Criteria for Fund Ratings

Contents

Scope of the Criteria

1. The criteria outlined in this report 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 the principal value under varying market conditions which may be affected by credit risk, interest rates, and liquidity, as well as other market conditions.

2. The fund 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). See pages 16 & 17 in the criteria titled Rating Scales, Symbols and Definitions for the Fund Rating Table, which provides more details on the definitions and symbols.

Summary of the Criteria Changes

3. 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'.

4. The major change to the criteria is the separation of the 'Management Quality' or 'MQ' ratings from the Fund criteria. Going forward, Asset Managers will be rated using either the 'Appendix to Criteria for Rating Financial Services Companies: Asset Management Issuer Credit Ratings', if they are assigned an Issuer Credit Rating (ICR) or 'Criteria for Management Quality Ratings', if they are assigned a Management Quality (MQ) rating. MQ Ratings are not credit ratings. Therefore, they do not measure the relative ability of fund to repay principal and or interest in a timely manner. However, it is possible that Asset Managers will hence forth have both a full issuer credit rating and Management Quality (MQ) rating. GCR does not need to complete an Asset Management (ICR or MQ) rating in order to conduct a fund rating.

5. The other major change for the Fund Rating Criteria 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 has 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.

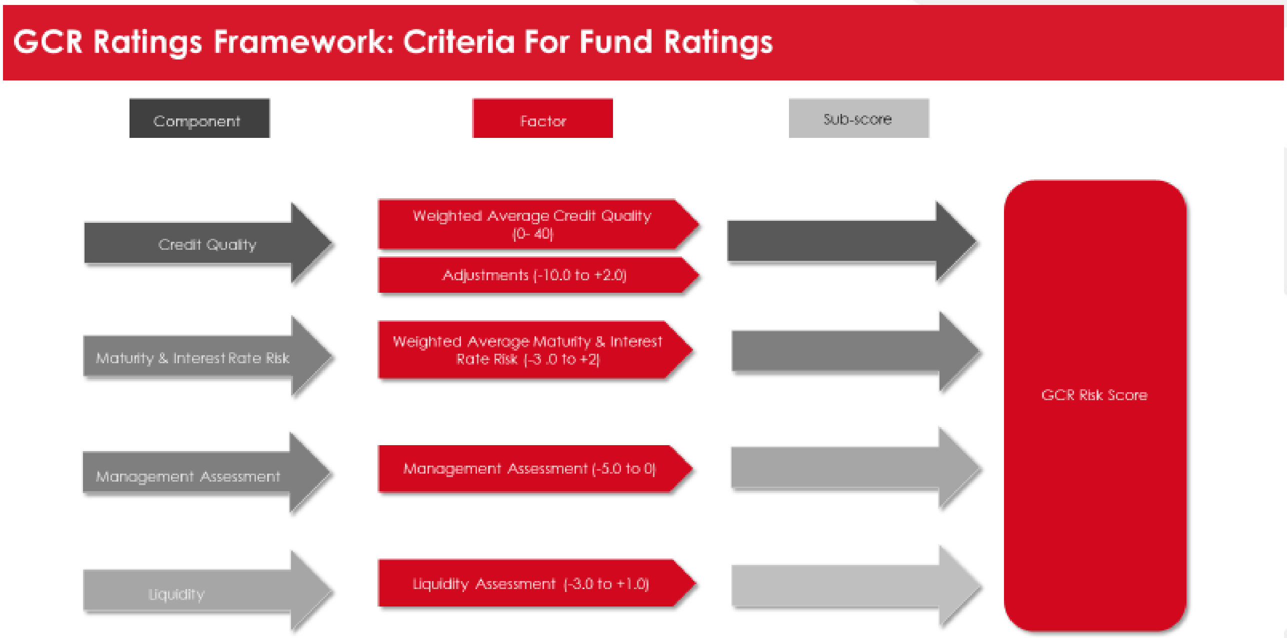
An Overview of the Fund Rating Framework

6. In order to improve the comparability and transparency of Fund Ratings, GCR has adopted criteria with publicly available scoring for the major rating components. The goal is to allow each stakeholder (issuer, investor, regulator, counterparty etc.) to know in some detail, each of the major rating drivers and ultimately what factors may change the ratings in the future.

