

Fundata Risk Ratings

Canadian Alternative Investment Funds

Alternative investment funds are specialized investment vehicles with unique strategies and risk profiles. While acknowledging that there are multiple risk measures that can reasonably be applied to alternative funds, Fundata's Canadian Alternative Investment Funds risk ratings were developed using a set of quantitative, all-encompassing measures with large breadth of available data.

The ratings measure the risk of holding a particular fund and do not attempt to assess how the fund might interact with other investments, asset classes or markets. More specifically, the ratings do not take into account correlation, diversification, or other factors that could affect the risk level of an investors overall portfolio. This is consistent with the risk ratings currently being assigned to mutual funds, ETFs, and segregated funds. While Fundata acknowledges that assets with low correlation can decrease the volatility of an otherwise diversified portfolio, this type of analysis should be done at the portfolio level by investors or their financial advisors.

Four risk measures met the criteria for wide market acceptance and breadth of data: **Maximum Drawdown**, **Standard Deviation**, **Up/Down Capture**, and **Batting Average**. A score from 1 to 5 is calculated for each risk measure, and the average is taken to arrive at a rating according to a five-point scale. A **Liquidity Score** was created to account for the added liquidity risk that normally comes with alternative investment funds. The liquidity score ranges from 0 to 1, and is added to the average score from the other four measures resulting in a final risk rating from 1 to 5. The maximum score is 5, representing High Risk.

Fundata Alternative Risk Rating Methodology

Performance History

Regulation for retail investment products requires the use of 10 years of performance history to determine a risk rating. When a fund does not have 10 years of data, proxy data is used.

Fundata chose to use the same historical requirements for the alternative investment fund risk ratings. Funds with less than 10 years of history will be supplemented with proxy data.

Proxy Data

Proxy data is chosen based on the investment strategy of the fund. Funds are assigned to a category and each category has an associated index. The associated index data is then used to fill in the history for the fund.

Risk Measures

Ratings are calculated for each risk measure which include Maximum Drawdown, Standard Deviation, Up/Down Capture, Batting Average and Liquidity Score.

Final Rating

The final rating is determined by taking the average of the four risk measures, adding the liquidity score and rounding to the nearest whole number. The maximum overall score is a 5, representing a High risk rating.

1 LOW	2 LOW TO MEDIUM	3 MEDIUM	4 MEDIUM TO HIGH	5 HIGH
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Example

Fund XYZ	MEASURE	RATING
	MAXIMUM DRAWDOWN	3
	STANDARD DEVIATION	4
	UP/DOWN CAPTURE	3
	BATTING AVERAGE	4
	AVERAGE	3.5
	LIQUIDITY SCORE	0.41
	Final Rating	3.91
	RISK RATING	MEDIUM TO HIGH

For questions or to obtain the full methodology please contact:

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