

# FUNDCLASS

THE QUANTITATIVE RATING AGENCY FOR EUROPEAN FUNDS



## **Classification, Ranking & Rating of European mutual funds**

Paris, March 2008

[www.fundclass.com](http://www.fundclass.com)

# WHY HAVE WE CREATED FUNDCLASS ?

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## FUNDCLASS

- UCITS are a preferred investment vehicle for millions of retail investors and thousands of professional investors across Europe.
- Tracking more than 45.000 units distributed in Europe and identifying best funds is complex and require independence and time : it's a perfect candidate for outsourcing .
- Less than 15 % of funds are regularly out-performing their competitors within their peer-group. (see breakdown by rating )
- Spreads between best and worst performers within the same risk category are incredibly high.
- There are very good funds in every asset management company. However, the main issue is still to detect them across the entire product range.
- Moving from one bank to another remains difficult while picking up the best funds among the best offers is easier.
- Only few are providing services to investors and delivering demonstrable opinions.

- We are an independent company, analyzing risk and performance of mutual funds across Europe in order to select the best risk/perf. vehicles.
- Our methodology has been used for the last 8 years and has been audited twice. The company has been set-up recently in order to fulfill increasing needs on fund selection with demonstrable criteria.
- We developed a quantitative approach based on risk exposure for each European fund. This proprietary classification is the first step and the key of our ranking and rating information.
- We always adopt the investor's point of view and serve individuals, advisors and professionals.

# What are our differences ?

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- We defined our own classification based on observed risk exposure rather than on declarative statements.
- We compare performances within a peer group rather than against a declarative or computed benchmark.
- We reward regular over-performing funds rather than best mid term performers.
- Our opinions and data are bought by investors, advisors and investment professionals .
- Reports are made on requirements and prices are adapted to type of usage.
- We track more than 47.000 codes in Europe, we classify almost 15.000 funds and we rate more than 9.500 of them.



# **Methodology principles**

# 4 MAIN STEPS

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## COMPUTING THE RISK PROFILE

→ We describe the risk profile of every European fund with APT factors

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## CLASSIFYING :

➤ Legal documentation describe authorized investment type .

→ We create peer groups of funds with a similar risk profile

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## RANKING :

➤ Performance must be appreciated in light of the risk level

→ We identify best return /risk ratio compare to peer group

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## RATING :

➤ Whatever the period is, performance cannot be appreciated on a single period .

