

RATING CRITERIA FOR ASSET MANAGEMENT COMPANY

WASO Credit Rating Company (BD) Limited set forth assessment criteria to identify risk underlying to Asset management companies by (date) and tries to measure asset management companies by concentrating qualitative aspects of risk management capability of management rather than pure credit rating. WASO Credit Rating Company (BD) Limited (hereafter referred as WCRCL) analyze asset manager's quality by taking into account qualitative factors, which includes-

1. Corporate profile
2. Financial condition
3. Portfolio management Activity
4. Market position
5. Risk Management, controls and system

Corporate Profile

WCRCL pledges its review of an asset manager's corporate profile by paying attention on organizational structure, which covers ownership, governance and control structures, and its human resources and staffing requirements/resources. An in-depth understanding undertaken on organizational structure based on identification and assessment of the quality of the reporting structure, and the efficiency of the various organizational functions and responsibilities. It is also a study of the relationships that exist within the firm, with its service providers, clients and with any affiliated entities including parent companies and/or shareholders. This analysis is a critical component in the overall process of assigning asset management quality ratings.

Ownership Structure and Support

WCRCL tries to define organization on the note, whether an asset manager operates as a separate business unit within its corporate structure, whether it is a subsidiary, affiliated company, or a joint venture. It is important to determine if the relationship with its parent or shareholders enhances (or places undue pressure on) the manager's operations. If a firm or its parent is publicly listed, this could influence the extent of information available in the public domain, the ability to raise additional capital for planned or unforeseen demands, and its exposure to certain event risks (including the probability of mergers or takeovers). A recent or upcoming change in corporate ownership can have a major impact on an asset manager's investment philosophy, business culture and overall operating environment. The relationship between the parent company and asset manager can also have a direct impact on the outcome of the rating. A strong parent operating within a vigilant and clear regulatory environment, with a strong financial profile, and demonstrating a willingness to support its affiliates, can enhance an asset manager's rating. On the other hand, a weak parent represents heightened risk as it may look upon its affiliates as a potential funding resource, thereby negatively impacting the rating. Another aspect of the relationship which WCRCL reviews is the extent to which there are proper and institutionalized hindrance between affiliated companies and also how stringently fiduciary responsibilities are maintained and promoted within the respective entities.

Governance and Control Structure

WCRCL looks to identify if there are clear reporting lines between departments. In addition, WASO Credit Rating Company Limited determines whether the reporting structure provides enough independence to allow issues/ concerns to be readily identified and reported (without the need for burdensome structural mechanisms that are likely to suppress effective risk management). Compliance control is always a fundamental issue within any fund manager's organizational structure.

Human Resources and Staffing

An in depth review of management characteristics with regard to experience, track record, independence, style, approach and relationships within management teams is undertaken. WCRCL reviews management biographies and interviews key senior managers in order to assess the level of experience/qualification present within the firm. Although typically along track record of success is a positive indicator, it is even more important if that prior management experience matches and is relevant to the current strategy and style of the organization. Interviews focus on determining the investment approach of the firm's managers, and their specific views on the investment culture within the organization.

It is particularly important in those organizations that rely heavily on individual managers, to understand the level of risk present in the event of key personnel departures. For those organizations which operate with a more team-based approach, WCRCL discusses in detail the functions and responsibilities of each of the team members. A breakdown of responsibilities is performed to determine the existence of non-core activities that could distract or divert resources from the efficient management of the firm. Many of these teams or key individuals may also manage a number of different funds. The universe of funds under management is assessed, and any disparities in performance are analyzed and questioned.

Financial Condition

As an extension of corporate profile, financial resilience is a key element in the successful operation of an asset management organization. WCRCL conducts an analysis of a firm's financial sustainability, including its position, profitability and prospects.

WCRCL is particularly concerned with an asset management firm's ability to fund current and future operations and meet capital requirements through internal cash generation, and to be able to do so while supporting current and future business activities. WCRCL reviews the relative importance, financially, of each fund to the firm's overall business in terms of revenues and profits. This review is further analyzed later in the context of questions to management regarding strategic direction within the firm's overall operating philosophy. WASO Credit Rating Company Limited's assessment of financial fundamentals considers not only the current financial status of the company but also trends in earnings, cash flow, profitability, and capital adequacy.

Although size is a consideration when evaluating financial strength, as it can have a direct bearing on the firm's ability to withstand downturns in economic activity, it is not in itself a defining factor for the rating. Size, however, can be a contributing factor in-

The firm's operational efficiency and is further analyzed in that context. Comparative analysis relative to other asset managers is undertaken, wherever possible, and is based on an appropriate sampling of peer groups. Financial strength also impacts the firm's ability to retain important staff through appropriate financial incentives, thereby maintaining competitiveness and retaining clients, particularly in the institutional market.

Portfolio Management

A review of the historical performance of the various funds under the asset manager's control is an important tool when used as part of the overall analysis for determining the quality of management. However, WCRCL does not assign management quality ratings based on historical investment performance, but rather on a firm's ability to achieve solid targeted results consistently across a range of market conditions. The portfolio management assessment broadly considers the asset manager's investment philosophy, strategy and style, the fund features, performance and management practices within the funds under management, and whether these comply with investment philosophy, and the extent and quality of investment research and related support structures.

