Creditreform Rating AG Rating Methodology

Fund Rating Methodology –

Rating of Closed Funds

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1 Introduction

Creditreform Rating AG (hereinafter also "CRA") has been conducting ratings since its establishment in 2000 and has developed into a recognized European rating agency.

This document outlines our fund rating methodology to provide clarity for stakeholders, investors, and the general public regarding the derivation of CRA's fund rating result. This document will be updated periodically to reflect changes in the methodology. CRA's rating methodologies and code of conduct are freely available on the website www.creditreform-rating.de.

2 Scope

This methodology outlines CRA's systematic approach to deriving a fund rating for closed funds investing in illiquid portfolios. Funds are understood to encompass all investment constructs that pool two or more investors or assets. Within the scope of this methodology, illiquid portfolios subsume the asset classes of so-called Alternative Investments. These include, in particular, the asset classes of Real Estate, Infrastructure, Private Debt, Private Equity, and Venture Capital.

The objective of the fund rating is to provide a forward-looking statement about the potential risk-adjusted return of a financial product ("product") in comparison to the market. CRA analyzes a transaction based on qualitative and quantitative aspects to arrive at an overall assessment.

The analysis is based on a planned financial product term and is therefore conducted on a product-specific basis. Although the timing of an individual investor's entry may influence their risk-adjusted return, this factor is not considered by CRA in its fund rating.

Fund ratings are informed opinions on the expected risk-adjusted return of a financial product. They are no recommendations to buy, sell or hold a financial instrument. A fund rating does not serve as a legal opinion and does not present a prediction of future market or fair values of investments.

3 Rating Approach and Process

3.1 Approach

CRA employs a three-step approach to derive a fund rating. First, a qualitative analysis of the financial product is conducted, in which CRA examines fund managers regarding their experience and suitability for successfully implementing the planned investment strategy. Second, a quantitative analysis of the business plan and other manager information to determine a risk-adjusted return. CRA uses this key

figure for a product-specific comparison with competitors based on market data. In the final step, a weighting between the qualitative and quantitative analyses is performed to derive a final fund rating.

3.2 Rating Indication

The rating process aims to provide a consistent, reliable, and accurate assessment of risk-adjusted returns, supporting decision-making consistency. This methodology outlines CRA's qualitative and quantitative approaches for deriving the respective sub-results and their interplay to arrive at a final fund rating outcome.

CRA's rating scale for fund ratings ranges from AAA_{AF} to BB_{AF}. The complete rating scale and the corresponding assessments by CRA can be found in the following Table 1:

Table 1: Rating Scale with Descriptions for CRA Fund Ratings

Fund Rating	Assesment
AAA_{AF}	**Highest Quality:** Anticipated risk-adjusted fund return significantly above average, complemented by exceptional fund management / Substantially above-average risk-adjusted fund return.
$AA+_{AF}$	**Very High Quality:** Anticipated risk-adjusted fund return above average, combined with at least very strong fund management / Above-average risk-adjusted fund return.
AA_{AF}	
$AA-_{AF}$	
$A+_{AF}$	**High Quality:** Anticipated risk-adjusted fund return at average levels, supported by at least good fund management / Average risk-adjusted fund return.
A_{AF}	
$A-_{AF}$	
$BBB+_{AF}$	**Satisfactory Quality:** Anticipated risk-adjusted fund return ranging from below average to average, with at least moderate to good fund management / Below-average risk-adjusted fund return.
BBB_{AF}	
$BBB-_{AF}$	
BB_{AF}	**Weak Quality:** Anticipated risk-adjusted fund return below average, coupled with moderate fund management / Substantially below-average risk-adjusted fund return.

The fund rating is a point-in-time statement and is based on the data available as of the effective date. An update will only occur if monitoring is explicitly commissioned by the client.

