

2019 Diamond Ratings

Final criteria report –DFM MPS (Direct) Portfolio Family



Purpose of this document

This document confirms the criteria used to determine the 2019 Diamond Ratings for DFM MPS (Direct) Portfolio Family.

It documents the Diamond Rating methodology used with effect from 1 February 2019.

Market review

In choosing the criteria for rating DFM MPS (Direct) Portfolio Families, we consider a wide range of issues and take into account information available from a wide range of sources, including:

- Defaqto Insight consultants' market knowledge
- Market developments; industry trends and changes
- Regulatory developments – both current and proposed regulations (eg from the FCA, CMA, FOS, ABI, primary legislation etc)
- Industry feedback – both formal (eg Defaqto Roundtable events) and informal

Diamond Rating methodology

- Defaqto Diamond Ratings for DFM MPS (Direct) Portfolio Families are based on our independent, expert analysis of quality.
- These criteria cover a range of categories, encompassing the key areas of the portfolio family being analysed.
- Our experts analyse the market and for every attribute, they set a benchmark for a 1-5 'fund DNA' score. Usually the higher quality a portfolio family, the more points it will score; the overall score is then calculated to give the portfolio family a rating from 1-5 Diamonds.
- To achieve a 3, 4 or 5 Diamond Rating, the portfolio family must also meet or exceed the benchmark for a number of 'Core Criteria'. If a product fails any of the Core Criteria, it will automatically drop a rating. In addition to the Core Criteria, a portfolio family must achieve a high number of points in most of the non-Core Criteria to achieve a 5 Diamond Rating.

DFM MPS (Direct) Portfolio Family

Defaqto consultants have chosen what they believe to be the most appropriate criteria to rate DFM MPS (Direct) Portfolio Families

The methodology follows very closely that of Diamond Ratings for Risk Bound Fund Families, which has been tried, tested and refined over several years. The reasons for selecting the criteria are discussed below.

Feature or benefit	Reason for selection
Risk adjusted performance	Better past risk adjusted performance might indicate better future risk adjusted returns
Consistency	More even changes in risk when moving between portfolios in the family is seen as better
Spread	Greater coverage of the risk spectrum is more desirable
Shape	A closer fit to the expected positive relationship between risk and return across the family is better, as investors are being rewarded for any extra risk taken
Ongoing charge	Lower costs will be less of a drag on performance
Manager tenure	Managers with greater experience of managing a portfolio is a likely indicator of achieving portfolio objectives in future
Family AUM	Family AUM needs to be above a minimum level to be economically self-sustaining, plus size of AUM is an indicator of total resources available to the portfolio range.
Number of portfolios in the family	More portfolios means better ability to align the portfolios objectives to a client's needs

DFM MPS (Direct) Portfolio Family

Core Criteria are used to ensure a focus on criteria we believe have over-riding relevance for each Diamond Rating. For example, within the Risk Bound Fund Family Diamond Ratings, we consider the portfolio family's risk adjusted performance and where it has not performed as expected this will count as a Core Criteria fail.

Feature or benefit	Rationale
Performance and fees	Risk adjusted performance in the top four quintiles AND fees (ongoing charge) in the cheapest four quintiles. Better past performance might indicate better future returns and lower costs will be less of a drag on performance.
Risk shape	The sum of the Consistency, Spread and Shape scores must be above a certain threshold. Better characteristics in terms of 'risk shape'.
Number of portfolios in family	There needs to be at least 4 portfolios in the portfolio family A wider choice of portfolios means better ability to align the portfolios objectives to a client's needs.

DFM MPS (Direct) Portfolio Family

Diamond Rating boundaries

Based on our current analysis of the DNA scores of portfolios and portfolio families in the MPS direct market, the ratings boundaries for 2019 are:

Diamond Rating level	DNA score
5	≥ 29
4	≥ 25
3	≥ 12
2	≥ 7
1	< 7

DFM MPS (Direct) Portfolio Family

These tables show the DNA boundaries for each of the 2019 Diamond Rating criteria.

Risk adjusted performance					
	1 DNA	2 DNA	3 DNA	4 DNA	5 DNA
3yr	<-0.946	>=0.946	>=1.020	>=1.110	>=1.222
4yr	<0.716	>=0.716	>=0.781	>=0.827	>=0.937
5yr	<0.730	>=0.730	>=0.800	>=0.832	>=0.924

Consistency					
	1 DNA	2 DNA	3 DNA	4 DNA	5 DNA
3yr	>=0.155	>=0.085	>=0.045	>=0.016	<0.016
4yr	>=0.255	>=0.120	>=0.043	>=0.016	<0.016
5yr	>=0.244	>=0.119	>=0.027	>=0.010	<0.010

DFM MPS (Direct) Portfolio Family

These tables show the DNA boundaries for each of the 2019 Diamond Rating criteria.

Shape					
	1 DNA	2 DNA	3 DNA	4 DNA	5 DNA
3yr	<1.00	-	-	-	1.00
4yr	<1.00	-	-	-	1.00
5yr	<0.78	>=0.78	-	-	1.00

Spread					
	1 DNA	2 DNA	3 DNA	4 DNA	5 DNA
3yr	<2.462	>=2.462	>=3.494	>=4.245	>=4.901
4yr	<2.350	>=2.350	>=3.552	>=4.342	>=5.167
5yr	<2.340	>=2.340	>=3.292	>=4.059	>=4.721

DFM MPS (Direct) Portfolio Family

These tables show the DNA boundaries for each of the 2019 Diamond Rating criteria.

Other measures					
	1 DNA	2 DNA	3 DNA	4 DNA	5 DNA
Manager tenure (months)	<50	>=50	>=75	>=93	>=124
Family AUM	<£100m	-	>£6bn	-	£100m-£6bn
Number of portfolios in family	3	4	-	5	>=5
Ongoing Charges Figure (%)	>=1.91	>=1.71	>=1.52	>=1.04	<1.04

© Defaqto Limited 2019. All rights reserved. No parts of this publication may be reproduced in any form by any means, whether electronic, mechanical, optical or any other, or be stored in a retrieval system without the express written permission of the publisher. The publisher has taken all reasonable measures to ensure the accuracy of the information and Ratings in this document and cannot accept responsibility or liability for errors in or omission from any information given and for any consequences arising.

Please contact your Defaqto Account Manager
or call us on 01844 295 454

defaqto.com

