



GCR publishes Criteria for Fund Ratings and Criteria for Management Quality Ratings

Johannesburg, 17 July 2020, GCR Ratings (“GCR”) has published Criteria for Fund Ratings and Criteria for Management Quality ratings.

The criteria are available for download at www.GCRratings.com/criteria.

Criteria for Fund Ratings

The criteria titled ‘Criteria for Fund Ratings’ predominantly applies to fixed income funds, including money market funds and other funds with portfolios that invest primarily in debt and debt like securities. Fund ratings (“f”) are not credit ratings. Therefore, they do not measure the relative ability of a fund to repay principal and/or interest in a timely manner. Rather, Fund Ratings indicate an opinion regarding the fund’s ability to preserve principal value under varying market conditions that may be affected by credit risk, interest rates, liquidity, as well as other market conditions.

The ratings balance quantitative factors with qualitative assumptions and are expressed in the form of a scale ranging from ‘AAA’ (highest quality and lowest volatility) to ‘C’ (material loss of principal).

The criteria is based on the principles of the last updated criteria, ‘Global Master Criteria for Rating Funds and Asset Managers, last updated in March 2017’. The major change to the criteria is the separation of the ‘management quality’ or ‘mq’ ratings from the Fund criteria. The other major change for the Criteria for Fund Ratings is its alignment to the broader GCR ratings framework. Specifically, GCR has adopted the use of the GCR risk scores in ascertaining portfolio quality and deriving national and international scale ratings. Furthermore, in line with the framework, GCR have significantly improved the transparency of the criteria and adopted the Anchor Credit Evaluator mapping table. See the Criteria for the GCR Ratings Framework for more details on how the framework, risk scoring and Anchor Credit Evaluator works.

Criteria for Management Quality Ratings

The criteria titled ‘Criteria for Management Quality Ratings’ has been extracted from the ‘Global Master Criteria for Rating Funds and Asset Managers, last updated in March 2017’, with minimal changes. However, the management quality ratings scale and definitions were changed last year within the ‘GCR Ratings Scales, Symbols and Definitions’ article, published May 2019.

Management quality (‘mq’) ratings provide institutional investors with an independent appraisal of asset management companies. MQ ratings are not credit ratings, therefore they do not measure the relative ability of an entity to meet its financial obligations. Typically, these ratings are only conducted outside South Africa.

GCR’s asset management ratings 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. 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.

All funds and asset management companies rated by GCR have been placed "Under Criteria Observation". The ratings of all affected entities will be reviewed using the new criteria over the next six months. We are anticipating a minimal impact of the ratings.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Country Risk Scores, May 2020