



## Rating methodology

Liquid Investments // Investment Team Rating

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### Call for comments

Scope welcomes feedback from market participants regarding the new methodology. Please send your response until 23 August 2018 to: [service@scopeanalysis.com](mailto:service@scopeanalysis.com).

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### 1. Introduction

Scope Analysis (Scope) issues ratings which assess the quality and competence of investment teams whose managed assets are predominantly invested in liquid instruments. The analysis evaluates individual investment teams with their own products and differentiated strategies, compared with the rest of the asset management company. Scope examines important asset management aspects directly under the team's influence as well as indirect aspects which impact the team's investment success. The asset management company, in which the team operates, plays a subordinate role in this evaluation. Relevant company-wide functions are nevertheless assessed, provided they directly affect the success of the investment team.

The rating therefore makes a significant contribution to investors' decision-making process and enables investment teams to summarise the complex aspects of team competence, track record, resources and quality of processes in one rating.

Note: When evaluating an asset management company in its entirety or an asset manager's individual investments centres (e.g. equities, bonds or multi asset), Scope uses its Asset Management Rating // Liquid Investments methodology which provides a deeper analysis of strategic, procedural and client service-related aspects across the company or in connection with other teams.

### 2. Rating process

The Asset Management Rating (AMR) for Investment Teams – or Investment Team Rating – scale ranges from **AAA<sub>AMR</sub>** to **C<sub>AMR</sub>**. A **BBB<sub>AMR</sub>** rating is awarded to investment teams who, in Scope's view, meet the minimum industry standards. Good, very good, and excellent teams are assigned an AMR of **A<sub>AMR</sub>**, **AA<sub>AMR</sub>** and **AAA<sub>AMR</sub>** respectively. If, overall, industry standards have not been met, the investment team receives a **C<sub>AMR</sub>** rating. If necessary, Scope makes fine adjustments within the rating categories **AA<sub>AMR</sub>** to **BBB<sub>AMR</sub>** by means of so-called "notchings" ("+" or "-").

For the evaluation, Scope uses a scorecard approach by means of a variety of qualitative and quantitative individual criteria. Depending on the level of quality, one to four points are awarded for each criterion. One point corresponds to the minimum institutional standard and four points represents excellent quality. If a team has not met the minimum institutional standards for a particular sub-criterion, zero points are awarded. Significant shortfalls can incur negative individual scores. The weighted average of the individual scores gives the investment team's preliminary AMR. Scope's rating committee then validates the analysis and issues the final AMR rating. Ratings are re-evaluated annually, unless material developments justify a reassessment during the year.

The evaluation is carried out in the context of the relevant peer group to ensure a high level of consistency and comparability across a wide spectrum of investment teams with a similar investment focus. Scope classifies the individual criteria according to the core idea of each individual criterion in order to effectively represent the diversity of the sector. In individual cases, this may result in a deviation from the rating calibration.

The tables below provide a detailed insight into the calibration of the criteria for each rating category, i.e. which attributes Scope uses to determine the scores for the corresponding criteria. The starting point for each criterion is the rating category BBB and attributes in each column to the right of the first column are seen as additional attributes to those displayed in lower rating categories. These are generic, non-exhaustive lists of attributes. Not every attribute listed within a criterion must be met to achieve a rating level, as an investment team can compensate for an unfulfilled attribute with additional, unlisted characteristics.

The scorecard analysis covers the four following areas, or panels:

#### Investment professionals

Scope analyses the investment skills of the team members, the experience of management personnel and relevant team members, the organisation of the team as well as the remuneration of investment professionals.

#### Investment process und research

Scope evaluates the stringency and plausibility of the investment process. The quality and significance of research is assessed as well as the incorporation and implementation of investment risk management guidelines.

#### Market position and performance

In this panel, Scope analyses the unique selling points of the product portfolio and the investment strategies. The development of assets under management as well as the team's investment track record are also evaluated as they demonstrate the effectiveness of the investment approach.

#### Other internal and external resources

In Scope's view, important functions which lie outside of the team's direct influence, yet significantly impact its investment success, are also relevant to an Investment Team Rating. Scope therefore examines: IT resources; the selection process and performance review of external service providers; and other aspects of risk management in the company.

