

Asset Manager Rating Criteria

Master Criteria Report

This report updates the following criteria reports:

- Reviewing and Rating Asset Managers (August 2010)
- National Scale Asset Manager Rating Criteria (July 2010)
- Revisión y Calificación de Administradores de Activos (August 2010)
- Metodología de Calificación de Administrador de Activos a Escala Nacional (July 2010)
- Reviewing and Rating Credit Asset Managers (July 2009)
- Reviewing and Rating Fund of Hedge Fund Managers (June 2009)
- Reviewing and Rating Real Estate Asset Managers (June 2009)

The rating scale is notably changed from a numerical scale of "M1" to "M5" to a descriptive scale as presented in appendix A.

Related Criteria

[Fund Quality Ratings Criteria \(September 2011\)](#)

[Investment Manager and Alternative Funds Criteria \(December 2012\)](#)

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Scope

Focus on Operational Assessment: Fitch issues Asset Manager Ratings to provide investors and other market participants with an independent assessment of an asset manager's investment and operational platform relative to institutional investors' standards. While this assessment includes considerations on the current financial standing and near-term sustainability of rated asset managers, Asset Manager Ratings are not solely an evaluation of a manager's financial condition and should not be confused with Fitch's credit ratings.

These criteria can be applied to asset managers managing funds or mandates or providing investment advisory in areas such as stocks, bonds, properties, loans or funds of funds.

Key Analytical Drivers

Five Rating Pillars: Fitch's Asset Manager Rating methodology, which was first developed in 1998, is designed to systematically capture, evaluate and report on the key attributes of an investment manager's operational and investment platform by focusing on five key areas, and 30 sub-categories. The five key areas reviewed are: 1) company, 2) controls, 3) investments, 4) operations, and 5) technology. The output is a focused analysis that results in clear, transparent rating conclusions and a detailed profile of the rated asset manager.

Company: Fitch assesses the asset manager's corporate set up with a focus on shareholder resources and commitment, business and financial sustainability, experience, governance, independence and reputation of key third parties, staffing, including key man risk and functional segregation of duties.

Controls: Fitch evaluates the overall control framework of the manager and, more specifically, controls relative to conflicts of interest and limitations specified by regulation, contractually, and/or spelled out in prospectuses/offering documents. Additionally, Fitch reviews restrictions and related procedures with respect to sales, trade execution and portfolio valuation. Fitch also reviews the framework for identifying, measuring, managing and reporting investment risks.

Investments: Fitch analyses the quality and suitability of investment resources (staffing and access to information) and the overall discipline of front office operations. Specifically, Fitch focuses on depth and experience of portfolio management staff, access to information and research to support investment decision-making, clearly defined investment objectives and clearly articulated limits, and trading resources. For an "investment performance" oriented assessment, investors should refer to Fund Quality Rating criteria and research.

Operations: The evaluation of middle and back Office functions covers all relevant workflows, including trade confirmation and support, portfolio record keeping, corporate actions, reconciliations and valuation and focus on the operational platform's flexibility, scalability and security. Criteria also apply to client servicing, including the quality and timeliness of investor reporting.

Technology: Fitch's assessment of an asset manager's technology focuses on IT resources, the quality of systems, integration, data management and overall security.

Methodology Overview

Focus on Operational Assessment

A Fitch Asset Manager Rating involves an in-depth analysis of an asset manager's investment and operational platform, focusing on five core pillars – company, controls, investments, operations, and technology. The ratings and supporting research provide a transparent benchmark for managers against the standards applied by institutional investors. Institutional investors and their intermediaries may use Asset Manager Ratings to complement their analysis of asset managers in terms of comparability and suitability.

Institutional Standard Benchmarking

Asset manager ratings are assigned on a descriptive scale based on Fitch's assessment of the manager's investment and operational platform. The assessment is largely pass/fail, as the minimum hurdle for achieving a rating is set relatively high in order to conform to the expectations of institutional investors globally and to weed out weaker players. Asset managers that are unable to demonstrate that they meet institutional standards for the industry will not receive a rating.

