

Crisil Fund Management Grading: methodology

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Executive summary

Crisil Fund Management Grading is a fund-level grading to assess the quality of investment processes and management practices. 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.

Scope

This document provides an overview of the criteria and processes used to assign Crisil Fund Management Grading. The document articulates Crisil’s grading scale and methodology — qualitative and quantitative factors used for such analysis.

Scoring model

The schemes are assigned on a five-point scale, ranging from Crisil Fund Management Grading-1 to Crisil Fund Management Grading-5.

Grading level	Definition
Fund Management Grading – 1	The scheme follows very strong standards in investment processes and management practices
Fund Management Grading – 2	The scheme follows strong standards in investment processes and management practices
Fund Management Grading – 3	The scheme follows adequate standards in investment processes and management practices
Fund Management Grading – 4	The scheme follows below average standards in investment processes and management practices
Fund Management Grading – 5	The scheme follows weak standards in investment processes and management practices

Grading methodology

Crisil's assessment of the fund being graded covers two broad parameters:

1. Fund management assessment

2. Performance assessment

A detailed evaluation of both the parameters is delineated below:

Fund management assessment

The ability of the fund to meet its investment objective consistently over a long period is critically dependent on the quality of the fund management, investment strategies and processes being followed. Crisil's Fund Management Grading looks at the following qualitative parameters.

Organisation structure

Crisil examines the ownership pattern and structure of the investment vehicle under which the fund has been housed. It assesses the profile of the sponsors and other joint venture partners/ shareholders and the fit with their long-term business plans. Crisil also examines the profile of the board of directors/ trustees and the quality and competence of the senior management team.

Investment team

Crisil assesses the composition of the fund's investment team and their qualification and past relevant fund management experience. It also examines their experience of managing funds through various market and economic cycles. Moreover, Crisil assesses the stability of the investment team to evaluate their ability to generate stable performance over a long-time horizon. The evaluation includes the assessment of the quality of support functions such as research and operations.

Investment decision-making process and discipline

Crisil's aim is to assess the philosophy of the investment team, the decision-making process and discipline, and its consistency with the stated investment objective of the fund. This is critical to achieve targeted performance over time in a consistent manner. Crisil gauges the consistency of the process through evaluation of the policy documents, including investment, valuation risk management, and compliance policies. It also analyses the quality and effectiveness of the investment decision-making process. As part of the process, Crisil assesses the role played by the Chief Investment Officer in the entire decision-making process. It also evaluates the practices and procedures followed to manage various types of inherent risks, and reviews audit reports to gauge the actual implementation of the policies, monitoring lapses in implementation, and the feedback mechanism.

Client communication, transparency, and disclosure

Client servicing forms the starting point of service standard perceptions for most investors. Crisil 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. Crisil also evaluates the client support function and its effectiveness in handling customers and resolving their queries.

In addition to the above, Crisil analyses parameters such as past instances of any severe regulatory indictment, and imposition of penalties.

Performance assessment

Crisil 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.

CRSIL 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.

Validity

Crisil Fund Management Grading is a one-time exercise and is based on the information provided by the client at the time of carrying out this exercise. The grading may be used by the asset manager for 1 year from the date it was assigned.

The grading stands automatically withdrawn upon completion of 1 year from the date it was assigned. It can be withdrawn through a written request to Crisil, which will place the grading on 'Notice of Withdrawal' for three months or until the end of 12 months from the date it was assigned. Subsequent to completion of the notice period, Crisil will withdraw the grading.

Conclusion

Crisil Fund Management Grading helps differentiate the graded fund from its peers by highlighting inherent strengths and improving the positioning and reach of the fund with a wider investor base. It also enhances credibility through an independent, unbiased, and reliable opinion. Moreover, it helps investors take a well-informed and stable decision that exceeds reliance on past performance alone.

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