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Standard Guaranteed by Central Organizations

Standard Guaranteed by Independent Organizations

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In the mutual fund industry in Thailand nowadays, there are altogether 23 asset management companies and more than 1,500 funds in the system (based on available information as of March 28, 2015). We can see that this industry offers a wide variety of funds to invest in and each investor would like to pick good mutual funds for himself/herself. Of course, one factor to consider in choosing a mutual fund is to look at its performance by benchmarking it against the **"standard index"**, a benchmarking index of the fund itself.

However, investors cannot help comparing the funds of each asset management company. It is not easy to compare the "mutual funds" in this manner because, as mentioned earlier, the details of each fund vary. To facilitate the mutual fund investors, the Association of Investment Management Companies (AIMC)" gathers the performance of mutual funds, categorized under SEC criteria, so that the investors can see and preliminarily compare the performance of mutual funds with the same investment policy at the website www.aimc.or.th.

"However, investors must not forget that .... they cannot look at the return only. Most importantly, AIMC is not responsible for ranking the mutual funds in Thailand. It only gathers the information on the funds' return and disseminates it to the investors."

Impartial perspective on mutual funds via independent organizations

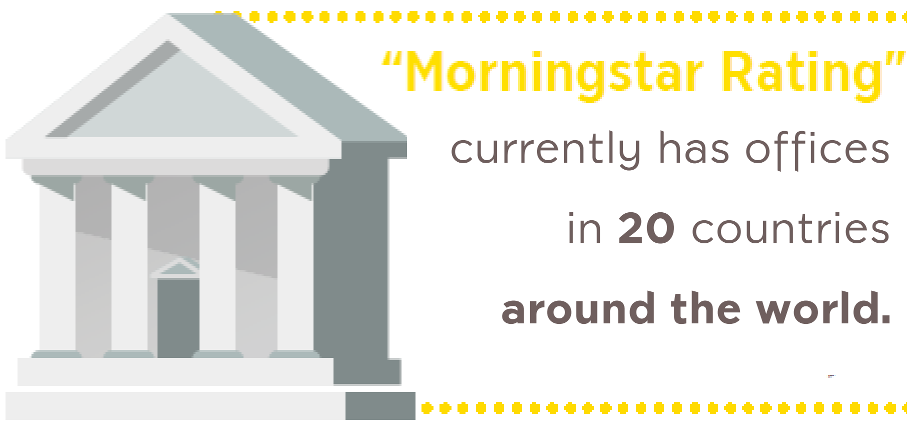
In the past, Thailand had two licensed rating companies, namely "Fitch Ratings (Thailand) Co., Ltd." and "Lipper (Thailand) Co., Ltd.", a subsidiary of Reuter (Thailand) Co., Ltd. Later in 2009, "Morningstar Research (Thailand) Co., Ltd." was officially launched as the 3rd rating company in Thailand.

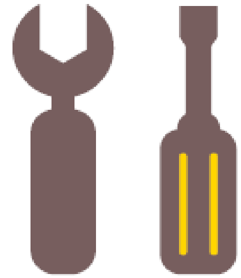
With respect to "Lipper (Thailand) Co., Ltd.", it is a well-known overseas rating company that has registered its business in Thailand. The company uses its own analytical process to rate each type of fund based on their investment policy. On the other hand, "Fitch Ratings (Thailand) Co., Ltd.", another player in the credit rating industry, ranks only the mutual funds or asset management companies that hire it and the procedure is similar to the credit rating of bonds, such as debentures, where we often hear that the debenture of some companies receives credit rating of AAA or A+. Currently, Fitch Ratings (Thailand) Co., Ltd. rates only the same type of "fixed income funds."

"Morningstar" is the latest famous overseas rating company to establish and register its business in Thailand. It disseminates free information to the public via its website "www.morningstarthailand.com". This is another channel for an interested investor to do research before deciding to invest via an "impartial and independent third party" that reviews Thai mutual funds and provides free pre-investment information as a reference.

