Criteria for Fund Ratings

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Scope of the Criteria

1. The '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 about the fund's ability to preserve principal value under varying market conditions affected by credit risk, interest rates, liquidity, and other market conditions.

2. 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). 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

The criteria have been updated to include elements of Sustainability. For an overview on our thoughts regarding how ESG has been applied throughout the GCR Ratings Framework see the article titled 'How GCR Integrates Environmental, Social and Governance (ESG) into Issue(r) Credit Ratings'.

An Overview of the Fund Rating Framework

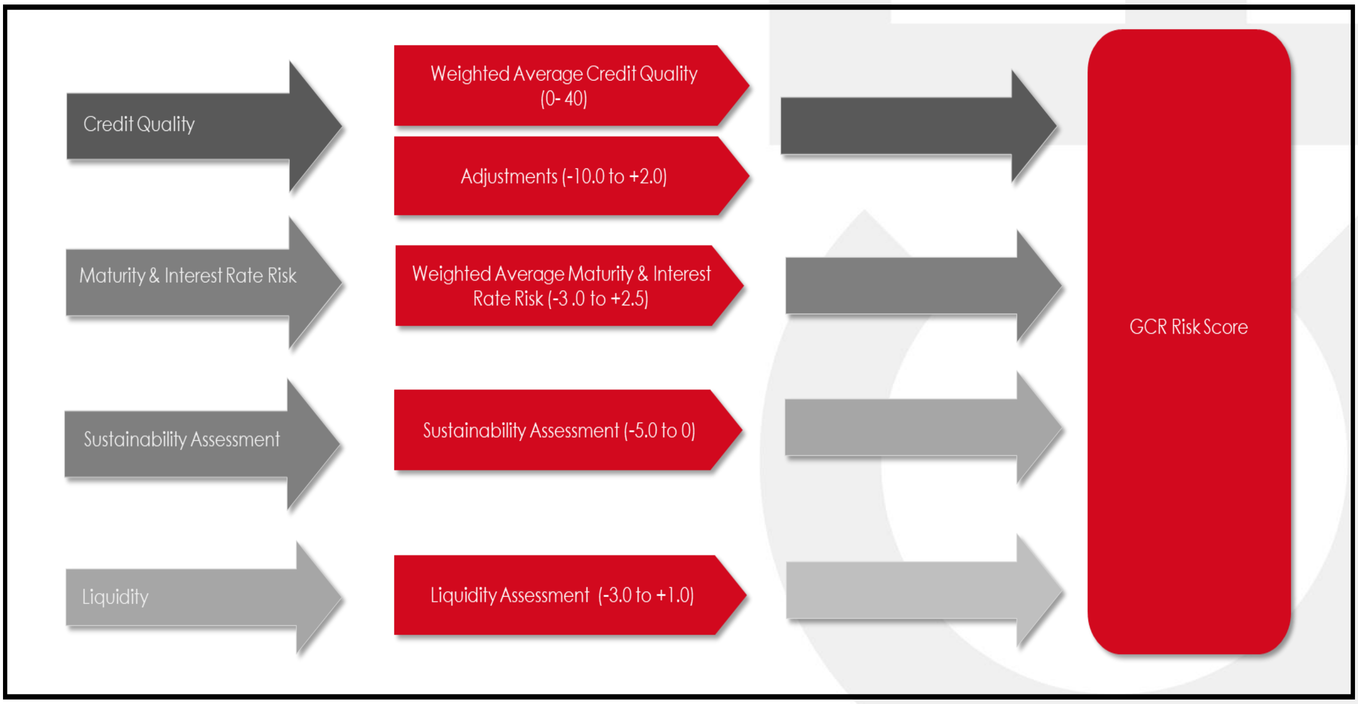
3. To improve the comparability and transparency of Fund Ratings, GCR has adopted criteria with publicly available scoring for the major rating components. The goal is to allow each stakeholder (issuer, investor, regulator, counterparty etc.) to know in some detail each of the major rating drivers and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

4. 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.

5. 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.

6. The accumulation of the component scores will generate the GCR Risk Score. Typically, this score will range between zero (0: weakest) and forty (40: strongest). The lower the score, the weaker the assessment. Importantly, GCR can use decimal scoring (example 0,25, 0,50 or 0,75) to improve differentiation and rating relativities.

7. 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

8. 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 establish the first component score.

Component 1, Factor A: Weighted Average Credit Quality

9. GCR undertakes an analysis of the securities within a fund, typically being guided by an average position to remove volatility, when determining the 'weighted average credit quality' (WAQR) 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 (available online at GCR Ratings) 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 the 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.

10. 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

11. Whilst conducting the initial analysis, GCR may adjust on a security or portfolio basis due to any of the below subfactors:

12. 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 believes that concentration in any area increases risk relative to a well-diversified portfolio, and ultimately could translate into volatile movements in price and value.

13. In the case where single name concentrations are high in comparison to the domestic sector average, or when single names are over 20% of the portfolio in the case where peers are not available, (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.

14. 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 mandate's flexibility. 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 in the relevant section.

