

RATING REPORT

Magnus Investment Advisors Limited

REPORT DATE:

February 18th, 2019

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
	Medium to Long Term	Medium to Long Term
Rating Category		
Management Quality	AM2+(IA)	AM2 (IA)
Rating Outlook	Stable	Positive
Outlook Date	February 14th, '19	October 24th, '17

COMPANY INFORMATION

Incorporated in 2007

External auditors: KPMG Taseer Hadi & Co.

Non-Banking Finance Company

Chairman of the Board: Dr. Mohammad Nishat

Chief Executive Officer: Mr. Nadeem Jeddy

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria <http://jcrvis.com.pk/docs/MQR-Methodology-2015.pdf>

Magnus Investment Advisors Limited

OVERVIEW OF THE INSTITUTION

Magnus Investment Advisors Limited (MLAL) was incorporated in June 2007 as an unlisted public limited company. The company is engaged in providing investment advisory services and specializes in providing investment management services to employee retirement funds. Financial statements of Magnus for FY18 were audited by M/s KPMG Taseer Hadi & Co.

Profile of Chairman

Mr. Nishat is currently working as a Professor of Economics and Finance and Associate Dean of Business Administration, at IBA Karachi. At Magnus, Dr. Nishat is the Chairman of the Audit Committee, and an Independent Director. He holds a doctorate degree in Economics from the University of Auckland New Zealand, with a specialization in Finance.

Profile of CEO

Mr. Jeddy has 17 years of rich experience with Citigroup, where he worked in Corporate Banking in Pakistan and Indonesia, and eventually left the organization as Managing Director Mergers & Acquisitions group, in Hong Kong. In 2007, he became the founding CEO of Magnus Investments, and Chief Investment Officer (CIO) in 2008. Presently, he is serving both positions of CEO and CIO.

RATING RATIONALE

Magnus Investment Advisors Limited (MIAL) has been operating for over a decade as a specialized investment advisor with experience in managing investments for retirement, gratuity and provident funds of various local and multinational companies. The company also offers customized advisory services to both discretionary and non-discretionary clients as per requirements.

Organizational structure of the company is broadly segmented into two divisions; investment and operational management. Investment division is further segmented into Security Analysis (SA) & Portfolio Analysis (PA) functions. Both functions report to the CIO and actively contribute in the investment decision making process. SA function primarily is involved in research & shortlisting of equities and fixed income instruments (TFCs/Sukuk) while PA function is responsible for portfolio construction, asset allocation and tailoring of funds portfolio as per clients' requirements. The operational management and control division is divided into five sub-departments; Portfolio management (PM), Finance, Compliance, HR and Private Client Group (PCG). The PM team executes portfolio management function after the asset allocation is approved and the IPS is signed. The purpose of the PM team is to execute client relationship management function in its entirety which includes, periodic reporting, cash flow monitoring, portfolio rebalancing and performance reviews. They are the first point of contact for all clients.

Key Rating drivers**Well defined organizational structure with adequate board level governance and seasoned professional management team.**

Board composition and reporting structures have been improved since last review. Dr. Mohammad Nishat has replaced Mr. Nadeem Jeddy as the Chairman of the Board. Appointment of an independent director as the Chairman aligns with best governance practices while segregating the roles of CIO and chairman eliminates reporting line inconsistencies. There are two board level committees namely Board Audit Committee (BAC) and Board Compensation Committee (BCC). As per best practices, an independent director chairs the BAC. While board oversight is considered adequate, increase size of the board will further enhance board level governance and avoid common members in board level committees. With turnover at the position of CEO, Mr. Nadeem Jeddy has been appointed as the CEO in addition to his existing role as CIO and major shareholder indicating key person risk.

Strong internal controls and compliance levels with stringent guidelines related to employee trading.

