

First Ally Asset Management Limited

Final Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

First Ally Asset Management Limited

Rating:
'A-(IM)'

*The investment management company is considered to have **GOOD** investment and risk management capabilities*

Issue Date: 31 December 2024
Expiry Date: 30 December 2025
Previous Rating: A-(IM)

The rating assigned to the Manager reflects our opinion on the risk management and investment capabilities of First Ally Asset Management Limited. The rating does not reflect our opinion of the individual entities within the First Ally Capital Group

Industry:
Asset Management

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RATING RATIONALE

Agusto & Co. hereby affirms the **'A-(IM)'** rating assigned to First Ally Asset Management Limited ('FAAM' or 'the Manager'). The rating is upheld by the Manager's experienced decision-making committees, good risk monitoring tools, clear reporting lines and adequate segregation of duties. The rating also reflects FAAM's membership of a growing financial services group with a track record of 10 years. However, the rating is constrained by the lean structure of the risk management and internal audit teams and the limited research capacity of the Manager.

First Ally Asset Management is a licensed fund and portfolio manager and a wholly-owned subsidiary of First Ally Capital Limited ('FACL' or 'the Group') – a financial services group with interests in investment advisory, asset management, securities trading, microfinance banking, trusteeship and property development. As at 22 November 2024, FAAM had over ₦127 billion in assets under management (AuM), representing a sizeable 135% increase from the prior review period. Consequently, the Manager ranked 14th of the 40 asset management companies by size, tracked by Agusto & Co.

FAAM is governed by a five-member board of directors ('the Board'), chaired by a non-executive director. In the review period, an independent non-executive director was invited to join the Board to replace the two directors that exited the Board in the prior review period. Consequently, the Board comprises the Managing Director and four non-executive directors, including an independent member. In our view, the Board is composed of knowledgeable and qualified professionals with over 31 years of experience on average. In addition, we believe the members of the Board have the requisite qualifications and skills to adequately provide oversight of the Manager.

Research at FAAM is overseen by the head of portfolio management and is performed by a dedicated analyst who has seven years of relevant experience. The research unit leverages multiple platforms including the NGX, S&P Capital IQ and the FMDQ portal for economic and market data and to perform financial analysis and modelling. The Manager's research is skewed towards fixed-income securities in line with the asset allocation of the portfolios under management. However, the research team may conduct equity research upon request from management or clients. In our view, FAAM has good processes and tools to generate timely research output. However,

we believe the capacity of the team needs to be expanded to adequately support the growing operations of the Manager.

Investment decisions are taken collectively by the portfolio management team, the management investment committee (MIC) and the Board investment committee (BIC). The decision-making committees are composed of professionals with over 22 years of experience on average and the requisite skills to provide adequate oversight of FAAM’s investment activities. Investment decisions are taken with consideration for the macroeconomic environment, the strategic direction determined by the MIC, internal credit assessments by the risk management team and investment policy statements for private portfolios. Decisions follow an established process with multi-level reviews and approvals which we consider good.

Oversight of investment risk is provided by the Board, the statutory investment committees and the risk management, finance and portfolio management teams. The heads of these teams have over nine years of experience on average, which we consider good. Investment risk is managed by ensuring adherence to an approved list of counterparties, the trust deeds for collective investment schemes and the investment policy statements for segregated portfolios. All transactions are reviewed by the head of portfolio management and independently by the head of risk management before final authorisation is sought from the MD. Subsequently, a member of the compliance team conducts daily and weekly post-trade reviews for adherence to established guidelines. Identified breaches are reported to the head of portfolio management and the MD.

Operational risk is managed by the risk management team with support from the internal audit, compliance, operations and IT teams. FAAM adopts an enterprise risk management framework (ERMF) to identify and address potential events that could pose risks to the Manager. In addition, the IT team backs up data daily, with stress tests such as vulnerability and penetration tests (VAPT) conducted by the IT team periodically and validated by a third-party vendor during the annual IT audit. We consider FAAM’s operational risk management good for the current level of business with sufficient support from the Group.

