

## MAGNUS INVESTMENT ADVISORS LIMITED

February 26, 2015

Analysts: Talha Iqbal/ Birjees Rahat

Chairman: Mr. Nadeem Jeddy, CFA

Chief Executive: Mr. Hassan Khan

Category	Latest	Previous
Management Quality	AM2-(IA)	AM3+(IA)
Outlook	Stable	Stable

### Rating Rationale

The assigned rating incorporates well-formalized investment process, qualified senior management team and adequate control infrastructure at Magnus Investment Advisors Limited (Magnus). The rating also reflects policy framework and compliance culture instituted at the firm which exhibits strong disposition towards self-regulation and transparency.

Magnus's organizational structure can be divided into two segments. One segment includes the investment management functions (Security Analysis (SA) & Portfolio Analysis (PA)) while the other segment includes client servicing (Portfolio Management) and administrative functions. Model and Operational risk and Private Client Group (PCG) have been added to the organization structure in 2014.

Magnus has put in place a well-structured investment process, with focused in-depth fundamental research. The company has a long-term investment approach for both equity and debt exposures and active trading is not undertaken while Investment approval process is also well defined. The CIO is highly experienced, drawing upon the support of a qualified analytical team on the SA & PA front. Investment Committee is responsible for determining the asset allocation and security selection. SA function is involved in research & shortlisting of equities and fixed income instruments (TFCs/Sukuk) while PA function is responsible for portfolio construction and recommending the IC on the target asset allocation. Portfolio management process at Magnus entails modeling of optimal asset allocation for client portfolios in line with the requirements and constraints laid down by the client. Quality of reporting to clients is comprehensive and there is standardization of services across clients. Review of feedback form indicates a high level of satisfaction with the services provided by Magnus; continuity of client relationships since inception is also a testament of client satisfaction.

Magnus also voluntarily submits quarterly statement of firm's and officers' personal trades to the Securities & Exchange Commission of Pakistan (SECP); this statement is also made available to clients, if requested, to ensure transparency. Moreover, prior approval of Risk Committee is required for employees to take any exposure. Clients are informed 3 days to prior to all proprietary trades undertaken by Magnus while there is a separate person responsible for execution of proprietary trades. Manuals and policies for all key functions are in place. The company does not have a dedicated room for trading in discretionary portfolios and trades are not executed on recorded phone lines. Given that the frequency of trades is limited, management believes it is not economically feasible to have a separate trading room; moreover, all trade instructions are provided to brokers in written form.

Performance of both fixed income and equity portfolios of Magnus have been competitive in relation to respective benchmarks. During CY2012 (65%) and CY2013 (54%), returns posted by equity portion of portfolios have outperformed the benchmark KSE-100 Index; in 9M14, returns were slightly lower than benchmark index. Return of fixed income portfolio were lower in CY2013 & 9M14 on account of increase in average yields on long-term and short term instruments; subsequently, these are expected to have benefited from the movement in policy rate.

Total Assets under Management (AUMs) of domestic clients increased to Rs. 19.88b (FY13: Rs. 15.9b) on account of addition of new client and increase in size of existing clients on account of returns earned. Fee based revenues witnessed significant increase on account of growth in AUMs and is now sufficient to meet operating expenses. While concentration in fee based revenues has declined on a timeline basis, the same continues to be on the higher side with top three clients generating 43% (FY13: 54%) of the total fee based revenues. In order to broaden customer base and to tap the gap in wealth management business segment, management is expanding operations to offer portfolio management services to high net-worth individuals through the PCG.

Board features experienced professionals with diversified background from the financial & industrial sectors. Senior management team comprises qualified professionals. Two senior resources of the company which had left the organization have rejoined Magnus in 2014 on account of which profile of senior management team has strengthened. In recent periods, stability has also been observed at senior management level which bodes well for the organization. Mr. Nadeem Jeddy, the Chief Investment Officer, has a reporting line to the CEO. However, given that he is also the Chairman of the board there is a reporting line inconsistency. Further strengthening of the IT infrastructure will facilitate in achieving the planned growth in business and further strength the control environment at Magnus.

### Overview of the Management Company

Magnus 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 FY14 were audited by M/s KPMG Taseer Hadi & Co. [JCR-VIS](#)

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### Rating History

<b>Rating Type</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Outlook</b>	<b>Rating Action</b>
<b>Management Quality</b>	2/26/2015	AM2- (IA)	Stable	Upgrade
<b>Management Quality</b>	2/26/2015	AM3+ (IA)	Stable	Harmonised
<b>Management Quality</b>	7/16/2013	AM3+	Stable	Reaffirmed
<b>Management Quality</b>	5/11/2012	AM3+	Stable	Reaffirmed
<b>Management Quality</b>	2/17/2011	AM3+	Stable	Upgrade