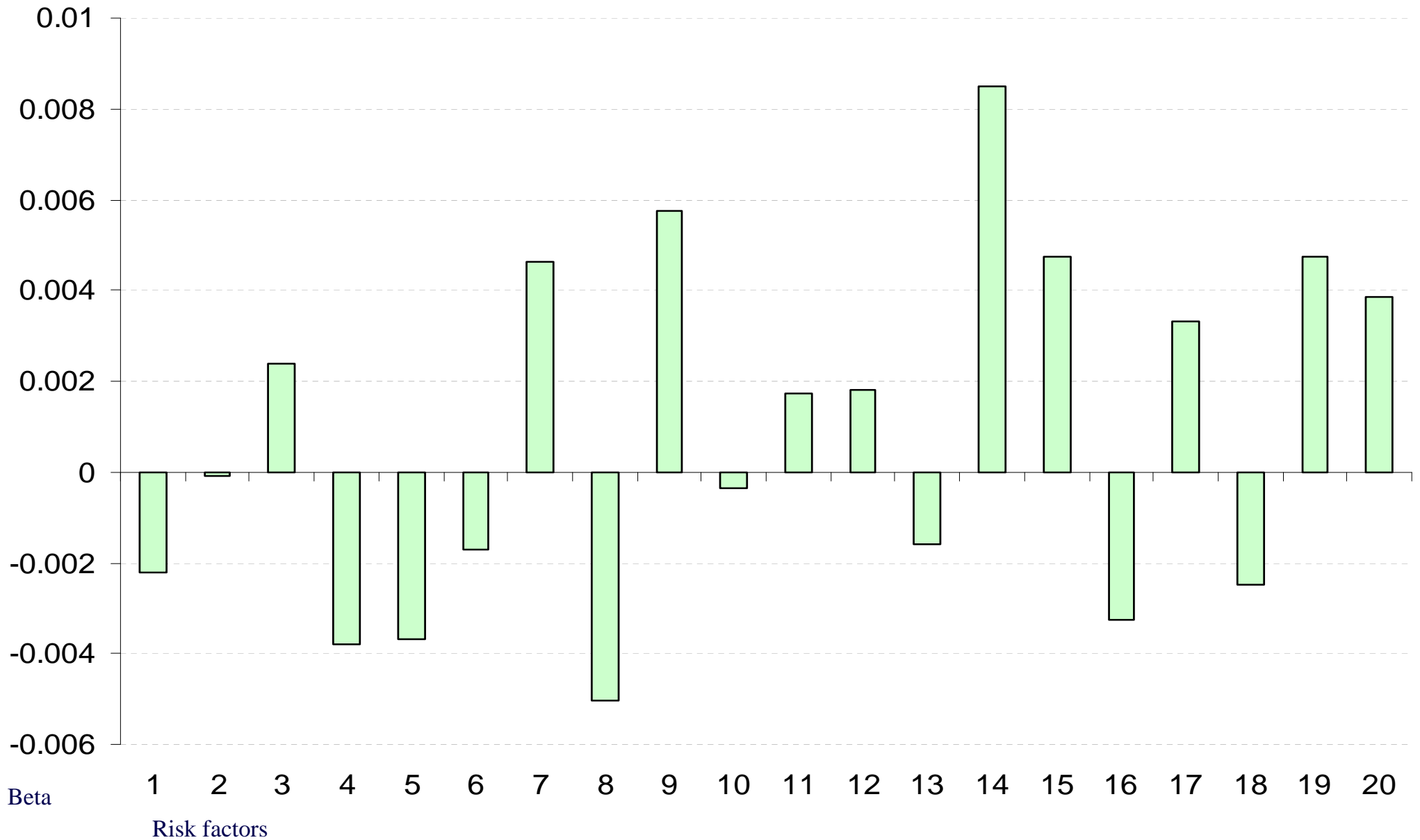
→ We identify regular best performers amid competitors over several periods.