7. To achieve this, GCR has adopted its typical four (4) major rating components (in line with the wider GCR Ratings Framework). For fund ratings, these four components are Credit Quality, Maturity & Interest Rate Risk, Management Assessment, and Liquidity. Each component, for each fund rating, will have a public positive or negative score assigned to it. The summation of the scores determines the GCR Risk Score, which is translated using the country specific column on the GCR Anchor Credit Evaluator into the final rating. It is important to note that there are no fixed weightings for the components, factors or sub-factors.

8. To understand the following criteria, GCR recommends that it is read in conjunction with the 'Criteria for the GCR Ratings Framework', and the 'GCR Rating Scales, Symbols & Definitions' report, and the Anchor Credit Evaluator, which are all published on the GCR Website and will help translate the GCR Risk Score to the international and national scale ratings.

9. The way the key rating concepts interact with each other and result in an issue(r) credit rating is best illustrated in Figure 1, below:



* There are no fixed weightings to the components or factors above.

Component 1: Credit Quality Assessment

(-5 to 40: 40 best)

10. The core of the fund rating criteria is based on our opinion of the credit risk within the fund's portfolio of investments. Credit risk refers to the possibility that an issuer of a security will be unable or unwilling to meet its obligations to pay interest and principal on time and in full. As a result, GCR established the weighted average credit quality of the portfolio, to calculate the first component score.

Component 1, Factor A: Weighted Average Credit Quality

(0 to 40: 40 best)

11. GCR undertakes an analysis of the securities within a fund, using a 12-month rolling average in order to remove volatility, to determine its 'weighted average credit quality' ("WACQ") of the portfolio. To establish the credit quality of the underlying security, GCR will typically use the GCR Ratings Framework, sector specific criteria and anchor credit evaluator in order to ascertain the GCR Risk Score on the individual issues, i.e. not just the issuer credit quality but also the characteristics of the underlying instruments. Typically, all instruments or deposits that rank pari-passu with senior unsecured will be assigned a risk score equivalent of the GCR issuer credit rating for issuing entity. For subordinated and hybrid issuances, GCR will typically notch down from the issuing entity's issuer credit rating. To see the notching of instruments from the issuer credit ratings, see the Instrument Ratings section of each rating criteria.

12. GCR may also utilize validated issuer and issue ratings (and approximate a GCR Risk Score equivalent) not issued by GCR, if they are from a licensed, regulated Credit Rating Agency.

Component 1, Factor B: Credit Quality Portfolio Adjustments

(-10 to +2: +2 best)

13. Whilst conducting the initial analysis, GCR may make adjustments on a security or portfolio basis, if it could positively or negative affect the portfolio quality. This will typically be for such elements as portfolio investment concentrations, additional counterparty risk, collateralization, complexity, currency risk or Environmental, Social and Governance factors.

14. Portfolio investment concentrations that compare negatively or positively to market averages. This concentration adjustment could be made for, amongst other things, either single name, a group of names, currency or sector (typically bank) concentrations. This is because GCR believe that concentration in any particular area increases risk relative to a well-diversified portfolio, and ultimately could translate into volatile movements in price and value. In the case where single name concentrations are high, typically when single names are over 15% of the portfolio (excluding operational cash holdings), GCR may stress the investment portfolio for a downgrade should the weighted average credit quality be on the margin of the weaker category or if the asset (issuer or issue) of concentration is on a negative outlook.

15. GCR can also make adjustments if additional counterparty risk is introduced, typically these will either be through the use of derivatives (for interest rate risk or currency risk) or repurchase agreements. For securities offered under repurchase and reverse repurchase agreements, to be conservative, the underlying maturity of the instrument is included in the Maturity Assessment (below).

