

# FUND SELECTION METHODOLOGY

**kaleidofin**

realising unlimited possibilities of life

## Fund Selection Methodology

### 1 Purpose

The objective of this document is to determine the criteria that will be used by kaleidofin private limited to identify the specific mutual fund schemes that can be recommended to customers as a part of its Investment Advisory SBU. The Distribution SBU will only distribute funds that are in line with recommendations of the Investment Advisory SBU.

### 2 Criteria

The criteria used by kaleidofin private limited is based on their own Ranking Methodology.

The underlying principle is to maximize risk adjusted returns, for each customer segment. Suitability of the fund is assessed for each customer segment based on segment specific preferences in terms of risk capacity; risk tolerance; goal horizon and liquidity preference.

The fund evaluation criteria are based on multiple metrics are split across three broad categories:

#### I. Asset Management Company (“AMC”) and Fund Track record

- AMC Size: Minimum corpus of Rs 10,000 crores; to ensure the AMC has adequate financial strength and breadth of funds
- Fund Size and track record: Specific fund should have a minimum track record of 5 years and have an AUM of > Rs 1,000 crores.
- Sector specific funds are excluded, given higher risk concentration

#### II. Quantitative analysis of fund performance

Performance of funds is studied for one time investments as well as regular investment plans separately. Returns are measured across multiple holding periods (time horizons); and are measured across a range of time horizons since the fund inception to measure the distribution of returns, independent of market timing.

Some of the key metrics used in evaluation are:

### **2.1 Probability of negative returns**

Probability of negative returns, for various combinations of holding time periods for SIP and lump sum investment, studied to identify and understand the downside risk, over different market cycles.

### **2.2 Probability of returns below a certain threshold**

Similarly, emphasis has been given to keep fund schemes that yield greater than specified threshold returns across different time windows.

### **2.3 Risk adjusted returns**

Risk adjusted returns will be used as a metric to judge relative performance. Measures such as Sharpe Ratio have been used as a metric of risk adjusted return performance.

### **2.4 Volatility**

Absolute and relative volatility levels of funds are considered, to exclude highly volatile funds.

### **2.5 Riskometer rank**

SEBI mandated Riskometer rank is leveraged for consistency with observed volatility (actual historic performance-based volatility)

### **2.6 Cost structure**

The cost structure of the scheme as well as flexibility to the customer by way of entry and exit loads will be considered.

**III. Study and Evaluation of fundamental drivers of performance through both quantitative analysis and qualitative research.**

**a. Asset Quality:**

Fund schemes have been thoroughly screened based on asset mix, at individual security level. As an illustration, to evaluate debt funds: Individual securities held within the mutual fund, their credit rating; credit risk based on rating and associated probability of default; the sensitivity to interest rates; duration of the instrument; proportion of asset mix across different rating levels and proportion of unrated securities are used in risk assessment.

Sector Concentration risk, entity/group concentration risk and liquidity risk analysis are additional risk dimensions used to evaluate funds

**b. Fund strategy: Active trading vs Accrual strategy**

The fund manager's track record, the effectiveness of the fund investment strategy, expenses and fund net returns are studied to identify consistent strong performers.

**c. Macro -economic trends that affect fund performance** such as interest rates, oil prices, fiscal deficit, exchange rates, GDP growth are considered while evaluating outlook on fund performance.

**Review of the Schemes**

The schemes offered to the customers will be reviewed across these parameters at least once every quarter.