

**vwd:**



# **Analysis and evaluation of investment funds**

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# vwd:

## Analysis and evaluation of investment funds

Funds is one of the core competences of vwd. We are the leading company in The Netherlands and Belgium in collecting, enriching, analysing, creation, storing, distributing and publishing investment fund information.

**To analyse and value the investment funds, vwd created a fund rating, the vwd diamond rating with the following key characteristics:**

**History** • All funds in the vwd fund universe with a quote history of five years are possible candidates for receiving a rating.

**Peer group** • The peer group for each fund's rating is its category, which is accorded following the rules of the European Fund Classification Forum.

The rating is based on five criteria:

- **Consistency** (one year performance over the previous five years)
- **Performance** (five year overall performance)
- **Risk** (five year volatility)
- **Alpha** (monthly performance versus peer group over previous five years)
- **Capital Preservation** (monthly underperformance towards riskfree rate over previous five years)

The calculation is done on the basis of end-of-month data

### DATA UNIVERSE

All funds within the vwd fund universe with a quote history of 5 years are possible candidates for receiving a rating. Today the universe consists of funds registered in the German, Austrian and Switzerland markets as well as BeNeLux.

### CATEGORIES

The usefulness of a rating depends, in part, on which funds are compared to one another. The relative ratings of two funds should be affected more by manager skill than by market circumstances or events that lie beyond the fund managers' control. Therefore only funds that belong to an identical peer group can be compared.

Consequently, the classification is an important aspect of the fund rating. It should reflect the investment opportunities for investors. They also should be consistent and understood by everybody. At the same time, the classification will have to develop continuously in order to ensure it remains relevant. The market for funds is not static.

Investment tastes change, often in response to market developments, and such changes need to be reflected within the classification system.

That's why the rating follows the classification of the European Fund Classification Forum (EFCF), a working group of the European Fund and Asset

Management Association (EFAMA). Their specific goal was to search for a classification system capable of grouping together similar funds for comparison purposes. The growth of cross-border fund distribution heightens the need for a true pan-European classification system to provide consistent peer group analysis across European markets. EFCF came up with well-defined fund categories, subjected to robust criteria, on a mutually agreed basis.

### RATING CRITERIA

The rating is purely quantitative, there is no subjective component. It is a descriptive, backward-looking measure of historical performance.

Some funds will not be rated for the following reasons:

- the fund is less than five years old
- the category is not meaningful or homogeneous enough for comparison
- purposes – e.g. guaranteed structured products
- each category must have a minimum of ten funds for it to be rated.

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The rating is based on five criteria, which each have an equal weight in the final rating. They are:

1. Consistency (20%)
2. Performance (20%)
3. Volatility (20%)
4. Alpha (20%)
5. Capital Preservation (20%)

### Consistency

Consistency is a measure that tracks the nature of a fund's overall return. It is used to address whether the returns were achieved steadily over time, or whether the fund had an abnormal gain over a short period that has skewed performance up. Within each investment category, the yearly performance of the fund is compared to the other funds in that category during each of the five previous years. For each of these five years, the funds are ranked on their 1-year return. The consistency score is based on the average of these five rankings.

### Performance

Performance is a measure that tracks the overall return of the fund. Each fund is ranked within its category on the basis of its five-year return.

### Volatility

Volatility is a measure of the degree to which the fund's periodic returns vary either side of its mean return. The larger the fluctuation, the more risky the fund is. This measure is used to see how much risk investors take when entering a fund.

### Alpha

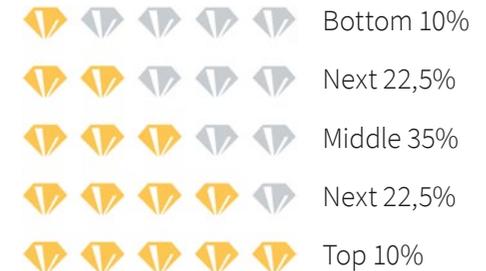
Alpha is a measure of the fund's returns against its benchmark. This measure is used to see if the fund can provide superior excess returns to that of the benchmark, hence a key input in evaluating whether the fund has outperformed.

### Capital Preservation

Capital Preservation refers to absolute losses at periods when the fund underperforms a risk-free guaranteed investment. The rationale: you can always get a guaranteed return by investing in a risk-free guaranteed investment like a bank term-deposit. The risk of investing in a mutual fund not only includes the possibility of losing money, but also the chance of earning less than you would have on a guaranteed investment. Monthly fund returns are compared against the monthly risk-free return. Risk-free return is defined as the one month Euribor. For all months the fund has underperformed the risk-free return, the magnitude of underperformance is added.

## SCORE CALCULATION

Within each category, the best and worst raw scoring fund for each of the above described measure is assigned a value of 100 and 0 respectively, and all intervening raw scores for that constituent are proportionately rescaled into this range. The rescaled scores for each fund's 5 constituents are then averaged to form an overall score which is given along the following distribution:



The rating will be calculated on the basis of end-of-month data.