

MAGNUS INVESTMENT ADVISORS LIMITED

July 16, 2013

Analysts: Hina Saleem Mesiya, CFA/ Raza Lakhani

Chairman: Mr. Nadeem Jeddy, CFA

Chief Executive: Mr. Hassan Khan

Category	Latest	Previous
Management Quality	AM3+	AM3+
Outlook	Stable	Stable
	July 16, '13	May 11, '12

Rating Rationale

Specialized investment advisory services have gained popularity in recent years; however, there is stiff competition in the market amongst existing players over management fees; in few cases, this has also been a source of client attrition. With growing interest of large, well-established AMC's in the investment advisory space, retaining and growing client base and maintaining profitable operations may pose challenges for specialized investment advisory companies. Of the eight clients that have signed up with Magnus Investment Advisors Limited (Magnus) for management of their retirement funds, most of these clients have been associated with the company for more than three years now. Portfolios managed by the company pertain to domestic and overseas clients. Domestic portfolios managed by the company aggregated around Rs. 13b at end-Dec'12. Improving franchise of the company is evident from the fact that some of the existing clients have assigned additional funds to Magnus for management and have also agreed to upward revision in management fee at the time of renewal of contracts. Through increase in management fees and recurring investment income, the company has been able to achieve profitable operations.

Policy framework of the firm exhibits strong disposition towards self regulation, transparency and disclosure to clients. Portfolio Management and Investment Management processes are streamlined. The processes reflect sound analytical input; from security analysis to development of investment strategy and achievement of investment objectives. Moreover, quality of reporting to clients is comprehensive and there is standardization of services across clients.

Above average performance of portfolios under management, both on the equities and fixed income side, is a testament to the efficacy of investment management processes at Magnus. Returns on equity portion of different domestic portfolios managed by Magnus were clustered around 60% (Range: 50-60%) in the out-going calendar year, superior than the return of 49% exhibited by market index (KSE-100). Returns on fixed income portion of the portfolios also hovered on the higher side at 17%.

Previously, the position of Chief Executive Officer (CEO) and Chief Investment Officer (CIO) was held by Mr. Nadeem Jeddy. A new CEO, Mr. Hassan Khan, was appointed in 2012. Mr. Jeddy continues to be the CIO and is also overseeing fixed income investments. From an administrative and functional point of view, three departments report to the CEO. Retaining its key employees remains a challenge for Magnus; similar to previous years, turnover has been witnessed in the past twelve months, position of Head of Investment Management, Head of Portfolio Management and Head of Fixed Income and Business Development witnessed turnover. The former two employees had an association of more than four years with Magnus. The positions of Head of Investment Management and Head of Portfolio Management have been filled and redundancies are also being built in the team to ensure smooth transition in case of further turnover.

Chairman of the Board of Directors resigned in 2012, Mr. Jeddy is now the Chairman of the Board, apart from this there was another vacancy on the Board in 2012. An individual to fill a vacant seat has been identified and on conclusion of regulatory requirements will be appointed on the Board, and as the Chairman of the Board Audit Committee, which has yet to be established. With the CIO designated as Chairman of the Board, inconsistency in reporting line has emerged. Some directors on the Board are well-versed with the financial services industry and the investment advisory side; however, level of oversight function performed by the Board members cannot be ascertained as documented interaction at the Board-level comprises circular resolutions only. The company has appointed A.F. Fergusons & Co., Chartered Accountants as the internal audit firm for FY13; this is the first such exercise that has been commissioned by the company; quarterly reports and findings of internal audit have yet to be finalized.

Overview of the Management Company

Magnus 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 FY12 were audited by M/s KPMG Taseer Hadi & Co. JCR-VIS

JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
16-Jul-13	AM3+	Stable		Reaffirmed
11-May-12	AM3+	Stable		Reaffirmed
17-Feb-11	AM3+	Stable		Upgrade
04- Feb -10	AM3	Stable		Reaffirmed