For the analysis, Scope uses the following sources of information:

- Data and information provided by the investment team and/or requested by Scope, e.g. existing due diligence or RFP questionnaires
- Management interviews
- Proprietary and commercial industry databases
- Publicly-available information

### 3. Panel I – Investment professionals

Scope examines the staffing level and experience of the investment team, which in Scope's view are important prerequisites for investment success. The team should be well-established and possess the necessary skills for implementing the investment strategy. The organisation of the team should correspond to the requirements of the team's tasks and mitigate key person risks as far as possible. Responsibilities should be assigned without overlapping and a clear delegation framework should be in place in case of absences. Incentive-driven remuneration, relevant additional qualifications held by team members, and a low turnover rate within the investment team are evaluated positively.

	“satisfactory” BBB <sub>AMR</sub>	“good” A <sub>AMR</sub>	“very good” AA <sub>AMR</sub>	“excellent” AAA <sub>AMR</sub>
Industry experience (team leaders, senior portfolio managers)	≥ 7 years	≥ 10 years	≥ 12 years	≥ 15 years
Team history	≥3 years	≥5 years	≥7 years	≥10 years
Proportion of employees with additional qualifications	≥ 15%	≥ 30%	≥ 45%	≥ 60%
Team organisation/ key person risk	Balanced investment team with a wide range of skills relevant to the investment strategy; but less clear allocation of duties and responsibilities; discernible key person risks in the investment process (identified but not yet removed)	Clear allocation of duties and responsibilities; discernible key person risks in the investment process (identified and partly removed); clear delegation framework in case of absences	Good resources for implementing the strategy (capacity, scalability); minimal key person risks in the investment process	Very good resources for implementing the strategy (capacity, scalability); no discernible key person risks in the investment process
Employee turnover rate	Calibration carried out by means of a peer group comparison, based on Scope's proprietary fund and asset manager database			
Remuneration	Base salary and performance-related bonus	Deferred bonus based on long-term performance	Non-monetary, social incentives	Employee shares / share option plans/ long-term incentive plans

#### 4. Panel II – Investment process and research

Scope analyses the team's investment process in terms of consistency and structure and examines to what extent the approach corresponds to the team's experience. A high level of documentation as well as the existence of entities for questioning and scrutinising decisions are valued positively. A strong focus on research and a depth of analysis appropriate for the investment objective are similarly assessed positively. The research process should be disciplined, be consistent with the strategy and have a high degree of analytical depth, consistency and documentation. Furthermore, Scope is provided with an insight into the IT resources available to the team for managing the portfolio. Scope also examines how elements of risk controlling are reflected in the investment process. The issue of sustainability in the investment process is also considered in this panel.

	“satisfactory” BBB <sub>AMR</sub>	“good” A <sub>AMR</sub>	“very good” AA <sub>AMR</sub>	“excellent” AAA <sub>AMR</sub>
Investment process	Consistent, plausible investment strategy in line with the team's experience; but some structural weaknesses in the decision-making process (e.g. when questioning individual investment decisions)	Adequate mechanisms in place for questioning investment decisions (e.g. rating committees)	High degree of discipline (e.g. suitable frequency of meetings; comprehensive documentation of decision-making); particular attention to research	Extremely robust and disciplined investment process with a strong focus on research; effective institutions for scrutinising investment decisions, e.g. investment committees with veto rights for participants

<b>Research</b>	Structured research process; but with some weaknesses (e.g. regarding method consistency or documentation)	Structured research process with adequate discipline, sufficient depth of analysis and basic documentation of results	Structured research process with a high degree of discipline, analytical depth, method consistency and documentation of results	Extensive, multi-level and scalable research process with a very high degree of discipline; comprehensive documentation of analysis and results; very high method consistency
<b>Investment risk management</b>	Clearly-defined investment risk guidelines and limits; ongoing liquidity monitoring; asset and counterparty monitoring	Continuous liquidity management	Ongoing stress tests for assets, portfolios and asset liability management	Fully integrated risk mitigation strategies
<b>ESG</b>	ESG integrated into the asset manager's strategy; but mainly related to the immediate area of business	Regular ESG reporting	ESG criteria partly used for added value	ESG criteria are noticeably used for added value; environmental impact study for each portfolio investment

### 5. Panel III – Market position and performance

In Scope's view, an asset manager's market position is reflected in its track record in the relevant market as well as in the development of its assets under management. When assessing a manager's track record, Scope uses different ranges for the calibration of rating categories, depending on the asset class. Product performance is assessed on the asset manager's historical performance. This involves a quantitative analysis of all the asset manager's funds with a sufficient track record (minimum one year) by means of various performance and risk indicators as well as considering the Scope Fund Rating, if available, within the relevant peer group.

