

RATING REPORT

Magnus Investments Limited (Formerly Magnus Investment Advisors Limited)

REPORT DATE:

April 13, 2022

RATING ANALYST:

Muhammad Tabish

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
Management Quality	AM2+(IA)	AM2+(IA)
Rating Outlook	Stable	Stable
Outlook Date	April 13, 2022	April 01, 2021

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)

VIS Entity Rating Criteria: <https://docs.vis.com.pk/docs/MQR-Mehtodology-201808.pdf>

Magnus Investments Limited (Formerly Magnus Investment Advisors Limited)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Magnus Investments Limited (MIL), formerly Magnus Investment Advisors Limited, was incorporated in June 2007 as an unlisted public limited company, classified as an NBFC. The company has an Investment Advisory license from SECP and specializes in providing investment management services to institutional clients and HNWI Individuals.

Profile of Chairman

Mr. Nishat is currently working as a Professor and Dean of Faculty of Management Sciences, at Salim Habib University. 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.

Headquartered in Karachi, Magnus Investments Limited (MIL), formerly Magnus Investment Advisors Limited, has established a strong brand reputation in the market with an extensive track record of around 15 years in specialized investment advisory business. The client base comprises various local and multinational institutions. In the recent past, MIL obtained two new licenses to operate as REIT Management Company (RMC) and Private Equity and Venture Capital (PEVC); developments in this regard are underway.

Key Rating Drivers:

Well defined organizational structure with sound corporate governance and seasoned senior management team.

The organizational structure is broadly segmented into two divisions; investment and operational management. **Investment division** is further segmented into Security Analysis (SA), Portfolio Analysis (PA) and Portfolio Management (PM) departments. The PA and SA departments report to CIO and actively contribute in the investment decision making process. SA function primarily is involved in research & shortlisting of equities and listed fixed income instruments (IFCs/Sukuk) while PA function is responsible for portfolio construction, asset allocation and tailoring of funds portfolio as per clients' requirements. The PM department executes client relationship management function in its entirety which includes periodic reporting, cash flow monitoring, portfolio rebalancing and performance reviews. **Operations division** is divided into four sub departments; Finance, Compliance, HR and Business Development. Manuals for all key functions are in place and are updated periodically.

At present, Board of Directors (BoD) comprises 6 members including two independent directors. There are four board level committees in place namely; Audit Committee, Investment Committee, Disciplinary Committee and Sexual Harassment Committee. As per best practices, an independent director chairs the Board and Audit Committee. Room for improvement exists in terms of succession risk as major shareholding is held by single individual.

The company has in place a qualified senior management team with extensive experience. In addition, employee attrition is also very limited. Cumulative ownership of senior management team members stood at ~10%. The employees and directors have undergone corporate governance trainings to increase awareness. Moreover, MIL has recently deployed cloud based real-time data backup system.

Robust internal controls and compliance levels with strict guidelines related to employee trading.

MIL's orientation towards transparency and conformity to regulatory requirements is sound, wherein firm's portfolio balance and composition is voluntarily reported to SECP on a quarterly basis. Guidelines related to employee trading remain stringent with no personal trading allowed without prior written consent of the CIO. The internal audit function is outsourced to PWC Pakistan which further adds to the control levels.

Moreover, auto portfolio rebalancing triggers are inherent in the system, which intimates any breach of defined limits. The investment committee oversees the defined risk limits. Quality of reporting to clients is considered comprehensive in nature and standardization of services is observed across clients. Quarterly review of the client feedback data is also indicative of strong client satisfaction.

AUMs have depicted strong growth on a timeline basis. Future business strategy is aligned to focus on continuous addition of new clients.

Net assets under management registered a decent growth in the ongoing year. The timeline growth in net assets is attributable to continued addition of new clients over the years along with increasing AUMs of existing mandates.

Portfolio returns outperformed benchmarks. The consistency in the same is considered important from a ratings perspective.

Overall long-term portfolio returns of the funds are reported higher vis-à-vis established benchmarks on a timeline basis. The review of random sample of institutional clients was also indicative of out-performance vis-à-vis benchmarks for both asset classes; equity securities and fixed income instruments. Equity strategy of the company undertakes long term investments, exposure in non-cyclical blue chip stocks and maintains a balanced portfolio. VIS will continue to track portfolio returns performance which is considered important from a ratings perspective.

Healthy growth in AUMs has translated into improved earning profile; liquidity and capitalization levels remain sound.

Overall recurring income has increased on a timeline basis in line with the pace of growth in AUMs. Major portion of the revenue is generated from management fee earned while other revenue sources include profit on bank deposits, dividend income and realized/unrealized gain on investments. Client-wise concentration remains on the higher side. On the cost front, recurring expenses grew in tandem with recurring income and thus, cost-income ratio remained stable at around prior year's level.

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Financial Summary – Unconsolidated (Figures in millions)				Annexure I
BALANCE SHEET	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21
Property and Equipment	73.8	89.2	174.7	195.3
Investments	224.1	225.9	153.3	231.1
Cash and bank balances	22.8	2.6	41.3	24.1
Total Assets	393.0	383.6	452.0	540.4
Issued, Subscribed & Paid up Capital	119.0	125.3	140.0	140.0
Share Premium	51.4	51.5	51.5	51.5
Surplus on Revaluation of Available for Sale Investments	54.9	9.6	(0.4)	34.8
Accumulated Profit	112.4	136.5	190.3	220.9
Total Equity	337.8	322.8	381.4	447.2
INCOME STATEMENT				
Management Fee	142.8	152.7	182.5	228.8
Investment Income	7.5	7.2	5.2	2.5
Dividend Income	7.5	9.2	8.9	15.5
Capital Gain on Sale of Investment	1.2	(0.1)	(2.3)	0.1
Total Revenue	159.0	168.9	194.4	247.1
Administrative & Operating Expenses	119.4	113.7	135.5	171.3
Profit Before Taxation	31.9	53.5	56.1	75.0
Profit After Taxation	19.5	37.9	38.0	55.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure II

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

REGULATORY DISCLOSURES		Annexure III		
Name of Rated Entity	Magnus Investments Limited (<i>Formerly Magnus Investment Advisors Limited</i>)			
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
	04/13/2022	AM2+(IA)	Stable	Reaffirmed
	04/01/2021	AM2+(IA)	Stable	Reaffirmed
	02/11/2020	AM2+(IA)	Stable	Reaffirmed
	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	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.			
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.			
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Due Diligence Meeting Conducted	Name	Designation	Date	
	Mr. Umair Aslam	Managing Director (MD)	March 2, 2022	