Ranking Methodology

Mutual Fund Rankings seek to inform investors and intermediaries of the category-wise relative performance of Mutual Fund schemes. The schemes are ranked using the methodology developed by ICRA Online.

➢ **Basic Eligibility**

- The MF scheme should have declared a minimum 222 Net Asset Values (NAVs) for one year and 666 NAVs for the three year period.
- First NAV disclosure should be on or before 365 days for one year and 1095 days for three year.
- Minimum 12 portfolios have been disclosed over the 1-year period and 12 quarter end portfolios for the 3-year period.
- A scheme is required to have made full portfolio disclosures (monthly/quarterly) during the ranking horizon and its average fund size should be larger than the cut-offs set for each category, which vary from Rs 10 crore to Rs 500 crore.
- Only open-ended growth schemes are considered for ranking, apart from Liquid and Ultra Short Term schemes, where Institutional Plans have also been considered.

➢ **Scheme Classification**

One of the unique characteristic of rankings is the dynamic classification of schemes, which is based on the asset allocation and investment pattern across asset classes and sectors of the schemes, over the ranking periods of one and three years, rather than the objective stated in their prospectus This kind of approach of investment based scheme classification holds more relevance as asset allocation and investment pattern determines the risk level associated with the schemes and also serves as an indicator of the fund manager's investment style. The net result is that these rankings reflect market realities, thereby serving as an effective guide to the users. After classification, the ranks assigned to the schemes are a result of an in-depth analysis on certain critical parameters, including:

- Risk-Adjusted Return
- Portfolio Concentration Characteristics
- Liquidity Analysis
- Corpus Size
- Average Maturity
- Credit Quality

➢ **Risk Adjusted Return Analysis:** Risk adjusted return is calculated on the basis of an internally developed ratio called the Investor Expectation Ratio (IER), which is defined as the ratio of excess return to the total risk of the portfolio. The excess return is the average weekly active return of the scheme calculated for the ranking period over the risk free return.

The downside deviation of the scheme's return (calculated for the period covered) is taken as the surrogate of risk. In the case of Index schemes, tracking error is used. Loads are not taken into consideration during the ranking exercise.

➢ **Portfolio Concentration Analysis:** MF schemes that do not have an adequately diversified portfolio carry a higher risk than well-diversified schemes. While for equity schemes, company and sector concentration is considered, for debt schemes, sector concentration is evaluated. Company and Sector concentration in equity schemes is judged taking the respective scheme benchmark's portfolio structure to ascertain the level of concentration of the scheme's portfolio. For debt schemes, the sectors considered are: Gilt; Non-Banking Financial Companies; Manufacturing Companies; Banks/Financial Institutions/ Development Institutions, Realty, Securitized Debt and Non-Financial/Non-Manufacturing Companies. Overexposure to any of these sectors is penalized.

➢ **Liquidity Analysis:** Liquidity analysis is done for equity schemes. In this case, the liquidity coefficient for a scheme is calculated as the weighted average of the liquidity coefficients of all scrips in the portfolio. The liquidity coefficient of individual scrip is calculated as the total number of shares in the portfolio of the scheme divided by the total daily turnover of the scrip.

➢ **Corpus Size:** Since a larger size of a scheme's corpus lends stability to it during periods of high redemption pressure, preference is accorded to large-size schemes.

➢ **Average Maturity:** Average maturity is considered in the case of the Debt, Gilt and Liquid categories. Schemes with higher average maturity carry higher interest rate risks as compared with schemes with lower average maturity.

➢ **Credit Quality:** The credit quality of a portfolio is given significant weightages in deciding the final ranks. This credit quality is ascertained based on ICRA's credit indicators for companies.

➢ **Mutual Fund Ranking**

In order to ensure that the variation in the final scores is captured, the methodology considers the final scores as a distribution for which random numbers are generated. Based on these, the final scores are placed on a normal distribution curve. The cumulative probability distribution ascertained gives the position of the schemes on the bell curve. Based on the confidence level, the schemes are then assigned star ranks.

MUTUAL FUNDS RANKING SCALE	
Scale	**Interpretation**
7-Star	Best Performance amongst 5-Star Funds in the respective category
5-Star	Funds with composite score in the top 4.96% confidence* interval in the respective category
4-Star	Funds with composite score lying between 95.4% and 84.38% of the confidence* interval in the respective category
3-Star	Funds with composite score lying between 84.38% and 68.3% of the confidence* interval in the respective category
2-Star	Funds with composite score lying between 68.3% and 38.3% of the confidence* interval in the respective category
1-Star	Funds with composite score below 38.3% of the confidence* interval in the respective category
* Based on the positioning of a scheme in the category's normal distribution	

> **7-Star Gold Award**

The best performing fund amongst the 5-Stars is ranked as a 7-Star Fund provided its fund size is greater than the average of the respective category or Rs. 100 crore, whichever is lower. *Funds are awarded 7-Star award only in the year end ranking.*

> **Fund House of the Year**

Fund House of the Year is determined in the Equity and Debt categories separately. To qualify for the award a Fund House needs to have at least one scheme ranked 3 Star or above in at least three of the equity and debt categories, respectively defined by ICRA ONLINE. The scoring aims at assessing the number of superior performing schemes managed by the fund house over the current one-year period. The result also takes into account qualitative factors of an AMC's structure based on their responses to a due diligence questionnaire. *Fund House of the year is selecting only in the year end ranking.*