16. In the case of guaranteed or collateralized exposures, GCR can make an adjustment to the underlying credit of the asset in the investment portfolio. For a guarantee, presuming it passes the elements included in the GCR Guarantee Criteria, GCR will typically take the GCR risk score equivalent of the Guarantor. If the obligation is collateralised, GCR will uplift the score on a case by case basis depending on the liquidity, realizability and quality of the collateral. Potential uplift will however, be limited to two (2) to capture the risk of collateral realization.

17. Complexity: GCR could lower the score if the portfolio is exposed to complex instruments, pay structures or other elements relative to other funds in the market.

18. Currency risk appears when a fund holds deposits or securities within its portfolio denominated in a currency different from its base currency (the currency in which investor payments are denominated). Such a currency mismatch exposes these holdings to foreign exchange rate movements resulting in potential fluctuations in value and return. GCR reviews the amount of exposure and related risk and a negative adjustment can be made if appropriate.

19. Environmental, Social and Governance ("ESG") factors. When the fund is explicitly invested in securities with strong ESG fundamentals, GCR could make a positive adjustment to the score to reflect the corresponding competitive advantages (such as investor stickiness).

20. Example of a credit quality assessment:

    - Fund 'A' has a portfolio spread across 10 entities. All of the invested instruments are pari passu to senior unsecured debts.

    - The largest two entities represent 20% of the portfolio each, they both have a GCR risk score of 20. The remaining 8 issuers equally make up the remaining 60% of the portfolio, 4 entities have a risk score of 15 and 4 have a risk score of 10.

    - The initial WACQ equals 15.5, calculated as ((20*0.4) + (15*0.3) + (10*0.3)). However, GCR has decided to make a negative 0.5 adjustment for high concentration risks.

    - The final credit quality assessment is therefore 15.

Component 2: Weighted Average Maturity & Interest Rate Risk

(-3 to +2: +2 best)

21. In the second component, GCR assesses and averages the weighted average maturity ("WAM") and the interest rate risk within the fund's investment portfolio. Fundamentally, GCR are of the opinion that as the maturity of a security (or portfolio) is extended, credit risk increases and more uncertainty is introduced as to the direction and quantum of possible future movements in interest rates. Therefore, all else being equal risk increases as tenure increases. However, both risks (more typically the latter) can be mitigated using hedging strategies. To capture these risks and the potential risk mitigations, GCR blend the average of the WAM and duration, using table 1 and 2 below.

22. GCR assesses the WAM of the investment portfolio, again using the 12-month rolling average. When assessing the maturity of the instrument, GCR will take cognizance of any put options or reset dates built into the instrument(s) that could shorten the maturity of that instrument/portfolio overall. In essence, in order to benefit from a positive adjustment for such options, the fund should have full control of the option and the investment manager would have typically established a track-record of realizing such investments.

	Table 1: Weighted Average Maturity Assessment												
Weighted Average maturity (days)	<31	≥ 31 and <61	≥ 61 and <91	≥ 91 and <121	≥ 121 to <181	≥ 181 to <271	≥ 271 to <365	≥ 365 to <545	≥ 545 to <730	≥ 730 to <1,095	≥ 1,095 to <1,460	≥ 1,460 to <1,825	≥ 1,825
Adjustments to the Portfolio Weighted Average Credit Quality	+2.5	+2.0	+1.5	+1.0	+0.5	0.0	0.0	-0.5	-1.0	-1.5	-2.0	-2.5	-3.0

23. To capture interest rate risks, GCR measures duration, i.e. the sensitivity of a fixed income security's market price to changes in interest rates. Duration is calculated based on an instrument's original and remaining term to maturity, coupon and other contractual terms. This aspect of portfolio risk is addressed by reviewing the specific characteristics of each of the securities in a fund's portfolio, in order to ascertain the aggregate portfolio sensitivity to interest rate changes. However, GCR will take cognizance of any risk mitigation taken by the fund managers, such as derivatives.