Figure 1: Strengths, Weaknesses, and Challenge

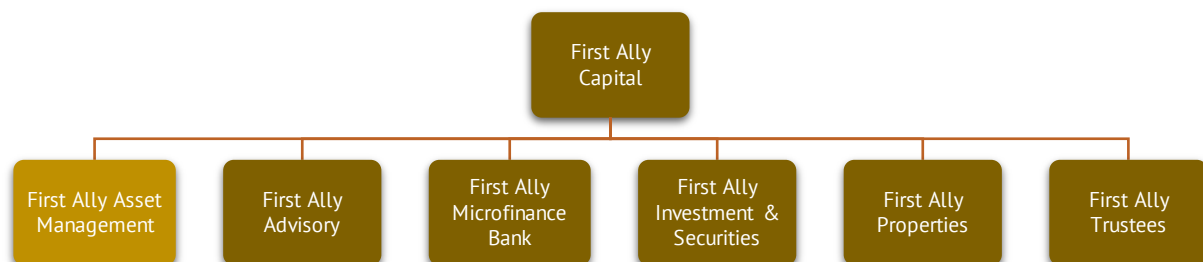
Strengths	<ul style="list-style-type: none"> •Support from the First Ally Group •Experienced decision making committees •Clear reporting lines and adequate segregation of duties •Good risk monitoring tools with automated checks
Weaknesses	<ul style="list-style-type: none"> •Lean risk and internal audit teams •Research function needs enhancement
Challenge	<ul style="list-style-type: none"> •Recording above-inflation returns on the Naira-denominated collective investment schemes.

Source: Agusto & Co Limited

MANAGER PROFILE

First Ally Asset Management Limited (“FAAM” or “the Manager”) was incorporated in June 2014 and is licensed by the Securities and Exchange Commission (SEC) as a fund and portfolio manager. FAAM is a wholly-owned subsidiary of First Ally Capital Limited (“FACL” or “the Group”) – a financial services group with interests in investment advisory, asset management, securities trading, microfinance banking, trusteeship and property development.

Figure 2: First Ally Capital Limited Group Structure



Source: First Ally Asset Management Limited

FAAM provides financial advisory as well as discretionary and non-discretionary portfolio management services to institutional clients, high-net-worth individuals (HNIs) and the mass affluent within Nigeria. The Manager’s investment offering includes a lone collective investment scheme and segregated portfolios which are managed on a discretionary and non-discretionary basis.

As at 22 November 2024, FAAM had over ₦127 billion in assets under management (AuM), representing a sizeable 135% increase from the prior review period. The growth in AuM is largely attributed to increased retail participation through the Manager’s mobile application - MyInvestar - which was launched in the prior year. In addition, FAAM’s local currency-denominated products capitalised on rising yields, while its dollar-denominated investment offerings experienced significant growth driven by foreign exchange gains, stemming from the depreciation of the Naira. In addition, we note that the Manager launched a new privately managed portfolio – FAAM Portfolio Management Service – in Q3 2024, which is targeted at HNIs and large corporate institutions. Through this product, the Manager invests in bonds and other financial instruments on behalf of clients, adhering to mutually agreed-upon mandates and investment guidelines.

Going forward, FAAM intends to grow its AuM to ₦200 billion by the end of 2025 through partnerships with aggregators for production distribution, while leveraging the Group’s proposed digital interface and harmonised database for cross-selling opportunities. These will be complemented by further enhancement to FAAM’s mobile application and territorial expansion to Port Harcourt to attract more retail clients. In addition, the Manager plans to launch a halal fund in the first quarter 2025 and an infrastructure fund by the last quarter of the same year.

The Manager is located at Plot 287, Ajose Adeogun Street, Victoria Island, Lagos and leverages the Group’s presence in Abuja for service delivery to the Northern region of the country.

BUSINESS STRUCTURE AND STAFFING

Governance

FAAM is governed by a five-member board of directors (“the Board”), which is chaired by Dr Abiodun Arokodare. In November 2023, an independent non-executive director was invited to join the Board to replace the two directors that exited the Board in the prior review period. Consequently, the Board comprises four non-executive directors, including one independent member and the Managing Director who serves as the lone executive on the Board.

Table 1: Board of Directors

Name	Position	Board Role
Dr Abiodun Arokodare	Chairman	Non-Executive
Mr Ebenezer Olufowose	Group Managing Director	Non-Executive
Mr Segun Omidele	Member	Non-Executive
Ms Amina Ibrahim	Independent Member	Non-Executive
Mrs Olumayowa Ogunwemimo	Managing Director	Executive

Source: First Ally Asset Management Limited

Dr Abiodun Arokodare is a non-executive director and the Chairman of the Board. He has over 41 years of experience across banking, insurance and the oil and gas sectors. Mr Arokodare last served as the Group Executive Director (Finance & Accounts) at the Nigerian National Petroleum Corporation (NNPC). Prior to this, he served as the Group General Manager (Accounts) also at NNPC for two years. Dr Arokodare holds a Bachelor’s degree in Accountancy from the University of Nigeria, Nsukka and an MBA in Management & Finance from the University of Lagos. He is a Fellow of both the Association of Chartered Certified Accountants of the United Kingdom (FCCA) and the Institute of Chartered Accountants of Nigeria (FCA).