Assigned ratings take into account company's orientation towards transparency and conformity to regulatory requirements. The internal audit function is outsourced to PWC Pakistan while external auditors are KPMG Taseer Hadi and Company. Scope and quality of internal audit reports is satisfactory with reports being submitted on a semi-annual basis. Compliance function has been strengthened with an additional resource added and is now dedicated in its role. For business continuity and disaster recovery, a separate dedicated office has been purchased and has been equipped with the requisite infrastructure.

The company has also instituted a strong self-governance culture. As per company's personal trading policy, no employee can buy or sell any securities without prior consent of the CIO. MIAL also voluntarily submits quarterly statement of firm's and officers' personal trades to SECP; this statement is also made available to clients to ensure transparency. Manuals for all key functions including risk management, finance, HR, compliance, portfolio management, security analysis and portfolio analysis are in place and are updated periodically. Quality of reporting to clients is considered comprehensive in nature and standardization of services has been observed across clients. Clients are informed three

(3) days prior to execution of all proprietary trades undertaken by MIAL while there are separate authorized personnel responsible for execution of proprietary trades.

Healthy growth in AUMs over the last 5 years. Growth momentum projected to continue.

Over the last five years, assets under management have grown at a healthy pace. Increasing trend is on account of addition of new clients and increase in AUMs of existing clients contributing to higher AUMs. Overall client concentration in management fees remained around prior year level but continues to remain on the higher side. During FY18, the company signed three new mandates. Going forward, growth in AUMs is expected to be facilitated by implementation of Employee Contributory Funds regulations 2018 (effective from June'2019) which has enhanced compliance and reporting requirements.

Long term fund performance continues to outperform benchmarks. Consistency of the same will continue to be an important rating driver.

Overall long-term portfolio returns of funds managed by the company are higher vis-a-vis the established benchmark returns on a timeline basis. In terms of specific asset classes, returns on equity portfolio also outperformed their benchmark of KSE-100 index in 9MCY18, despite facing restrictions specified in Employees' Provident Fund (Investment in Listed Securities) Rules, 2016 with regards to scrip selection. Outperformance was more significant in 9MCY18 vis-à-vis 2017. Equity strategy of the Company undertakes long term investments, exposure in noncyclical stocks and maintains a balanced portfolio for funds. Returns on fixed income instruments declined on a timeline basis due to mark to market losses given long-term exposures. Given the nature of mandates, where the portfolio objectives are generally to meet liabilities rather than maximizing returns, a slightly lower performance in a given year is of less significance; maintaining consistency in returns over the long term is considered important in addition to quality of client servicing.

Financial profile remains healthy with sizeable increase in management fees earned and sound liquidity and capitalization indicators.

Revenue base of the company increased largely on account of higher management fees charged. Other sources of income include profit on bank deposits, dividend income and realized/unrealized gain on investments. Operating expenses were reported higher primarily on account of bonuses paid. Equity base of the company increased marginally on account of growth in accumulated profits. Capitalization levels of the company remain comfortably above the regulatory requirements for investment advisory services.

MANAGEMENT QUALITY RATINGS

AM1:

Asset manager exhibit Excellent management characteristics

AM2++, AM2+, AM2:

Asset manager exhibit Very Good management characteristics

AM3++, AM3+, AM3:

Asset manager exhibit Good management characteristics

AM4++, AM4+, AM4:

Asset manager exhibit Adequate management characteristics

AM5:

Asset manager exhibit Weak management characteristics

For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.

For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Magnus Investment Advisors Limited			
Sector	Non-Banking Finance Company			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	02/14/2019	AM2+(IA)	Stable	Upgrade
	10/24/2017	AM2(IA)	Positive	Maintained
	05/04/2016	AM2(IA)	Stable	Harmonized
	03/02/2016	AM2-(IA)	Stable	Reaffirmed
	02/26/2015	AM2-(IA)	Stable	Upgrade
	02/26/2015	AM3+(IA)	Stable	Harmonized
	07/16/2013	AM3+	Stable	Reaffirmed
	05/11/2012	AM3+	Stable	Reaffirmed
Instrument Structure	N/A			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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