# FIDArating

## Finanza Dati Analisi

# Summary

# FIDARATING

The FIDArating system is a process of financial instrument analysis based on a qualitative and quantitative mix.

The process consists of three steps that correspond to different types of activities and outputs:

- Classification;
- Categorization;
- Scoring / Rating;

"Holistic" classification system

Except for some inevitable and distinctive characteristics of each type of financial instrument that affect the three phases of the process, the FIDArating classification system is general and can be applied in the same way to all financial instruments.

This feature makes the system extremely suitable for portfolio analysis and research, and security selection.

## FIDArating has been choosen by

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# CLASSIFICATION

This step consists in investigating the main investment characteristics of financial instruments.

The model is unique, all types of financial instruments are classified according to the same theoretical framework.

Because of the difference between types of assets, the object of the analysis can vary but without compromising the overall coherence. For example, the asset management analysis in mutual funds refers to the investment policy, while in indices, similarly, it refers to their components and in stocks, it concerns themselves.

## Classification levels

The process can be explained through a multilevel scheme that highlights the types of information under analysis.

| Field | Description |
|---|---|
| ASSET | Asset Class |
| GEO_AREA | Geographical area |
| GEO_ZONE_COUNTRY | Country or geographical smaller area |
| SECTOR | Sector |
| SUB_SECTOR | Subsector |
| DIMENSION | Company size |
| STYLE | Investment style |
| RATING | Financial solidity and solvency |
| MATURITY | Duration |
| CURRENCY EXPOSURE | Currency exposure |
| ASSET EXPOSURE | Exposure to key asset class |
| TYPE | Type |
| ISSUER | Issuer type |

## Asset management products

The object under analysis is the portfolio composition in its temporal continuity, deduced from the investment policy.

Investment strategies can be explored with several complementary methods, which are based either on statements of intent, or on what is actually achieved.

### Prospectus analysis

<u>Declared investment policy</u>
This is the first step of the process, it consists in analyzing what the public statements published in the legal documentation are, primarily in the investment prospectus.

<u>Declared benchmark</u>
Most funds declare an objective benchmark (market funds) that is a parameter which allows better to understand the investment choices, and to evaluate the ability of management team. However, the benchmark is not always significant, because sometimes it is defined only as a parameter to compare to.

### Portfolio analysis

<u>Portfolio composition</u>
Market regulator requires management companies to publish regularly the portfolio composition, often twice a year. This type of information is another way to test and confirm the investment policy declared in the official documents.

<u>Investment style</u>
It is also useful to see over time how the strategies were consistent with the stated investment policy and the current composition of the portfolio.

Quantitative methods are used to determine how the historical trend can be attributed to some specific market indices, and to infer their management strategies in historical continuity.

## Stocks

Classification refers to the issuers that the shares represent.

## Bonds

Classification refers to the bond issuers. In case of government bonds, some fields are not significant (sector, size, investment style).

## Indices

The analysis is focused on the indices' components.

## Futures

The analysis is focused on underlying instruments.

# CATEGORIZATION

It is the construction of homogeneous groups of instruments that are sufficiently numerous and interesting for financial markets. Financial instruments are therefore included within the same category if they show similarities with respect to the classification process (and / or other characteristics) that make them uniform and comparable.

Each category has a specific benchmark. A single market index or a composite one is chosen to represent its historical trend.

## Categories, Macro-Categories and Super-Categories

In order to facilitate the system usage in the screening process, when it is necessary or useful to treat subsets of broader financial instruments but less numerous categories, a hierarchical system generates the Macro-categories and from these generates the Super-Categories.

Macro-categories
Are groups of Categories with similar characteristics in terms of the main classification criteria: tipically the logical allocation refers to assets, geographic area and currency exposure.

Super-categories
Are groups of Macro-Categories that in general represents the typical asset classes.

## Asset management products

<u>FIDArating indices</u>
For each category, an index is computed in order to represent the overall performance of its components.
In detail, the index is calculated using a compound daily capitalization of the arithmetic average return of the funds that belong to the same category:

$$I_t = I_0 \prod_{s=1}^{t}(1 + i_s)$$

$i_s$ = arithmetic average returns of the day s

<u>Benchmark assignment</u>

Category benchmark identification is based on both statistical analysis and official benchmark testing (declared).

Starting from what funds in the same category choose as benchmark, normally similar, quantitative analysis aims at verifying which index (single or composite) best fits the historical trend of category index.

In some cases (e.g. absolute return funds), the benchmark doesn't represent the investment characteristics, but only an objective to be overcome in terms of return and risk. In this case, historical consistency has no relevance.

## Bonds

Because of the dynamic duration of this type of instruments they migrate (during life) over time from a category to another one.

On the other hand, categories and their benchmarks are "constant maturity".

# RATING

Instrument evaluation is distributed for asset management only: mutual funds-SICAV and ETF.

## Methodology

The Rating evaluation method aims at ordering the instruments within their universe of reference. The population of each category, ordered by a proprietary risk-reward indicator (score), is divided into five percentiles according to the following scheme:

| | |
|---|---|
| 1° percentile (10% population): | 5 crowns |
| 2° percentile (22,5% population): | 4 crowns |
| 3° percentile (35% population): | 3 crowns |
| 4° percentile (22,5% population): | 2 crowns |
| 5° percentile (10% population): | 1 crown |

As the above diagram shows, rating is then attributed according to the percentile in which each fund is placed and expressed in number of crowns from 1 to 5.

Rating analysis are monthly updated according to the last price data of the referring month.

## Mutual Funds / SICAV

### Requirements

Instruments subjected to rating evaluation must respect defined requirements:
- at least 36 months of life
- NAVs communication not interrupted for long periods (more than 10%)
- to be placed in the same category for at least 36 months

All the categories with less than five instruments that meet requirements above are excluded from calculations.

### Universe

As rating is market oriented, instruments included in evaluation process are authorized for distribution in the country to which rating is referred.

All classes and currencies linked to the same fund are included in the evaluation universe

## Base currency

Analysis are based on the investor's currency, Euro for Euro Area countries.

## ETF

### Requirements

Instruments subjected to rating evaluation must respect defined requirements:
- at least 12 months of life
- NAVs communication not interrupted for long periods (more than 10%)
- to be placed in the same category for at least 12 months

All categories with less than three instruments that meet requirements above are excluded from calculations.

### Universe

As rating is market oriented, instruments included in evaluation process are authorized for distribution in the country to which rating is referred.

All classes and currencies linked to the same fund are included in evaluation universe

### Base currency

Analysis are based on the investor's currency, Euro for Euro Area countries.