Investment Philosophy, Strategy and Style

An analysis is conducted of an asset manager's investment and operational strategies in the context of its stated investment philosophy, policies and goals. Identifying the organization's strategy and decision-making process is at the heart of this analysis. Questions are posed to understand the investment philosophy and to determine how investment objectives are established. The process undertaken for determining investment strategies is reviewed, including how the strategy is defined, quantified, and most importantly, how it is implemented. Asset allocation decision-making and the bases for identifying eligible securities are reviewed, as are the processes for monitoring strategy implementation, and the circumstances in which the strategy can be altered. Finally, WCRCL looks to determine the level of consistency with which the investment policy has been applied.

Fund Features, Performance and Management Practices

The specifics of each of the funds under management are also reviewed. A change in asset size in any fund, for instance, is flagged to determine if there has been any shift or drift in investment philosophy. Fund fundamentals, such as liquidity levels, rate of turnover and the expenses ratio, are reviewed and analyzed. A more detailed investigation of the client base is undertaken in order to identify and explain changes in the investor base. Performance is highlighted in the context of broad market performance. Portfolio composition is reviewed and compared to the stated investment objectives of each individual fund. Style changes prompt questioning as to why such a shift has occurred. The specific practices utilized when building a fund portfolio are also reviewed (including identifying whether leverage or derivative products are used to enhance return). Questions regarding these practices are designed to determine the extent of their use, and their place within the investment philosophy and strategy of the organization. It is also important that management demonstrates a clear and thorough understanding of the risks inherent in their application.

Research and Related Support Structures

Additional support structures are also reviewed in order to examine the capabilities and breadth of those resources. In-house research teams are analysed to determine the extent and quality of the information used in investment decisions. Equally important is an examination of how external resources such as research from brokers are incorporated into internal research activities. Furthermore, access to company investment information is reviewed to see the extent of interaction that exists between research teams and companies in the portfolio, in terms of visits and timely communication.

Market Position

WCRCL reviews the company's marketing expertise in terms of growth in the aggregate size of portfolio under management and penetration in the market over time. Overall market share in assets under management, adjusted for investment by associated parties and fund of funds investment, is an important rating factor. Market position is also calculated separately for each category of funds. WCRCL also compares sales vis-à-vis redemptions in a given time period while sales are adjusted for additional investment by associated parties. Breadth and diversification of a firm's products and services contribute to growth and sustainability of fee revenue. A company with limited diversification in terms of a specific fund, type of fund or investment style, would have higher risk when such focused investments are less favored by the market. A diversified product offering, therefore, allows for product switching rather than outright redemptions and maintenance. Complementary products are also a potential source of earnings diversification, as well as a competitive advantage in serving the distribution channel. Asset management companies having international portfolio as well may have added advantage.

Risk Management, Controls and Systems

Assessing the firm's ability to exercise proper control over its operations in order to effectively identify and address the various forms of risk it faces is a fundamental part of WASO Credit Rating Company Limited's analysis. In this regard, compliance with regulatory requirements, the firm's risk management framework and controls, and appropriateness of operations and systems are key areas of focus within WASO Credit Rating Company Limited's assessment of an asset manager.

Compliance

Regarding the regulatory environment, WCRCL undertakes a comprehensive analysis of the laws and regulations impacting the asset manager's operations. This is done for every market where WCRCL issues management quality ratings. Through direct contact with the relevant regulatory bodies and constant monitoring of new developments, WCRCL keeps 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. Risk management framework and controls. A review of a firm's regulatory compliance is an important part of assessing its capability to manage risk. WCRCL undertakes a comprehensive review of the firm's compliance structure in order to assess its capacity, as well as its compliance philosophy. This includes a review of its written internal procedures and guidelines, reporting systems, its track record with regulators and its compliance with licensing, capital and general reporting requirements. Any history of problems in this area is carefully reviewed for cause and correction. Management's processes for reviewing compliance issues and for updating its procedures are also investigated. WCRCL analysts may question individual managers on their own specific risk management procedures, including what oversight responsibilities and practices are employed over daily trading and investment decisions. It is important to determine who within the organization is responsible for managing risk related activities and to what extent he or she has the appropriate levels of authority to deal effectively with that risk and to enforce the firm's risk management policies. WCRCL reviews the quality of the internal and external audit system and looks specifically at past compliance lapses to evaluate how they were addressed and eventually corrected.

Operations and Systems

Within the context of the firm's organizational structure, as well as its risk management framework and control systems, WCRCL assesses the efficiency of the firm's operations given the existing infrastructure, systems and mechanisms in place to respond to any inherent challenges.

The quality of the asset manager's information systems can have a direct impact on the efficiency of its operations. In particular, WCRCL evaluates the level of sophistication and quality of the firm's information technology systems. Here, emphasis is placed on processing, storing and retrieval of data, in the front, middle and back-office systems. WCRCL also evaluates the procedures and policies in place in relation to data backup, computer security and technical support. As it affects both the quality of operations and services delivered, WCRCL examines the type of network, as well as the communication systems in place. An asset manager's level of technological flexibility, integration and sophistication relative to its peers may affect its market position and prospects. Furthermore, risk management procedures enhanced by high quality information systems provide for better monitoring and lower risk.

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