



FundGrade

FundGrade A<sup>+</sup><sup>®</sup>

RI FundGrade A<sup>+</sup><sup>®</sup>

Methodology

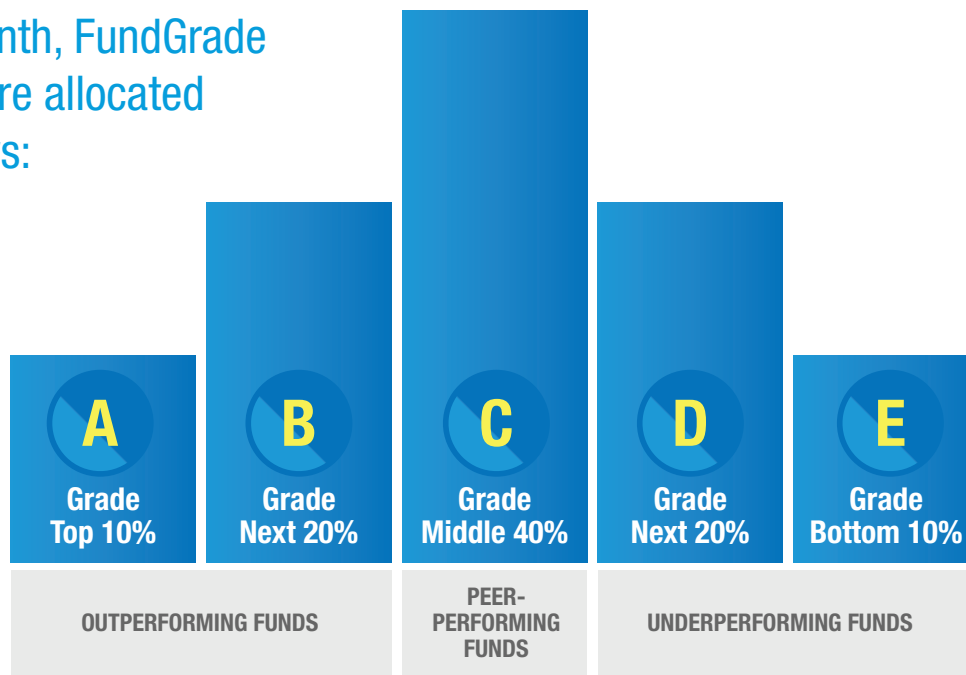
[fundata.com](http://fundata.com)

## Objective

The objective of FundGrade is to rank and grade Canadian investment funds, on a monthly basis, against their peers using risk-adjusted performance metrics.

The Canadian investment fund industry is highly competitive, and FundGrade provides a completely quantitative and easy-to-understand rating system that can be used by investors, advisors, and fund companies to measure fund performance. It also allows users to easily identify funds that have consistently outperformed their peers on a risk-adjusted basis.

Each month, FundGrade ratings are allocated as follows:



## Why it works

The FundGrade rating system incorporates up to 10 years of history and uses three risk-adjusted performance metrics that are well-known and widely accepted in the investment industry.

1. **Sharpe Ratio** - 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.
2. **Sortino Ratio** - 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.
3. **Information Ratio** - 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.

FundGrade is a completely quantitative measure. Qualitative factors and analyst opinion are not considered and have no bearing on the grading process.

## Peer groups

To make the grades relevant, funds are only measured against similar investment products with comparable investment mandates. This is accomplished in three ways.

First, FundGrade uses the fund classification standards that have been defined by the Canadian Investment Funds Standards Committee (CIFSC). Funds are ranked and graded within CIFSC categories. Specialty categories that are not homogenous and that are deemed unranked by the CIFSC are not graded.

Second, FundGrade ratings are calculated separately for three distinct groups of funds:

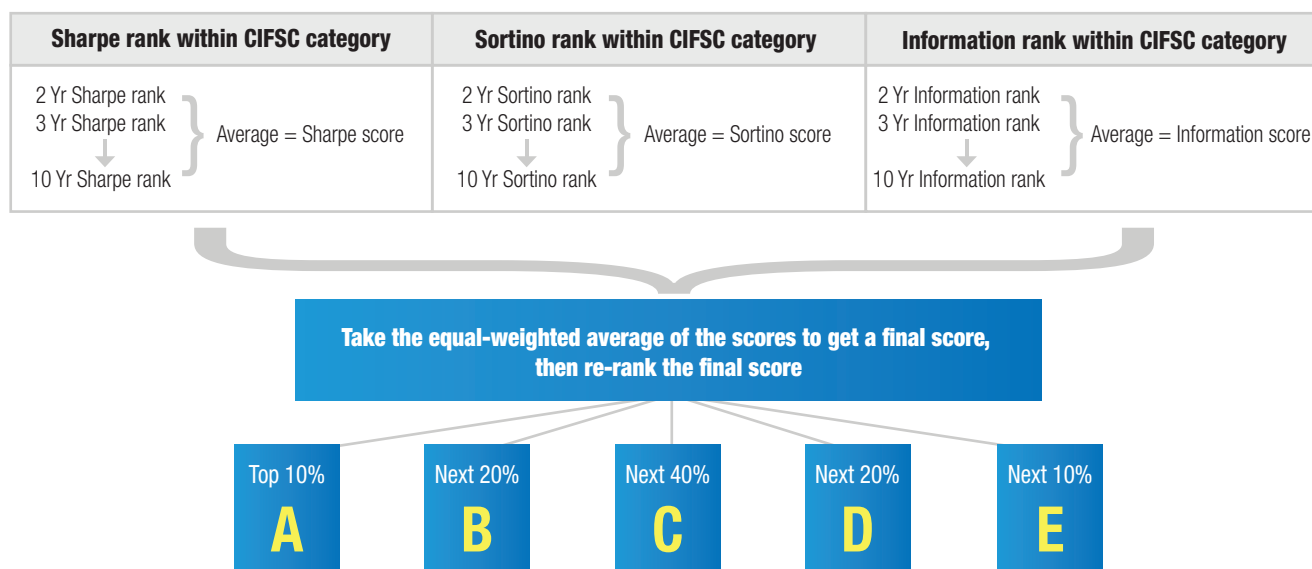
1. Mutual Funds and ETFs
2. Segregated Funds
3. Pooled Funds

Third, fee-based and institutional series are excluded from the calculation.

## How it works

Each month, FundGrade ratings are calculated and assigned using the following methodology:

1. Calculate Sharpe, Sortino, and Information ratios for each time period from 2 to 10 years for all eligible funds.
2. Calculate one ratio for each fund family for each year by taking an average of all eligible series.
3. Rank each ratio for each year within each CIFSC category.
4. Equally weight each year to calculate an average rank for each of the ratios. This results in a Sharpe score, a Sortino score, and an Information score for each fund.
5. Equally weight the scores for each ratio and take the average to get a final score for each fund.
6. Rank all final scores within each CIFSC category.
7. Assign grades from A to E according to the 10-20-40-20-10 distribution and cascade to all series.



# FUNDGRADE A+® Methodology

## Objective

FundGrade A+® was designed to identify not only the best-performing funds, but also the most consistent. It is a yearly award that recognizes the 'best of the best' among Canadian investment funds that have maintained a high FundGrade rating throughout a calendar year.

## How it works

FundGrade A+® is a supplemental calculation to the FundGrade ratings and is performed at the end of each calendar year. Eligible funds must have received a FundGrade rating for each month in the previous calendar year. FundGrade A+® uses a 'GPA-style' calculation with the following methodology:

1. A score is assigned to each of the FundGrade ratings, as follows:
  - A Grade = 4
  - B Grade = 3
  - C Grade = 2
  - D Grade = 1
  - E Grade = 0
2. For each fund, a 'GPA' is calculated by adding up the scores for all 12 months and dividing by 12.
3. Any fund with a GPA of 3.5 or higher receives a FundGrade A+®.

## Objective

The RI FundGrade A+<sup>®</sup> was designed to recognize the top performing Responsible Investing (RI) funds not just based solely on returns, but using the same risk-adjusted performance measures that make the FundGrade so effective.

## Peer Group

First, the universe consists only of funds that are identified as RI funds by the Responsible Investing Association (RIA).

Second, the funds are split into three categories: 1) Equity, 2) Balanced, and 3) Fixed Income. These categories are based on the high-level CIFSC groupings whereby all the equity categories are combined, all the balanced categories are combined, and all the fixed income categories are combined. This provides a sufficient number of funds in each of the three categories to allow for meaningful comparisons.

Only Mutual Funds and Exchange Traded Funds are eligible for the RI FundGrade A+<sup>®</sup> Award.

## How it works

The RI FundGrade A+<sup>®</sup> calculation is exactly the same as the monthly FundGrade calculation above, wherein funds are ranked based on Sharpe, Information, and Sortino ratios using up to 10 years of history. The funds with the top overall rankings in each of the Equity, Balanced, and Fixed Income categories at the end of the year are awarded the RI FundGrade A+<sup>®</sup>.

# Transforming market data into mission-critical information flow

At Fundata, we offer our clients the most accurate and comprehensive data on Canadian investment funds 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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