**Step 1 :**  
**Describing fund risk profile**

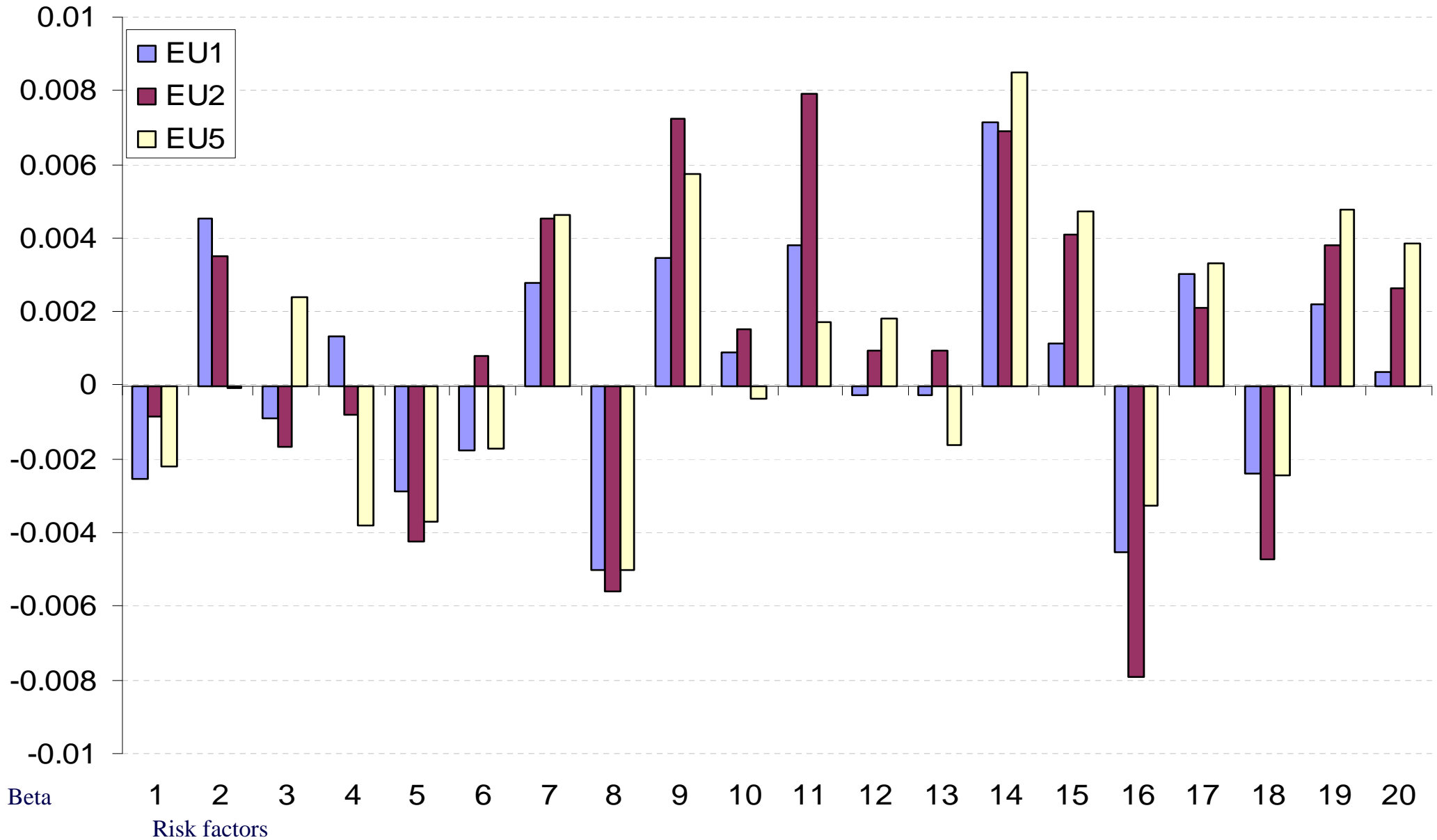
# FUND RISK PROFILE