3.3 Data Requirements

As part of the qualitative analysis, CRA conducts a desk research on the fund manager. In addition to a general company presentation, CRA regularly requests performance data on predecessor products as well as various policies and guidelines of the manager. The quantitative analysis is based on the fund model provided by the manager. The data from the model are supplemented by additional documents related to cash flow-relevant matters. A list of the typically required documents for a fund rating can be found in Appendix I.

4 Rating Methodology

4.1 Qualitative Analysis

The qualitative analysis consists of a desk research and can be supplemented by an interview with the fund manager. CRA evaluates fund managers using CRA's internally developed asset manager (AM) assessment, focusing on five key areas: i) general information about the manager and the track record, ii) governance structure, iii) investment process, iv) active asset management, and v) the manager's other operational structure. Each area comprises multiple sub-topics that CRA evaluates according to documented processes provided by the manager. Points are awarded based on the performance in these sub-topics. Sub-topics or areas not relevant to the manger's responsibilities are excluded from the analysis. The final score contributes to the overall qualitative analysis and is calculated as points earned as a share of the total possible points. Scoring outcomes are categorized as follows:

Table 2: Asset Manager Evaluation

AM Score	Rating Scale	Assessment
>80%	**AAA_{AM}**	**Exceptional Manager:** Long-standing track record; extensive business tenure; exemplary and well-established processes.
>70%	**AA_{AM}**	**Very Strong Manager:** Proven track record; significant operational history; robust and effective processes.
>60%	**A_{AM}**	**Strong Manager:** Solid track record; moderate duration in business; reliable and sound processes.
>50%	**BBB_{AM}**	**Competent Manager:** Emerging track record; shorter business activity; processes are evolving and improving.
<=50%	**BB_{AM}**	**Developing Manager:** Limited track record; recently established; processes in early stages of development.

4.1.1 General and Track Record

CRA assesses the historical performance of the manager, e.g., whether the targeted return has been achieved, the absolute level of the assets under management (AUM) as well as recent growth in AUM. Key personnel are also assessed, with positive scoring linked to long tenure with the company and relevant industry experience.

An overall professional transparent appearance, including a proactive communication and providing relevant documents on time, also positively impacts the scoring. Conversely, involvement in legal proceedings, adverse audit opinions in annual statements, or negative press indicating potential fraudulent behavior by the asset manager or employees results in a lower score.

4.1.2 Governance

Rigorous structures and processes are essential for the sustainable performance of a manager. The absence of processes and appropriate structures within a company can lead to individual persons inflicting significant damage on the company.

A positive scoring requires that the manager has been a supervised financial market participant for several years. In addition, CRA expects the manager to maintain relevant policies, such as a code of ethics, standards of conduct, and an anti-bribery and anti-corruption policy.

Additionally, CRA analyzes the processes to prevent conflicts of interest. Existing internal guidelines as well as avoiding conflicts of interest through monetary and/or non-monetary incentives are considered positive.

4.1.3 Investment Process

An investment process spans several sub-processes, as illustrated in Figure 1.

Figure 1: Illustrative Example for a Typical Investment Process

The process begins with the sourcing of investment opportunities, where the manager or staff should have a broad network to generate sufficient investment possibilities. On the other hand, a manager should not solely rely on the network of key employees.

Following the sourcing is the due diligence process, which involves identifying all relevant risks before an actual investment is made. A due diligence process is assessed to be thorough if the manager can

show well-structured due diligence reports that show a high level of detail including, among other aspects, scenario analyses, ESG aspects, and market and sector analyses.

Following the due diligence process, the investment decision should be made by a knowledgeable and expertly staffed Investment Committee. A proven track record should demonstrate a selective approach, showing approved investments and clearly explaining rejections. Approved investments must align with the predefined investment strategy.

Consistent, detailed investor reporting that reflects the current investment status versus initial projections is beneficial to scoring. It should show that the asset manager thoroughly monitors the investments and looks for early warning signs of underperforming investments like, e.g., covenant breaches.

