

MAGNUS INVESTMENT ADVISORS LIMITED

May 18, 2012

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Chairman: Mr. Imran Ibrahim

Chief Executive: Mr. Nadeem Jeddy

Category	Latest	Previous
Management Quality	AM3+ Stable May 11, '12	AM3+ Stable Feb 17, '11

Rating Rationale

Actual returns of discretionary and notional returns of non-discretionary portfolios' equity portion managed by Magnus Investment Advisors Limited (Magnus) stack favourably against the benchmark. Against a negative return registered by the benchmark for Jan-Sept'11 period, the notional gross returns on equity portion have been in the range of 16.9-21.7%. Moreover, performance of equity portion has also been superior vis-a-vis other investment alternatives available in the market. Allocation to fixed income securities comprises more than 50% of each investment mandate, as outlined in the investment policies. On the non-discretionary side, apart from one client, overall performance gap between actual and notional returns has reduced.

Franchise value of Magnus has grown as evidenced by the profiles of clients that have signed on with the company. Moreover, apart from one client, all clients have renewed their investment agreement with Magnus. One or two clients have also assigned additional portfolios for management to Magnus. At end-Dec'11, the company was managing portfolios of 12 (end-Dec'10: 11) clients, including four overseas clients. Quantum of domestic portfolios under management had crossed Rs. 10b by end-Dec'11.

Organization structure was revamped in 2011. Investment management, Portfolio management, Business development and Finance & Administration have been defined as four core departments of the company. The Board-level Risk Management Committee (RMC) oversees the Investment Committee (IC) and the IC oversees the four core departments. Given that two members of the RMC are based overseas, decisions at the RMC-level are taken through e-mail. There has been considerable delay in establishing/ outsourcing the internal audit function. At present, the company is in the process of appointing an audit firm for this function. There has been some turnover in the company. Of the two vacancies at the Executive Vice President (EVP) level, one has been filled. The new appointee at the EVP-level is serving both as the Head of Business Development team and Fixed Income. The majority shareholder of the company, Mr. Nadeem Jeddy, is also serving as the CEO, CIO and a sector specialist; hence, there is key person risk present in the organization. A comprehensive risk management manual is in place that provides guidelines for investment management function. Sound policy framework, particularly on the proprietary trading and personal trading side, ensures fair dealing with clients.

Greater depth is warranted in the oversight function performed at the Board-level. The minutes of Board meetings are limited to circular resolutions covering statutory approvals. In view of the growing quantum of mandates under management, strengthening is required on the management team. Risk management function also needs to be developed at the management-level as the current risk management activities are carried out by the RMC comprising overseas directors and hence, micro-level risk management objectives may not be met.

Net equity of the company (excluding surplus on revaluation of investments) was lower at Rs. 145.5m (end-Jun'10: Rs. 153.4m) at end-Jun'11 on account of increase in accumulated losses to Rs. 25m (FY10: Rs. 17m). Quantum of management fee improved in FY11 with growth in portfolios under management; translating into reduction in operational loss to Rs. 5.6m. Moreover, break-even has been achieved in operational performance for 1HFY12. Loss before tax of Rs 7.9m was reported for FY11 as against profit of Rs. 1.9m for FY10 on account of impairment loss of Rs. 17m booked against investment in shares of an NBFC. Further impairment loss has been booked against this investment in 1HFY12.

Overview of the Management Company

Magnus Investment Advisors Limited was incorporated in June 2007 as a public limited company. The company is engaged in providing investment advisory services and specializes in providing discretionary and non discretionary investment management services to employee retirement funds. Financial statements of Magnus for FY11 were audited by M/s KPMG Taseer Hadi & Co.

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