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## Fund Rating

Which leads ... which follows?

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At present, Thai investors hardly use the reference information in making a decision and most of them focus on the **"short-term picture"** during a specific period. For example, they will invest in a fund that performs best over a certain period. In fact, different mutual funds take turns being in the top position each year. However, some investors do not pay attention to this point because they think that it should not be a problem investing in the number one fund each year. Moreover, it tends to be good because the return they earn should be at a satisfactory level. Why do they bother making a plan to achieve the short, medium and long-term financial goal?

Before making an investment, the investor should understand the "method and concept of the fund managers" first. That is because most fund managers constantly bear different views from individual investors. Most of them invest in different assets because they make investment based on medium and long-term investment perspective on rather than short-term ones. This excludes the fund managers that follow the policy on short-term speculation, which is a rare case.

Then, the investor should realize that "mutual funds" of each company are subject to different style of management. If he/she lacks a "financial plan" that fits his/her characteristic, the investment will easily lose its distinctness. If a goal is set for medium or long-term investment, for example three to five years, the investor will need a steady average return in the medium or long-term in the investment plan to answer his/her needs, for instance, an average of 10.0% expected return in three to five years.

Therefore, "the investors should look for mutual funds that can generate a yield that meets their financial goal and answers their needs for a steady return in the medium or long- term, between three and five years. Then, they should choose that fund and save themselves some headaches from chasing the number one fund each year. Of course, the return may not always be in the top position. However, if the selected fund yields a long-term return as expected, they can achieve their goal."



### **Who is Morningstar and why is it giving the stars?**

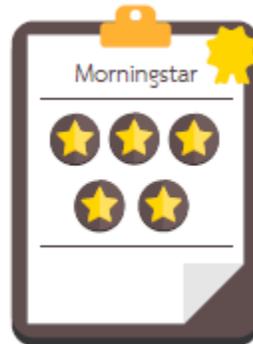
Morningstar serve as an **"intermediary"**, providing **"free"** information on mutual fund investment via its website [www.morningstarthailand.com](http://www.morningstarthailand.com). It helps the investor make decisions effectively.

"Morningstar" would like Thai investors to encourage the use of **"information"** as reference in making their decisions. Instead of looking at short-term performance, they should show more interest in funds with **"steady performance"** in the long term, which will better address their needs.

When comparing the **"return"** among mutual funds, the investor always looks at the funds by making a comparison. Let us repeat that ... **the comparison can be done only when the "mutual funds" are similar.** That is, **funds with the same benchmark can be compared.** It is like comparing **"apples"** to **"apples"**, not **"apples"** to **"oranges"**, which is incomparable.

**The "fund ranking"** of each **"rating company"** has different criteria and symbols. Here, we would like to focus on the rating of Morningstar, which gives **"Star Rating" to funds.** Thai investors may be unfamiliar with this concept because they typically look for a short-term **"return"**.

"When looking at a fund's performance, the investor focuses on each fund's return in percentages over a specific period. They tend to always look at the picture in a short term. Which fund has potential and is outstanding this year? Of course, no fund can remain in a top position forever. So, **chasing the number one fund every year is a short-term view, which may cause you to miss out on a good opportunity for a long-term investment.**



**Morningstar  
gives "Star  
Rating" to  
funds.**



## Five-Star Mutual Fund

As mentioned earlier, Morningstar look at the **"mutual funds"** through a process that is of the same standard worldwide. Funds to be rated by Morningstar must continuously perform for "at least 36 months (3 years)", and the rating is divided into **3 periods**, namely **3, 5 and 10 years**. Morningstar rates the mutual funds in each category by applying the "Morningstar Risk-Adjusted Rate (MRAR)" and the fund with highest scores will receive the most "stars". The rating levels are grouped according to the distribution of a Bell Curve.

"The first 10.0% of top-performing funds will receive **"five stars"**, while 22.5% of the second best-performing funds will receive **"four stars"**. The next 35% will receive **"three stars"**, 22.5% will get **"two stars"**, and the last 10% will receive **"one star"**. The funds in each category will be rated from **five stars to one star**. The investor must compare the rate of mutual funds within the same category; it cannot be compared across investment policies."

