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Previously Investec
Asset Management

Independent ratings agencies: A guide

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Introduction

Many of our funds and portfolio managers are regularly assessed by, and receive ratings from, independent ratings agencies. These ratings are based on an evaluation of various qualitative and quantitative factors. A rating provides third party endorsement and can evidence strength of our investment process, portfolio manager or performance.

In this guide, we have provided a brief explanation of the different methodologies employed by each agency and the ratings they provide.

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The Adviser Centre

The Adviser Centre assessments are built around the critical elements of:

Quality – assessing a fund manager’s abilities, experience and resources in the context of a fund’s objectives.

Utility – assessing a fund’s risk and return characteristics and formulating our expectations for its behaviour in different market conditions.

Value for money – questioning whether a fund has the potential to add value, net of fees, over and above a specified and understandable reference point. This value-add may be expressed simply in terms of its performance outcome compared to a relevant passively-managed vehicle; alternatively, the value-add may be determined by attractive risk-adjusted returns or a lower volatility outcome. It may also be a manager’s ability to run a mix of assets successfully or to provide access to a specialist investment opportunity. Therefore a fund’s ‘value for money’ is not only about its costs, but also about the kind of outcome it offers to investors.

The funds featured within The Adviser Centre appear on one of the following three lists:

- **Recommended** – funds that The Adviser Centre have assessed quantitatively and qualitatively and satisfy their thresholds with regard to quality and value for money.
- **Established** – funds that are at or near to capacity and continue to have identifiable merits.
- **Positive Watch** – funds managed by up-and-coming managers or managers who have moved to new firms and/or are running different mandates. The list also features new product innovations.



Defaqto

Defaqto Diamond Ratings

Defaqto is an independent researcher of financial products, focused on providing intelligence to support better decision-making. Defaqto Diamond Ratings provide an independent rating based on fund performance, plus various risk attributes where applicable, and a range of other key fund attributes – including cost, scale, access and manager longevity.

They rate families of funds to give advisers an insight as to whether the intended gradations of risk and return have been delivered; they combine a quantitative assessment of both performance and numerous other data points, including manager tenure, assets under management, costs and distribution; and they are backed by Defaqto's established and independent brand.

Diamond Ratings give funds and fund families an independent rating of 1 to 5 based on a detailed and well-structured scoring process allowing advisers – and their clients – to see where they sit in the market in terms of:

- Fund performance
- Competitiveness in other key areas such as cost, scale, access and manager longevity.



Defaqto Risk Mappings

The Defaqto Risk Mappings aim to provide an independent and robust risk mapping within a process that financial advisers can trust, and that ultimately supports their delivery of compliant advice.

The rating process is not based on the fund's volatility numbers alone, it also involves discussion and judgement. The Mappings are numbered from 1 to 10: a Risk Rating of 1 indicates that a proposition represents the lowest risk; a Risk Rating of 10 indicates the highest level of risk. These bands have been created in partnership with Moody's Analytics, and Defaqto have a robust process that reviews funds and the levels that they map to on a quarterly basis.

1. Risk averse
2. Lowest risk
3. Very low risk
4. Low risk
5. Low to medium risk
6. Medium risk
7. Medium to high risk
8. High risk
9. Very high risk
10. Highest risk



Distribution Technology

Dynamic Planner Risk Profiles

To risk profile funds and portfolios, Distribution Technology looks at a combination of the following attributes and uses its Capital Market Assumptions where necessary, to understand the level of risk expected within the portfolio:

- Historical data of each fund's past asset allocation positions, which we map to our standard asset classes.
- The volatility derived from the fund's strategic benchmark, where appropriate.
- The volatility of the actual performance achieved by each fund.

The team produces a spectrum of asset allocations that gradually increase in risk from level 1 to 10 risk levels. Their methods for doing this are based on Modern Portfolio Theory techniques to derive efficient portfolios, which maximise expected returns for any given degree of risk and when plotted collectively, form an efficient frontier. Dynamic Planner risk profiles are monitored on a quarterly basis.

