AN INTRODUCTION TO THE LIPPER LEADERS RATING SYSTEM

Overview
The Lipper Leaders Rating System is a toolkit that helps guide investors and their advisors in selecting funds that suit individual investment styles and goals. The Lipper Leaders Rating System uses investor-centred criteria to deliver a simple, clear description of a fund’s success in meeting certain goals, such as preserving capital or building wealth through consistent, strong returns. The strength of Lipper Ratings is their use in conjunction with one another. They can be used together to identify funds that meet the particular characteristics of the investor.

The Lipper Ratings are derived from highly sophisticated formulae that analyse funds against clearly defined criteria. Funds are compared to similar funds, and only those that truly stand out are awarded Lipper Leader status. Each fund, registered for sale in a given country, is ranked against its Lipper Global Classification peers based on the metric used (such as Total Return or Expense). The highest 20% of funds in each peer group are named Lipper Leaders, the next 20% receive a rating of 4, the middle 20% are rated 3, the next 20% are rated 2, and the lowest 20% are rated 1. Performance data utilised for Lipper Leaders are calculated using local currency.

While Lipper Leader Ratings are not predictive of future performance, they do provide context and perspective for making knowledgeable fund investment decisions. The ratings are subject to change every month and are calculated for the following periods: three-year, five-year, ten-year, and overall*. The overall calculation is based on an equal-weighted average of percentile ranks for each measure over three-, five-, and ten-year periods (if applicable).

Types of Ratings

<table>
<thead>
<tr>
<th>Rating Type</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Return</td>
<td>4</td>
</tr>
<tr>
<td>Consistent Return</td>
<td>4</td>
</tr>
<tr>
<td>Preservation</td>
<td>5</td>
</tr>
<tr>
<td>Expense</td>
<td>5</td>
</tr>
</tbody>
</table>

* If applicable based on data available. Newer markets with insufficient data may be calculated over one and two years periods.

Lipper Ratings for Total Return
Lipper Ratings for Total Return reflect funds’ historical total return performance relative to funds in the same Lipper Global Classification.
A Lipper Leader for Total Return may be the best fit for investors who want the best return, without looking at risk. This measure alone may not be suitable for investors who want to avoid downside risk. For more risk averse investors, Total Return ratings can be combined with Preservation and/or Consistent Return ratings to make a risk-return trade-off decision.

Lipper Ratings for Consistent Return
Lipper Ratings for Consistent Return reflect funds’ historical risk-adjusted returns, relative to funds in the same Lipper Global Classification. A Lipper Leader for Consistent Return may be the best fit for investors who value a fund’s year-to-year consistency relative to other funds in a particular group. Investors are cautioned that some peer groups are inherently more volatile than others, and even a Lipper Leader for Consistent Return in a volatile group may not be well-suited to shorter-term goals or less risk-tolerant investors.

Lipper Ratings for Preservation
Lipper Ratings for Preservation reflect funds’ historical loss avoidance relative to other funds within the same asset class.
Investors are cautioned that equity funds have historically been more volatile than mixed asset or fixed income funds and that even a Lipper Leader for Preservation in a more volatile asset class may not be well-suited to shorter-term goals or less risk-tolerant investors.

Lipper Ratings for Expense
Lipper Ratings for Expense reflect funds’ expense minimisation relative to other funds within the same Lipper Global Classification.
A Lipper Leader for Expense may be the best fit for investors who want to minimise their total cost and can be used in conjunction with Total Return or Consistent Return ratings to identify funds with above-average performance and lower-than-average cost.
EXAMPLES OF USE

The following examples are for demonstration purposes only. They are not exhaustive and do not represent every type of short-, medium-, or long-term investment horizon. The strength of the Lipper Leaders suite of tools is that it can be used with varying degrees of relevance to arrive at a level that suits individual goals.

Many investors with short-term horizons list preservation of capital as their primary concern. These investors might wish to consider funds with a Lipper Leader for Preservation rating. These investors may also be concerned with expenses and choose to combine the Preservation rating with the Lipper Leader for Expense.

These Lipper Ratings could be included in an investor’s screen with varying degrees of importance. For instance, Investor A, an investor with a short-term horizon who is primarily interested in preservation of capital and, to a lesser degree expenses, might screen for funds with a Lipper Leader for Preservation distinction and for funds listed as 3 or better for Expense.

Sample Funds that Meet Investor A’s Selection Criteria

Fund A
- Preservation: 5
- Expense: 4

Fund B
- Preservation: 5
- Expense: 5
EXAMPLES OF USE

Or consider a long-term investor (Investor B) who believes, “you get what you pay for,” and doesn’t mind paying relatively more for fund management. In this case, screening for funds with an Expense rating of 1 or 2 would be acceptable. This investor likely places higher emphasis on measures of performance, thus selecting funds that are Lipper Leaders for Total Return and Consistent Return.