Ms Amina Ibrahim is an independent non-executive director at FAAM. She has over 15 years of legal experience, across corporate advisory, mergers & acquisition and real estate, 13 of which were gained at Udo Udoma & Belo-Osagie. Prior to joining Udo Udoma & Belo-Osagie, Ms Ibrahim served as an associate at J.B. Majiyagbe & Co. She has a Bachelor of Law degree from the Ahmadu Bello University. Ms Ibrahim is also a graduate of the Nigerian Law School.

Mrs Olumayowa Ogunwemimo is the Managing Director (MD) of FAAM, a position she was appointed to in September 2020. She has over 24 years of experience in risk management, research and investment management, the bulk of which was gained within the FSDH Group. Prior to joining the Manager, Mrs Ogunwemimo served as the Managing Director at FSDH Asset Management Company. She holds a Bachelor’s degree in Accounting from the Obafemi Awolowo University and is a Fellow of the Institute of Chartered Accountants of Nigeria (FCA).

The Board delegates tactical decision-making responsibilities to the Managing Director, with oversight functions carried out through two sub-committees – the Board Risk and Audit Committee (BRAC) and the

Board Investment Committee (BIC) – each chaired by a non-executive director, in line with international and corporate governance best practices.

Table 2: Board Sub-Committees

Board Sub-Committees	Chairperson
Board Risk and Audit Committee (BRAC)	Mr Ebenezer Olufowose
Board Investment Committee (BIC)	Mr Segun Omidele

Source: First Ally Asset Management Limited

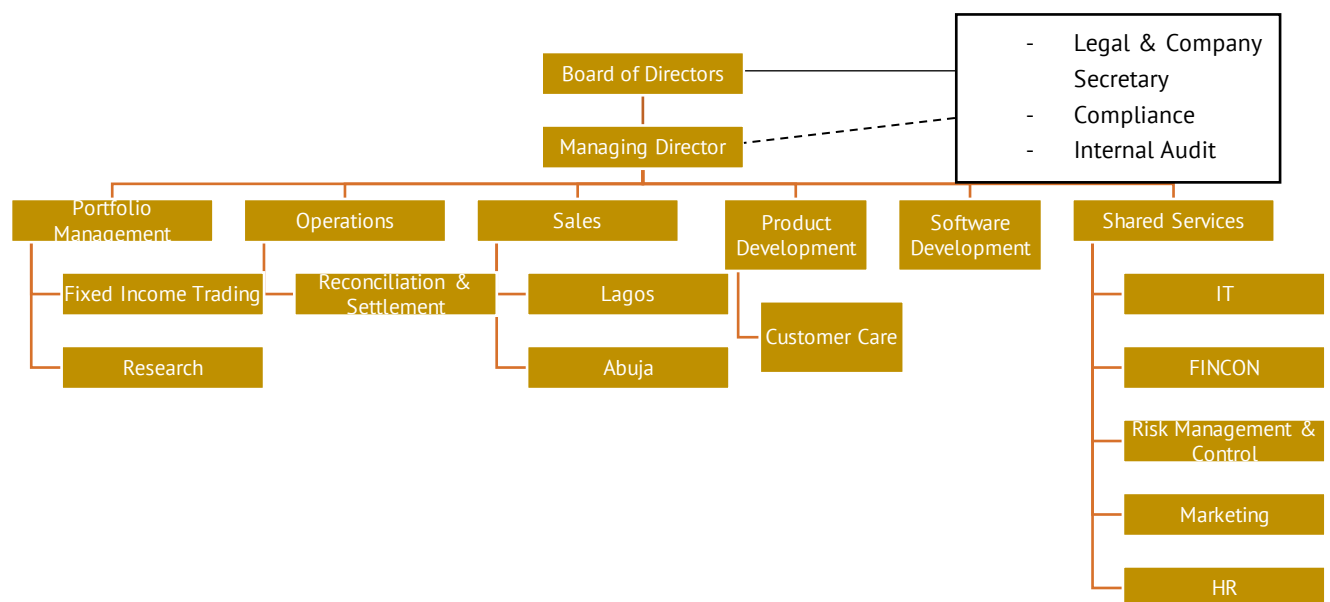
The Board boasts of experienced professionals with circa 31 years of relevant experience on average, which we consider good. In addition, we believe the members of the Board have the requisite qualifications and skills to adequately provide oversight of the Manager.