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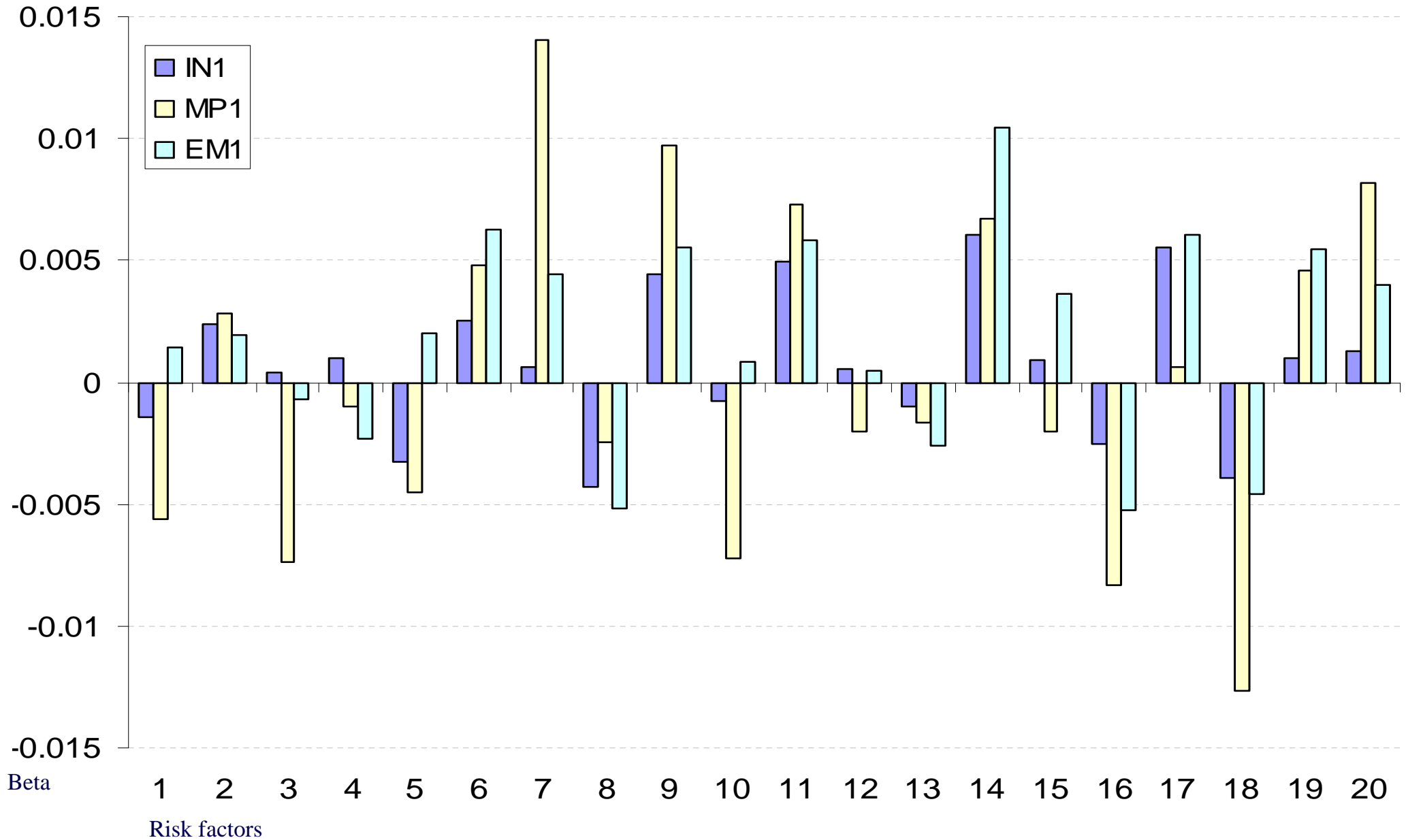
# 3 EUROPEAN FUNDS

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# 