RECOMMENDED BY THE AUDIT COMMITTEE FOR THE PERIOD/ QUARTER ENDED SEPTEMBER 30, 2021 AND DIRECTORS' REPORT THEREON;

MAR briefed that Audit Committee held detailed discussions on the financial statements of the Funds whereas fund performance of the Funds were discussed in Fund Performance meeting. On HR query, QB informed the members that no new significant issue has been highlighted. After discussions, the Board unanimously passed following resolutions.

"RESOLVED THAT
the un-audited financial statements of the Funds under management of the Company along with the Directors Report namely : (i) Pakistan Income Fund; (ii) MCB DCF Income Fund; (iii) MCB Pakistan Sovereign Fund; (iv) Pakistan Income Enhancement Fund; (v) MCB Cash Management Optimizer; (vi) Pakistan Cash Management Fund; (vii) MCB Pakistan Stock Market Fund; (viii) Alhamra Islamic Money Market Fund (Formerly MCB Pakistan Frequent Payout Fund); (ix) Alhamra Islamic Stock Fund; (x) MCB Pakistan Asset Allocation Fund; (xi) Pakistan Capital Market Fund; (xii) Alhamra Islamic Asset Allocation Fund; (xiii) Alhamra Islamic Income Fund; (xiv) Alhamra Islamic Active Allocation Fund; (xv) Alhamra Daily Dividend Fund; (xvi) Pakistan Pension Fund; and (xvii) Alhamra Islamic Pension Fund, for the period / quarter ended September 30, 2021, as recommended by the Audit Committee, and the Directors' report thereon be and are hereby approved;

FURTHER RESOLVED THAT
the Chief Executive Officer, the Chief Financial Officer and one Director shall sign the un-audited financial statements of the Funds under management of the Company namely : (i) Pakistan Income Fund; (ii) MCB DCF Income Fund; (iii) MCB Pakistan Sovereign Fund; (iv) Pakistan Income Enhancement Fund; (v) MCB Cash Management Optimizer; (vi) Pakistan Cash Management Fund; (vii) MCB Pakistan Stock Market Fund; (viii) Alhamra Islamic Money Market Fund (Formerly MCB Pakistan Frequent Payout Fund); (ix) Alhamra Islamic Stock Fund; (x) MCB Pakistan Asset Allocation Fund; (xi) Pakistan Capital Market Fund; (xii) Alhamra Islamic Asset Allocation Fund; (xiii) Alhamra Islamic Income Fund; (xiv) Alhamra Islamic Active Allocation Fund; (xv) Alhamra Daily Dividend Fund; (xvi) Pakistan Pension Fund; and (xvii) Alhamra Islamic Pension Fund, on behalf of the Board;

FURTHER RESOLVED THAT
the transactions with connected person as disclosed in the un-audited financial statements of the funds under management of the Company namely: (i) Pakistan Income Fund; (ii) MCB DCF Income Fund; (iii) MCB Pakistan Sovereign Fund; (iv) Pakistan Income Enhancement Fund; (v) MCB Cash Management Optimizer; (vi) Pakistan Cash Management Fund; (vii) MCB Pakistan Stock Market Fund; (viii) Alhamra Islamic Money Market Fund (Formerly MCB Pakistan Frequent Payout Fund); (ix) Alhamra

Islamic Stock Fund; (x) MCB Pakistan Asset Allocation Fund; (xi) Pakistan Capital Market Fund; (xii) Alhamra Islamic Asset Allocation Fund; (xiii) Alhamra Islamic Income Fund; (xiv) Alhamra Islamic Active Allocation Fund; (xv) Alhamra Daily Dividend Fund; (xvi) Pakistan Pension Fund; and (xvii) Alhamra Islamic Pension Fund, be and are hereby approved.

FURTHER RESOLVED THAT

the amount of remuneration of Management Company, remuneration of Trustee and Annual fee of Securities and Exchange Commission of Pakistan charged in the Financial Statements of Funds under management of the Company be and are hereby approved."

AGENDA ITEM 6

TO RATIFY THE RESOLUTIONS APPROVED THROUGH CIRCULATIONS BY THE BOARD OF DIRECTORS FROM THE DATE OF LAST BOARD MEETING;

MAR informed that there no approvals were sought during the period.

AGENDA ITEM 7

TO RATIFY DECISIONS MADE BY THE INVESTMENT COMMITTEES OF VARIOUS FUNDS TO APPLY MARK-UP/MARK-DOWN IN THE VALUATION OF DEBT SECURITIES IN ACCORDANCE WITH THE SECP CIRCULAR NO. 001 OF 2009;

Regarding ratifying decisions made by Investment Committee with respect to application of mark-up/ mark-down in the valuation of debt securities from September 15, 2021 to October 21, 2021, as allowed in compliance with SECP Circular No. 01 of 2009, the Board members unanimously passed the following resolution:

"RESOLVED THAT
Decisions made by the Investment Committees of various funds to apply mark-up/mark-down in the valuation of debt securities in accordance with the SECP Circular No. 001 of 2009 for the period from September 15, 2021 to October 21, 2021 be and are hereby approved."

AGENDA ITEM 8

ANY OTHER MATTER WITH THE PERMISSION OF THE CHAIR.

- **To Consider and approve the closure of MCBAH branches**

  MAR informed the members that in the Plan the management had presented detailed Business and Marketing Plan. However, subsequently considering HR issues including high turnover and lack of experienced resources and continuing losses earned by the Branch, the management recommends closing out branches at Quetta, Bahawalpur and Rahim Yar Khan. MSS added that HR issues could create reputation risk for the Company. MSS furthered that the management would continue to open branches in Tier 1 cities. On MAK query, MSS informed that the Company has no branches in the cities, and afterwards would be handled through digital platform. After deliberation, the members asked management to share a plan in the next on how to make these branches successful. Afterwards, MAR reminded the members on AGM which is scheduled for October 26, 2021 at 11:30 am.

There being no other person, the meeting was then concluded with vote of thanks from the Chairman.

Prepared by	**Approved by**
Company Secretary	**Chairman**