Managers that are less well-established but have a good platform that meets institutional standards for the industry may be rated 'Good Standards.' A rating of 'High Standards' may be assigned to an established manager with a strong operational set-up and investment platform that, in Fitch's opinion, exceeds industry standards for institutional investors. The 'Highest Standards' designation is reserved for managers that are deemed to be best in class. Managers that fail to maintain minimum institutional standards may have their ratings lowered to 'Below Standards' or 'Inadequate' and subsequently withdrawn.

The notion of institutional standards as a benchmark is relative to the market in which the asset manager operates. For asset managers rated under a national scale, the institutional standards applied are domestic.

Broad Application

Asset Manager Ratings (AMRs) may be assigned to a diverse set of managers offering a wide range of investment strategies, including small as well as larger players, diversified and specialist managers, and managers operating globally or in domestic markets. AMRs complement other analytical offerings in the market. For example, third-party audit services may focus solely on the existence and documentation (i.e. SAS70 or ISAE3402) of middle- and back-office controls with little analysis of the manager's overall investment platform and operational capabilities. Others may focus solely on benchmarking the manager's risk-adjusted returns against other managers and benchmarks, regardless of the robustness of the manager's infrastructure, investment processes and the sustainability of its franchise.

Where possible, the AMR leverages off existing materials maintained by managers, such as standard questionnaires/RFP documents, audited financials and internal investment/risk management/ compliance/and internal audit documentation. A review of these materials is supplemented by an on-site review, including meetings with key staff in relevant functional areas.

The analysis underpinning the rating assessment is presented in a transparent, in-depth research report on the manager. AMRs may be assigned standalone or in combination with other ratings, such as Fund Quality Ratings and traditional credit ratings.

Five Scoring Categories

The five pillars underpinning the manager assessment – company, controls, investments, operations, and technology – provide a holistic view of the manager's capabilities and sustainability, especially during periods of stress.

In an effort to apply its methodology as consistently as possible and minimise subjective variations in evaluating asset manager characteristics, Fitch uses a scoring approach to make its qualitative determinations. Based on the typical attributes described in the sections below, each factor within Fitch’s analysis is categorised as ‘Highest Standards’, ‘High Standards’, ‘Good Standards’, ‘Below Standards’ or ‘Inadequate Standards’. Fitch highlights that these attributes are dynamic and may evolve over mid to long term as practices changes in the asset management industry.

In determining the final scorecard rating, the level and distribution of the scores are considered with a particular focus on weakest links and the materiality of these outliers. For example, to achieve ‘Highest Standards,’ the majority of the elements considered should be individually scored at this level *and* no material weaknesses exist. Even if most elements were scored ‘Highest Standards,’ the overall rating could be adjusted downward if a material weakness existed. Furthermore, consistent with the “minimum hurdle” approach mentioned above, no individual factor score should be ‘Below Standards’ for ratings above “Good standards’ level.

The scorecard serves as an important tool in the rating process, since it promotes consistent application of the rating methodology. However, like any tool or model, scorecards are not perfect and Fitch does not, therefore, rely solely on the scorecard as qualitative factors for each individual asset manager are also considered. These qualitative factors combined with judgements provided by members of the rating committee are combined with the scorecard results in arriving at the final rating, guided by the rating definitions for each of the five rating categories.

Fitch recognises that, due to differences between asset management organisations in terms of geographic coverage, size, asset class focus, client types and operating strategy, the application of the rating methodology requires careful consideration of the context in which it is applied. See in appendix C, how the specifics of property investing are captured in the scorecard.

Specifically, while the broad areas of assessment are the same for all countries, the typical attributes expected at each rating level vary between international and national ratings. In countries where national ratings are assigned, the typical international attributes listed in the table below may be adjusted to reflect local practices and local institutional standards.