	<b>"satisfactory"</b> BBB <sub>AMR</sub>	<b>"good"</b> A <sub>AMR</sub>	<b>"very good"</b> AA <sub>AMR</sub>	<b>"excellent"</b> AAA <sub>AMR</sub>
<b>Investment track record in the relevant market</b>	Calibration carried out by means of a peer group comparison, based on Scope's proprietary fund and asset manager database			
<b>AuM development</b>	Calibration carried out by means of a peer group comparison, based on Scope's proprietary fund and asset manager database			
<b>Unique selling points (USP) of the team's strategy</b>	Plausible, successful and promising business model	Identifiable USP, but easy to copy	Differentiated USP, not easy to copy	Highly differentiated or protected USP; high added-value potential

### 6. Panel IV – Other internal and external resources

Scope also considers it essential to evaluate important aspects of the asset management company as a whole which have an immediate impact on an investment team's performance, even though this rating primarily concerns an individual team and thus many facets of the asset management company are not evaluated directly. Scope examines the resources available to the investment team which should allow the team to focus on portfolio management, such as modern IT-systems and front-end solutions related to the investment strategies. Another important element is the connection to the asset management company's risk management. Furthermore, Scope examines the selection process and performance review of external service providers, as long as these processes are controlled by the investment team under analysis.

	“satisfactory” BBB <sub>AMR</sub>	“good” A <sub>AMR</sub>	“very good” AA <sub>AMR</sub>	“excellent” AAA <sub>AMR</sub>
IT / technical support	Modern, well-documented platforms for managing the relevant asset class(es)	Implementation of proprietary portfolio management and risk management systems; standard business intelligence and data warehousing; proven developers	Extended use of state-of-the-art platforms, languages and systems; fully integrated predictive analytics and fully integrated predictive risk management; extended data warehousing	External systems supplemented by proprietary systems for all relevant areas
Risk management (RM)	Sufficient risk controlling in accordance with legal requirements; if necessary with minor weaknesses (e.g. in the frequency of reports or the extent of risks to be tested)	Good RM process; good quality and frequency of reporting	Effective risk controlling; carefully considered, regularly updated and accessible regulations; very convincing RM process (incl. stress testing); comprehensive and detailed risk reports	Very effective risk controlling with multiple active entities; high degree of independence from and integration with asset management; CRO or functional equivalent
External service providers / counterparty risks	External service providers are independent and have a proven reputation	Standardised selection process with clearly defined performance indicators	Competition-orientated evaluation with regular performance reviews	Identifiable measures for mitigating counterparty risks and dependencies

### 7. Appendix

#### 7.1 Evaluation scale for Investment Team Ratings

<b>AAA</b> <sub>AMR</sub>	Excellent quality and competence	4.00	Meets institutional standards
		<b>3.60</b>	
<b>AA</b> <sub>AMR</sub>	+	3.30	
	Very good quality and competence		
	-	2.70	
		<b>2.40</b>	
<b>A</b> <sub>AMR</sub>	+	2.10	
	Good quality and competence		
	-	1.50	
		<b>1.20</b>	
<b>BBB</b> <sub>AMR</sub>	+	0.90	
	Satisfactory quality and competence		
	-	0.30	
<b>C</b> <sub>AMR</sub>	Does not meet institutional standards		



#### 7.2 Scorecard for Investment Team Ratings

Panel	Weighting	Criteria	Weighting
Panel I – Investment Professionals	25%	Industry experience	20%
		Team history	20%
		Proportion of employees with additional qualifications	15%
		Team organisation / key person risks	15%
		Employee turnover rate	15%
		Remuneration	15%
Panel II – Investment process and research	30%	Investment process	30%
		Research	30%
		Investment risk management	30%
		ESG	10%
Panel III – Market position and performance	30%	Investment track record	50%
		AuM development	25%
		Unique selling points	25%
Panel IV – Other internal and external resources	15%	IT / technical support	40%
		Risk management	40%
		External service providers / counterparty risks	20%



## Rating methodology

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