	Table 2: Portfolio Duration (post hedging)												
Weighted Average maturity (days)	<31	≥ 31 and <61	≥ 61 and <91	≥ 91 and <121	≥ 121 to <181	≥ 181 to <271	≥ 271 to <365	≥ 365 to <545	≥ 545 to <730	≥ 730 to <1,095	≥ 1,095 to <1,460	≥ 1,460 to <1,825	≥ 1,825
Adjustments to the Portfolio Weighted Average Credit Quality	+1.0	+1.0	+1.0	+0.75	+0.5	0.0	0.0	-0.5	-1.0	-1.5	-2.0	-2.5	-3.0

24. To finalize the assessment, GCR will typically average the scores derived by table 1 and 2 above. For example, if the weighted average maturity is 400 days (-0.5) but the duration is 125 days (+0.5), the total score would be neutral (0). GCR may make a final adjustment for greater or weaker diversification or concentration, either by counterparty or maturity buckets.

Component 3: Management Assessment

(-5 to 0: 0 best)

25. GCR's assessment of a fund's management focuses on whether the management is effective in maintaining an investment policy which is consistent with the fund's stated objectives and expectations of its investors. GCR also check that the fund manager complies with all applicable regulations and have adequate governance structures in place. In line with the broader 'GCR Management & Governance Criteria', the Fund Management Assessment will only be used to make a neutral or negative adjustment to the GCR Risk Score.

26. **Investment Manager Risk Management, Controls and Compliance:** GCR undertake an analysis of the risk management practices, control environment and governance structures (in line with Management & Governance criteria mentioned above) of the Asset/ Investment Manager. In doing so, GCR aim to establish any weak links that could bring additional volatility to the fund.

27. **Regulatory Compliance:** GCR will review the regulatory compliance track-record and management of regulatory risk. Any historic infraction(s) may lead to a negative score. Furthermore, regarding the regulatory environment, GCR will undertake a comprehensive analysis of the laws and regulations impacting the asset manager's operations. Through direct contact with the relevant regulatory bodies and constant monitoring of new developments, GCR will aim to keep abreast of key issues in regulatory oversight, and compares an asset manager's risk compliance to the relevant requirements of the environment in which it operates.

28. **Investment philosophy and mandate:** An analysis is conducted of an asset manager's investment philosophy and mandate, to provide a view regarding potential changes in the investment portfolio. GCR looks to determine the level of consistency with which the investment policy has been applied and the flexibility of the mandate. Significant flexibility could demonstrate a tolerance for higher credit, maturity, interest or other risk(s) than are currently demonstrated within the fund, and therefore attract a negative adjustment.

29. **Fund performance:** Whilst GCR does not make adjustments for weaker or stronger relative fund performance, there could be a negative impact if GCR believe the fund materially underperforms peer returns or relative benchmarks as it could lead to significant withdrawals, or demonstrate weaker management/higher risk appetite. GCR could also make an additional negative adjustment if volatility is increased by additional trading or asset movements.

30. **Track-record & Franchise Strength:** Broadly, GCR looks at the franchise strength and client reach of the asset/investment manager, including client concentrations. Smaller, unestablished asset managers, maybe exposed to higher levels of client led volatility. Whereas, larger asset managers have the advantages of scale, which may provide pricing and liquidity advantages. An in-depth review of management team's characteristics with regard to experience, independence, style, approach and relationships within management teams is also undertaken.

Component 4: Liquidity Assessment

(-3 to 1: 1 best)

31. The liquidity requirements and demands of a fund are often established by the type of fund and investor expectations of that fund. For example, providing investors with timely liquidity is a core money market fund objective. Whereas, investors in longer term fixed income funds will typically not have the same liquidity requirements, preferring instead for higher returns. As a result, when analyzing money market funds, we provide no uplift for good liquidity, because liquidity is core to the mandate of such funds. For longer-term funds, we may provide up to one risk score (+1), if we believe that the asset liquidity is superior to funds of its type within a market, in such a way that could preserve value relative to peers in a stressed environment.

32. GCR may choose to make negative adjustments for weak liquidity management, of down to minus three (-3), on all types of funds. This is because failure to meet the investors redemption requirements could irreparably damage client relationships, lead to negative press and exacerbate further withdrawals, even if gate provisions exist. As a result, funds could be forced into selling assets at a stressed price or accessing external liquidity support, if the suitable liquid assets are not available to meet the investor(s) redemption needs. This could have a material impact on the net asset value of the fund, lead to a reduction in the credit quality or create relative underperformance of the fund.