Areas of Assessment

Company

Figure 1

Typical Rating Attributes – Shareholding & Financial Standing

Good standards	<ul style="list-style-type: none"> • Identifiable shareholders with commitment • Profitable or well supported business • Equity/AUM ratio above regulatory minimum • Cash balance covering expenses for the near term • The level of debt does not pose risk to the on-going sustainability of the manager. • No reliance on a single client and the largest client, typically, represents less than one third of firm's total assets
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • regular shareholders' investment in the business • would stay profitable despite outflows under mild stress • Equity/AUM ratio well above regulatory minimum • sufficient cash on hand to meet unexpected contingencies, debt service payments • debt/EBITDA (typically 3.0x or less) if leveraged
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Long standing financially strong shareholders with no anticipation of change • Can suffer outflows under severe stress and stay profitable • sufficient cash on hand to meet unexpected contingencies, debt service payments and/or operating expenses in a period of severe stress • debt/EBITDA (typically 1.5x or less) if leveraged • highly diversified asset and client base by type and geography

Source: Fitch

Shareholding & Financial Standing: Fitch assesses the asset manager’s shareholder commitment, financial flexibility and business sustainability. For this, it reviews, among others, the asset manager’s relationship with its parent, financial statements with a particular focus on profitability and working capital requirements, client base, product range, and ultimately its business resilience under stress scenarios on assets under management.

Experience: Fitch determines the length and quality of experience that the company and its key staff have demonstrated on its core markets, across asset classes, investment strategies, client types and geography. Factors covered include the manager’s years in business and whether there are any material reports of questionable activity, market presence and evolution in terms of asset gathering capacity and development of client and product base.

Governance and Independence: The agency assesses the level of independence and standards of governance of the asset management company and its investment vehicles. The review encompasses the corporate and fund governance bodies, regulatory and third party (ie. custodian, administrators, auditors...) oversight and controls, activities conducted with group affiliates and relationship with external service providers.

Figure 2

Typical Rating Attributes – Experience, Governance, Independence

Good standards	<ul style="list-style-type: none"> Lengthy/clean personal experience of key staff with common history AM has a well set up governing body, is regulated and subject to at least one third-party surveillance Investment vehicles are properly regulated, with segregation of assets, trustee duties and legal documentation The custodians, administrators and other key third parties are well-recognised, independent third parties.
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> Typically more than three years of corporate existence without reports of material questionable activity or governance failures Key staff have experience through market cycles in core competencies Well thought and controlled corporate strategy Clear cut organisation with respect to affiliated activities Investment vehicles have well identified and set up governing bodies and policies Low turnover among third parties
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> Long standing experience in servicing different client types through several market cycles Existence of critical size in core competencies Subject to multiple external audits beyond regulatory obligation Existence of active minority shareholders and/or independent board members with access to information to fulfil their duties Pooled vehicles have governing bodies with independent directors and information/tools to fulfil their duties Investment mandates oversight is strong with periodic committees/boards

Source: Fitch

Staffing: The main areas of assessment of staffing are organisational structure, individual and teams’ skillset and experience with a particular focus on senior staff, turnover, capacity, key person dependency and compensation.

Figure 3

Typical Rating Attributes – Staffing

Good standards	<ul style="list-style-type: none"> Well identified and distinct department/teams for front office and operations respectively At least two seasoned professionals (typically >15 years' of experience) at top management level with 'key person' risk manageable Background checks (for new ratings) shows experienced/trustable individuals Consistent compensation policy with adequate incentivisation of employees
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> Well identified and distinct department/teams for business and controls Typically 3-4 key staff at top management level with clear scope and high level of stability Second layer of managers with adequate level of stability and strong background Limited key man risk Variable compensation based on quantifiable objectives aligned with third party investors
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> Additional separation of functions (eg. Trading/PM, internal control/risk management) Experienced/legitimate/stable senior team with typically CEO, CIO, COO, CRO, CTO Clear compensation policies overseen by compensation committee and appropriately aligned with third party investors. Senior staff are interested being invested in the funds or company

