



# MUTUAL FUNDS

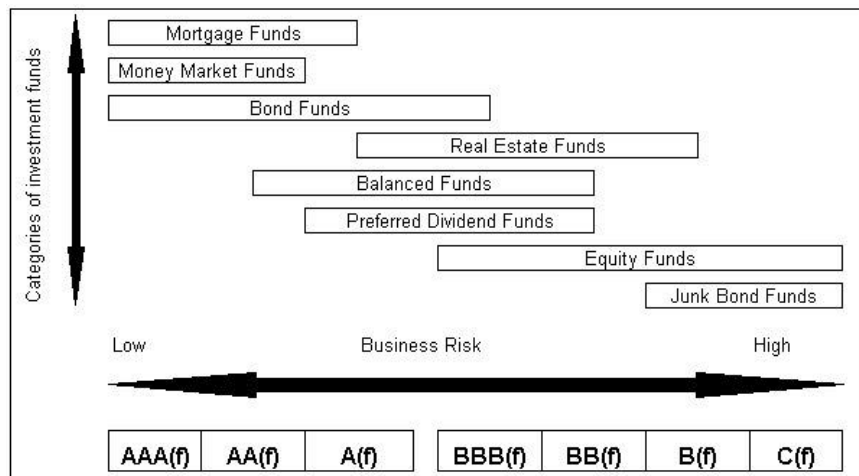
## Rating Methodology Update

JCR-VIS has adopted the practice of assigning two ratings for a mutual fund, namely the management quality rating and the fund performance rating. The approach to these ratings was outlined in our publication 'Mutual Funds-Rating Methodology' in October 2003. The purpose of the current publication is to highlight the effect of asset class allocations to the overall fund performance rating.

JCR-VIS' fund performance rating is a measure of the degree of the fund's return stability and variability of risk factors. A fund's risk is the function of its investment objectives, asset class allocation and security selection. For instance, funds investing in fixed income securities are considered less risky as they tend to deliver stable income and safety of principal. Within this category ratings would be influenced by the quality of underlying assets in the portfolio. Similarly, funds investing in money market securities are also less risky on account of short-term and liquid nature of such investments. As we move further in the risk continu-

um, ratings become more and more constrained. Although, the riskier nature of investments made by a fund may translate into higher return, it also increases the risk of capital erosion and return volatility. In this regard, funds investing exclusively in equity markets present higher probability of return variation with changing economic conditions, hence higher risk.

The chart broadly explains the relationship between risks and ratings assigned. Within these bands for various asset classes, ratings are influenced by the management quality ratings which depict the management's ability to respond to events in a timely manner, through risk assessment tools and controls. The indicated bands are approximate and may be breached in certain situations. **JCR-VIS**



*Note: JCR-VIS' ratings of mutual funds provide an indicator of the fund's ability to maintain returns. A mutual fund rating is not a recommendation to buy, sell, or hold any fund, inasmuch as it does not comment as to yield or suitability for a particular investor.*

## MANAGEMENT QUALITY RATING SCALE

**AAA(MQ):** Highest Management Quality

**AA(MQ):** High Management Quality

**A(MQ):** Good Management Quality

**BBB(MQ):** Adequate Management Quality

**BB(MQ):** Weak Management Quality

**B(MQ):** Poor Management Quality

## MUTUAL FUND PERFORMANCE RATING SCALE

**AAA(f)**

Highest degree of stability in returns. Risk is negligible with very low sensitivity to changing economic conditions.

**AA+(f), AA(f), AA-(f)**

High degree of stability in returns. Risk is modest but may vary slightly from time to time because of changing economic conditions.

**A+(f), A(f), A-(f)**

Moderate degree of stability in returns. Risk factors may vary with possible changes in the economy.

**BBB+(f), BBB(f), BBB-(f)**

Adequate degree of stability in returns. Risk factors are considered variable if changes occur in the economy.

**BB+(f), BB(f), BB-(f)**

Low degree of stability in returns. Risk factors are sensitive to changes in the economy.

**B(f)**

Very low degree of stability in returns. Risk factors are capable of fluctuating widely if changes occur in the economy.



**Faheem Ahmad**

President & CEO, JCR-VIS  
Founder, VIS Group

Faheem Ahmad has diverse experience with international consulting agencies in USA & Middle East. He has also held senior positions with local industrial and financial groups. In 1994, he established

Vital Information Services (Pvt.) Limited, which is a leading capital market research house. VIS has the largest data bank of corporate Pakistan. His major research work includes copyrighted F&J financial strength rankings, Musharaka Variable Income Securities and stock market indices. VIS group includes JCR-VIS Credit Rating Company Limited and News-VIS Credit Information Services (Pvt.) Limited, the first private credit bureau of Pakistan. The majority of shareholders in group companies include the largest publication house in Pakistan and major financial institutions.

He obtained his B.S in Civil Engineering from NED University of Engineering and Technology, Karachi. He also has Masters degrees in Engineering and Business Administration from USA. His research work has been published in various international journals.

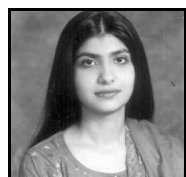


**Nazia Saleem, CFA**

Unit Head - NBFCs & Insurance

Nazia Saleem, CFA, currently leads ratings of insurance, commercial banks, non-banking financial companies and securities firms. Prior to joining JCR-VIS, she worked as an equity analyst at a reputable security firm.

She holds a Masters degree in Business Administration from the Institute of Business Administration, Karachi.



**Mehvish Salim Virani**

Financial Analyst

Mehvish Salim Virani is actively involved in ratings of structured finance and Islamic finance transactions, mutual funds and industrial concerns.

She holds a Masters degree in Business Administration from the Institute of Business Administration, Karachi.

## JCR-VIS Credit Rating Company Limited

Affiliate of Japan Credit Rating Agency, Ltd.

Founder Shareholder of Islamic International Rating Agency, Bahrain

JV Partner in CRISL, Bangladesh

Member Association of Credit Rating Agencies in Asia

First Floor, PIDC House

M.T. Khan Road, Karachi - Pakistan

M.T. Khan Road, Karachi - Pakistan

Tel: (92-21) 5680766, 5680996, 5671822, 5671833

Fax: (92-21) 5681105, 5671600

E-mail: vispk@cyber.net.pk

Website: www.jcrvis.com.pk

Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. Copyright 2004 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.