



Infomerics

Credit Rating Nepal Ltd

FUND MANAGEMENT QUALITY RATING METHODOLOGY

FRAMEWORK

Infomerics Credit Rating Nepal Limited's Fund Management Quality rating (FMQR) is a fund level rating to assess a fund's management capability and quality of investment processes. The emphasis is on the quality of the investment management team, investment strategies, and processes to determine the fund's ability to fulfil its investment objective consistently. The high score on these parameters will have a strong likelihood of healthy long term performance of the fund. It also provides an investor with an independent opinion on fund management expertise & proficiency, governance and overall quality of the Asset Management Company (AMC). AMCs could use Infomerics Nepal's FMQR to highlight their investment management characteristics and investors could use such opinion as a benchmark to differentiate among other AMCs. However, with such rating, Infomerics Nepal makes no prediction about the future performance of the schemes or funds handled by the AMCs rated.

SCOPE

This document provides an overview of the criteria and processes used to assign Infomerics Nepal's Fund Management Capability Rating. The document articulates INFOMERICS NEPALS's rating scale and methodology, qualitative and quantitative factors used for such analysis.

RATING PROCEDURE

- ❖ Agreement signing by both the parties.
- ❖ Information collection, interaction with the management team and visit to client office. This also involves taking feedback from the AMC's auditors.
- ❖ The analyst team will prepare a brief report for the consideration of Rating Committee.



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- ❖ Once the rating is decided by the Committee, it will be communicated to the client along with rationale for the same. The rating will be published only after the acceptance by the client of the same.
- ❖ Based on the information obtained from the AMC and/or from publicly available sources, a continuous review of relevant scheme information would be carried out. For the same, Infomerics Nepal considers quarterly report from AMC on operational and other metrics and the most recent t scheme portfolio. Further, a detailed annual review considering the annual accounts of the fund shall be undertaken.

Infomerics Nepal's methodology for Fund Management Quality Rating cover two broad parameters.

1. Fund Management Assessment

The fund's ability to accomplish its investment objective over time is highly dependent on the quality of its management, investment strategies, and processes. The fund management capability rating of INFOMERICS NEPAL considers the following qualitative factors to determine if the fund's returns are expected to be consistent with its investment aim over time:

- a) **Organizational & Governance Structure:** AMC's board of directors and its composition including presence of independent directors and investment committee and their composition is reviewed. Involvement of external members or Investors' representative in the AMC's investment committee is also taken into account. Further, to get an overview of AMC's investment policies, guidelines, strategies and accountability at all levels, Infomerics Nepal examines AMC's risk management structure, track record of regulatory adherence and quality of internal audit teams. Infomerics Nepal views AMC with a strong governance framework that goes beyond mere statutory compliance and promotes adherences to high ethical & fiduciary standards in all its day-to-day activities as a rating positive.
- b) **Management competence and track record:** It entails evaluating AMC's top management in terms of their qualifications, professional skills, and track record in fund



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management. In addition, the assessment would also take into account AMC's overall size, organizational structure, and general business practices.

- c) **Client communication, transparency and disclosure:** Client servicing forms the starting point of service standard perceptions for most investors. Infomerics Nepal evaluates the various disclosure standards along with the quality and frequency of disclosures. It assesses the consistency of the fund title with the investment objective, transparency in portfolio disclosures, and expenses. Infomerics Nepal also evaluates the client support function and its effectiveness in handling customers and resolving their queries. In addition to the above, Infomerics Nepal analyses parameters such as past instances of any severe regulatory indictment, and imposition of penalties.
- d) **Investment decision making process and discipline:** Infomerics Nepal's aim is to evaluate the investment team's philosophy, decision-making process, and discipline, as well as their compatibility with the fund's stated investment objective. This is essential to attain consistent results over time. Infomerics Nepal assesses the process consistency by examining policy papers such as investment, valuation risk management, and compliance regulations. It also examines the effectiveness and quality of the investment decision-making process. Infomerics Nepal evaluates the Chief Investment Officer's role in the entire decision-making process. It also assesses the techniques and procedures used to manage a variety of inherent risks, as well as audit reports to assess policy implementation, monitoring lapses in compliance, and the feedback mechanism.
- e) **Financial Soundness:** The ability of an AMC to fund its business activities is determined by its assets under management (AUM) and expense management skills. Infomerics analyzes AMC's ability to hire, manage and retain highly professional talent and have adequate robust systems to support its business activities. Also, the cost and income structure of the AMC being rated with industry standards to arrive at operating efficiency is evaluated.
- f) **Risk identification & Measurement:** The AMC's framework for identifying and measuring of the various risks (market, operational, credit & liquidity) shall be examined,



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where factors such as various risk estimation technique used, identifying key man risk, their responsibilities & incentive structure is analyzed.

- g) **Robustness** of the information system is critical for regular portfolio monitoring and monitoring various risks, therefore, Infomerics Nepal closely looks at the adequacy, quality & timeliness of the information systems used by the management and in-built checks and balances.

2. Performance Assessment

Infomerics Nepal evaluates the fund's past performance (if any) over a sufficiently long-time horizon and the performance of the other existing and past funds managed by the investment team, to assess their performance track record. It also compares the performance of the fund with the relevant peers and benchmarks as part of the process. Infomerics Nepal assesses the size of the fund's assets under management (AUM) and growth in the AUM to determine investor interest in the fund. It also analyses assets being managed by the same investment team across funds with a similar investment strategy and objective.



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FUND MANAGEMENT QUALITY RATING SCALE WITH DEFINITIONS

Rating Symbol	Definitions
IRN AMC Quality 1 (AMC1)	Highest ability of fund to achieve Fund Objectives
IRN AMC Quality 2 (AMC2)	High ability of fund to achieve Fund Objectives
IRN AMC Quality 3 (AMC3)	Adequate ability of fund to achieve Fund Objectives
IRN AMC Quality 4 (AMC4)	Inadequate ability of fund to achieve Fund Objectives
IRN AMC Quality 5 (AMC5)	Poor ability of fund to achieve Fund Objectives

Modifiers {"+" (plus)} can be used with the rating symbols for the categories 2 to 4. The modifiers reflect the comparative standing within the category.

Disclaimer: Infomerics Nepal's Fund Management Quality rating is not a comment on statutory compliance, financial performance or future performance of schemes managed by the AMC. Ratings assigned by Infomerics Nepal are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics Nepal reserves the right to change, suspend or withdraw the credit ratings at any point in time. Ratings assigned by Infomerics Nepal are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics Nepal is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.