Finally, CRA checks for a proven exit strategy by looking at past investment realizations, especially for historical distressed portfolio holdings. Apart from being able to communicate its exit strategy for distressed investments precisely, the manager should be able to deliver historical data underpinning the manager's success in delivering positive recoveries for distressed portfolio holdings.

4.1.4 Active Asset Management

For active asset management, CRA evaluates the portfolio and risk management approach. Among other factors, CRA analyzes whether it is likely that the measures taken by the asset manager will lead to the fund achieving its target performance while complying with the mandatory and non-mandatory investment guidelines. A good active asset management is characterized by an adequate monitoring, which includes, e.g., a timely intervention in the case of deviations from target performance and controlling whether key ratios are within the set boundaries, such as multiples, IRR, etc. Independent risk management should be demonstrated by clearly separating personnel responsibilities for the investment process and risk management functions.

4.1.5 Other Operational Topics

CRA assesses the asset manager's risk management, the strategy, the operational business and the finances, among others aspects. The manager should be able to communicate an understandable and long-term investment strategy with respect to, e.g., the targeted investment universe, specialization and expansion plans in order to secure the manager's place in the market for the long term with a high probability. CRA reviews past and current investment products of the manager for alignment with the stated strategy and identifies deviations.

The asset manager should have a sufficient number of employees available to achieve set targets. A low level of employee fluctuation on the top level of the asset manager as well as no or minimal adverse Key-Person risks are both considered positive. CRA also looks for a plausible organizational structure, which

should be visible in an organigram. In the case that the asset manager has outsourced essential processes, CRA scrutinizes whether these processes were outsourced to established specialists in the market. Lastly, the scoring is positively affected by a strong credit rating of the asset manager.

4.2 Quantitative Analysis

The quantitative analysis serves to determine a Risk-Adjusted Return (RAR). The RAR is calculated using the following Formula 1:

Formula 1: Formula for Calculating the RAR

$$RAR = Expected\ Return / Applicable\ Standard\ Deviation$$

CRA evaluates how much additional return a fund generates for each additional unit of risk employed. A high RAR being preferable as it signifies higher returns relative to the risk incurred. However, the RAR does not provide information about the absolute return. Consequently, a low-risk fund with a low absolute return may achieve a better quantitative sub-result than a fund with a higher absolute return but pursuing a riskier strategy.

Within the quantitative analysis, CRA differentiates between the asset classes Real Estate, Infrastructure, Private Debt, Private Equity, and Venture Capital.

The statement of the quantitative sub-result is as follows:

Table 3: CRAs Rating Scale Applicable for the Quantitative Analysis

Rating Scale	Assessment
AAA_{RAR}	**Significantly Above-Average RAR**: The fund shows a very high expected return compared to the market in relation to the present risk.
AA_{RAR}	**Above-Average RAR**: The fund shows a high expected return compared to the market in relation to the present risk.
A_{RAR}	**Average RAR**: The fund shows an expected return that is average compared to the market in relation to the present risk.
BBB_{RAR}	**Below-Average RAR**: The fund shows a slightly below-average expected return compared to the market in relation to the present risk.
BB_{RAR}	**Significantly Below-Average RAR**: The fund shows a significantly below-average expected return compared to the market in relation to the present risk.

CRA establishes RAR thresholds based on market data. The classification of a product to an asset class or fund strategy is carried out by CRA after individual analysis. For mixed portfolios, CRA will apply an appropriate weighting of the RAR thresholds for the relevant asset classes or fund strategies to derive the applicable threshold values.

The following Table 4 shows the asset class- and fund strategy-specific classification of RAR thresholds to the quantitative rating scale.