3 INTERNATIONAL FUNDS

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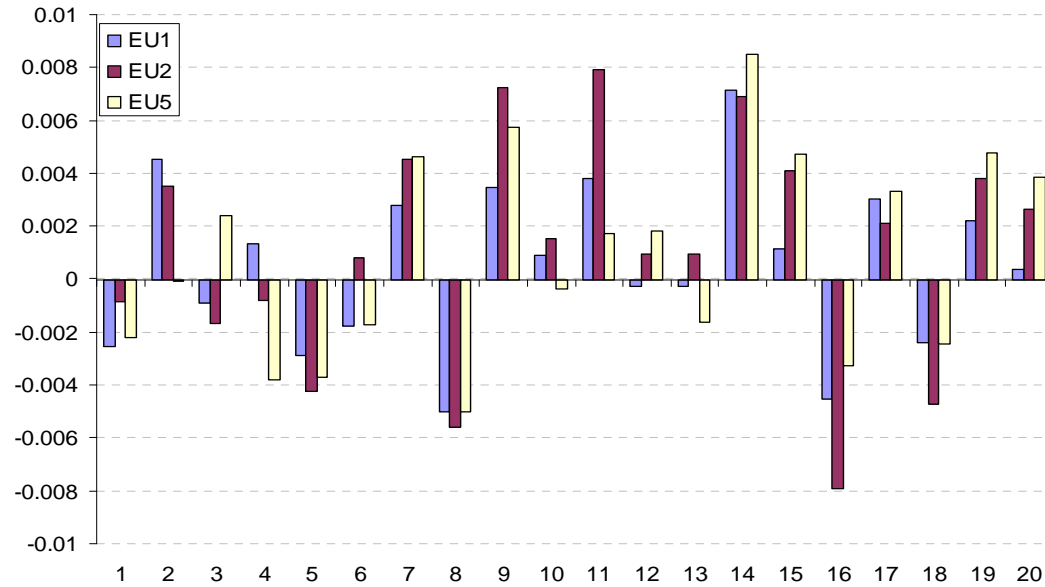