Dynamic Planner ACE

The new Dynamic Planner ACE fund rating, stands for: Asset Consistency and Efficiency. Using initial screening and a quantitative engagement process, Dynamic Planner identified a universe of around 2,000 qualifying funds, and just over 250 funds have been ACE rated. The ratings are updated quarterly and range from 1 to 4 (with 4 being the highest):

- **4 ACE** Consistency with the Dynamic Planner Asset & Risk Model and performance efficiency is excellent over 5 years.
- **3 ACE** Consistency with the Dynamic Planner Asset & Risk Model and performance efficiency is very good over 5 years.
- **2 ACE** Consistency with the Dynamic Planner Asset & Risk Model and performance efficiency is very good over 3 years.
- **1 ACE** Consistency with the Dynamic Planner Asset & Risk Model is lower but performance efficiency is excellent over 5 years.



Scope EuroRating

Scope EuroRating

Scope Funds Ratings aim to evaluate the contribution of funds management in terms of outperformance and risk reduction. The rating is based on a multi-dimensional evaluation model, with performance as well as risk indicators incorporated into the model. The performance indicator (70% weighting) considers the relative performance, longterm profitability and stability, and the risk indicator (30% weighting) takes timing, loss and tracking into account.

Each fund receives points depending on its strength and weakness in relation to competitors in the same peer group. A fund with an indicator displaying a value equivalent to the accordant sector's median, receives 50 points. In the case of a significant change in fund management, the fund rating of the corresponding fund will have 'ur' for 'under review' shown in addition to the fund's rating letter.

Funds with a history of between six months and five years also have a qualitative rating added to them, using standard questionnaires for fund management and the management's environment.

Each fund is assigned to one of the following five ratings:

A - very good, 78 to 100 points

B - good, 60 to 77 points

C - average, 41 to 59 points

D - below average, 23 to 40 points

E - poor, 1 to 22 points

An A or B fund, a so-called 'top fund', offers a stable outperformance and relatively low risk in the medium-term outlook.



FundCalibre

Elite Fund Rating

An Elite Fund rating is a stamp of approval that FundCalibre bestow on top investment funds, following comprehensive analysis, where they believe the manager can consistently deliver positive value over time. Around 10% of the 3,000 funds, which are widely available to UK retail investors, are expected to achieve an Elite Fund rating. Using their unique filtering tool: AlphaQuest, only funds which have a greater than 60% chance of delivering outperformance, attributable to the skill of the fund manager, make it to the next stage of the process.

Those fund managers are then subjected to further detailed qualitative analysis, including face-to-face interview. The research is then subject to peer group review, within the FundCalibre team. The Elite Ratings are reviewed four times a year; however, funds may lose their Elite Rating between these times if a fund manager departs or the process changes.



Elite Provider – Equities Rating

The annual Fund Management Equity Index is designed to help investors identify those asset management companies that have consistently strong stock-picking fund managers, who are able to repeat their excellence year in, year out.

The index looks at the most actively-managed equity funds recognised by the Investment Association and compares them with their sector averages over a five-year time frame. Each fund group's funds are then collected together to calculate the group's average fund performance. Fund groups must have a minimum of four qualifying funds to be included in the index.



Morningstar Rating™

Star Ratings™

The overall rating for a fund, often called the ‘star rating’, is derived from a quantitative methodology that rates funds based on an enhanced Morningstar™ Risk-Adjusted Return measure.

‘Star ratings’ run from 1 star (lowest) to 5 stars (highest) and are reviewed at the end of every calendar month. The various funds are ranked by their Morningstar™ Risk-Adjusted Return scores and stars assigned using the scale below.

It is important to note that individual share classes of each fund are evaluated separately and their ratings may differ depending on the launch date, fees and expenses relevant to the share class. In order to achieve a rating the share class of a fund must have a minimum three-year performance track record.