Source: Fitch

Controls

Overall Risk Control Framework: Fitch evaluates the overall control framework of the company, reviewing the existence of first (eg. portfolio managers), second (eg. internal control) and third level of controls (eg. internal audit), documentation of procedures and controls, organisation of control and risk functions. The assessment of the company's operational risk management framework is based, among other factors, on the company-wide set up for monitoring and reporting operational risk, frequency and impact of errors, omissions and litigations as well as oversight and control of third party service providers.

Figure 4

Typical Rating Attributes – Overall Risk Control Framework

Good standards	<ul style="list-style-type: none"> Documentation of key risks, procedures and controls Competent, independent risk and control function(s). Monitoring of operational losses with historic low impact Service Level Agreement (or equivalent) with third parties
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> Risk and control committees, escalation procedures with evidence of effectiveness. Well-resourced, specialised, and stable risk and control functions Risk managers with strong market background Reporting of incidents and near-misses with low frequency and follow up procedures. Key performance / Risk indicators and day to day interface with third parties.
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> Formal multi-layer control framework Risk and Control functions represented at executive level. Risk mapping maintained, based on self assessment Extremely low frequency and impact of incidents, comprehensively tracked. Regular and formal reviews of third parties and detailed performance / Risk indicators.

Source: Fitch

Compliance and Controls: Fitch reviews the organisation of controls over key procedures such as sales, trade execution and portfolio valuation. Monitoring of adherence to regulatory and contractual restrictions, including pre and post trade compliance, are also covered.

Figure 5

Typical Rating Attributes – Compliance and Controls

Good standards	<ul style="list-style-type: none"> • Objective broker selection, formal fee policy, ability to challenges execution prices. • Periodic post trade controls on key regulatory and contractual limits by staff independent from front office with escalation • Procedures for fair allocation of orders, personal trading, insider trading and affiliated activities • Systematic control on quantity and short selling • Identified independent pricing sources and documentation • “Know Your Client” policy for distribution
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Enforcement of eligible brokers list and formal controls on volumes and execution quality, • Automated post trade controls on most limits • Pre trade controls on key limits • Formal controls on fair allocation, personal trading and conflicts with affiliates • Formal pricing policy with comprehensive controls • Comprehensive Client take on procedures and sales training
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Detailed best execution analysis and strategy to optimise execution, extensive use of STP trading (where appropriate) • High level of customisation/coverage of constraints and early warning flags • Strict oversight or restrictions on personal trading, additional controls on front running between portfolios or desks, intraday trading, portfolio turn over • Pricing committee, in-depth sourcing, detailed model pricing • Independent review of all marketing communication

Source: Fitch

Investment Risk Management: Fitch reviews the enterprise-wide framework for identifying, measuring, managing and reporting investment risks (market, liquidity and counterparty risk), with a particular focus on second-level of controls. The evaluation of market risk monitoring focuses on regulatory requirements and generic key risk metrics. Liquidity risk management is assessed in an asset and liability context. Counterparty risk review covers the selection of counterparty and the monitoring of aggregated credit exposure relative to company-wide limits.

Figure 6

Typical Rating Attributes – Investment Risk Management

Good standards	<ul style="list-style-type: none"> • Key market risk metrics periodically monitored to check consistency with investment strategy and objectives • Identification and monitoring of less liquid assets across portfolios for purpose of pricing and liquidity management • Clear policies and well defined limits on investment portfolios’ leverage • Selection/monitoring of counterparties using objective criteria
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Detailed internal market risk exposure limits on each portfolio with regular/automated monitoring and portfolio reviews with risk and senior management • Clear limits on exposure to less liquid assets in portfolios • Proactive management of funding risk with diversification of financing and periodic review of terms and conditions • Enforcement of eligible counterparty list and controls/limits on exposures and tenors
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Ongoing stress testing, comprehensive ex-post and ex-ante market risk breakdowns, proactive risk oversight and budgeting • Detailed asset liability mismatch stress tests and liquidity risk indicators • Stringent collateral practices, standard agreements in place with all counterparties