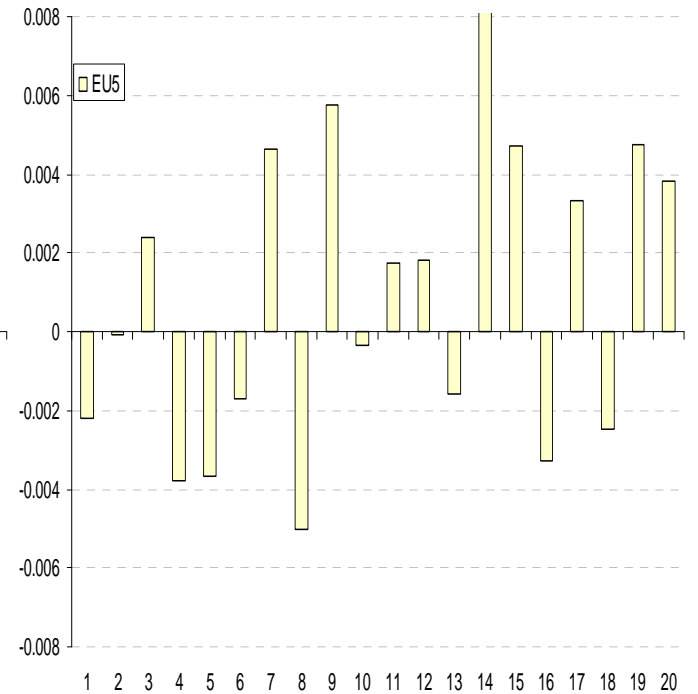
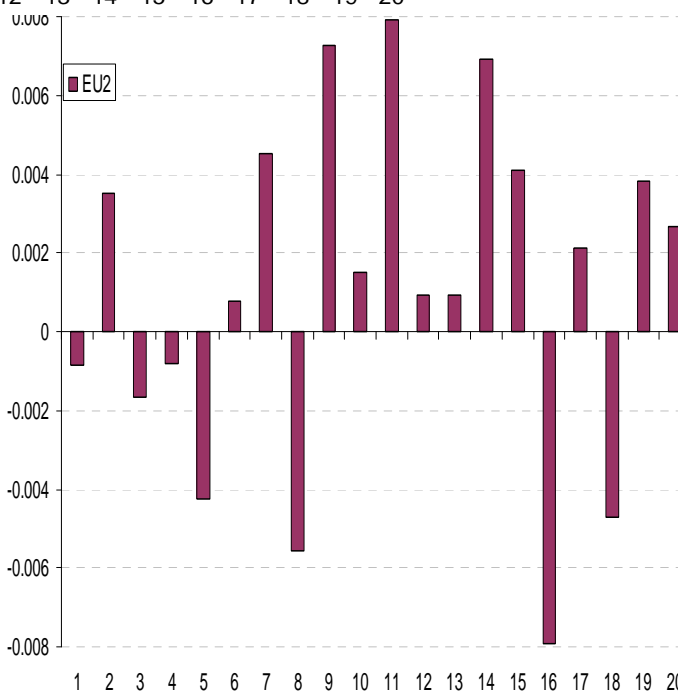
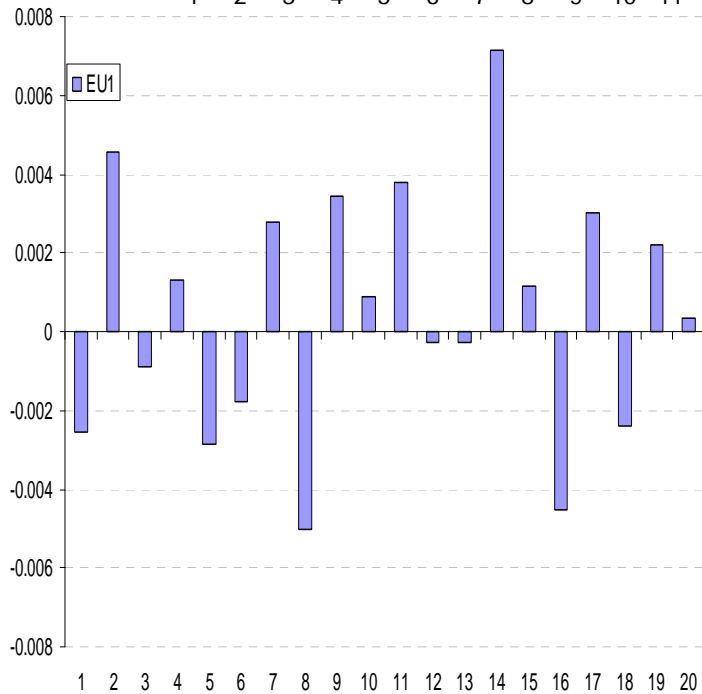
**Step 2 :**  
**Classifying i.e. creating peer groups**

