

ValuAlliance Money Market Fund

Final Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

ValuAlliance Money Market Fund

Rating:

A+(f)

Issue Date: 23 May 2024

Expiry Date: 22 May 2025

Previous Rating: A+(f)

Industry: Asset Management

Analysts:

Daniella Omubo-Dede

danielladede@agusto.com

Wonuola Kunle-Bello

wonuolabello@agusto.com

Agusto & Co. Limited

UBA House (5th Floor)

57, Marina

Lagos

Nigeria

www.agusto.com

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 continued low exposure to credit, interest rate and liquidity risks. In addition, we recognise the Fund Manager's over 10-year operational track in the domestic asset management industry. The rating is, however, constrained by the breaches of the statutory limit for government securities. We have also taken into consideration, the limited functionality of the current software for pre-trade checks and concentration in the unitholding base.

ValuAlliance MMF is an open-end collective investment scheme managed by ValuAlliance Asset Management Limited ('VAML' or 'the Manager'), a member of the African Capital Alliance Group. As at 23 February 2024, the Fund had over ₦1.35 billion in assets under management (AuM), 41% higher than the ₦957 million reported one year prior. The growth in AuM was largely due to the Manager's increased retail drive and intensified marketing efforts. Consequently, ValuAlliance MMF ranked 20th of the 29 listed money market funds by size, as at the same date.

In the review period, the Fund held an average of 28% of net assets in Federal Government of Nigeria (FGN) instruments, which we consider to be of 'Aaa' credit quality on our national rating scale. We note, however, that ValuAlliance MMF's holdings of FGN securities fell below the 25% threshold on seven occasions during the review period. In addition to government securities, the Fund held an average of 28%, 15% and 29% of net assets in 'Aa', 'A' and 'Bbb' rated counterparties respectively. ValuAlliance MMF also adhered to the regulatory 20% single obligor limit throughout the review period. Overall, we consider the Fund's exposure to credit risk low.

ValuAlliance MMF manages interest rate risk by investing in instruments with a term to maturity of 366 days or less and is expected to maintain a maximum WAM of 90 days as stipulated by SEC. The Fund consistently adhered to this 90-day limit in the review period with a WAM of 54 days (prior review period: 51 days). We, therefore, consider ValuAlliance MMF's exposure to interest rate risk minimal.

The Fund's liquidity risk was managed by investing 28% of net assets in highly liquid FGN securities and holding 1% of net assets as cash. In addition, ValuAlliance MMF invested in fixed deposits with staggered maturities, providing additional support to

meet liquidity needs. The Fund’s liquidity profile was also bolstered by a net inflow of over ₦394 million in the review period. Therefore, ValuAlliance MMF was able to settle redemption requests within 24 hours. In our opinion, the Fund’s exposure to liquidity risk is low.

We note a significant degree of concentration in ValuAlliance MMF’s unitholding base with the top 10 investors holding over 90% of AuM while the three largest investors held 57% of the Fund as at 23 February 2024. In our view, 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 Manager leverages the FundFusion Software for fund management, portfolio monitoring, and order management. Although the software has adequate maker-checker features that support operational risk management, we note its limited capacity for automated pre-trade checks. In addition, we believe 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. Overall, we consider ValuAlliance MMF’s investment and risk management processes adequate for the Manager’s level of operations. However, continued breaches of statutory limits will trigger a negative rating action.

Figure 1: Strengths and Weaknesses