Source: Fitch

Investments

Resources and Discipline: The analysis of the investment operations focuses on investment resources relative to the standards typically applied by institutional investors (staffing and access to information) and overall discipline of the process across portfolios. For a comprehensive assessment of a specific investment process and how this influences risk-adjusted performance, Fitch uses its Fund Quality Rating criteria (see *Fund Quality Ratings Criteria*, published 19 September 2011).

Figure 7

Typical Rating Attributes – Investments

Good standards	<ul style="list-style-type: none"> • Clear portfolio management responsibilities with back-ups, staffing depth consistent with strategy, coverage and number of portfolios • Access to sell side research and market data, good coverage of investment universe • Clearly defined limits and investment objectives • Existence of periodic investment committees (information sharing and/or decision making) • Portfolio performance regularly analysed at Front Office
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Experienced PMs with good level of support (trading, assistants, quantitative research) allowing PMs focus • Low staff turnover • In-house research memo and models, extensive coverage of the universe • Clearly defined sources of performance • Documented and comprehensive inputs to decision making • Demonstrated ability to analyse performance and take corrective actions.
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Highly experienced PMs with proven track record. • Dedicated trading resources (desks, electronic trading) • Multiple and original sources of information, in-depth proprietary research • Detailed term sheets listing investment guidelines – with demonstrated adherence • Disciplined buy and sell process • Formal portfolio reviews and documentation of investment decisions

Source: Fitch

Operations

Middle Office and Reporting: The evaluation of middle and back office functions covers all relevant workflows, including trade confirmation and support, portfolio record keeping, corporate actions, reconciliations and valuation. Fitch also reviews investor reporting and communication to form an opinion on its frequency, timeliness and quality of content. The ability to meet specific client requests through customised portfolio set up or solution is also considered. When an asset manager has outsourced its middle office to a third party provider, the analysis focuses on the quality, formalisation and level of service provided to the asset manager.

Figure 8

Typical Rating Attributes – Operations

Good standards	<ul style="list-style-type: none"> • Volumes and complexities commensurate with operational resources • Scalable and secured middle office processes • Clear procedure for portfolio valuation • Ability to adapt to client imposed set-up (eg. structure, custodian) • Investor reporting provides good, transparent overview, available under standard periodicity and delays
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Experienced and specialised middle office staff. • Straight through processing for most portfolios/instruments with daily reconciliation. • Automated price aggregation for valuation • Proven experience in managing dedicated portfolios • Reporting showing market sensitivities, detailed breakdown, performance analysis under flexible formats • Dedicated staff for client servicing
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Very stable and highly technical team with refined specialisation • Automated processing of corporate actions, proxy voting, collateral management • Seamless workflow for NAV calculation/validation/dissemination • Fully fledged customisation capabilities • Reporting showing detailed evolution of risk indicators, high degree of customisation, Global Investment Performance Standards (or equivalent) compliance for institutional mandates

Source: Fitch

Technology

IT Resources: Fitch reviews the resources in terms of dedicated staff and technologies available for infrastructure, application support and development, project and change management.

Integration and Data Management: Fitch considers the degree of integration, coverage and scalability of the databases. The review also covers the level of integration achieved between internal systems and external applications from data providers, administrators and other third parties.

Systems: Fitch reviews the primary functionalities, coverage and automation of the asset manager's key front and middle office systems, including risk analytics. Fitch's ultimate aim is to determine whether systems match the company's needs, as determined by its current and projected volumes as well as the level of complexity and diversification of products and asset types within portfolios.

IT Security: Data back-up and disaster recovery procedures are reviewed to assess the company's vulnerability to technological failures.