# CREATE CLUSTERS

# FUNDCLASS



These 3 funds cannot be compared as their risk profile is too different :  
We create 3 categories



# EUROPEAN CLASSIFICATION

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- We track more than 47.000 units across Europe
  - Risk profiles & classifications are done 4 times per year
  - We do not classify money market, leverages, guaranteed funds
  - Risk profiles are computed on at least 2 years of daily NAV
  - Only the oldest share of a fund is classified
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- We classify almost 30.000 shares of European funds
  - managed by more than 800 European asset managers
  - Creating 

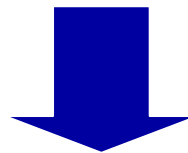
<b>134 CATEGORIES</b>
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## STEP 3 : CLASSIFYING

Ranking must take into account the risk level  
born by the investor

RISK ADJUSTED PERFORMANCE



PERFORMANCE

$\frac{\text{Beta}}{\text{Categ. Aver.}}$

= Adjusted Performance

# 25 MOST POPULATED CATEGORIES

## FUNDCLASS

FUNDCLASS			MOST IMPORTANT CATEGORIES ( Dec 2007 )			Average Risk/perf 1 year end Dec 07
	Code	Name	Number of funds	%	accum. %	
1	EU1	European Equities	1155	8.0%	8%	2.96
2	IN1	International Equities	912	6.3%	14%	0.23
3	UK1	Royaume Uni Equities	817	5.7%	20%	-5.19
4	IN17	International Balanced Agressive	557	3.9%	24%	-0.85
5	EU17	European Balanced Agressive	513	3.6%	27%	1.81
6	EU33	Europe LT Bonds	499	3.5%	31%	0.84
7	US1	US Equities	461	3.2%	34%	-4.96
8	UK17	UK Balanced Agressive	433	3.0%	37%	-4.79
9	EU16	European Balanced Dynamic	410	2.8%	40%	1.55
10	IN16	International Balanced Dynamic	410	2.8%	43%	-0.40
11	EU2	European S&meidum caps	351	2.4%	45%	-1.15
12	UK32	UK Mid-term bonds	316	2.2%	47%	-6.92
13	EU32	Euroepan Mid term bonds	295	2.0%	49%	1.65
14	JP1	Japan Equities	292	2.0%	51%	-17.89
15	IN9	International Balanced	276	1.9%	53%	-0.27
16	EU9	European Balanced	268	1.9%	55%	1.41
17	UK33	UK Long Term Bonds	244	1.7%	57%	-5.84
18	IN8	International Balnced low volatility	239	1.7%	59%	0.11
19	US31	US Short term bonds	236	1.6%	60%	-5.75
20	FE1	Far East Equities	227	1.6%	62%	22.63
21	EU34	European Long Term+ bonds	218	1.5%	63%	0.12
22	UK16	UK Balanced Dynamic	215	1.5%	65%	-4.91
23	EU31	European Short term bonds	212	1.5%	66%	2.41
24	EU8	European Balanced low voaltility	209	1.4%	68%	1.78
25	UK2	UK S& Mid caps equities	204	1.4%	69%	-14.67



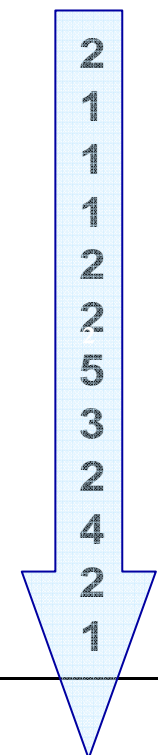
**STEP 4 :**

**RATING**

# EVALUATING WITHIN PEER GROUP

FUNDCCLASS

PERIODE			Catégorie	Nb de fonds	Classement	DECILE
déc-02	à	déc-03	Grandes actions françaises	157	17	2
mars-03	à	mars-04	Grandes actions françaises	151	2	1
mai-03	à	mai-04	Grandes actions françaises	156	1	1
août-03	à	août-04	Grandes actions françaises	166	6	1
déc-03	à	déc-04	Grandes actions françaises	165	30	2
mars-04	à	mars-05	Grandes actions françaises	183	25	2
mai-04	à	mai-05	Grandes actions françaises	182	73	5
août-04	à	août-05	Grandes actions françaises	163	38	3
déc-04	à	déc-05	Grandes actions françaises	186	29	2
mars-05	à	mars-06	Grandes actions françaises	177	61	4
mai-05	à	mai-06	Grandes actions françaises	164	28	2
août-05	à	août-06	Grandes actions françaises	151	12	1




2,16

- Rating reflects a competitive position within peer group
- Rating covers 12 periods reflecting various market conditions
- An exceptionally good or bad quarter is taken into account for 1 year

# RATING GRID

FUNDCCLASS

	<b>Decile ( Moyenne 12 class. 3 ans)</b>	<b>Rating</b>
	<b>1.00 =&gt; 2.50</b>	<b>*****</b>
	<b>2.51 =&gt; 3.50</b>	<b>****</b>
	<b>3.51 =&gt; 4.50</b>	<b>***</b>
	<b>4.51 =&gt; 5.50</b>	<b>**</b>
	<b>5.51 =&gt; 6.50</b>	<b>*</b>
	<b>6.51 =&gt; 7.50</b>	<b>-</b>
	<b>7.51 =&gt; 10.0</b>	<b>--</b>

