

Fund Rating FAQ

What value do Value Research's fund ratings offer to investors?

Value Research's fund ratings offer investors a quick and easy way to identify funds that have produced strong risk-adjusted performance relative to their peers. Value Research's fund ratings are completely objective and unbiased.

How should investors use fund ratings?

Fund ratings tell how a fund has performed historically on a risk-adjusted basis relative to a relevant category. That information is useful, but it's not enough for a smart investment decision. Fund rating is a good starting point for a fund evaluation.

How to use fund ratings to construct a portfolio?

An optimal portfolio will not necessarily feature only 4- and 5-star funds. An investor must consider other factors, such as risk tolerance, how the various funds in the portfolio may work together and appropriate diversification across asset classes. It is possible that a particular fund, which currently has a 2-star rating, is the best choice for a portion of an investor's portfolio. An investor should contact their investment advisor for further assistance with these types of portfolio decisions.

Are Value Research's fund ratings based solely on returns?

No. The fund (star) rating is a measure that balances both risk and return.

How often are the ratings calculated?

Ratings are calculated once a month.

Does Value Research charge fund companies to rate their funds?

No. Value Research does not charge fund companies to rate their funds or use the ratings.

Does Value Research make its calculation methodology public?

Yes. The methodology can be found on our website at <https://www.valueresearchonline.com/fundrating.asp>

Are funds rated independently or as part of a group?

Funds are rated based on their performance relative to other funds in their category.

What is the minimum number of funds required to form a category for rating?

10 funds, each with a minimum of three years history for equity and hybrid funds. Eighteen months for bond funds.

What are the categories of funds for which Value Research does not provide a rating?

Thematic, international, closed-end and other funds that do not fit into any of our categories. These funds are not directly comparable. Also, funds which do not regularly disclose their NAV are not rated.

Does Value Research consider management fees while rating funds?

Yes, the star ratings are calculated on the returns a fund earns after management fees. There is no other special consideration of fees.

What about loads?

Value Research star ratings do not include the effect of loads. This is because loads are variable, so there is no one 'right' answer for what the value should be. Investors should consider load when choosing a fund.

How much history does a fund require to be rated?

Equity and hybrid funds that are less than three years old are not rated. Similarly, bond funds that are less than 18 months old are not rated.

What time periods do the fund ratings take into consideration?

In case of equity funds, a fund's overall rating stems from a weighted average of two time periods - three and five, where available. Equity funds less than three years old are not rated. In case of debt funds, a fund's overall rating stems from

a weighted average of two time periods - 18 months and three years, where available. Bond funds less than 18 months old are not rated.

I just looked at Value Research's fund ratings and realised that a fund I own received only 2 stars. Should I sell this fund?

Not necessarily. The star rating is a decent first screen for mutual funds, but it is only an introduction to a fund and not a conclusion. The rating is an evaluation of the past, not a prediction of the future.

Why did a fund lose a star? Or why did a star rating change?

This is based purely on mathematical inputs. A fund's star rating is based solely on a formula that Value Research recalculates monthly - there is no subjectivity. The loss of a star doesn't mean someone at Value Research has downgraded the fund. It simply means the fund's relative performance is currently below the cut-off point than its previous rating.

What should I do if a fund I invest in does lose a star?

The fact that a fund has earned a lower star rating is not necessarily a signal that it needs to be sold out of your portfolio. It indicates that the fund may bear closer monitoring over the near term.

Can direct and regular plans of the same fund have different ratings?

Direct and regular plans are rated within their universes, i.e., within their own peer set. For instance, a regular plan of a large-cap fund will be rated against other regular plans within the large-cap category. It could be possible that the relative returns of two plans could be different mainly because of the expense ratio. Therefore, sometimes, their ratings can differ.