



# Fund Research: Classifications

Discussion paper  
February 2016



# Who is Money Management India?

MMI is a new industry media portal that -

- Publishes curated thought-leadership **content** from leading professionals, and
- Hosts professional development **events**,
- Focusing on **investments (portfolio construction/product design), wealth management and communication**
- Aimed at **anyone involved in investments** and **overseas investors considering investing in India**
- Edited by Hansi Mehrotra, CFA (ex Mercer)



# What's the issue?

- Financial advisers, investors and regulators, make a number of decisions such as
  - Whether to go active versus passive
  - Which funds to buy or sell i.e. fund selection
  - Whether wealth managers have added value in fund selection
  - Whether to buy mutual funds at all or invest in other assets
  - Whether to ask AMCs to merge funds or stop launching new ones
- These decisions rely on performance of funds universe including that of the median and various quartiles. Hence, the universe category definitions and classifications are very important
- AMCs have multiple funds in the same category with significant dispersion in returns
- Leading rating houses have different classification methodologies resulting in different classifications. This is confusing and time-consuming for stakeholders.



# What's the solution?

- MMI proposes a new set of classification methodology in line with global best practice, that is transparent and can be used by anyone.
- MMI will source data and tools from Lipper and Mercer to publish
  - Performance snapshots with 1,3, 5 years with median and quartiles
  - Rolling returns over 1,3, 5 years with median and quartiles
- This analysis is to highlight performance of categories; MMI will NOT provide ratings or opinions on individual funds
- The performance charts will be available on MMI for anyone to use



# Proposed classification

Category	Benchmark	Definition
Equity - Diversified	CNX/BSE 500	Flagship fund with highest fund size that invests in any listed stock across market cap
Equity – Large Cap	CNX/BSE 100	Flagship fund with highest fund size that has minimum of 85% of equity component in top 100 stocks
Equity – Sml/Mid Cap	CNX/BSE Mid cap	Flagship fund with highest fund size that invests in ex 100 stocks
Money Market	?	Flagship fund with highest fund size that invests treasury securities with <91 days maturity
Dynamic Bonds	?	Flagship fund with highest fund size that invests in government and corporate bonds across maturity spectrum
Mixed Assets - Conservative	?	Multi-asset class fund with more in defensive assets (<30% in growth)
Mixed Assets - Growth	?	Multi-asset class fund with more in growth assets (<30% in defensive)



# Classification rules

- Once classified in a category, the fund will have to stay in that category forever such that the median/quartile calculations are not revised
- Hence, it's important to classify based on intent and long-term history
- We encourage AMCs to adopt global best practices such as GIPS standards for performance reporting, including adoption of composites, but in meantime, we will take a 'flagship' fund for each AMC



# Classification methodology

- The attached excel file shows our attempt at classifications in line with these categories
- It also shows the classifications as per Morningstar, Value Research and TheFundoo, as per data available on their respective websites
- We invite AMCs and product managers at wealth management firms to raise any concerns they have with the proposed categories or classifications, failing which we will start publishing the performance charts



# Sample charts/tables

## MERCER INVESTMENT SURVEYS

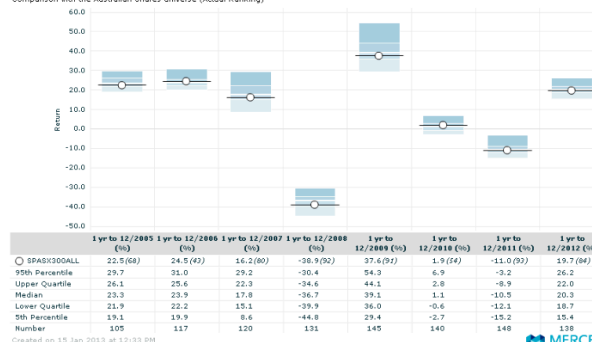
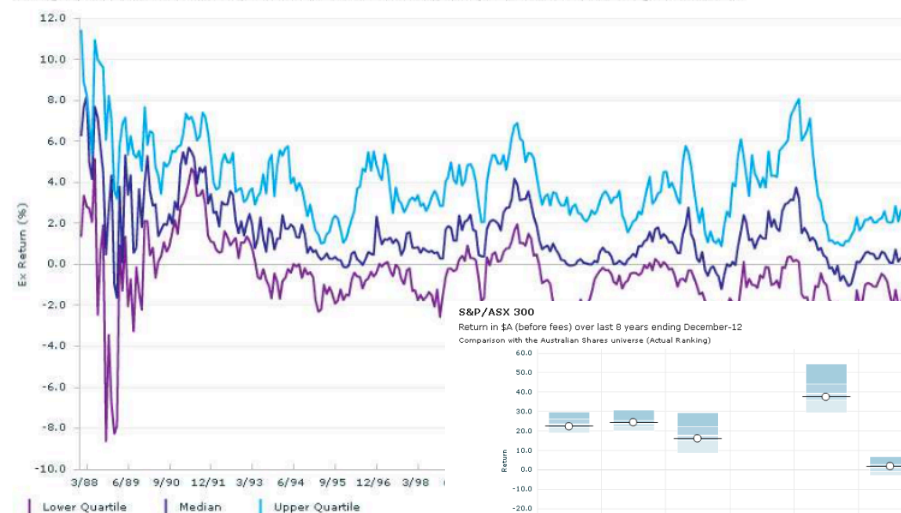
## MERCER INVESTMENT SURVEYS

### Manager Returns – Longer Term

The chart below highlights the performance of the lower quartile, median and upper quartile managers in each of the last 25 years.