Figure 9

Typical Rating Attributes – Technology

Good standards	<ul style="list-style-type: none"> • Systems are on maintained languages and technologies, code documented and reviewed, good in-house or outsourced development resources • Central position keeping system feeding other tools and database with holdings, transactions and prices covering main instruments • Daily portfolios' position accessible including P&L, breakdowns • Available analytical systems (risk, statistical, performance analysis) • Systems backup - policy for access
High standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Most recent versions of languages and technologies used, careful selection of recognised vendor solutions and/or dedicated developers for internal solutions, IT staff specialisation. • Clear systems documentation and flowcharting • Well integrated systems with multiple interfaces including with third parties • Dedicated order management system (OMS) • Analytical systems interfaced with position keeping providing on demand data and broad reporting functionalities • Dedicated middle office systems for order matching/confirmation, reconciliation, trade transmission on most instruments • Disaster recovery procedures and well equipped Back-up site
Highest standards	<p>Attributes above plus:</p> <ul style="list-style-type: none"> • Regular platform upgrades, solid track-record in IT changes, state of the art project management capabilities, highly specialised staffing resources (including on desk capabilities) • Central data warehouse(s), data management policy, advanced reporting capabilities • Integrated FO system suite with real time positions and P&L, OMS interfaced with electronic exchanges • Risk analytics well integrated in front office user interface • All MO systems are fully interfaced and cover all instruments. • Detailed Business Continuity Plan, fully and regularly tested.

Source: Fitch

Rating Process

Fitch's AMR process is designed to assess relevant information, consistently apply criteria and uniformly disclose the agency's rationale. The process includes a pre-assessment, a documentation review and an onsite visit.

Fitch's analysis and rating decisions are based on relevant public and non-public information available to its analysts. The sources of this information are the manager and the public domain. The rating process also can incorporate information provided by other third-party sources. If this information is material to the rating, the specific rating action will disclose the relevant source.

Prerequisites

Fitch uses pre-assessment measures to determine whether it believes the asset manager has the necessary attributes and can provide sufficient information to undertake a full ratings analysis and provide on-going surveillance.

In general, Fitch looks for most or all of the following, in order, to conduct AMR:

- a well-defined regulatory framework;
- a minimum operating history;
- reputable custodians, administrators and auditors;
- third-party audits;
- vehicles with segregation of assets, trustee duties and legal documentation;
- clear separation of functions;
- clear corporate substance (premises, owners, executives, employees, incorporation, legal documentation); and
- clear portfolio management responsibilities (eg the company does not outsource portfolio management to a point where it becomes simply an intermediary).

Documentation Review

Requested documentation to be received two weeks before the onsite visit includes:

- standard RFP documents (see below for expected coverage);
- last audited financial statement;
- sample of operational procedures;
- summary of material operational losses and errors for the last three years;
- sample of minutes of risk management/compliance/audit committees;
- sample of relevant external reports (audit, SAS 70, ISAE3402, supervisory body);
- list of brokers/counterparties with typical recent volumes;
- transaction and trading volumes over the last three years;
- representative set of internal investment risk report;
- sample of investor reporting, including performance analysis report.

Onsite Visit

The onsite review serves to assist Fitch in understanding the organisation's processes and controls. Fitch meets with the following staff:

- senior management;
- risk management, including chief risk officer (if applicable);
- senior internal control and audit staff;
- senior compliance staff, including chief compliance officer (if applicable);
- senior middle and back office management;
- head of technology/chief technology officer;
- chief investment officer and/or lead portfolio managers; and
- head of trading desk (if any).

Interviews also include reviews of procedures and system demonstration on desks. Following the onsite review, Fitch may selectively request additional documentation.

Monitoring

All AMR are updated at least annually with ongoing monitoring and surveillance. Topics covered through this ongoing monitoring primarily include:

- corporate activity;

- staff evolution;
- assets under management; and
- major projects underway.

