



Rating Action

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PACRA REITERATES THE STAR RANKING CONCEPT

The asset management industry of Pakistan is currently passing through a challenging phase due to pressure in the operating environment, freezing of equity markets and constrained liquidity in the interbank market. In this regard, a detailed press release identifying the issues in hand and their impact on the overall industry has already been issued on October 15, 2008.

In the current scenario, PACRA has seen increased investors' interest in the star rankings already assigned to mutual funds. However, the discussion with some investors revealed certain ambiguities as to the basis of computation of Star Rankings. Although a detailed Ranking Methodology document is available on our website, keeping in view the current circumstances, PACRA considers the need to briefly explain the basic philosophy and concept behind computation of Star Rankings. For details, users are encouraged to review the said methodology document.

The Mutual Fund Performance Ranking (Star Ranking) aims to distinguish funds based on their relative actual performance within a similar category of funds. In measuring performance PACRA considers absolute monthly return and risk adjusted return measured through standard deviation. The ranking is a pure quantitative measure based on *historical* returns of a fund relative to other funds and does not take into account any other factor including fund management capability of the asset manager and the quality of risk management and other systems and processes. This distinguishes it from other rating products wherein factors impacting the future performance are also considered.

PACRA assigns two types of star rankings i.e. a star ranking based on fund's performance during the trailing 12 months and a *long-term star ranking* based on fund's performance during the trailing 36-months. The latest available rankings assigned by PACRA are based on performance review of funds upto the period ended June 30, 2007. Previously, PACRA has also assigned performance rankings based on performance review upto the period ended December 31, 2005 and June 30, 2006.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings.

PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.