Top 10% of funds in the sector

Morningstar Overall rating™
★★★★★ Next 22.5% of funds in the sector

Morningstar Overall rating™
★★★★ Middle 35% of funds in the sector

Morningstar Overall rating™
★★★ Next 22.5% of funds in the sector

Morningstar Overall rating™
★★ Bottom 10% of funds in the sector

Morningstar Overall rating™
★

Morningstar Analyst Rating™

Morningstar Analyst Rating™

Unlike the backward-looking 'star rating', the Morningstar Analyst Rating™ is a summary expression of the forwardlooking analysis for a fund. The Morningstar global analyst team has identified five key pillars that they believe are crucial to predicting the future success of a fund. These are:

- People
- Parent
- Process
- Performance
- Price.

Analysts assign ratings on a five-tier scale with three positive ratings of Gold, Silver and Bronze, a Neutral rating, and a Negative rating.

Neutral: The analyst does not have a strong positive or negative conviction. In his/her judgement, the fund is not likely to deliver outstanding returns, though it is not likely to underperform.

Negative: These funds possess at least one flaw that the analyst believes is likely to significantly hamper future performance. These faults lead the analyst to consider these funds inferior to their peers and likely to underperform.

The Morningstar Analyst Rating™ is not a market call, and it is not meant to replace an investor's due diligence process. It cannot assess whether a fund is the right fit for a particular portfolio and risk tolerance. It is intended to supplement investors' and advisors' own research on funds and, along with written analysis, provide a forward-looking perspective on a fund's abilities.

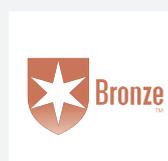
Positive ratings



This is the highest rating awarded to funds that have garnered the analysts' highest conviction recommendation. By giving a fund a Gold rating, the analysts are expressing that the fund demonstrates powerful investment processes and disciplines which they believe will translate into exceptional long-term performance. To achieve this level of excellence a fund must distinguish itself across all the five pillars examined in the research process.



Funds with a Morningstar Analyst Rating™ of Silver are high conviction recommendations. They are of superior quality with notable advantages across several of the criteria Morningstar OBSR considers when analysing each fund's investment process and track record.



A fund which achieves a Morningstar Analyst Rating™ of Bronze is a commendable one. It shows advantages that clearly outweigh any disadvantages and gives the analysts the conviction to award a positive rating.

Rayner Spencer Mills

The Rayner Spencer Mills mutual fund methodology takes into account both quantitative and qualitative measures when determining a rating.

The qualitative part of the process combines a fund questionnaire, which is completed for every manager and covers detailed documentation sourced from the management groups. In addition, data is collected on, but not limited to, fund technical data, team structures and CVs, manager incentives, macro and micro influences, decision-making process, buy and sell disciplines, company visits, turnover and attribution analysis.

The quantitative screening allows the following measures of each fund to be compared against their set benchmarks and peer group. These measures include: Performance, Volatility, TER, Fund Size, Qualitative Screening, Fund Manager Background, Fund Philosophy, Fund Management Processes, Risk Controls, Manager Resources.

The sectors and funds are monitored on an ongoing basis and reviewed formally on a rolling three-month basis.



SharingAlpha

SharingAlpha gathers ratings from professional fund buyers, and presents the average rating the different funds receive. The raters are asked to rate the funds based on their expectations in terms of the fund's chances of outperforming in the future. SharingAlpha only takes into account ratings from users that they can identify as professional fund buyers.

A fund rating of above 3.0 implies that raters expect the fund to create alpha in the future. Funds with an average rating of above 3.0, based on at least 5 professional raters, are entitled to present the 'Highly Rated Fund' SharingAlpha rating logo.



Square Mile

The ratings process uses a qualitative approach that focuses on the fundamentals: manager and environment, investment philosophy and objectives, investment process, portfolio construction, management of risk and value for money. As part of the research process, analysts conduct interviews with fund managers. Analysts also examine how the portfolio is constructed, ensure that the level of risk is proportionate to the fund’s mandate and structure and look for clear evidence that the manager can achieve their stated objective.