Organisational Structure

FAAM’s organisational structure remains largely the same as in the prior review period. The Manager maintains a hierarchical structure where the heads of the units report to Managing Director who in turn, reports to the Board. FAAM’s operations are structured along five principal business functions: portfolio management, sales, operations, product development and software development, with the heads of each unit reporting directly to the Managing Director.

The Manager relies on the Group for the provision of IT, financial control, risk management, internal control, marketing, compliance, internal audit and human resources functions. The heads of the shared functions report directly to the MD except for the heads of compliance and internal audit who report directly to the Board, with a dotted line to the Managing Director.

Figure 3: Organisational Chart



Source: First Ally Asset Management Limited

The portfolio management team comprises four individuals and is led by a professional who has over 12 years of investment advisory and research experience. The team is structured along three subunits – portfolio management, fixed-income trading and research – each overseen by a dedicated professional. The sales function is led by a professional with over 15 years of experience, seven of which were gained at the Manager. Excluding the head of the unit, the team comprises 12 professionals split across the Lagos and Abuja offices.

The compliance team comprises four individuals, led by a professional who joined the Group in November 2020 and has over 12 years of experience. The risk management team comprises two individuals and is led by a professional who has eight years of relevant experience, two of which were gained within the Group. Similarly, the internal audit team comprises two individuals and is led by a professional who joined FAAM in January 2023 but has 11 years of relevant experience. The operations team is structured along three subunits – client operations, investment operations and reconciliation with a dedicated professional overseeing each function. The operations function is led by a professional who joined the Group in May 2023 and has over nine years of experience.

In our opinion, the Manager's operations are adequately structured with clear reporting lines and segregation of duties. However, we are concerned about the lean structure in the risk management and internal audit teams. Nonetheless, we recognise the stability of the key teams in the review period and the intention of FAAM to expand the capacity of its portfolio management unit as the scope of operations increases.

ANALYSTS' COMMENTS – INVESTMENT MANAGEMENT

RESEARCH

People

Research at the Manager is overseen by the head of portfolio management and is performed by a dedicated analyst who has over seven years of experience in finance, investment management and research, two of which were gained at FAAM.

Systems and Process

The research team leverages multiple platforms including the FMDQ portal, S & P Capital IQ and public information sources including the Nigerian Exchange Group (NGX) and the National Bureau of Statistics (NBS) for macroeconomic and financial data. In addition, bespoke MS Excel models are relied on for analysing financial data, valuation and forecasting.

The research team supports the Manager's decision-making process by providing timely market information and financial analysis. The team adopts a top-down approach, with assessments covering regional output growth, international trade, commodity prices and economic linkages such as interest rates, bond yields, inflation rates, exchange rates and other key indicators that could impact investments. We note that FAAM's research is primarily skewed towards fixed-income securities in line with the current asset allocation of its portfolios. However, the research team may conduct equity research upon request from management or clients. The fixed income analysis covers market liquidity, interest rate sensitivity, spreads, portfolio maturity and expected inflation rate.

Research output is communicated via daily and weekly reports. The team also conducts non-thematic reports based on developments in the market that can impact the Manager's portfolios. Research undergoes quality control checks starting with a review by the head of portfolio management and then a final review by the MD.

In our view, FAAM has good processes and tools to generate timely research output. However, we believe the capacity of the team needs to be expanded to adequately support the growing operations of the Manager.

DECISION MAKING

People

Investment decisions are made collectively by the portfolio management team, the management investment committee (MIC) and the Board investment committee (BIC). The MIC is chaired by the Managing Director and comprises members of the portfolio management team and the heads of the operations, risk management and compliance teams. Members of the decision-making committees have over 22 years of experience on average, which we consider good. In addition, we believe the decision-making committees are composed of professionals with the requisite skills to support the Manager's investment decision making process.