15. GCR can also adjust if an 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 collateralised 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 to be found in the criteria titled 'Criteria for the GCR Ratings Framework', GCR will typically take the GCR risk score equivalent of the Guarantor. If the obligation is collateralized, GCR will uplift the score on a case-by-case basis depending on the liquidity, realisability and

quality of the collateral. Potential uplift will be limited to two (2), however, to capture the risk of collateral realisation.

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

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. The amount of exposure and related risk is reviewed by GCR, and a negative adjustment can be made.

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

Component 2: Weighted Average Maturity & Interest Rate Risk

19. 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 tenor increases. However, both risks (more typically the latter) can be mitigated using hedging strategies. To capture these risks and the potential risk mitigations, GCR blends the average of the WAM and duration, using table 1 and 2 below.

20. GCR assesses the weighted average maturity ('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, to benefit from a positive adjustment for such options, the fund should have full control of the option and the investment manager would typically have established a track-record of realizing such investments.

	Table 1: Weighted Average Maturity Assessment												
Weighted Average maturity (days)	<31	≥ 31 to <61	≥ 61 To <91	≥ 91 to <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

21. 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, 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 to <61	≥ 61 to <91	≥ 91 to <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

22. GCR will then typically take an 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.

23. 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 mandate's flexibility. 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 in the relevant factor.

Component 3: Sustainability Assessment

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

25. **Risk Management**: We start by examining for a weak risk culture, poor internal controls, or inaccurate risk management/measurement. Strong risk management ensures there are policies for identifying, measuring, managing, and communicating financial and ESG risks on a forward-looking basis. Subsequently, monitoring the implementation of such policies and the quality of reporting underlines the success of the risk/ESG management framework. Creating a strong risk and ESG aware and adherent culture is important, but it is ultimately difficult to measure. Conversely, viewing the comprehensiveness of

enterprise-wide risk and environmental/social management standards, including how well these standards are understood and adhered to in the company, and understanding internal tolerances against the identified risk appetite of the company in question can be a good guide to how the company manages and measures its risk. The entity should comply with the local and international applicable laws and regulations. Any fines/regulatory actions/adverse media coverage in this regard could be seen negatively.

26. **Cybersecurity**: We examine how comprehensive the awareness and management of Cybersecurity risks are. This includes how robust the security measures are, including firewalls, encryption and intrusion detection systems and how regular the vulnerability assessments/ security audit and penetrating testing is undertaken. Part of the process will also be examining Board & management knowledge and reporting, as well as how an entity ensures employee training and awareness. Adhering to relevant cybersecurity regulations and industry standards are also important consideration.

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 compare an asset manager's risk compliance to the relevant requirements of the environment in which it operates.

28. **Fund performance:** Whilst GCR do not adjust 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.

29. **Track-record & Franchise Strength:** Broadly, GCR look at the franchise strength and client reach of the asset / investment manager, including client concentrations. Smaller, unestablished asset managers may be 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 the management team's characteristics regarding experience, independence, style, approach, and relationships within management teams is also undertaken.

30. **Transparency, disclosure, and audit**: GCR believes the consistency, reliability, and quality of financial and ESG disclosures by the entity to be an important guide of sustainability. Generally, GCR takes comfort from companies who are transparent and willing to provide information to investors and agencies, including GCR itself. Conversely, those which don't monitor or report, hide or delay information, whether through poor management information systems or a lack of willingness to share information are generally viewed negatively. Regarding ESG, we will view the sufficiency of disclosure, reporting and monitoring

against the business lines, risks, and complexity and operations of the businesses. Failure to monitor or report ESG risks would be viewed negatively.

31. **Management and Corporate behaviour**: GCR places great emphasis on the quality of senior management when assessing rated entities. We believe that the expertise and experience of executives and the board are key factors in ensuring that the entity can effectively manage the risks it faces, including those related to environmental and social issues. In addition to technical skills, GCR examines how management engages with stakeholders and treats its employees and staff turnover rates. We also analyse the entity's approach to product safety and testing, and its relationships within the community. ESG-related considerations are an important aspect of our analysis, and we seek evidence of ESG risk-related objectives and limits, as well as engagement with counterparties and clients. We assess the need and demand for sustainable products and services in the market and the entity's ability to meet those needs. Legal, reputational, and operational risks are also closely scrutinized in our analysis. We evaluate how the company measures and monitors potential risks and examine its risk management practices ensuring they are effective in identifying and mitigating these risks.

32. Operational risk: The risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems from external events. Within this section we will also look at legal or reputational risks and exotic products, the management of risks around Treating Customers Carefully, including miss-selling, protecting information, and any other activities that undermine customer trust/ reputation. Technological issues and cyber security management will also be assessed.

Component 4: Liquidity Assessment

33. A fund's liquidity requirements and demands are often established by its type of fund and investor expectations. 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 analysing 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.

34. GCR may choose to make negative adjustments for weak liquidity management, 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.

35. GCR starts its liquidity analysis by reviewing the types of instruments within the fund's portfolio, systematically applying haircuts according to the local market conditions for instruments of relatively weaker liquidity. Then we examine the behavioural (at month and quarter end during high redemption periods) and stressed redemption history of the fund. Using this information, we will ascertain and rank the liquidity headroom of the respective fund against peers.

36. Other considerations would include an investigation into the liquidity policies and appetites of the fund manager, 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.

37. 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.

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

39. 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.

40. 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.