

# CRISIL Mutual Fund Ranking – Methodology

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**CRISIL**

An S&P Global Company

# CRISIL Mutual Fund Ranking –

## Methodology

CRISIL Mutual Fund Ranking is the relative ranking of mutual fund schemes within a peer group. The basic criteria for inclusion in the ranking universe are three-year NAV history (one-year for liquid, ultra-short term debt, short term income, credit oriented funds) and assets under management in excess of category cut-off limits and complete portfolio disclosure. Only open ended schemes are considered. Ranking is based on the following parameters:

### **Superior Return Score (SRS)**

SRS is the relative measure of the schemes' returns and risk (volatility) compared with their peer group. It is computed for income, balanced, monthly income plan (aggressive) and long term gilt categories. The three-year period of evaluation is divided into four overlapping periods – the latest 36, 27, 18 and 9 months. Each period has a progressive weight starting from the longest period: 32.5%, 27.5%, 22.5% and 17.5% respectively.

### **Mean Return and Volatility**

Mean return and volatility are considered as separate parameters in case of equity funds (large cap, small & mid-cap, equity diversified, equity linked savings schemes or ELSS, and thematic infrastructure), short term debt categories (liquid, ultra-short term debt and short term income) and credit opportunities funds. Mean return is the average of daily returns based on the scheme's NAV for the period under analysis and volatility is the standard deviation of these returns. While the period for analysis is three years for equity funds, it is one year for liquid, credit oriented, ultra-short term debt and short term income funds. The period of analysis is broken into four periods (latest 36, 27, 18 and 9 months for equity categories and latest 12, 9, 6 and 3 months for short term categories). Each period is assigned a progressive weight starting from the longest period as follows: 32.5%, 27.5%, 22.5% and 17.5% respectively.

### **Portfolio Concentration Analysis**

Concentration measures the risk arising out of improper diversification. For equity securities, diversity score is used as the parameter to measure industry and company concentration. In case of debt schemes, the company concentration is analysed at an individual issuer specific limit. The limit is linked with the credit rating of the issuer, high rated issuer will have higher limits and as the rating declines the limit is also reduced progressively.

### **Exposure to Sensitive Sector**

In case of debt schemes, the industry concentration is analysed for any exposure to sensitive sectors which are arrived based on Industry Risk Score (IRS) for various sectors. CRISIL's assessment of IRS quantifies the credit risk associated with an industry on a uniform scale to ensure comparability across industries. The score

captures the influence of various industry variables on the debt repayment ability of companies in a particular sector over a 3-4 year time horizon.

## **Liquidity Analysis**

It measures the ease with which a portfolio can be liquidated. The lower the score, the better it is. In case of equities, it measures the number of days to liquidate the portfolio. Liquidity is calculated by taking the average portfolio liquidity score of the past three months.

Equity liquidity is computed as follows:

*Liquidity score of each stock = No. of shares held / Daily average trading volume of past six months*

*Portfolio liquidity score = Weighted average liquidity score of the above*

Gilt liquidity is measured by analysing the number of days it will take to liquidate the portfolio based on turnover (volume) and number of securities in the portfolio, the number of days security has got traded and the number of trades in any security for a three-month period for that security. Corporate debt liquidity is computed by classifying each security into three categories - liquid, semi liquid and illiquid - and then evaluating a scheme's exposure to each category.

## **Asset Quality**

Asset quality measures the probability of default by the issuer of a debt security to honour the debt obligation in time.

## **Modified Duration**

Modified duration / average maturity is considered across all the debt categories except liquid to capture the interest rate risk of the portfolio. The lower the value, the better it is.

## **Tracking Error**

This is used only for index schemes. The tracking error is an estimation of the variability in a scheme's performance vis-à-vis the index that it tracks. The lower the tracking error, the better it is.

## Eligibility Criteria

- Only open-ended funds are considered
- NAV history
  - Three years for equity, hybrid and long term debt schemes
  - One year for liquid, ultra-short term debt, short term income and credit oriented funds
- Schemes falling under 98 percentile of the category AUM are shortlisted
  - Quarterly average AUM is considered
  - Schemes meeting inception criteria are eligible schemes
- Complete portfolio disclosure for all three months in the last quarter
- Minimum five schemes in each category
- In case of long term gilt funds, only those funds that have an exposure in excess of 98% over the past three years to the following are considered for ranking:
  - Central and state government securities
  - Cash and cash equivalents such as collateralised borrowing and lending obligations (CBLOs), reverse repo, net receivables, etc.
- In case of credit opportunities funds, only the funds that have residual maturity of more than six months and having predominant exposure to papers rated below AAA are considered.
- March 2017 onwards, the CRISIL Mutual Fund Ranking introduced rankings for the direct plans of the shortlisted funds as per the appropriate categorisation, provided that they have sufficient NAV history.

## Parametric Weights

Category	Large Cap, Diversified, Small & Midcap, Infra and ELSS	Index	Balanced	MIP - Aggressive	LT Gilt	Income	CROP	ST Income	Ultra-Short Term Debt	Liquid
Superior Return Score (%)	-	-	75	60	75	60	-	-	-	-
Mean Return (%)	55	-	-	-	-	-	50	50	50	50
Volatility (%)	25	-	-	-	-	-	10	10	10	10
Tracking Error (%)	-	100	-	-	-	-	-	-	-	-
Company Concentration (%)	5	-	5	5	-	5	5	5	5	5
Industry Concentration / Exposure to Sensitive Sector (%)*	10	-	10	5	-	5	5	5	5	5
Equity - Liquidity (%)	5	-	10%*K	7.5%*K	-	-	-	-	-	-
Debt - Asset Quality (%)	-	-	5%* (100-K)	17.5	-	17.5	10	10	10	10
Debt Liquidity (%)	-	-	5%* (100-K)	7.5%* (100-K)	15	7.5	15	15	15	20
Modified Duration (%)	-	-	-	5	10	5	5	5	5	-
CRISIL Mutual Fund Ranking (%)										
Time Period (years)	3	3	3	3	3	3	1	1	1	1

K = Equity component in hybrid schemes

\* Industry concentration for equity and Exposure to Sensitive Sector for debt portion of the portfolio

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