

Fund Portfolio Rating Methodology

1. Overview of Fund Portfolio Ratings

Fund Portfolio Ratings represent JCR's opinions on the average quality of fund portfolio. Fund Portfolio Ratings are assigned to funds judged by JCR that it is possible to assign them to.

The evaluation is mainly conducted through the following procedures:

- 1) Confirm the investment policy in respect to the quality of the fund portfolio.
- 2) Assess risks on individual investment assets constituting the fund portfolio by methodology equivalent to or similar to credit ratings.
- 3) Calculate the evaluations of individual investment assets in score, and weight-average them by monetary-value-based investment assets. Thereby, figure out a score that indicates the comprehensive state of the fund as a whole.
- 4) Determine a Fund Portfolio Rating for the weighted average score based on a correspondence table.

Fund Portfolio Ratings provide comprehensive information on fund portfolio by weighting-average the scores assigned to the investment assets.

While the perspectives of evaluating funds vary, Fund Portfolio Ratings do not mention the following points:

- Returns to be earned by investors of the fund and the possibility
- Debt repayment possibility when the fund raises interest-bearing debts
- Price fluctuation risk and market liquidity risk borne by investors to the fund
- Evaluations of the governance, members, etc. of the fund's asset management company

Determining a Fund Portfolio Rating and providing it to someone are not acts pertaining to the Credit Rating Business.

2. Symbols and Definitions of Fund Portfolio Ratings

Symbol	Definition
AAA(fp)	Average quality of fund portfolio is equivalent to AAA Long-term Issue Rating
AA(fp)	Average quality of fund portfolio is equivalent to AA Long-term Issue Rating
A(fp)	Average quality of fund portfolio is equivalent to A Long-term Issue Rating
BBB(fp)	Average quality of fund portfolio is equivalent to BBB Long-term Issue Rating
N(fp)	Not included in any of the upper grades

When there is a likelihood of a change in the rating, because a serious event occurs or is likely to occur, and thereby JCR deems it necessary to obtain additional information or make an additional analysis with respect to the event for determination of the rating, JCR will place the rating under Monitor. A rating under Monitor is identified by prefixing "#" to the rating symbol until its removal. JCR designates a direction to the Monitor placed on all ratings. The direction indicates JCR's opinion on the likely direction of the rating. Such directions consist of the following three categories: Positive, Negative, and Developing. Monitor will be removed usually when JCR obtains necessary information and completes analysis about the event as the cause of the monitoring. The period before removing Monitor is usually assumed relatively short, but it can be prolonged in some cases.

Funds subject to Fund Portfolio Ratings generally offer profit sharing and principal redemptions based on investment performance, with no contract for payment of decided principal and interest at given due dates. Accordingly, because the idea of default is not compatible with Fund Portfolio Ratings, JCR does not establish a symbol for default.

A preliminary rating is a rating assigned as a preliminary evaluation at the stage when the fund has not begun operations, and it is generally assumed to shift to a final rating when the fund begins operations. In doing so, JCR will review the investment policy and other relevant regulations, as well as the content of investment assets. The rating level of the final rating may be different from that of the preliminary rating, depending on the final content, etc.

3. Evaluation Methodology

(1) Determining whether a fund can be subject to a Fund Portfolio Rating

Fund Portfolio Ratings are generally assigned only to funds that meet all of the following conditions:

- Investment assets consist of monetary receivables, including bonds and loans, as well as ABS, RMBS and ABL, for which contracts are made for the payment of principal and interest
- The asset management company's performance and investment capabilities are recognized, and its investment policy is clear
- The Fund Portfolio Rating is expected to remain stable to some extent when managed in accordance with the investment policy
- When there is a mismatch between the investment assets and the fund investors in terms of investment period, responding mechanisms are in place, such as supplementing liquidity and extending the investment period

(2) Evaluation of investment assets and rating assignment

In determining a Fund Portfolio Rating, JCR first confirms the fund's investment policy with respect to the quality of fund portfolio. Specifically, JCR identifies provisions related to portfolio structuring and quality maintenance, such as rating criteria for new investments and setting of triggers for removing investments from the portfolio.

After confirming the investment policy, JCR grasps the overview of individual investment assets, and evaluate the risks of each investment assets by a methodology equivalent to or similar to the credit rating.

Based on the assumed default rate over a three-year period, each risk assessment result is converted to a score based on Table 1, which indexes risk assessments. JCR calculates the weighted average score for the fund portfolio with monetary value-basis investment percentages.

The calculated score is checked with the thresholds set in the correspondence table of Table 2 to determine the corresponding Fund Portfolio Rating. The threshold values between rating symbols in the correspondence table are based on the geometric mean of the scores corresponding to the symbols before and after.

Table 1

Risk Evaluation Result	<i>AAA</i>	<i>AA+</i>	<i>AA</i>	<i>AA-</i>	<i>A+</i>	<i>A</i>	<i>A-</i>	<i>BBB+</i>	<i>BBB</i>	<i>BBB-</i>
Score	0.043	0.143	0.328	0.524	0.631	1.000	1.379	1.567	2.153	5.328
Risk Evaluation Result	<i>BB+</i>	<i>BB</i>	<i>BB-</i>	<i>B+</i>	<i>B</i>	<i>B-</i>	<i>CCC</i>	<i>CC</i>	<i>C</i>	
Score	7.608	18.246	29.462	35.621	57.000	73.539	91.970	128.163	170.659	

Table 2

Fund Portfolio Rating	<i>AAA(fp)</i>	<i>AA(fp)</i>	<i>A(fp)</i>	<i>BBB(fp)</i>	<i>N(fp)</i>
Threshold	up to 0.078	up to 0.575	up to 1.470	up to 6.367	from 6.367

4. Rating Monitoring During Investment Period

Fund Portfolio Ratings are in principle assigned to funds that can maintain a rating on a somewhat stable basis. Therefore, JCR does not anticipate reviewing the rating for each asset realignment of the fund. If any significant changes in the quality of fund portfolio, changes in the investment policy, or significant realignment of investment assets that could affect the Fund Portfolio Rating score occur during the fund investment period, JCR will review the rating. It may be placed under Monitor, depending on the situation.

In addition, even if there are no changes as described above, JCR will review Fund Portfolio Ratings around once a year. In conducting the evaluation, JCR will confirm whether there have been any considerable changes in the current Fund Portfolio Rating decision factors (e.g., evaluations of individual investment assets, investment policies that affect asset quality, weighted average scores, etc.) based on the aforementioned methodology.

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