

ValuAlliance Money Market Fund

Final Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

ValuAlliance Money Market Fund

Indicative* Rating:

A-(f)*

**To be confirmed subject to the successful launch of the fund*

Issue Date: 8 January 2020

Expiry Date: 7 January 2021

Previous Rating: N/A

Industry: Asset Management

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RATING RATIONALE

- The ValuAlliance Money Market Fund ('the Fund' or 'the ValuAlliance MMF') is a proposed collective investment scheme expected to invest in a diversified pool of money market instruments. The Fund will be the first open-ended collective public investment schemes to be managed by ValuAlliance Asset Management Limited ('the Fund Manager').
- The rating assigned to ValuAlliance MMF is 'indicative' and based on a sample portfolio provided by the Fund Manager. The rating also takes the proposed trust deed and investment guidelines into consideration. A rating validation exercise is expected to be carried out upon the successful launch of the Fund. This may result in a change in the rating if the guidelines and practice differ materially subsequent to the indicative rating exercise.
- The Fund is expected to have low exposure to credit risk by investing in counterparties that have investment-grade credit quality. Permissible securities include short term Federal Government of Nigeria (FGN) securities and other unsubordinated short-term debt instruments such as commercial papers, bankers' acceptances and fixed deposits. The sample portfolio provided by the Fund Manager reflects a low exposure to credit risk, with 50% of the Fund's net assets allocated to FGN securities, which we consider to be of "Aaa" credit quality on our national rating scale.
- ValuAlliance MMF is expected to maintain low exposure to volatile interest rate movements by adhering to a regulatory prescribed maximum weighted average maturity (WAM) of 90 days. Based on simulations from the sample portfolio provided, it is expected that WAM should remain below the 90-day threshold. Nevertheless, this will be hinged on the Fund Manager's trade-off between retaining conservative guidelines and seeking higher investment yields.

- The Fund's liquidity management is expected to be upheld by adhering to the prescribed¹ minimum 25% allocation to liquid FGN securities and maintaining a 5% threshold allocation to cash balances. On the back of this, we expect exposure to liquidity risk to be low. ValuAlliance MMF is also expected to have no exposure to currency and equity pricing risks, as all investments will be denominated in Nigerian Naira and in fixed income securities.
- Agusto & Co. notes that the risk management framework is yet to be fully integrated with the investment process. ValuAlliance MMF currently adopts Microsoft Excel and Bloomberg for fund management and portfolio monitoring, which in our opinion may give room for errors.
- Based on the aforementioned, we assign the **"A-(f)"** indicative rating to the Fund. The rating signifies a potential low to moderate exposure to credit, interest rate and liquidity risk. Upon launch, Agusto & Co. will continue to monitor the Fund's weekly portfolio for changes that could impact the rating.

Strengths

- The Fund is expected to have no currency and equity pricing risks
- Interest rate & liquidity risk are expected to be low
- Exposure mainly to investment grade counterparties
- Experienced Investment Team

Weaknesses

- No clearly defined limits per rating bucket for investments
- Potential exposure to self review threat
- No portfolio management software

¹ Prescribed by the Securities and Exchange Commission (SEC)