

FIRST CLASS FUNDS

Information and analysis to help you make the best choices



Why we provide a Fund List

There are many things to consider when investing but one of the most important, perhaps even the most important, is which fund or funds you choose.

In the last ten years we have seen an explosion in the number of funds that have become available for the retail investor with, currently, over 2,500 fund in the UK alone. Whilst choice is a great thing, sometimes too much choice can actually make it an awful lot harder to find the right funds. There are many good funds but there are also many that haven't lived up to expectations and sorting the wheat from the chaff can be time-consuming and challenging.

Alongside the increase in funds, we have also seen the internet open up more and more information to the ordinary investor – fund facts, manager interviews, performance information, fund analysis and comment – it is all available if you know where to look and have the time to do so.

Although we do not offer personalised investment advice, we have always sought, through our publications ISA Choices, Premier Club and Fundwatch, to provide information and opinion to help our clients make the best choices.

The First Class Funds list is a continuation of our drive to provide the very best service on top of our core activity – providing top discounts on financial products. It is designed to help you find well managed, proven funds that may satisfy the investment objectives you have set yourself. We have gone through the process of collating research and information that is available, some of it readily accessible, some of it less so, and refining it in to a streamlined list of funds across a variety of sectors.

The list isn't definitive, but it is independent. The strict criteria that we have developed are adhered to – if the fund does not meet those criteria then it doesn't make the cut. Fund groups cannot pay to have their funds included. We are only interested in funds that make it on merit.

Think of the list as a starting point for identifying the funds that are right for your own circumstances.

We update the list quarterly in January, April, July and October. Updates are available on request by post or email and for download from our website.

I hope that you find the list a useful tool. Happy investing!

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How we choose The Funds

Our First Class Funds list has been built and is maintained based on a strict process for evaluation of a fund. This process brings together the in-depth research from two leading fund analysts, Standard & Poor's and OBSR and overlays quantitative assessment from Financial Express and Lipper, themselves leaders in the provision of financial statistics.

The aim of our process is to be objective in the criteria that are used to filter funds down to the final list. We have, however, had to make some subjective decisions along the way.

From the initial universe of around 2,500 UK retail funds we have filtered out those which are less than three years old and/or smaller than £50million.

Whilst there are good funds which have a short track record we believe there are enough available with longer, proven track records that we have no need to look at newer funds. If these funds continue to perform well, they may enter our list when they have demonstrated a longer, successful record.

Similarly there are good funds which are smaller than our chosen minimum, but there are enough funds which have many good attributes, where there is little likelihood of them being closed or merged because of their size.

Once the initial filtering is complete we look at the opinions of the two major fund rating agencies, OBSR (Old Broad Street Research) and S&P (Standard & Poor's). These companies spend their time and substantial resources examining funds and fund groups in great detail (far greater than any individual IFA can do). We have analysed the breadth and depth of their research methods and analytical strategies to satisfy ourselves that they are looking at the attributes that we believe are important to our investors. Their ratings range from AAA (the best) to A and only a minority of funds even qualify for a rating.

At this stage the funds are organised into sectors before we apply the performance ratings. The Financial Express crown ratings are applied to equity funds. Only funds with a solid longer-term track record make the final list.

For bond funds, we recognise that factors such as yield and capital preservation are important attributes for investors so we overlay Lipper Leader ratings to the remaining bond funds. Only funds scoring highly enough will qualify for our First Class Funds list.

The list is updated on a quarterly basis over the calendar year and funds that no longer meet the criteria are automatically removed and any funds that newly qualify are included. These changes are highlighted and an updated list published shortly after the end of each quarter. The current list, along with full details of the process, is available to view and download from www.financialdiscounts.com and by post on request.

The list itself is fully independent and no payment is received from any fund managers or other parties.

Who provides The Research

OLD BROAD STREET RESEARCH (OBSR)



a Morningstar company

About OBSR

Old Broad Street Research Ltd (OBSR) is a UK Company that is privately owned and completely independent. It provides high quality in depth investment and product research. Based in the heart of London it has access to a number of the largest global asset managers in the world on its doorstep. Its fund ratings service based on both qualitative and quantitative research has led it to become one of the leading rating agencies in the UK.

