



FundGrade[®] and FundGrade[®]A⁺ **Methodology**

fundata.com

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Objectives

The objective of FundGrade is to identify high quality investment funds in the Canadian fund universe that have achieved superior risk adjusted performance relative to their peers. This is important for two reasons. First, the Canadian mutual fund industry is highly competitive and funds that have been able to consistently outperform their peers deserve to be recognized for that accomplishment. Second, an A Grade rating allows investors to easily identify top performing funds based solely on quantitative measures thus assisting in the investment decision making process.

Why it works

The FundGrade rating system uses risk adjusted performance figures to rank and grade Canadian investment funds. The Fund Grade calculation is a completely quantitative measure based on up to 10 years of performance history. Qualitative fund characteristics and analyst opinion are not considered and have no bearing on the grading system.

Peer Groups

To make the grades relevant, funds are only measured against peers with similar investment mandates. To accomplish this, FundGrade uses the fund classification standards that have been defined by the Canadian Investment Funds Standards Committee (CIFSC). Funds are ranked and graded within each CIFSC category to ensure comparability.

Grades are only awarded to mutual funds and segregated funds. However, to ensure comparability, each group is ranked and graded separately.

How it works

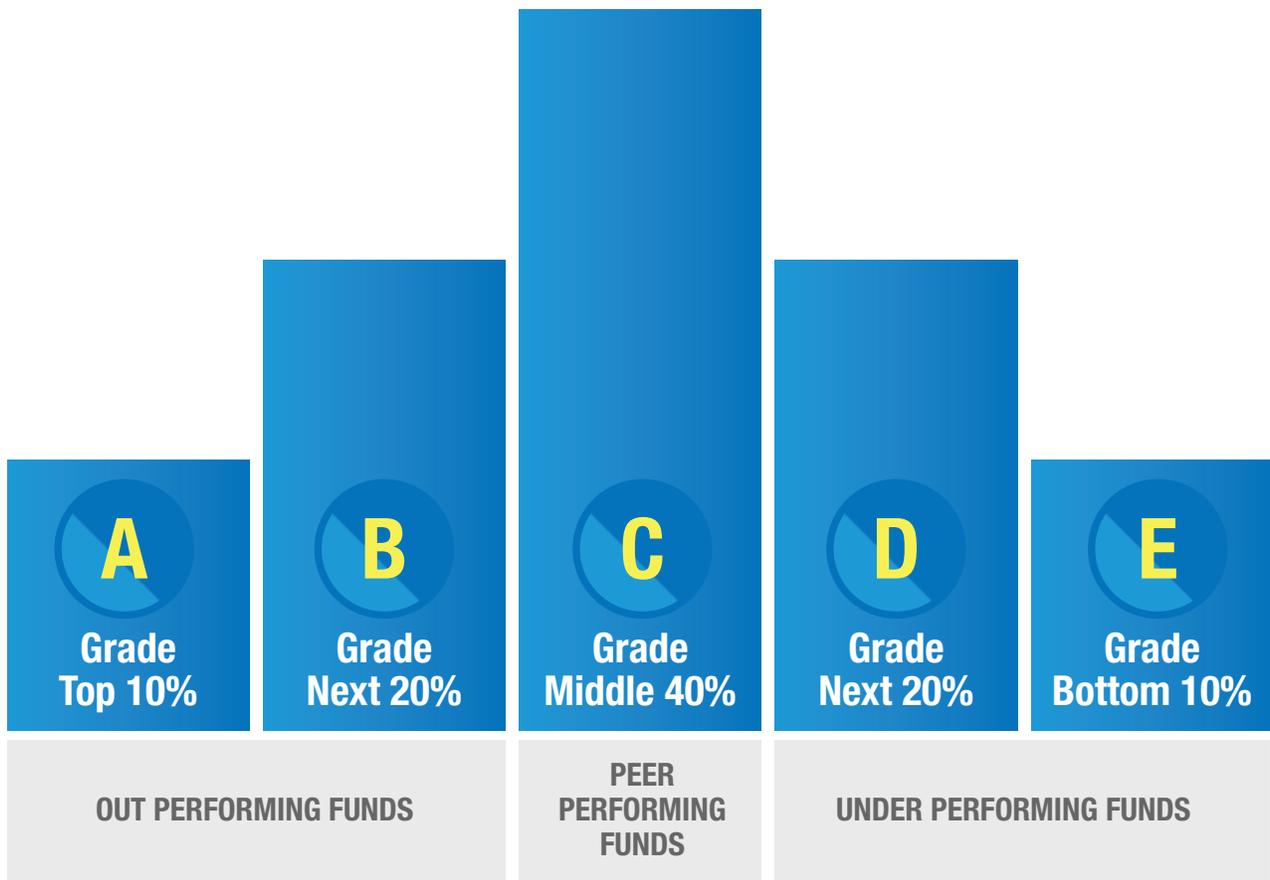
The Fundata FundGrade rating system evaluates funds based on their risk adjusted performance, measured by Sharpe Ratio, Information Ratio and Sortino Ratio.

- The **Sharpe ratio** is a measure of a fund's excess return relative to total risk. It is calculated by subtracting the risk free rate from the fund's return and dividing by the standard deviation.
- The **Sortino ratio** is a measure of a fund's excess return relative to downside risk. It is calculated by subtracting the minimum acceptable return from the fund's return and dividing by the downside deviation.
- The **Information ratio** is a measure of a fund's active return relative to its tracking error. It is calculated by subtracting the benchmark return from the fund's return and dividing by the standard deviation of the difference between the return of the fund and the return of the benchmark.

Each component's score is measured individually. In order to receive a high overall score, a fund must be able to demonstrate strength in all three ratios within the same measurement period. Each of the three elements is equally important in the scoring system with the ratios being calculated for 2 and up to 10 year periods. More emphasis is placed on recent performance to enhance the comparability between funds with varying performance start dates. Funds must have at least 24 months of performance history to be included in the calculation.

Scores are only calculated for the retail series of each fund. Institutional and F Series are not included. When there is more than one retail series, the lowest scoring series is used to calculate the grade. Once a Grade is calculated for a fund, it is then applied to all related series.

Funds in each CIFSC category are given a Grade from A to E according to the following breakdown.



FUNDGRADE[®] A⁺ Methodology

The A+ Grade was designed to identify not only the best performing mutual funds but also the most consistent. It is an indicator of the 'best-of-the-best' from the previous calendar year. It is a supplemental calculation to the FundGrade, looking at the FundGrades from the previous calendar year. To achieve an A+, a fund must have achieved and maintained high FundGrade scores throughout the year.

How it works

The calculation will be performed at the end of each calendar year. A 'Fund GPA' is assigned individually to each fund that has received FundGrades in the most recent calendar year. The Fund GPA is calculated by assigning a 'credit-score' to each of the letter grades with the A grade receiving a score of 4 and the E grade receiving a score of 0. Each fund receives a total credit-score for the year which determines the fund's GPA. Any fund receiving a GPA of 3.5 or greater will be assigned an A+.

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At Fundata, we offer our clients the most accurate and comprehensive data on Canadian Investment Funds that is available in the market. Combined with our commitment to fast, flexible client service, the quality of the information we provide makes us the vendor of choice for your market data and analytical requirements.



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