For investors who wish to use Morningstar's rating information provided at [www.morningstarthailand.com](http://www.morningstarthailand.com), before using it, they must adjust their perspective on the fund performance to be aligned with Morningstar's perspective. It will then help them make the right investment decision because the information shows both a regular "return" that Thai investors are all familiar with and **"the stars"**, which are based on Morningstar's rating fashion.

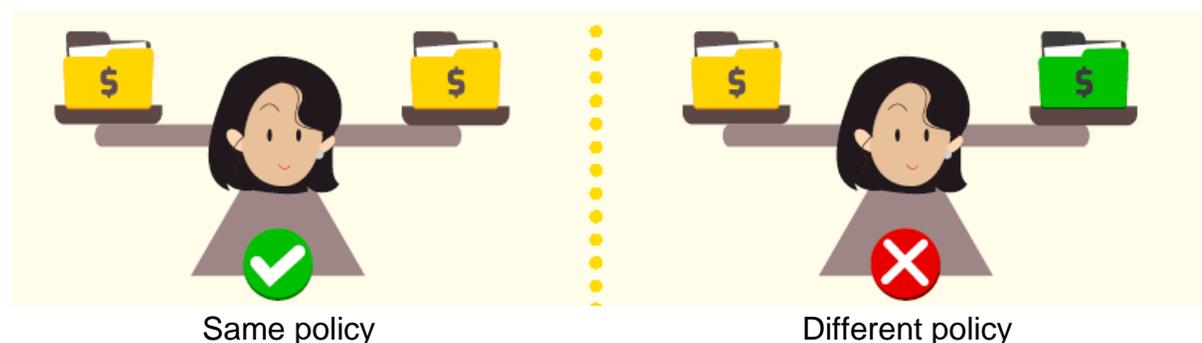
"To enter the website with the same perspective as Morningstar and its rating scheme, the investor must not only consider the fund performance, but also pay attention to the **"Star Rating"** that ranges from five to one in each category, as this reflects the fund's long-term fund performance. The fund rating by segment or category specified by Morningstar itself is called the **"Morningstar Category"**, which is the global standard that may be different from the SEC criteria."

If the investor still looks at the **"return"** with the old perspective, the Morningstar website also shows **"return"**, although not for comparison purposes. The investor may feel confused why a fund with no star yields a better **"return"** than a **"five-star fund"** or why the return of a **"three-star fund"** is lower than a **"one-star fund"**. That is because they focus on the **"return"** only, which is not how Morningstar rates the funds according to its own approach.

"If the investor is curious which funds in each category are rated **"five-star"**, he/she can browse and check. This is a more proper use of Morningstar's star rating, which may be in contrast with what most Thai investors are familiar with."

The Morningstar rating only compares the performance of the funds with the same policy. The fact that a fund is rated **"two stars"** does not mean that it performs poorly. Sometimes, a **"two-star fund"** may outperform the **"benchmark"**. It is not a bad fund, but it may simply mean that other funds in the same category display better performance.

*"Therefore, the investor must compare the funds with the same policy only, not across different policies."*



Although the **"past performance"** cannot guarantee the **"future return"** and the **"return"** seems to be intangible, the Morningstar rating can be a **"tool"** that helps the investor decide more easily which fund he/she should pick, which is very helpful. In other countries, the investors are much more **"aware of information use"** than Thai investors are. Hopefully, in the future, Thailand will develop in the same direction.

Each month the stars change. They either **"increase"** or **"decrease"** in number, depending on the consistency of fund management skills. That is because only 10% of the funds are categorized as a **"five-star fund"**. In assigning the stars, Morningstar considers a steady return in the long-term. Moreover, the company annually presents the best performance award to the funds with **"outstanding performance"** in each category and in Morningstar's view."

*Today, the **"Star Rating"** may be a **"new tool"** for Thai investors. However, we do not want you to start questioning if "this fund-rating technique is really good or not". Otherwise you will not try it out and will lose the opportunity to learn about investment. Instead of harboring doubts, why don't you put aside a portion of your money and make an investment? It will more or less help you experience and better understand this tool.*