

RATING METHODOLOGY

Investment Management Companies

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Research, Credit Ratings, Credit Risk Management

SCOPE OF RATING

This rating applies to institutions that manage investments on behalf of third-party investors. This includes but is not limited to, investment banks, discount houses, asset management companies, pension fund administrators, stock brokers and trustees.

BACKGROUND

The Asset Management industry is one of the most rapidly developing sub-sectors of the Nigerian economy. Improved confidence in the economy and the financial system, as well as the pension reforms, has contributed to the industry's impressive growth. The industry has witnessed an explosion in both the absolute number and average size of Assets under Management (AuM) in the last five years.

The stakes have thus risen greatly in the Asset Management industry and it now bears greater responsibility for managing the Nation's savings. The higher profile necessitates an independent and unbiased opinion of an Investment Management firm's capability. This would promote best practices and improve transparency in the industry.

Agusto & Co provides ratings on Investment Managers and Mutual funds, which are arrived at using separate scales.

An Agusto & Co **INVESTMENT MANAGER** Rating focuses on the professional capacity of the Investment Manager. The rating provides a qualitative assessment of the firm in terms of its investment and risk management capability.

An Agusto & Co **FUND RISK RATING** is based on a quantitative assessment of a portfolio's exposure to downside (loss of principal) risk.

An Agusto & Co **FUND PERFORMANCE RATING** is based on a quantitative assessment of a portfolio's return relative to a bespoke benchmark calculated by Agusto & Co.

RATING OBJECTIVES

An Agusto & Co. Investment Manager Rating is a current (short term) assessment of the quality of a firm in terms of its personnel, organisational structure, risk management capability, and operational processes and controls. The rating is not an equity opinion and therefore does not assess the ability of the institution to create value for its shareholders. Also, an Agusto & Co. rating is not an audit. It is merely an objective

assessment of the overall quality of the organisation and its capabilities as an Investment Manager. We are therefore not liable to any third party who relies on our opinions.

Our principal objectives in analysing and rating the institutions are to:

- provide an opinion to investors on the ability of a firm to optimise the risk-return profile of their funds. This opinion takes into account the people, systems and processes in place.
- support the regulatory authorities in their objectives of achieving a sound financial system

RATING PHILOSOPHY

Our ratings are based largely on qualitative factors. The factors considered before arriving at a rating for each institution fall under the following criteria.

- Investment management capabilities
 - The decision making process and buy-sell discipline
 - The portfolio management, reporting and settlement systems
 - The quality of research, and analysis of market information
- Risk management and controls
 - Investment risk management
 - Operational risk management, corporate governance and compliance

We recognise that changing circumstances may quickly invalidate a rating that would have been previously valid. We will therefore review our ratings in instances where there are significant subsequent events that may warrant a change in a previous rating. The information upon which any subsequent rating is based will however be clearly disclosed.

The institution's rating may be changed, suspended or withdrawn at any time. However, the reason for the change, suspension or withdrawal is usually communicated to the institution in advance.

OUR RESPONSIBILITY

The relationship between the rated Investment Management Company and Agusto & Co. Limited is contained in a standard letter of engagement, which is addressed to Agusto & Co. by the institution, setting out the contractual relationship between the Investment Management firm being rated and the rating agency.

INVESTMENT MANAGER ANALYSIS

A rating programme is put in place for every Investment Manager that solicits a rating. This covers a period of one year and includes a detailed annual review of the institution. An annual review starts with information gathering using our standard questionnaire. Meetings with principal officers and a demonstration of systems and processes of the rated entity are another source for relevant information. A draft Rating Report is then prepared on the Investment Management Company being reviewed. This will contain background information and comments on:

- Company Profile
- Business Structure & Staffing
- Quality Of Research
- Decision Making
- Trade Execution
- Investment Risk Management
- Operational Risk Management