Systems & Processes

Investment appraisal and decision-making at FAAM are supported by proprietary financial models built using Microsoft (MS) Excel which aid portfolio simulation and credit assessments. The Manager also leverages the Capital IQ software to gather data and for portfolio construction. In addition, FAAM utilises the Symplus software for reporting and portfolio management functions.

Decisions for the Manager's collective investment schemes are guided by the outcome of quarterly BIC meetings where the overall strategy and asset allocation guidelines are determined. For the privately managed portfolios, the investment process begins with understanding the financial position, risk tolerance, investment objectives and time horizon of potential clients to develop an appropriate risk profile which is documented in an investment policy statement (IPS) between FAAM and the client. Tactical investment decisions and short-term investment strategies for the CIS and segregated portfolios are developed at the weekly MIC meetings with due consideration for liquidity needs and the investment guidelines contained in the trust deed and the IPS.

In the review period, FAAM launched its portfolio management service (PMS) – an investment advisory offering where clients are guided but allowed to make investment decisions on their portfolios and the Manager executes.

Trade recommendations are generated daily by a member of the portfolio management team in line with the IPS for privately managed portfolios, the trust deed for collective investment schemes and the list of eligible counterparties. Potential deals undergo multiple reviews starting with evaluations from the head of portfolio management and the head of risk management before final authorisation is granted by the Managing Director.

Overall, we consider FAAM's decision-making process to be consistent with standard industry practices, with oversight provided by experienced investment committees.

TRADE/DEAL EXECUTION

Trade execution at the Manager is the collective responsibility of the portfolio management and operations teams and third-party brokerage firm. The operations team is responsible for fixed-income transactions while equity trades are executed through third-party brokers.

Fixed Income

For fixed-income trades, a member of the portfolio management team contacts the counterparties via email to agree on rates and volumes. The head of portfolio management then generates a trade settlement instruction, which is reviewed by the risk management team using the Electronic Document Management System (EDMS) application. Once the risk management unit signs off on the trade, the MD reviews the proposed deal and grants final approval. Subsequently, a representative of the portfolio management team sends trade instructions to the operations unit for processing and onward distribution to the custodian for execution. All executed trades are updated on the Symplus software, following which a representative of the compliance unit conducts a daily portfolio review.

Equities

Following final approval, a member of the portfolio management team sends the trade information/equity mandates to a preselected third-party broker for execution. Subsequently, the broker/dealer provides a contract note to the operations team and the trade is then logged on the Symplus software. We note that equity trades are primarily conducted for FAAM's private portfolio clients.

International Investments

The Manager's international investments are primarily conducted for its non-discretionary portfolios. FAAM invests in Eurobonds issued by the Nigerian government and financial institutions domiciled in Nigeria. The trade execution process for investments in foreign currency-denominated fixed-income securities is identical to that of domestic fixed-income securities.

Overall, we consider the Manager's trade execution process to be adequate for its current level of activities.

FUND PERFORMANCE AND ADHERENCE TO OBJECTIVES

In the review period, all of FAAM's investment products generated sufficient returns to surpass their respective benchmarks. However, none of the Manager's investment offerings generated sufficient returns to cover the average inflation rate of 32.88% as at October 2024.

Table 5: Fund Performance Vs Benchmark

Fund	Return YTD Jan-October 2024	Benchmark Return Jan -Oct 2024	Benchmark
FAAM Money Market Fund	21.80%	18.00%	91-day T-bills Rate
FAAM High Yield Investment Scheme (HYIS)	19.32%	18.50%	S&P/FMDQ NSBI
FAAM Dollar Investment Scheme (FDIS)	6.15%	4.27%	US 1-Year Bond Rate

Source: First Ally Asset Management Limited

Overall, we believe that FAAM's performance is good.

ANALYSTS' COMMENTS – RISK MANAGEMENT

INVESTMENT RISK MANAGEMENT

People

Investment risk management is collectively managed by the statutory investment committees, risk management, finance and portfolio management teams. The heads of these teams have over nine years of experience on average, which we consider good. The Board through the Board Risk, Audit & Compliance Committee and Board Investment Committee also provide oversight of the Manager's activities.

Systems & Processes

FAAM utilises the Symplus application to manage investment risk. The Symplus software has in-built functionalities that support transaction recording, risk management surveillance, portfolio monitoring and reporting. The software also has the capacity to perform automated pre-trade checks on key parameters, including asset allocation and WAM limits, which support investment risk management. In addition to the

Symplus tool, the Manager leverages the S&P Capital IQ and the EDMS application for real-time data gathering and portfolio construction.