#### Australian Shares Excess Return

Rolling 1 yr Excess Return vs. S&P/ASX 300 (All Ords before 1/4/2000) in \$A over 25 yrs ending December-12



### Australian Shares for periods ended December 2012

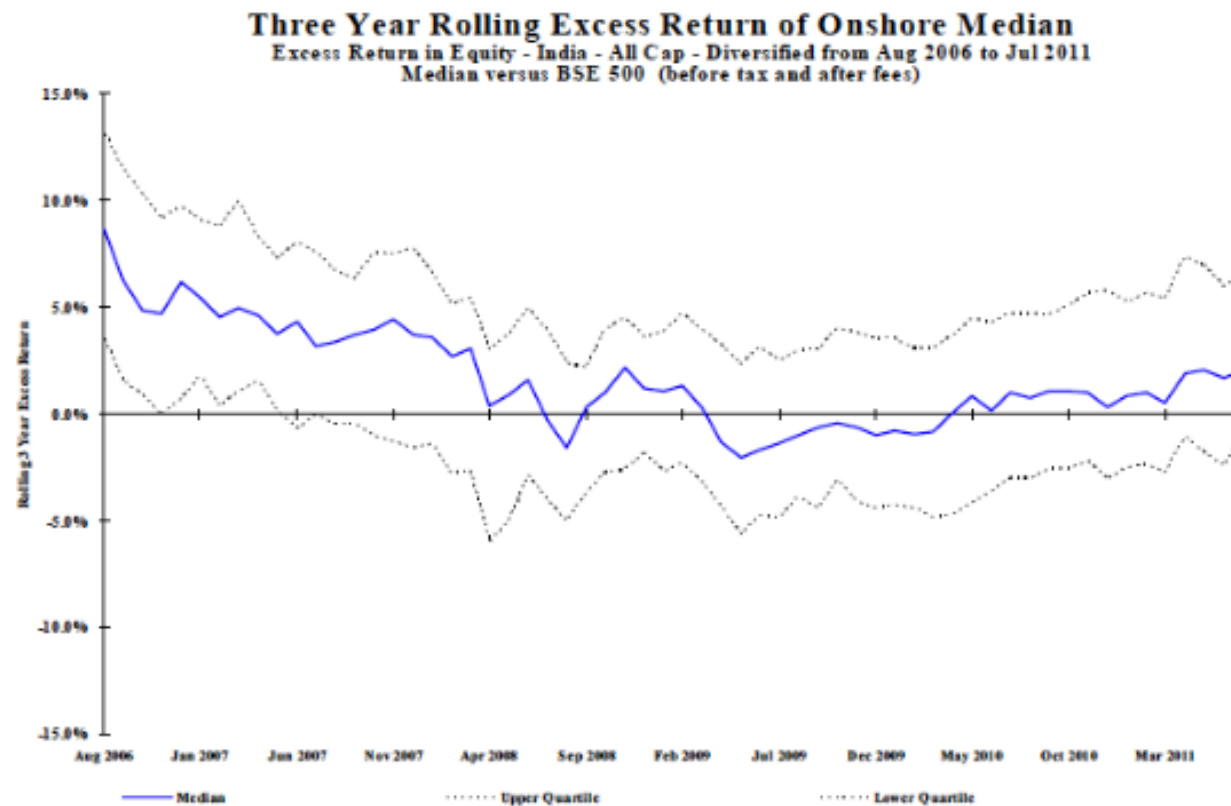
Manager/Fund	3 Months		1 Year		3 Years		5 Years		Tracking Err	Info Ratio
	(%)	Rank	(%)	Rank	(%pa)	Rank	(%pa)	Rank	5 Years	5 Years
<b>Index</b>										
BlackRock Wsale Indexed Aust Equity	6.8	(5)	19.7	(5)	2.8	(5)	-1.6	(4)	0.2	(3)
CFS Wholesale Index Australian Share	7.0	(2)	20.3	(1)	3.1	(1)	-1.4	(1)	0.4	(1)
Macquarie Pure Index (ASX300)	6.8	(4)	19.8	(3)	2.9	(3)	-1.6	(2)	0.1	(4)
SSGA Passive Aust Equities Comp (ASX200)	7.0	(1)	20.0	(2)	2.9	(2)	-1.6	(3)	0.3	(2)
Vanguard Aust Shares Index (ASX300)	6.8	(3)	19.8	(4)	2.9	(4)	-1.7	(5)	0.1	(4)
<b>Median</b>	<b>6.8</b>		<b>19.8</b>		<b>2.9</b>		<b>-1.6</b>		<b>0.2</b>	

<b>Overall Results</b>						
Number of Funds	146	138	114	96	96	96
Upper Quartile	8.1	22.0	3.9	0.8	4.7	0.8
Median	7.3	20.3	2.9	-0.9	3.4	0.4
Lower Quartile	6.6	18.7	1.8	-1.6	2.5	0.1
S&P/ASX 300 (All Ords before 1/4/2000)	6.8 (102)	19.7 (83)	2.8 (62)	-1.8 (76)	0.0 (97)	
S&P/ASX 200 All Australian	7.0 (88)	20.0 (76)	2.9 (58)	-1.7 (74)	0.3 (94)	0.4 (43)
S&P/ASX 200 (All Ords before 1/4/2000)	6.9 (95)	20.3 (71)	3.0 (55)	-1.6 (72)	0.3 (94)	0.6 (36)

Important to have correct peer groups!



# Sample charts/tables



Mercer has published similar analysis for Indian funds in the past



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