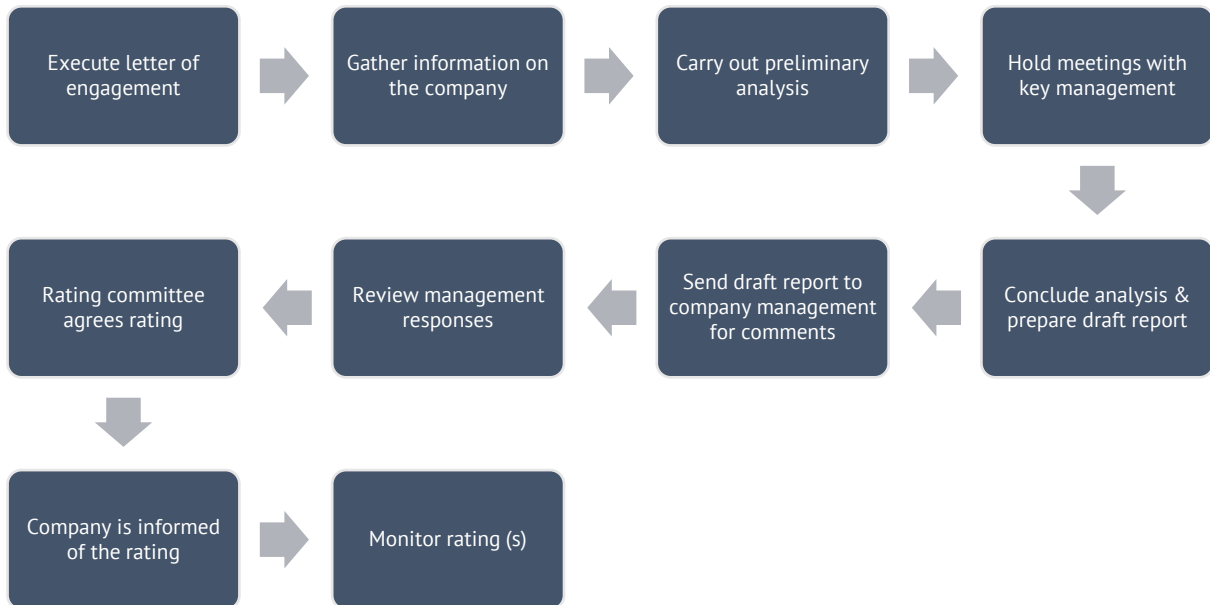
The draft Rating Report (without a rating) is sent to the management of the institution. We then meet with management to discuss this report and:

- Correct factual errors
- exclude any information which they may consider confidential
- note any opinion(s) expressed in the report which they disagree with and reason(s) for the disagreement.

The corrected Rating Report is then presented to our Rating Committee. The Rating Committee will also be informed of any areas of disagreement. Subsequently, the Rating Committee assigns a rating to the Investment Manager bearing in mind that the objective of the rating is to assess the overall quality of the institution in terms of its ability to perform its fund management functions. It also takes into account macro-economic and industry information at its disposal. The Rating Committee arrives at a rating based on the score of the institution on our proprietary model and taking into consideration other relevant information.

The Rating Report (with a rating) is then sent to the Investment Manager. Our analyst(s) will once again meet with the management of the institution to discuss the final report and justify the rating if required. The institution's management may then authorise us to circulate their rating to our subscribers.

Figure 1: Agusto & Co's Rating Process



Source: Agusto & Co

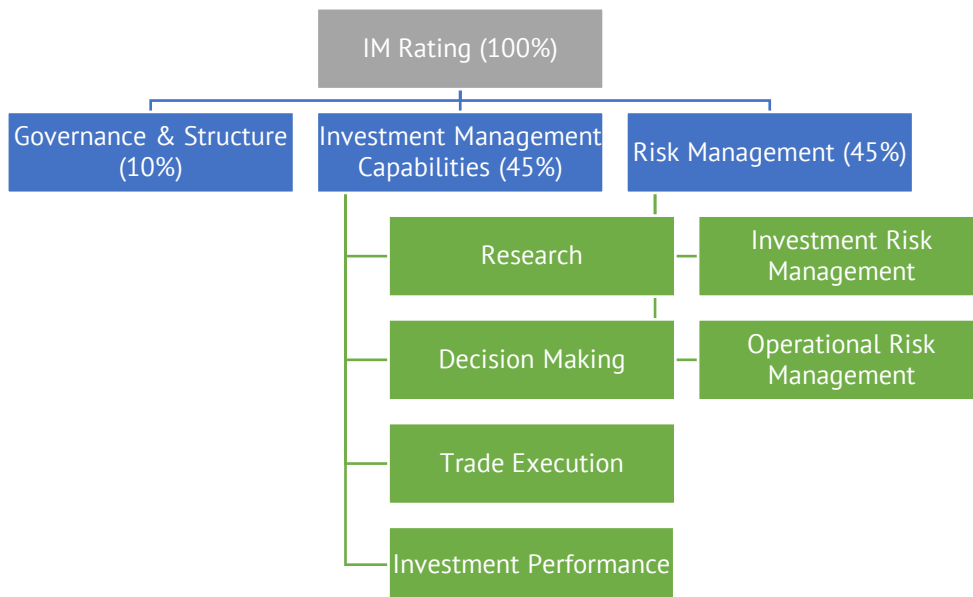
RATING CRITERIA

To arrive at a rating, the broad categories of **investment management** and **risk management** are scored in terms of:

- i. the calibre of personnel,
- ii. the functionality of the systems, and
- iii. the robustness of the process and quality of output

The category scores are weighted according to our view of their importance in capturing an investment manager’s ability to optimise the risk-return profile of investor funds. The final rating is derived from the weighted score of an Investment Manager.

Categories and sub-categories scored (and weights)



GOVERNANCE AND STRUCTURE (10%)

Strong governance and a well organised operating structure are integral to the execution of a given strategy and minimising risk.

Corporate Governance

Excellent

An excellent governance structure with a board of directors (the Board) that comprises more non-executive than executive members. The board should comprise knowledgeable members with over 20 years of relevant and diverse

	experience on average. The Board should have at least one independent member and membership stability with a simple majority quorum for investment and credit decisions. Documentation of board selection should align with best practices.
<i>Very Good</i>	A very good governance structure with a board of directors (the Board) that comprises more non-executive than executive members. The board should comprise knowledgeable members with over 15 years of relevant and diverse experience on average. The Board should have at least one independent member and membership stability with a simple majority quorum for investment and credit decisions. Documentation of board selection should align with best practices.
<i>Good</i>	A good governance structure with a board of directors (the Board) that comprises an equal number of executive and non-executive members. The board should comprise knowledgeable members with 10-15 years of relevant and diverse experience on average. The Board should have membership stability with a simple majority quorum for investment and credit decisions.
<i>Adequate</i>	An adequate governance structure with a board of directors (the Board) that comprises more executives than non-executives. The board should comprise knowledgeable members with at least 10 years of relevant and diverse experience on average.
<i>Inadequate</i>	Inadequate board composition with no non-executive member

Organisational Structure

<i>Excellent</i>	Excellent segregation of duties. Excellent succession plans are in place with good redundancies for each key function.
<i>Very Good</i>	Very good segregation of duties. Very good succession plans are in place with good redundancies for each key function.
<i>Good</i>	Good segregation of duties. Good succession plans are in place with good redundancies for each key function.
<i>Adequate</i>	Adequate segregation of duties but some overlapping in non-core functions
<i>Inadequate</i>	Inadequate segregation of duties and overlapping functions

INVESTMENT MANAGEMENT CAPABILITIES (45%)

A robust, well-defined investment process is critical for delivering consistent returns relative to a well-defined set of investment objectives. Agusto & Co assesses the investment capabilities of an investment manager using three broad parameters:

- Quality of Research
- Decision Making
- Trade Execution

Quality of Research

<i>Excellent</i>	An excellent research team with over 10 years of relevant experience on average. Demonstrated use of a comprehensive database with over 7 years of detailed data storage. Data stored on the server is backed up to a separate site daily with a large amount of research intuitively accessible from front and
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	middle office applications. Documented process for generating timely research output that feeds into the decision making process. Effective communication of research output and strong capacity to compile input from multiple formal and informal sources.
<i>Very Good</i>	A very good research team with over 7 years of relevant experience on average. Demonstrated use of a comprehensive database with over 5 years of detailed data storage. Data stored on the server is backed up to a separate site at least weekly. Documented process for generating timely research output that feeds into the decision making process. Effective communication of research output and very good capacity to compile input from multiple formal and informal sources.
<i>Good</i>	A good research team with at 3-6 years of relevant experience on average. Demonstrated use of a comprehensive database with 3-5 years of detailed data storage with user friendly output. Formal research process in place with evidence of research being used in decision making.
<i>Adequate</i>	An adequate research team with at 1-3 years of relevant experience on average. Demonstrated use of a database with 1-3 years of detailed data storage with user friendly output. No formal research process nor process for updating data. Research is not consistently used as an input in decision making.
<i>Inadequate</i>	Inadequately experienced team with less than a year of experience. No research system or process is in place.

