

Module Funds

Ratings on mutual funds and hedge funds, worldwide



Overview

The module Funds has been designed to evaluate the solvency of mutual funds and hedge funds. For a proper evaluation of these types of investment, information on asset and country allocation or the hedge fund strategy, as the case may be, is particularly important.

The rating algorithm is based on a scorecard approach

where quantitative and qualitative factors are combined using appropriate weightings. Some of the quantitative factors are determined using a portfolio model. This results in a rating grade that corresponds to the one-year probability of default (PD).

The module Funds has been in use since 2009.

Scope

The scope of the module Funds covers mutual funds and hedge funds worldwide.

Eligible mutual funds are equity, bond, money market, commodities and mixed funds, whether actively or passively managed.

Hedge funds are essentially characterized by their underlying fund strategies. To reflect this, different strategies can be specified and combined in the module.

Funds restricted to institutional investors are also covered by the module provided that their basic structure and asset range are essentially similar to those of mutual funds.

Limitations

The module Funds is not applicable to other types of funds, for example real estate funds, ship funds, private equity funds, ABS funds, and structured product funds.

Rating Process



Quantitative and Qualitative Factors

The combination of appropriately weighted quantitative and qualitative factors results in the statistical stand alone rating. Some of the quantitative factors are determined using a portfolio model.

Overrides and Warning Signals

If, at the previous stages, exceptional risk-relevant circumstances have not been sufficiently taken into account, an adjustment of the rating may be necessary. For this purpose the system provides an override option and the possibility to release warning signals: from a standardized list the analyst can select criteria which may lead to a rating upgrade or downgrade.

Transfer Risk

Furthermore, the additional risk of currency transfer restrictions in the home country of the custodian bank or the prime broker is taken into account in the risk assessment.

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