

ValuAlliance Money Market Fund

Final Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

ValuAlliance Money Market Fund

Rating:

A+(f)

Low to moderate exposure to downside risk (impairment to the net asset value) in the medium term.

Issue Date: 3 April 2023
Expiry Date: 2 April 2024
Previous Rating: A+(f)

Industry: Asset Management

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RATING RATIONALE

Agusto & Co. affirms the 'A+(f)' rating assigned to ValuAlliance Money Market Fund ('the Fund' or 'ValuAlliance MMF'). The rating is upheld by the Fund's strong adherence to regulatory limits and internal guidelines as well as ValuAlliance MMF's low exposure to credit, interest rate and liquidity risks. The rating is, however, constrained by concentration in the unitholding base and inadequate segregation of duties, with the Managing Director doubling as the Chief Investment Officer.

ValuAlliance MMF is an open-end unit trust scheme that is promoted and managed by ValuAlliance Asset Management Limited ('ValuAlliance' or 'the Manager') – a wholly-owned subsidiary of Africa Capital Alliance Holdings. As at 28 February 2023, the Fund had over ₦957 million in assets under management – a 26% decline from the same date one year prior. The decrease in AuM is attributable to the low yield on money market securities in the review period and the significant withdrawals from the Fund in December 2022. ValuAlliance MMF thus ranked 19th of the 29 listed money market funds by size, as at 28 February 2023.

In the review period, the Fund invested an average of 31% of net assets in Federal Government of Nigeria (FGN) issued instruments, above the 25% limit stipulated by the Securities and Exchange Commission (SEC) for money market funds. In addition, ValuAlliance MMF held an average of 28%, 20% and 20% of net assets in 'Aa', 'A' and 'Bbb' rated counterparties respectively. The balance of 1% of the Fund's net assets was invested in a counterparty with a publicly available investment grade credit rating but which Agusto & Co holds a different opinion on. Overall, we consider ValuAlliance MMF's exposure to credit risk low.

During the review period, the Fund managed liquidity risk by investing an average of 31% of net assets in highly liquid FGN securities and holding 2% as cash. In addition, ValuAlliance MMF had an average of 44% of net assets in fixed deposits with staggered maturities. Therefore, the Fund was able to settle redemption requests within 48 hours, despite a net outflow of ₦430 million in the review period. In our view, ValuAlliance MMF's exposure to liquidity risk is low.

The Fund manages interest rate risk by investing in short-dated securities with terms to maturity of 366 days or less and maintaining a weighted average maturity (WAM) of 90

days as stipulated by SEC. In the review period, ValuAlliance MMF consistently adhered to the regulatory threshold of 90 days, with an average WAM of 51 days - an improvement from 58 days in the prior review period. We note that the improvements in WAM were due to the Manager's expectation of higher yields in the near term which resulted in the Fund staying at the very short end of the investment curve. Overall, we consider ValuAlliance MMF's exposure to interest rate risk minimal.

As at 28 February 2023, the top 10 investors accounted for 87% of the Fund's net assets while the three largest investors held 50% of the investment pool. In our opinion, this level of concentration could significantly distort ValuAlliance MMF's asset base in the event of a sudden withdrawal from any of the top investors.

The Fund relies on the Fund Fusion Software for portfolio management, valuation and general fund administration. The software, which was acquired in the review period, has the capacity to conduct automated pre-trade and post-trade checks. In our opinion, ValuAlliance MMF's risk management process could be enhanced with more appropriate segregation of duties. Specifically, the Manager will benefit from separating the roles of the Managing Director and Chief Investment Officer as well as recruiting an internal risk management personnel to provide independent risk reviews of the Fund.

Figure 1: Strengths, Weaknesses and Challenges