Investor B: Selection Criteria

Sample Funds that Meet Investor B’s Selection Criteria

Fund A

- Total Return: 5
- Consistent Return: 5
- Expense: 1

Fund B

- Total Return: 5
- Consistent Return: 5
- Expense: 2
LIPPER RATINGS FOR TOTAL RETURN

Introduction
The Total Return measure is primarily a decision making tool for advisors and individual investors.
Total return is defined as the return after (net of) expenses and includes reinvested dividends. Total return is commonly used to evaluate performance and is part of the risk-return trade-off in Modern Portfolio Theory (MPT). Individuals who engage in momentum investing frequently use total return as their primary screen.

Lipper Ratings for Total Return can be used as a standalone tool or in conjunction with other Lipper Ratings.

Calculation and Rating
Lipper Ratings for Total Return reflect funds’ historical total return performance, measured in local currency, relative to peers. Funds registered for sale in a given country are selected, then ratings for Total Return are computed for all Lipper Global Classifications containing five or more distinct portfolios and limited to equity, mixed asset, and bond funds. The ratings are subject to change every month and are calculated for the following periods: three-year, five-year, ten-year, and overall. The overall calculation is based on an equal-weighted average of percentile ranks for the Total Return metrics over three-, five-, and ten-year periods (if applicable). The highest 20% of funds in each classification are named Lipper Leaders for Total Return, the next 20% receive a rating of 4, the middle 20% are rated 3, the next 20% are rated 2, and the lowest 20% are rated 1.

LIPPER RATINGS FOR CONSISTENT RETURN

Introduction
The Consistent Return measure is a richer risk-adjusted performance measure than others currently available in the marketplace. It takes into account both short- and long-term risk-adjusted performance relative to fund classification. The measure is based on the Effective Return computation. Effective Return is a risk-adjusted return measure that looks back over a variety of holding periods (measured in days, weeks, months, and/or years).

Calculation and Rating
Lipper Ratings for Consistent Return reflect funds’ historical risk-adjusted returns, measured in local currency, relative to peers. Funds registered for sale in a given country are selected, then ratings for Consistent Return are computed for all Lipper Global Classifications containing five or more distinct portfolios and limited to equity, mixed asset, and bond funds.

The ratings are subject to change every month and are calculated for the following periods: three-year, five-year, ten-year, and overall.

The overall calculation is based on an equal-weighted average of percentile ranks of the Consistent Return metrics over three-, five-, and ten-year periods (if applicable).

The highest 20% of funds in each classification are named Lipper Leaders for Consistent Return, the next 20% receive a rating of 4, the middle 20% are rated 3, the next 20% are rated 2, and the lowest 20% are rated 1.
LIPPER RATINGS FOR PRESERVATION

Introduction
The utility of popular tools such as the Sharpe ratio may not be high for investors whose investment decisions are a function of absolute loss avoidance. The Preservation measure aims to help investors at various levels of risk averseness by providing a distinctive one-parameter measure of downside risk.

Preserving Capital
The Preservation model is defined as the sum of negative monthly returns over three-, five-, and ten-year performance periods.

Because many investors think of “risk” as the chance of losing money, the Preservation model assumes that the investor is more concerned about negative performance than below-target returns.

Unlike the other Lipper measures, the Preservation measure is calculated from three broad asset classes (equity funds, mixed asset funds, and bond funds) instead of from the investment classification level.

Calculation and Rating
Lipper Ratings for Preservation reflect funds’ historical loss avoidance, measured in local currency, relative to peers. Funds registered for sale in a given country are selected, then ratings for Preservation are computed in three broad asset classes: equity, mixed asset, and bond funds. The ratings are subject to change every month and are calculated for all the following periods: three-year, five-year, ten-year, and overall. The overall calculation is based on an equal-weighted average of percentile ranks for the Preservation metrics over three-, five-, and ten-year periods (if applicable). The highest 20% of funds in each classification are named Lipper Leaders for Preservation, the next 20% receive a rating of 4, the middle 20% are rated 3, the next 20% are rated 2, and the lowest 20% are rated 1.

LIPPER RATINGS FOR EXPENSE

Introduction
The Expense measure is primarily a decision making tool for advisors and individual investors. Its purpose is to rate mutual funds in terms of their level of expenses relative to peers in the same Lipper Global Classification.

Investors often use expenses as a criterion to choose or sort funds. One of the reasons given for looking at expenses (in conjunction with other measures such as total return, risk-adjusted return, etc.) is that higher costs could lead to lower net returns and hence poorer performance, unless they are more than offset by higher gross performance.

Lipper Ratings for Expense, then, differentiate funds that have minimized expenses compared to competing funds. These costs are subtracted directly from a fund’s return, so if two funds have equal returns before expenses, the lower cost fund will deliver higher net returns to an investor.

Calculation and Rating
Lipper Ratings for Expense reflect funds’ expense minimisation relative to their peers. Funds registered for sale in a given country are selected, then Expense ratings are computed for all Lipper Global Classifications containing five or more distinct portfolios and limited to equity, mixed asset, and bond funds. The ratings are subject to change every month and are calculated for the following periods: three-year, five-year, ten-year, and overall. The overall calculation is based on an equal-weighted average of percentile ranks for the Expense metrics over three-, five-, and ten-year periods (if applicable). The highest 20% of funds in each classification are named Lipper Leaders for Expense, the next 20% receive a rating of 4, the middle 20% are rated 3, the next 20% are rated 2, and the lowest 20% are rated 1.