33. GCR start its liquidity analysis by reviewing the liquidity policies and appetites of the fund manager. Specifically, we take a view on whether the liquidity of the investment portfolio (in the form on operational cash, other liquid instruments and other sources), appropriately covers the funds anticipated and behavioral redemption history, its mandate and investor concentrations. GCR will also examine the robustness of the liquidity plans of the fund managers, in case of a stress event.

34. GCR will typically allow a one-year grace period for new funds to remove significant investor concentrations, providing they have other elements of liquidity support to mitigate the risk over that horizon.

35. Over-reliance on the use of reverse-repurchase agreements (the fund receives cash in exchange for selling its securities to the repo counterparty) for liquidity. This reflects concerns regarding the closure of such markets in a stress event.

36. Overexposure to illiquid assets increases the risk of a portfolio, and can be particularly problematic in funds where investor withdrawals are large and unpredictable. Illiquid instruments, which can change depending on the market, that account for over 20% of the overall investment portfolio, would typically bring about a negative adjustment.

37. GCR may mitigate any of the above risks with elements of committed, group or other liquidity support on an ad-hoc basis. Typically, GCR will not include uncommitted facilities.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S GLOSSARY

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Borrower	The party indebted or the person making repayments for its borrowings.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Business Cycle	Regular fluctuations in overall activity in an economy over time. The cycle has four distinct elements: recession, recovery, peak and slowdown.
Call Option	A security that gives the holder or buyer the right but not the obligation to buy an underlying instrument at an agreed price (the strike price) within a specified time. The seller or writer has the obligation to sell the underlying instrument if the holder exercises the option.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Collateral	Asset provided to a creditor as security for a loan or performance.
Commodity	Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Conglomerate	A company made up of subsidiaries that operate in several business sectors that are unrelated to each other.
Contingent Liabilities	Liabilities not recorded in an entity's financial reports, but which might become due.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating Agency	An entity that provides credit rating services.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Creditor	A credit provider that is owed debt obligations by a debtor.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.

Default Risk	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exchange Rate	The value of one country's currency expressed in terms of another.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Forecast	A calculation or estimate of future financial events.
Fundamental Analysis	A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors.
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Guarantor	A party that gives the guarantee.
Index	An assessment of the property value, with the value being compared to similar properties in the area.
Insolvency	When an entity's liabilities exceed its assets.
Insurance	Provides protection against a possible eventuality.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Intermediary	A third party in the sale and administration of insurance products.
International Scale Rating.	An opinion of creditworthiness relative to a global pool of issuers and issues.
Irrevocable	Not able to be changed, reversed, recovered and final.
Issue Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Joint Venture	A project or other business activity in which two persons or companies partner together to conduct the project.
Layer	A horizontal segment of the liability insured, e.g., the second R100,000 of a R500,000 liability is the first layer if the cedent retains R100,000 but a higher layer if it retains a lesser amount.
LC	An LC is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot to meet its obligations.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.

Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Long-Term	Not current; ordinarily more than one year.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
Moratorium	A period of time in which an activity is suspended until such time as a change in circumstances permits its removal. For example, a borrower can declare a moratorium on the repayments of the principal, and sometimes the interest, on a loan.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Notching	A movement in ratings.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Parent Company	The senior company in a group or fleet of insurers.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Political Risk	The risk associated with investing and operating in a country where political changes may have a negative impact on earnings or returns.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Ranking	A priority applied to obligations in order of seniority.
Real Estate	Property that consists of land and / or buildings.
Refinance	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Reserves	A portion of funds allocated for an eventuality.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.

Short Term	Current; ordinarily less than one year.
Sovereign Debt	A bond issued by a government or a government-backed agency.
Sovereign Risk	The risk of default by the government of a country on its obligations.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whist reducing risk.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
Taxation	A source of government revenue levied on income and accruals.
Total Risk	Both systematic and unsystematic risks.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Unconditional	Not subject to any conditions.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.

sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.