Table 4: Rating-specific RAR Thresholds by Asset Class and Fund Strategy

	Rating Scale				
Asset Class or Fund Strategy	**AAA_{RAR}**	**AA_{RAR}**	**A_{RAR}**	**BBB_{RAR}**	**BB_{RAR}**
Real Estate Equity	>1,5	>1,0	>0,5	>0,2	<=0,2
Infrastructure Equity	>1,3	>1,0	>0,5	>0,2	>0,2
Private Equity	>1,8	>1,2	>0,8	>0,3	<=0,3
Venture Capital	>1,3	>0,7	>0,3	>0,0	<=0,0
Private Debt	>2,0	>1,5	>1,1	>0,7	<=0,7

4.2.1 Expected Return Calculation

The expected return is calculated based on the initial model provided by the fund manager, from which CRA derives annual expected Net Cash Flows to compute the Internal Rate of Return (IRR). For products with a history, actual cash flows replace planned cash flows in the calculation. Table 5 illustrates an example of a return calculation for a fictitious fund product with 3 years remaining term.

Table 5: Example Calculation for Determining an IRR

Degree of Realization	**Actual**	**Actual**	**Actual**	**PLAN**	**PLAN**	**PLAN**
Year	**1**	**2**	**3**	**4**	**5**	**6**
Cash Inflow	-60.000	-40.000				
Cash Outflow		+2.000	+5.000	+5.500	+6.000	+120.000
Net Cash Flow	-60.000	-38.000	+5.000	+5.500	+6.000	+120.000
IRR:	7,9%					

4.2.2 Derivation of the Standard Deviation

The standard deviation is derived by classifying investment strategies into three risk categories: Risk Category 1 (low risk) to Risk Category 3 (high risk). Specific investment strategies within asset classes dictate potential boundaries for the applicable standard deviation. Table 6 provides an overview of the boundaries for the standard deviation depending on the asset class combined with a risk category for an investment strategy.

Additionally, a qualitative assessment of the fund manager's performance is integral. This assessment evaluates the manager's process strengths in areas such as due diligence and risk management. A higher quality manager, demonstrated through robust processes, typically results in a lower applied standard deviation, signaling a more stable and less risky investment approach. This approach blends quantitative measures with qualitative evaluations to set standard deviations in fund ratings.

Table 6: Asset Class- and Investment Strategy-Specific Ranges for the Applicable Standard Deviation

	Investment Strategy		
Asset Class	**Risk Category 1**	**Risk Category 2**	**Risk Category 3**
Real Estate Equity	8% - 10%	8% - 12%	10% - 20%
Infrastructure Equity	7% - 11%	8% - 12%	10% – 18%
Private Equity	---	10% - 20%	15% - 25%
Venture Capital	---	---	10% - 30%
Private Debt	6% - 8%	7% - 9%	8% - 10%

4.3 Determination of the Fund Rating

The fund rating is determined through a time-weighted balance between qualitative and quantitative analysis. Over time, as the fund accumulates a history of cash flows, the reliability of expected return calculations improves, leading to an increased weighting of quantitative analysis. Conversely, the qualitative analysis weighting decreases as the fund nears its maturity.

To calculate the weighting of each component, the following steps are applied:

1. Identify the Total Fund Term: First, establish the total duration of the fund.
2. Calculate the Remaining Term: Determine the remaining term to assign the appropriate weighting year.

4.3.1 Reference Points for Weighting Calculation

Two reference points define the distribution between qualitative and quantitative analysis:

1. Initial Reference Point (t=0): At time t_0, an equal 50/50 split between qualitative and quantitative analysis is applied. This assumes a "blind-pool" characteristic of the fund at inception, where the manager's influence is substantial due to limited performance history.
2. Final Reference Point (t=exp–2y): At time (t=exp–2y) before the fund's expiration—the weighting shifts to 10% qualitative and 90% quantitative analysis. By this point, most assets are known, and the remaining term is minimal relative to the fund's history, reducing the manager's impact on expected returns.

Analysts may choose to factor in potential fund extension options as appropriate.