Investment risk at FAAM is managed by ensuring adherence to the strategy established by the BIC, the enterprise risk management framework, the trust deeds for collective investment schemes and internal investment guidelines. The Manager also uses a Board-approved list of eligible counterparties which is developed by the risk management team. In addition, FAAM is only permitted to invest in counterparties with at least an investment grade credit rating to minimise exposure to credit risk. The external ratings are complemented by internal credit analysis conducted by the risk management team. The Manager utilises distinct credit appraisal models for evaluating financial institutions, corporate entities and non-bank financial institutions. Counterparties are scored on a 100-point scale and assigned an alphabetical grade, with AAA being the lowest risk and BBB the highest permissible risk. FAAM establishes varying exposure limits for securities in the AAA to BBB categories. Annual reviews of the approved issuers are conducted by the risk management team to ensure alignment with the Manager's investment objectives.

All transactions are reviewed by the head of portfolio management and independently by the head of risk management to ensure the proposed trade is within the acceptable exposure limit before final authorisation is sought from the MD. Subsequently, a member of the compliance team conducts daily and weekly post-trade reviews for adherence to established guidelines. Identified breaches are reported to the head of portfolio management and the MD. The risk management team also conducts periodic liquidity tests on financial institutions to assess the responsiveness of obligors in satisfying redemption requests.

In our view, the investment risk management process is adequate for FAAM's scale of operations, with well-documented guidelines and multiple pre- and post-trade reviews.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

The Manager's ESG principles focus more on corporate social responsibility. Notably, FAAM continues to operate a paperless work system to reduce environmental waste. The Manager has also adopted energy-efficient lighting alternatives at its offices. Nonetheless, FAAM intends to develop an ESG framework to effectively guide the Manager's approach to sustainable investing.

OPERATIONAL RISK MANAGEMENT

People

Operational risk is managed by the risk management team with support from the internal audit, compliance, operations and IT teams. The heads of these units have an average of 11 years of experience, three of which were gained within FAAM. The Board, through the BRAC, provides oversight of the risk management activities of FAAM.

Systems & Processes

The Manager leverages the Symplus software, which has adequate maker-checker features to support the segregation of duties and an in-built capacity for access restrictions, with rights and privileges reviewed

by the IT team. In addition, the EDMS software is used to manage process flows and optimise business processes.

FAAM adopts an enterprise risk management framework (ERMF) and a standard operating procedure manual in managing operational risk events. The risk management team develops a monthly risk and control self-assessment questionnaire to identify potential risk events which are then tracked by the appointed risk champions in each team. The internal audit team performs independent evaluations of the Manager's adherence to standards and established procedures according to the annual audit schedule. The output of the exercise is presented to the Board quarterly.

The compliance unit is responsible for monitoring adherence to the provisions of applicable laws & regulations and ensuring regulatory returns are filled promptly. The team also reviews all account opening documents for adherence to KYC requirements and conducts additional due diligence on potential customers where necessary.

To prevent data loss and system failures, all data is backed up and stored in real time. In the review period, FAAM migrated its IT infrastructure from Google Workspace to Microsoft Office 365 (Office 365). The transition to Office 365 is aimed at improving operational efficiency while enhancing the Manager's IT security protocol. FAAM maintains a disaster recovery plan with stress tests such as vulnerability and penetration tests (VAPT) conducted by the IT team periodically. The Manager also enlists the services of a third-party vendor to conduct annual IT audits.

We consider FAAM's operational risk management good for the current level of business with sufficient support from the Group.

INVESTMENT MANAGER RATING: METHODOLOGY & DEFINITIONS

An Agusto & Co **INVESTMENT MANAGER** rating is based largely on qualitative factors. The factors considered before arriving at a rating for each institution falls under the following criteria:

- Investment Management
 - 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

Rating Methodology

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

- the calibre of personnel;
- the functionality of the systems; and
- 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



RATING DEFINITIONS

AAA (IM)	The investment management company is considered to have EXCELLENT investment and risk management capabilities
AA (IM)	The investment management company is considered to have VERY GOOD investment and risk management capabilities
A (IM)	The investment management company is considered to have GOOD investment and risk management capabilities
BBB (IM)	The investment management company is considered to have ADEQUATE investment and risk management capabilities
B (IM)	The investment management company is considered to have INADEQUATE to POOR investment and risk management capabilities.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'AAA(IM)' to 'B(IM)' 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.



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