Decision Making

<i>Excellent</i>	Excellent decision making committees with over 10 years of experience on average. Structurally independent and research-led decision making process with strong systemic accountability in buy/sell discipline. Documented evidence of majority quorum for investment decisions. Effective portfolio implementation and rebalancing. Excellent oversight and strong decision challenging mechanisms.
<i>Very Good</i>	Very good decision making committees with 7-10 years of experience on average. Structurally independent and research-led decision making process with strong systemic accountability in buy/sell discipline. Documented evidence of majority quorum for investment decisions. Effective portfolio implementation and rebalancing. Very good oversight.
<i>Good</i>	Good decision making committees with 3-6 years of experience. Good ability to process information to aid decision making. A good degree of accountability and oversight.
<i>Adequate</i>	Adequately experienced decision making committees with 1-3 years of experience. No formal decision making process in place.
<i>Inadequate</i>	Weak experience. No formal decision making process in place.

Trade Execution

<i>Excellent</i>	Well experienced traders with over 10 years of experience on average. Full straight-through processing of transactions with no manual interventions. The company has a strong reputation and market presence complemented by financial stability and growing AuM. Excellent degree of consistency in adhering to company objectives
<i>Very Good</i>	Well experienced traders with over 7 years of experience on average. High level straight-through processing of transactions with no manual

	interventions. The company has a very good reputation and market presence complemented by financial stability and growing AuM.
<i>Good</i>	Experienced traders with over 3-6 years of experience on average. The company has a good reputation and stable financial condition.
<i>Adequate</i>	Traders have 1-3 years of experience on average. The company has a good reputation and stable financial condition.
<i>Inadequate</i>	Traders have less than one year of experience on average. The company has a good reputation and stable financial condition.

While our Investment Manager Ratings are forward-looking relative assessments of an asset management company's investment management capabilities and the strength of its risk management, Agusto & Co believes that historical risk adjusted investment performance is essential in determining the consistency with which the investment and risk management processes have been executed over time, against stated investment objectives.

Investment Performance and Consistency in adhering to Objectives (5%)

<i>Excellent</i>	Consistently outperforms performance benchmarks. This Manager's operations are also consistent with the investment and corporate objectives set by the management and board of the organisation.
<i>Very Good</i>	Exceeds performance benchmarks. This Manager's operations are also consistent with the investment and corporate objectives set by the management and board of the organisation.
<i>Good</i>	At Par with performance benchmarks. This Manager's operations are also consistent with the investment and corporate objectives set by the management and board of the organisation.
<i>Adequate</i>	Performance is marginally below benchmarks. Some inconsistencies in the adoption of policies.
<i>Inadequate</i>	Consistently underperforms set benchmarks. Inconsistent applications of policies and deviations from the primary objectives of the manager.

RISK MANAGEMENT (45%)

Agusto & Co believes an independent, adequately staffed and integrated risk management process is integral to delivering consistent risk-adjusted returns while minimising downside risk. Our assessment of risks is dual fold:

- Investment risk management
- Operational management

For each broad risk category, we assess the adequacy and quality of people, systems and processes.

Investment Risk Management

<i>Excellent</i>	Excellent experience in risk management with at least 10 years of experience on average. Excellent portfolio management tools that capture all conceivable
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	parameters. The tools should allow for scenario testing, have easy to use interface, and have capabilities for the identification and quantification of investment risks. The process for investment risk management should support the automatic escalation of breaches with a highly independent risk management process.
<i>Very Good</i>	Very good experience in risk management with at least 7 years of experience on average. Very good portfolio management tools that capture multiple conceivable parameters. The tools should allow for scenario testing produce consistent results. The Manager should have an established process for escalation with regular risk management reporting.
<i>Good</i>	Good experience in risk management with at least 3years of experience on average. Good portfolio management tools that can identify and flag investment risk. The Manager should have an established process for escalation with regular risk management reporting.
<i>Adequate</i>	Adequate experience in risk management with at least 1 year of experience on average. Tools that support reporting with no capacity to input limits or flag off investment risks. Adequate investment process but with conflicts of interest and limited capacity for independent credit assessments.
<i>Inadequate</i>	Inadequate experience in risk management with less than 1 year of experience on average. No portfolio management tools. No established investment risk management process.

