

## RATING REPORT

### Magnus Investment Advisors Limited

**REPORT DATE:**

November 09, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Medium to Long Term	Medium to Long Term
Management Quality	AM2 (IA)	AM2 (IA)
Rating Outlook	Positive	Stable
Outlook Date	Oct 24, '17	May 4, '16

#### COMPANY INFORMATION

Incorporated in 2007	External auditors: KPMG Taseer Hadi & Co.
Non-Banking Finance Company	Internal auditors: A. F. Ferguson & Co. (a member firm of the PwC )
	Chairman of the Board: Mr. Nadeem Ahmed Jeddy, CFA
	Chief Executive Officer: Mr. Hassan Khan

#### 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 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 FY16 were audited by M/s KPMG Taseer Hadi & Co.

#### Profile of Chairman

Mr. Jedly was the founding CEO of Magnus and has been its Chief Investment Officer (CIO) since 2008. He spent seventeen years with Citigroup. He left Citigroup as Managing Director in Mergers & Acquisitions Group, Hong Kong (1997 to 2007). Prior to joining the Mergers & Acquisitions Group, Mr. Jedly was in the Corporate Banking division of Citibank in Pakistan and Indonesia where he acquired expertise in credit and risk management

#### Profile of CEO

Mr. Khan joined Magnus as the CEO in August 2012. In addition to being the CEO, Mr. Khan is a senior Investment Officer (IO) in the Investment Committee (IC) of Magnus. His engineering and business backgrounds bring a unique blend of expertise and access to market intelligence in our analytical work. Prior to joining Magnus, he was a senior executive at Atlas Asset Management and headed the marketing function.

### RATING RATIONALE

Incorporated in 2007, Magnus Investment Advisors Limited is a specialized investment advisory company. The company manages retirement, gratuity and provident funds of various local and multinational companies. Advisory services are customized according to the requirements of each client. During the ongoing year, the management decided to focus only on its core business of portfolio management and to discontinue the mutual fund distribution services through its wholly owned subsidiary, Arkad Consultants Private Limited (Arkad). The management prepares the financial statements of Arkad on a going concern basis as management may look for new business ventures in future which will provide synergy to the current business of Magnus. Moreover, the management liquidated its other subsidiary, Harwinn (Private) Limited (Harwinn), which was established to operate an unrelated business, for the very same reason (focus on the current business).

#### Rating drivers

**Corporate governance:** Board of Directors (BoD) at Magnus includes seasoned professionals with diversified experience in financial and industrial sectors. A casual vacancy exists on the board on the back of resignation of a board member in 2016. Moreover, one committee, namely Board Audit Committee (BAC), is also present at board level to ensure adequate oversight of operations. BAC is chaired by an independent director. For alignment with best board governance practices, the positions of the chairman of the board and CIO need to be separately held along with filling of a casual vacancy in the Board, which has been outstanding.

**Internal controls and compliance:** Ratings take into account company's orientation towards self-regulation, transparency and conformity to regulatory requirements. Magnus voluntarily submits quarterly statement of firm's and officers' personal trades to the Securities & Exchange Commission of Pakistan (SECP), while the same are also presented to clients on request. Furthermore, in line with regulatory requirements, the management also maintains and updates manuals of key functions such as risk management, finance, HR, portfolio management, security analysis and business development. Quality of reporting to clients is considered comprehensive in nature and standardization of services has been observed across clients.

**Performance:** Overall portfolio returns of funds managed by Magnus 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 2016, despite facing restrictions specified in Employees' Provident Fund (Investment in Listed Securities) Rules, 2016 with regards to scrip selection. As per the management, undertaking long term approach in case of equity exposures rather than relying on active trading results in superior performance. On the other hand, returns on the fixed income portfolio are higher than that of other fixed income mutual funds.

**Assets under management (AUMs):** Assets under management of the company have depicted an increasing trend in the period FY15-FY17. Growth in AUMs was facilitated primarily by addition of new clients, while increase in size of some existing clients also contributed to higher AUMs. Moreover, growth was also witnessed in the size as well as number of discretionary portfolios managed by Magnus as model returns were higher than actual returns of non-discretionary portfolios in majority of the cases. This increase in AUMs translated into higher revenues. Consistency in these trends is considered vital from rating perspective going forward

**Profitability and Capitalization:** Fee based revenues have depicted sizeable increase on account of growth in AUMs. Efficiency ratio of the company increased on the back of growth in operating expenses. Capitalization levels of the company are considered sound as the company has sizeable cushion over the regulatory limit.

**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](http://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](http://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		
<b>Name of Rated Entity</b>	Magnus Investment Advisors Limited			
<b>Sector</b>	Non-Banking Finance Company			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Management Quality Rating			
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	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	
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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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