OBSR FUND RATINGS PROCESS

The OBSR ratings are based on their own research process where qualitative research is supported by quantitative analysis. Their ratings indicate that they believe a fund is consistently producing the returns it set out to deliver and is likely to continue to beat its investment objectives over the long term.

The first stage of the process is due diligence which involves regular face to face meetings with the fund managers. The nature of the meetings is flexible to reflect the wide variety of funds in the market but is based on a framework that looks at group ownership and stability, investment philosophies and objectives, personnel, investment process, research resources and portfolio construction and risk controls.

Once interviews have been completed funds are then categorised and are then eligible to be considered for an OBSR fund rating. These funds are presented to the fund rating committee for consideration of being rated in the range from A to AAA.

OBSR currently rates about 250 funds out of the universe of around 2,500 funds. The number of rated funds is simply the result of their due diligence process. Any fund that receives an OBSR fund rating is deemed to be exceptional of its type.

The final element of the ratings is the regular review programme for every fund that they assess to ensure that the investment process is still in line with the initial understanding and is appropriate for its objectives. Once the review meetings have been undertaken OBSR then consider whether the rating is still appropriate and, where necessary, adjust, suspend or remove.

The above is a summary of the processes and methodologies used by each company. For more detailed explanations please visit our website at www.financialdiscounts.com or contact customer services on 0500 498 477.

STANDARD & POOR'S (S&P) FUND MANAGEMENT RATING PROCESS

STANDARD & POOR'S

About S&P

Standard & Poor's is a world wide leader in financial market intelligence. It provides investors with market intelligence through credit ratings, indices, investment research and risk evaluations and solutions. Its independent equity research business is among the world's leading providers of independent investment information offering fundamental coverage on both stocks and collective investments.

FUND MANAGEMENT RATINGS PROCESS

The Standard & Poor's (S&P) process has five steps and results in ratings ranging from A to AAA.

The initial step is a quantitative screening designed to identify the best in class funds. This eliminates about 80% of funds and looks at historical performance for consistency, discreet period performance amongst other things.

Step two is a background assessment where analysts review marketing material, audited accounts and ownership.

The third step is a face to face interview. These on site interviews are carried out by two experienced and qualified analysts with a view to assessing the fund management group, the portfolio manager, the team and the fund's specifics. The analysts look at a broad spectrum of criteria covering the investment culture and delving deeper into the portfolio manager and his team by looking at their consistency and effectiveness, the investment disciplines, their investment experience and efficacy in use of resources. They also look at the fund's specific issues.

The fourth step is the presentation of the findings of the analysts to the Ratings Committee. The committee reviews and evaluates the assessments and allocates an S&P Fund Management rating. A report is then published giving S&P's opinion about the management of the fund.

The last step, but an equally important one, is the on-going fund monitoring. S&P monitor every fund that has been rated on an on-going basis

LIPPER



About Lipper

Lipper is a market leader in fund intelligence and supplies mutual fund information, analytical tools and commentary world wide.

LIPPER LEADERS

Lipper leaders ratings system provides an instant measure of a fund's success against a specific set of key criteria. They produce information about total and consistent returns, capital preservation, tax efficiency and expenses.

We use the capital preservation matrix to filter the bond funds. The preservation model assumes the investor's primary concern is the preservation of capital.

FINANCIAL EXPRESS



About Financial Express

Financial Express is the largest distributor of fund data in the UK. Its services are used by many of the UK fund management companies as well as leading third party companies, such as Thompson Financial, Bloomberg and Thomson Reuters.

CROWN RATINGS

The Financial Express crown ratings are a quantitative based ratings system designed to highlight the funds that have had superior consistent performance in relation to risk relative to their peer groups. Peer groups are deemed to be the sectors as defined by the Investment Management Association.

Crown ratings are compiled using three key measurements of a fund's performance – return, volatility and consistency. Rated funds receive either a one, two or three crown rating.

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