Rating : \*\*\*\*\*

## **FIGURES : end Dec 2007 / Dec 06**

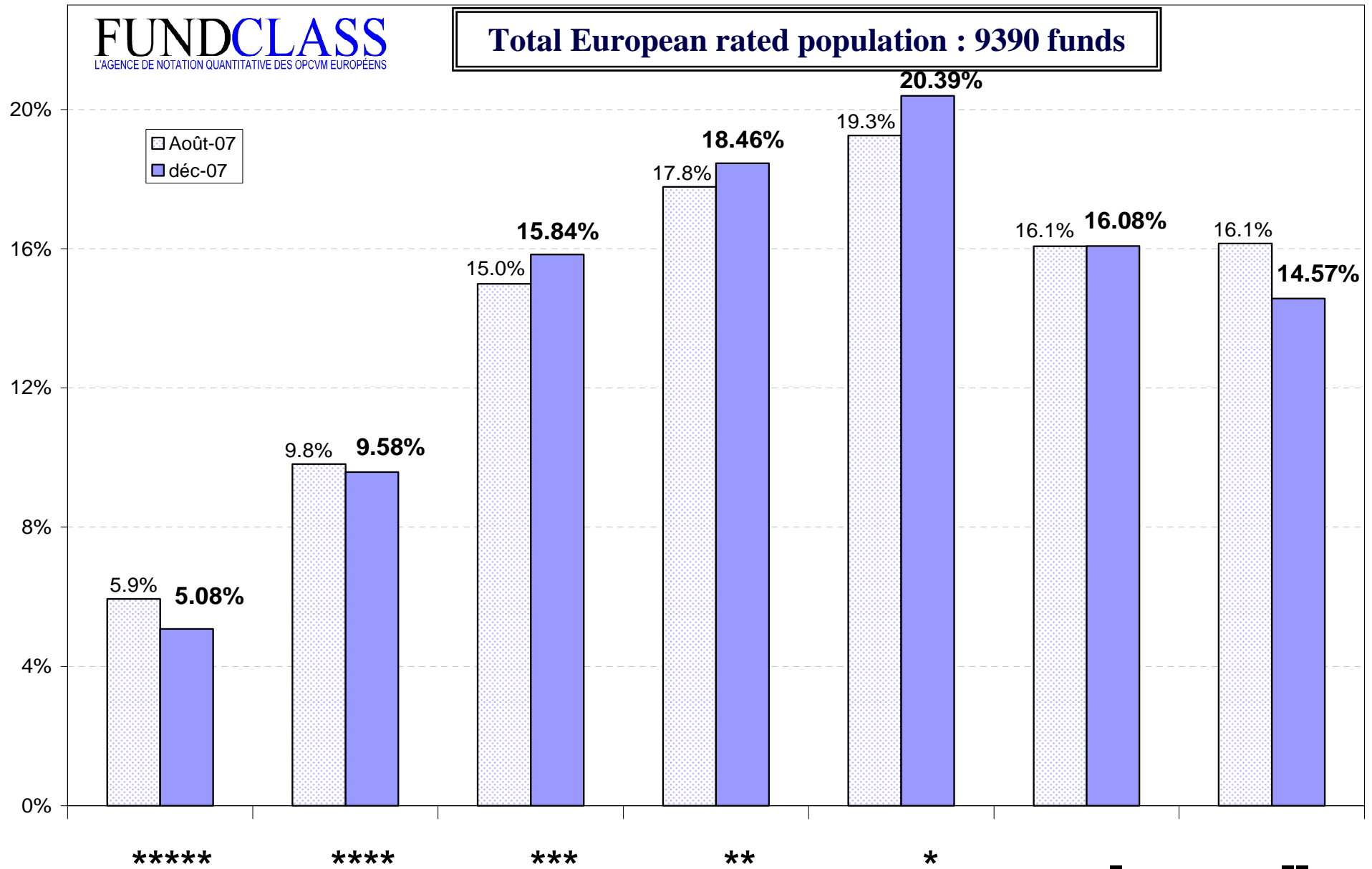
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## **FUNDCLASS**

- Number of ranked European funds : 14 517 / 14 561
- Number of rated funds : 9 390 / 8 877
  
- Number of categories : 134

# BREAK DOWN BY RATING

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**THANKS**

**Please contact us :**

**info@fundclass**

**+33 (0)1 72 33 97 78**

[www.fundclass.com](http://www.fundclass.com)