Limitations

Specific limitations relevant to the rating scales applied to asset managers include the following:

- The AMR relate to specific operational units and specific geographies within an asset manager — they do not necessarily relate solely to legal entities.
- The ratings do not predict a specific likelihood of asset manager failure over any given period.
- The ratings do not provide an opinion on the market value of any asset manager's investments, or that asset manager's own securities, or the likelihood that these values may change.
- The ratings do not provide an opinion on the liquidity of the asset manager's investments, or that asset manager's own securities.
- The ratings do not provide an opinion on the suitability or otherwise of an asset manager for investment or any other purposes.
- The ratings do not provide an opinion on the investment strategies implemented by the asset manager or forward-looking return expectations.

Appendix A: Asset Manager Rating Scale

Asset Manager Ratings are assigned to entire asset management organizations or, within larger asset managers, to specific operational units or geographies. The ratings are assigned on a descriptive scale based on Fitch’s assessment of the manager’s investment and operational platform. The assessment focuses on five main pillars -- company, controls, investments, operations, and technology – which are derived from the analysis and aggregation of 30 rating sub-factors. The top three ratings are expected to apply to those asset managers that meet or exceed the standards typically applied by institutional investors.

Figure 10

Asset Manager Rating Scale (International)

AMR scale		AMR definitions
Above institutional standards	Highest Standards	Asset manager has an investment platform and operational framework that Fitch considers to be superior relative to the standards applied by institutional investors in international markets.
	High Standards	Asset manager has an investment platform and operational framework that Fitch considers strong relative to the standards applied by institutional investors in international markets.
	Good Standards	Asset manager has an investment platform and operational framework that Fitch considers good relative to the standards applied by institutional investors in international markets.
Below institutional standards	Below Standards	Asset manager has an investment platform and operational framework that Fitch considers to contain some weaknesses that prevent it from meeting the standards applied by institutional investors in international markets
	Inadequate Standards	Asset manager has an investment platform and operational framework that Fitch considers to contain material deficiencies or suggests weak prospects for commercial viability.

Source: Fitch

The agency assigns National Scale AMRs to asset managers operating in countries where, for some rating factors, a comparison with international standards may not be applicable. In such instances, those factors are evaluated relative to local market standards of institutional investors. National Asset Manager Ratings, which display a special identifier for the country concerned, eg ‘High Standards (mor)’ for Morocco, are comparable only to National AMRs assigned in the same country.

Figure 11

Asset Manager Rating Scale (National)

AMR scale		AMR definitions
Above institutional standards	Highest Standards (xxx)	Asset manager has an investment platform and operational framework that Fitch considers superior relative to the standards applied by domestic institutional investors.
	High Standards (xxx)	Asset manager has an investment platform and operational framework that Fitch considers strong relative to the standards applied by domestic institutional investors.
	Good Standards (xxx)	Asset manager has an investment platform and operational framework that Fitch considers good relative to the standards applied by domestic institutional investors.
Below institutional standards	Below Standards (xxx)	Asset manager has an investment platform and operational framework that Fitch considers to contain some weaknesses that prevent it from meeting the standards applied by domestic institutional investors.
	Inadequate Standards (xxx)	Asset manager has an investment platform and operational framework that Fitch considers to contain material deficiencies or suggests weak prospects for commercial viability.

Source: Fitch

In some cases, there may be adjustments to the rating scale described above to meet the requirements of local convention or regulation in some countries. This may involve variants on the letter prefixes or additional categories beyond the standard one-to-five scale. Where applicable, the revised rating scale will be published in the country-specific and/or asset class criteria report/addendum.

Rating Watches and Outlooks

Rating Watches and Outlooks will be assigned to AMRs, when applicable. A Rating Watch is typically event-driven and, as such, it is generally resolved over a relatively short period. Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect trends in the rating factors that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue.

Appendix B: Expected Coverage of Standard RFP Documents

The standard RFP document that the asset manager prepares for third parties and provides to Fitch normally covers the areas listed below. Fitch will expect additional documents to be provided, should certain areas be absent from the standard RFP document.

