



## RATING ACTION COMMENTARY

# Fitch Affirms CK-GSMFI's National IMQ Rating at 'Excellent(mar)'

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Fitch Ratings - London - 09 Dec 2020: Fitch Ratings has affirmed CDG Capital - Gestion sous Mandat des Fonds Institutionnels' (CK-GSMFI) National Investment Management Quality Rating (IMQR) at 'Excellent(mar)' with a Stable Outlook. CK-GSMFI is part of the bank CDG Capital's investment management department, managing institutional assets through mandates.

## KEY RATING DRIVERS

The 'Excellent(mar)' rating is driven by CK-GSMFI's robust investment and risk-management processes. While investment resources provide a good fit to the needs of the business, the score of investment resources is constrained by staff turnover experienced in 2019 and 2020. The score of company and client servicing balances the fund's slowly growing AUM over the last five years and lower-than-peer average AUM margin with the financial strength of its ultimate parent company, Caisse de Dépôt et de Gestion (CDG), which was created in 1959.

CK-GSMFI's 'Excellent(mar)' rating is based on the following (unchanged) category scores:

Investment Process: Excellent

Investment Resources: Strong

Risk Management: Excellent

Investment Performance: Consistent

Company and Client Servicing: Strong

'Excellent' Investment Process

CK-GSMFI's investment process is well-defined with clear objectives. The two main strategies are "plain vanilla" benchmarked portfolio management and liability-driven investment (LDI) for pension and retirement funds. Both strategies use research input from the internal team and sell-side research. The first strategy follows three steps of fundamental analysis, portfolio construction and trading. LDI portfolios are built to cover the client's current and future liabilities, and to generate performance surplus. Therefore, they are split into a core compartment (invested in fixed-income securities) and satellite compartment (invested in higher-risk assets such as equity and alternative asset classes), invested in accordance with a pre-determined risk budget.

'Strong' Investment Resources

CK-GSMFI's investment team experienced high turnover in 2019 and 2020, resulting in a lower level of company tenure than peers. The adverse effects of this turnover are mitigated by CK-GSMFI's efficient portfolio management. CK-GSMFI has a better ratio of portfolio managers to mandates than peers. While there is no CIO, it has heads of desk for core mandates and alternative investments. The department is overall well-organised with clear separation of different functions, such as investment teams, internal control and risk management, which are dedicated to the mandates' management.

Fitch views the current (ongoing) project of implementing a front-to-back system, as positive, but which also might cause operational risk during the implementation phase by overhauling the information system. CK-GSMFI has a robust IT infrastructure, allowing all its staff to work remotely during the pandemic.

'Excellent' Risk Management

CK-GSMFI is one of few companies in Morocco to have an independent risk-management team with four levels of control (front-office, middle-office, risk management and internal control). Key risks, such as market, credit and operational risks, are closely monitored. The team pays attention to the most important metrics

such as as VaR (value at risk) and budget risk, and stress tests are conducted on a monthly basis.

All mandates are subject to contractual investment limits set by clients and internal limits set by risk management, for example internal rating, issuer type, asset class, international investment, etc. Internal credit rating includes a quantitative and qualitative process as well as a sector credit analysis. Reporting is performed on a weekly and monthly basis.

#### 'Consistent' Investment Performance

Overall performance is largely driven by the largest mandate (75% of total AUM as of end-September 2020), which is a LDI portfolio of a client of CDG. The portfolio is thus managed with the primary investment objective of covering the client's funding needs. Between end-2017 and end-September 2020, this mandate has consistently outperformed its benchmark by almost 4%.

#### 'Strong' Company and Client Servicing

CK-GSMFI was created in 2006 and invests in a wide range of asset classes, including equity, fixed income, real estate and private equity. Clients are institutional with a highly concentrated client base. Management fees are lower than peers' and AUM has been growing but at slower pace over last five years to 2019.

### **INVESTMENT MANAGER**

CK-GSMFI is a subsidiary of CDG, which was established in 1959 as the first institutional investor in Morocco. CK-GSMFI managed around MAD167 billion as of end-September 2020.

### **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The rating is at the highest level and therefore cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The rating may be downgraded on material adverse changes to any of the aforementioned rating drivers, notably through weakened team organisation as a consequence of a higher turnover, operational issues resulting from the implementation of the new software, significant redemption from the largest client or deterioration of risk-adjusted performance.

## RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
CDG Capital - Gestion sous Mandat des Fonds Institutionnels	National IMQR	Excellent(mar) Rating Outlook Stable	A f f i r m e d
			Excellent(mar) Rati Outlook Stable

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CDG Capital - Gestion sous Mandat des Fonds Institutionnels -

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