Operational Risk Management

<i>Excellent</i>	Excellent experience in risk management with at least 10 years of experience on average. Independent risk management and internal audit functions. Very good business continuity plans. Excellent operational risk management with clear escalation, excellent business continuity plans (regularly tested with backup site operational within 24 hours), quick follow-up and resolution from the internal audit with evidence of adherence to processes.
<i>Very Good</i>	Very good experience in risk management with at least 7 years of experience on average. Independent risk management and internal audit functions. Very good tools with pre and post trade checks and automatic escalation of breaches. Clear escalation policy and very good business continuity plans.
<i>Good</i>	Good experience in risk management with at least 3 years of experience on average. Limits checked post trade with breaches automatically flagged. Clear escalation policy with independent risk management function.
<i>Adequate</i>	Adequate experience in risk management with at least 1 year of experience on average. Highly manual processes and no formal operational risk management in place.
<i>Inadequate</i>	Inadequate experience in risk management with less than 1 year of experience on average. No tools to support operational risk management and no formal processes to manage operational risk.

PREQUALIFICATION

Financial Strength

The financial strength of an Investment Management company is important insofar as it is an indication of the resources available to invest in people, systems and processes.

Where we have serious concerns about the financial strength of an Investment Management company, we may withdraw, downgrade or not issue a rating to that institution - though a report will be produced.

Our criterion for determining financial strength focuses on the institution's ability to meet capital requirements and fund working capital requirements through internal cash generation. In arriving at an opinion on the financial strength, we may employ trend and peer analysis in earnings, cash flow, capital adequacy and profitability. Augusto & Co. recognises that the shareholders may provide support to the business. We, therefore, assess the shareholder's commitment to the business as evidenced by the history of financial and operational support provided.

Some of the areas assessed to determine the financial strength include:

- Size of firm (assets under management)
- Equity after required provision
- Earnings retention and the ability to raise additional capital to maintain/strengthen resources
- Revenue and expense trends
- Product and investor base
- Stability of assets under management
- Liquid assets/total assets

MONITORING

The rating assigned to an Investment Manager is monitored throughout its life. We may also use the following subjective criteria to upgrade or downgrade an Investment Manager.

Management/shareholder conflict

An Investment Manager Rating may be withdrawn or downgraded if there is open conflict between members of management and/or shareholders and we believe that this may have (or has had) an adverse effect on the Institution's investment or risk management capability.

Significant changes in ownership

We may downgrade an Investment Manager if there is a significant change in ownership and there are uncertainties about

- (1) the character of the new owners,
- (2) the ability of the new owners to sustain a good track record or turn around an ailing investment process, and/or
- (3) the risk culture and controls already in place or being put in place.

Other factors

A rating is an opinion on the investment management capabilities and risk controls of an Investment Management company. This risk is affected by a variety of factors which no one can fully predict at a particular point in time. Accordingly, where any issues come to our notice which we believe will significantly affect the Investment Manager's operations, or its ability to carry out its fiduciary duties, the rating may be changed.

DEFINITION OF RATINGS

Agusto & Co. rating categories conform to internationally recognisable designation for rating categories. A comparison of our rating categories is shown below.

Agusto & Co. weighted score	Agusto & Co.	Moody's equivalent	Fitch's equivalent
90	AAA (IM)	Aaa (MQ)	M1
80-89	AA (IM)	Aa(MQ)	M2
70-79	A (IM)	A(MQ)	M3
60-69	BBB (IM)	Baa(MQ)	M4
50-59	B (IM)	Ba(MQ)	M5

Table 1: Agusto & Co Investment Manager Rating Definitions

AAA (IM)	An investment management company is considered to have EXCELLENT investment and risk management capabilities
AA (IM)	An investment management company is considered to have VERY GOOD investment and risk management capabilities
A (IM)	An investment management company is considered to have GOOD investment and risk management capabilities
BBB (IM)	An investment management company is considered to have ADEQUATE investment and risk management capabilities

BB(IM)	An investment management company is considered to have INADEQUATE investment and risk management capabilities.
B (IM)	An investment management company is considered to have POOR investment and risk management capabilities.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

BENEFITS

The benefits of a rating include the following:

- Our Rating Report is an independent and objective assessment of the capability of an Investment Management company fulfilling its fund management obligations.
- Subscribers can use the Rating Reports to form quick opinions on each Investment Manager, whilst saving the time that detailed analysis would have taken. It is not a substitute for the decision-maker's own analysis but can be used when an immediate decision is required, or to form a preliminary opinion.
- It provides independent information to investors who would like to know what Investment Management company to select to manage their funds.