- Shareholders and corporate organization chart
- Profitability and financial strength
- Governing bodies with members
- Assets under management by asset class, client type, geography and evolution over the past five years
- Top 10 accounts
- List of portfolio managers/flagship funds by process
- History, milestones
- Third party and Internal audits (main conclusions)
- Investment vehicle regulation and set up (incl. board)
- Custodians, administrators, auditors with date of inception of relationship
- Oversight of custodians, administrators (selection procedure, monitoring, key risk indicators, service level agreements)
- Departmental/divisional organization charts
- Headcounts and staff turnover by department
- Key personnel résumés
- Compensation policy
- Main risk, control and oversight committees/meetings
- Risk Mapping (where applicable)
- Control organisational structure (teams, committees, systems, reporting, escalation)
- Procedures to address
 - operational risk (error tracking, risk mapping, self assessment)
 - fair allocation of orders
 - personal trading
 - insider trading / management of private / public information
 - trading mistakes (short selling, fat fingers)
 - conflict with affiliated activities
 - misselling and misrepresentation
 - anti-money laundering
 - broker selection and best execution
 - pre-trade and post-trade compliance with investment limits and guidelines
 - pricing (pricing sources, controls, policies)
 - counterparty risk (selection, monitoring, standard agreements, collateral)
 - Client take-on / New product approval
 - Data Management
 - System development
- Risk management reports and committee minutes covering market, liquidity and credit risks
- Operational Risk reporting / Management Information
- Statistics on frequency and financial impact of errors / near misses
- Description of investment processes and organization of front-office

- Client reporting
- Overall IT architecture (including year of system roll-out)
- Transaction flow chart (including control points) from front office to back office (if available)
- Level of STP or electronic treatment (trading, matching, trade transmission) by type of instruments
- Disaster Recovery and Business Continuity Plan.

Appendix C: Criteria Application in real estate investment

The five pillars underpinning the manager assessment – company, controls, investments, operations, and technology will be also applied for the assessment of real estate asset management companies (REM).

The table below specifies a different focus and/or additional considerations of underlying rating considerations that reflect the activity and modus operandi of REMs. These refer to Controls, Investments and Operations.

Figure 12

Criteria Application in Real Estate Investment

Category	Topic	Specific focus and/or additional consideration
Controls	Third party oversight	The factor emphasises the broader range of third parties involved and their oversight which include among others property- and facility manager, legal and technical due diligence specialists, advisors etc. Fitch also considers the controls on and integration of data between the REM and its agents.
Controls	Compliance	Given a typically low level of personal and securities trading at REMs a strong focus is put on the management of conflict of interests particularly on all parties involved in the property process, including selection of contractors, architects, real estate agents etc.
Controls	Transactions	Referring to selection of brokers/banks for related cash management, securities and leverage activities, but also process flows of parties involved in property management
Controls	Constraints	Less trade oriented but focussed on the context of acquisition by type, risk and strategy and their compliance with given investment constraints. Fitch also considers the fund business planning process and control effected through such plans.
Controls	Market Risk	Particular emphasis is paid to analysis of risks at the macro (global/country/type of property) and micro (individual property) level that impact real estate investments and reflect on the funds' business plans. A strong focus is put on interest rate risks specifically for leveraged funds. Like for other investment managers the quality of stress testing and scenario analysis play a key role in the assessment of the factor.
Controls	Counterparty Credit Risk	Beyond financial intermediaries a focus is kept on the credit quality of parties involved in project management. A key consideration is also tenant credit risk and monitoring of related cash flows.
Investments	Market information	The scope of the factor emphasises the REM's market access and capacity to enter off-market transactions.
Operations	Procedures and workflows	Less security trading oriented, it analyses the broader range of cash relevant activities and reconciliations in the operating workflow like processing rental income or service costs.

Source: Fitch

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