4.3.2 Weighting Calculation Formulas

The time-proportional weight for quantitative analysis is calculated as follows:

Formula 2: Formula for Calculating the Time-Proportional Weighting of the Quantitative Result

$$w(quant.) = \frac{50 + (\frac{40}{x-2} \times (x-y))}{100}$$

Where:

w(quant.) = Time-proportional weighting of quantitative analysis
x = Total term of the fund
y = Remaining term of the fund

Therefore, the time-proportional weighting for the qualitative analysis is calculated as follows:

Formula 3: Formula for Calculating the Time-Proportional Weighting of the Qualitative Result

$$w(qual.) = 1 - w(quant.)$$

Where:

w(qual.) = Time-Proportional Weighting of the Qualitative Analysis
w(quant.) = Time-Proportional Weighting of the Quantitative Analysis

To illustrate the calculation of the time-proportional weighting, the following Table 7 provides an example for a product with a 10-year term.

Table 7: Illustrative Representation of the Time-Proportional Weighting of the Qualitative and Quantitative Results

Remaining Term (Years)	w(qual.)	w(quant.)
10	50%	50%
9	45%	55%
8	40%	60%
7	35%	65%
6	30%	70%
5	25%	75%
4	20%	80%
3	15%	85%
2	10%	90%
1	10%	90%

4.3.3 Scoring and Rating Assignment

After determining the remaining term and applicable weighting, points are assigned to each qualitative and quantitative sub-result. Higher sub-area scores indicate stronger performance, with scores ranging from 1 to 5 points per sub-area. For qualitative analysis, a maximum of 2.5 points can be achieved at the fund's inception, while quantitative analysis can yield up to 4.5 points near the end of the fund's term.

The final fund rating is derived from the total points achieved across both analyses:

Table 8: Mapping from Required Points to CRA Fund Rating

Fund Rating	Required Points
AAA_{AF}	> 4,5 points
$AA+_{AF}$	> 4,1 points up to <= 4,5 points
AA_{AF}	> 3,8 points up to <= 4,1 points
$AA-_{AF}$	> 3,5 points up to <= 3,8 points
$A+_{AF}$	> 3,1 points up to <= 3,5 points
A_{AF}	> 2,8 points up to <= 3,1 points
$A-_{AF}$	> 2,5 points up to <= 2,8 points
$BBB+_{AF}$	> 2,1 points up to <= 2,5 points
BBB_{AF}	> 1,8 points up to <= 2,1 points
$BBB-_{AF}$	> 1,5 points up to <= 1,8 points
BB_{AF}	1,0 points up to <= 1,5 points

5 Monitoring

Monitoring requires a separate mandate from the client. If monitoring is requested by the client, CRA will update the underlying data for the fund rating on an annual basis. Primarily, the quantitative analysis and the corresponding weighting between the sub-results of the qualitative and quantitative analyses for deriving the fund rating will be updated. A reassessment of the fund manager will only occur within the scope of monitoring in exceptional cases, provided that new relevant information about the manager comes to light.

Appendix I: CRA Required Documents

The following list of documents serves as an illustrative example of the information required by CRA to create a fund rating.

Initial Fund Rating

Manager-specific

- Company presentation (incl. Development AUM last 5 years, avg. employment duration of key personnel, number of employees during the last 5 years, number of employees left during the last 5 years, etc.)
- List with legal proceedings against the company and employees
- Latest annual account of the manager
- Company Structure Chart
- CVs of relevant key persons
- Description of all Stages within the Investment Process
- Description of Active Asset Management Approach
- Policies:
    - Code of Ethics
    - Code of Conduct
    - Anti-Bribery and Anti-Corruption Policy
    - Risk Management Policy
    - Conflicts of Interest Policy
    - ESG Policy

Fund-specific

1) Fund Prospectus
2) Investor Fund Model
3) Investor Reporting
4) Capital Call Notices
5) Distribution Notices

Monitoring

Fund-Specific

1) Investor Fund Model
2) Investor Reporting
3) Capital Call Notices
4) Distribution Notices