Funds worthy of recommendation may be rated as AAA, AA or A. The ratings are reviewed quarterly.



Assigned to funds in which analysts have the greatest confidence that the fund will meet its stated objectives over an investment cycle.



Assigned to funds in which analysts have a high confidence that the fund will meet its stated objectives over an investment cycle.



Assigned to funds which analysts have confidence that the fund will meet its stated objectives over an investment cycle.



Assigned to funds that meet the highest standards in their fields. However, beyond this, the funds cannot be readily differentiated between each other (e.g. passive funds).



Assigned to funds which analysts have identified as up and coming interesting propositions. However, the manager, their strategy or process is new and it has been not thoroughly tested in all market environments.

Synaptic

The Synaptic Risk Rating service is a financial planning and research tool from Synaptic Software, built around the Moody’s Analytics risk framework. It follows a quantitative, stochastic (i.e. forward looking) approach. The ratings aim to offer Financial Advisors a framework to understand, manage and report on investment risk by providing a consistent measure – avoiding reliance on volatility based ratings.

The ratings are updated quarterly and show Minimum, Maximum and Average gain figures.



Moderately cautious

Maximum gain 18.29%
Average gain 4.32%
Minimum gain -9.83%



Balanced

Maximum gain 21.04%
Average gain 4.15%
Minimum gain -11.61%



Balanced

Maximum gain 37.30%
Average gain 7.13
Minimum gain -23.58%

Ninety One

Australia

Level 28, Suite 3, Chiffley Tower
2 Chifley Square
Sydney, NSW 2000
Telephone: +61 2 9160 8400
australia@ninetyone.com

Botswana

Plot 64511, Unit 5
Fairgrounds, Gaborone
Telephone: +267 318 0112
botswanaclient@ninetyone.com

Channel Islands

PO Box 250, St Peter Port
Guernsey GY1 3QH
Telephone: +44 (0)1481 710 404
enquiries@ninetyone.com

Germany

Bockenheimer Landstraße 23
60325 Frankfurt am Main
Telephone: +49 (0)69 7158 5900
enquiries@ninetyone.com

Hong Kong

Suites 3609-3614, 36/F
Two International Finance Centre
8 Finance Street, Central
Telephone: +852 2861 6888
hongkong@ninetyone.com

Italy

Palazzo Toschi Cornelianani
Corso Venezia 44
20121, Milan
Telephone: +39 02 3658 1590
enquiries@ninetyone.com

Luxembourg

2-4, avenue Marie-Thérèse
L-2132 Luxembourg
Telephone: +352 28 12 77 20
enquiries@ninetyone.com

Namibia

First Floor, 6 Thorer Street
Windhoek
Telephone: +264 (61) 389 500
namibia@ninetyone.com

Singapore

25 Duxton Hill #03-01
Singapore 089608
Telephone: +65 6653 5550
singapore@ninetyone.com

South Africa

36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)21 416 2000
enquiries@ninetyone.com

Sweden

Grev Turegatan 3,
114 46, Stockholm
Telephone: +46 709 550 449
enquiries@ninetyone.com

Switzerland

Seefeldstrasse 69
8008 Zurich
Telephone: +41 44 262 00 44
enquiries@ninetyone.com

United Kingdom

Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
Telephone: +44 (0)20 7597 1900
enquiries@ninetyone.com

United States

666 5th Avenue, 37th Floor
New York, NY10103
US Toll Free: +1 800 434 5623
usa@ninetyone.com

Important information

Source: The Adviser Centre, Defaqto, Distribution Technology, Scope EuroRating Services, FundCalibre, Morningstar™, Rayner Spencer Mills, SharingAlpha, Square Mile and Synaptic Software Limited.

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The Elite Rating™ system is proprietary to FundCalibre Ltd., but should not be taken as a recommendation.

Dynamic Planner® is a registered trademark of Distribution Technology.

Please note that a rating is not a recommendation to buy, sell, or hold a fund.

Outside the US, telephone calls will be recorded for training, monitoring and regulatory purposes.

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