# Introduction of a Mapping Table appendix to the Management Quality Ratings Criteria (Nigeria Only)

## Summary

Lagos, 11 August 2023 – GCR Ratings (GCR) has introduced a mapping table appendix to the Management Quality Ratings Criteria (Nigeria only).

The Management Quality Ratings Criteria is available for download at: https://gcrratings.com/criteria/.

## Overview

- Management Quality (MQ) ratings are forward-looking opinions on the management quality of asset management companies. The ratings assess an entity's organisational structure, risk management characteristics and operational controls, and provide an opinion on the overall quality of the organisation, including management characteristics and operational practices.
- At the same time, MQ ratings are not issuer credit ratings. They do not measure the relative ability of an entity to meet its financial obligations and therefore cannot be used to support debt ratings or used in counterparty risk assessments.
- GCR has included a Mapping Table Appendix to the Management Quality Ratings Criteria, for Nigeria Only, to facilitate the regulatory nomenclature set out by the National Pension Commission (PENCOM).

## Rationale

Management Quality ratings are forward-looking opinions on the management quality of asset management companies. The ratings provide investors with an independent appraisal of asset management companies and are intended to assist investors in comparing portfolio managers' skill sets and facilitate the process of evaluating investment management firms' overall quality, regardless of size, ownership structure, and scope of operations. MQ ratings emphasise qualitative over quantitative factors and are expressed in the form of a scale ranging from 'MQ1' (Excellent) to "MQ5" (Very Weak).

Although the assessment incorporates a review of the firm's investment performance track record, the ratings are not intended to consider the prospective performance of specific funds managed by the company. The assessment also does not indicate the manager's ability to repay a fixed financial obligation or satisfy contractual financial obligations, neither those entered by the firm nor any that may have been entered into through actively managed portfolios.

In the regulatory document titled '*Regulation on Investment of Pension Fund Assets*', PENCOM have stated that Asset Managers who intend to manage Infrastructure Funds, REITS and Private Equity Funds need Investment Management ratings of 'BBB'. Typically, GCR use the MQ1 to MQ5 scale for such ratings, in attempt to differentiate between management quality ratings, fund ratings and issuer (counterparty) ratings. However, to facilitate the regulatory nomenclature, we have created the below mapping table exclusively for the Nigerian Market.

GCR has published the MQ1 to MQ5 scale and the Nigerian investment manager rating mapping equivalent, in order to demonstrate the difference between a MQ rating and an Issuer Credit Rating.

| Management Quality Ratings | | |
|---|---|---|
| Management Quality Rating Definitions | | Nigerian Investment Management Rating Equivalent |
| MQ1 | Entities rated MQ1 are judged to exhibit relatively excellent management and control environment, which meets or exceeds best international practice and benchmarks | $AAA_{(NG)(mq)}$ |
| MQ2 | Entities rated MQ2 are judged to exhibit relatively good management and control environment. | $A_{(NG)(mq)}$ or $AA_{(NG)(mq)}$ |
| MQ3 | Entities rated MQ3 are judged to exhibit relatively adequate management and control environment. | $BBB_{(NG)(mq)}$ |
| MQ4 | Entities rated MQ4 exhibit relatively poor management and a weak control environment, which leaves a high potential for investor or corporate losses. | $BB_{(NG)(mq)}$ or $B_{(NG)(mq)}$ |
| MQ5 | Entities rated MQ5 have very weak management and controls which have led to investor or corporate loss. | $CCC_{(NG)(mq)}$ |

*GCR will not assign + or – suffix for MQ ratings.

## Analytical Contacts


**Primary Analyst** Adekemi Adebambo Chief Ratings Officer
Lagos, Nigeria Adekemi@GCRratings.com +234 1 904 9462

**Primary Analyst** Ada Ufomadu Sector Head: Financial Institutions
Lagos, Nigeria AdaU@GCRratings.com +234 1 904 9462

## Related Criteria and Research

Criteria for the GCR Ratings Framework, Jan 2022
Criteria for Management Quality Ratings, July 2020
GCR Rating Scales, Symbols & Definitions, May 2023