“Morningstar penetrated the Thai market with the aim to provide information and rate the mutual funds to help investors achieve their investment goals, as planned. They can provide free information because the company would like to see the investor use more impartial reference information to make decisions. It is believed that this will upgrade and develop the mutual fund industry. Otherwise, each asset management company will claim that its funds are better than others. So, who will be the middle man to provide the investors with the impartial information?”

Morningstar was approved by the SEC to be a "mutual fund rating company" on March 10, 2009. It has been about seven years now since its establishment in Thailand. In the global platform, the reputation of Morningstar is widely accepted and it was considered as the “world's leading company” that provides financial information and analyzes the investment. It is strong in “rating mutual funds”, generally known as the “Morningstar Rating”. The company currently has offices in 20 countries around the world.





Generous tool provider

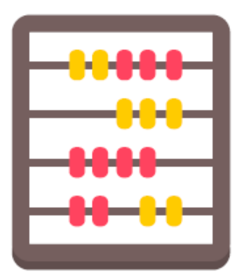
Morningstar rates mutual funds by segment or category, which is called the "Morningstar Category". This global standard rating is based on "risk-adjusted returns" in Morningstar's version.

Generally, applying the "risk-adjusted" method to assess the risks and calculate the return of two funds means equalizing the risk level of both funds by increasing or decreasing their risk before comparing both of them. As a result, using the Sharpe ratio to measure the return is in line with the meaning of the risk-adjusted method mentioned above.

However, measuring the return with the Sharpe ratio does not always yield the right outcome. If two funds generate an equal amount of positive return, the fund with lower volatility will receive higher scores from the Sharpe ratio. On the contrary, if both funds generate an equal amount of negative return, the one with higher volatility will receive higher scores. That is because it yields a lower negative return per unit than the other. This may conflict with the investor's sentiment and he/she may not accept the rating method of the Sharpe ratio because most funds generate a negative return."

Based on the hypothesis of Morningstar, most investors dislike risks and prefer upside variation to downside variation. Morningstar focuses on downside variation when calculating the "Morningstar risk-adjusted return (MRAR)" and will not set up the hypothesis on the distribution of an excess return.

"The widely accepted meaning of the risk-adjusted method is based on the investor's satisfaction under the perception that a higher return is "good", and a higher risk is "bad". However, the investor should consider the outcome when both circumstances occur at the same time. MRAR always includes both factors to calculate the "risk-adjusted return" to suit the individual's needs.



The calculation of the "Morningstar Risk-Adjusted Return" (MRAR) takes four steps to ensure a standardized perspective

1. **Total Return**

   Total return is calculated to find the fund's monthly return.

2. **Load-Adjusted Return**

   Load-adjusted return is calculated by including the commission charged for the purchase of unit trusts. Therefore, between two mutual funds that yield an equal amount of return, the one with a high commission will generate lower load-adjusted return than the one with a low commission.

   Example: Fund A and B equally yield a 10.0% return. However, Fund A charges a fee of 0.10% while Fund B charges 0.25%. If we look at the load-adjusted return, Fund A will yield 9.90%, higher than Fund B, which generates only 9.75%.

3. **Morningstar Return**

   The Morningstar Return is calculated from the difference of the fund's monthly load-adjusted return and risk free rate.

4. **Morningstar Risk-Adjusted Return (MRAR)**

   The Morningstar Risk-Adjusted Return (MRAR) calculates the risk to find the return. Using the utility function theory, Morningstar adjusts the return calculation based on risk. Simply speaking, most people will be more satisfied when investing in low-risk high-return stocks than in high-risk low-return stocks. Taking this factor into consideration, Morningstar applies this concept to assess the pros and cons between risk and return. Therefore, by taking into account the return in each period, MRAR is the return calculation method that assures investors that the return they earn yields the utility function to satisfy them.

Since most investors "dislike risks" and "prefer upside variation to downside variation." Morningstar, puts more weight on "downside variation" than "upside variation." At the same time, it also puts a lot of weight on the mutual funds that yield a steady return. This is how Morningstar looks at mutual funds.