

Media Release

Capital Money Market Fund Rating Placed On CreditWatch Negative On Compliance Incident Related To The Fund Company

November 14, 2019

Overview

- The fund company, Capital Investment Trust Corp., has recently experienced a compliance incident related to the misconduct of the previous equity fund manager.
- We are uncertain on the extent of any ripple effect from the compliance incident on the fund size of Capital Money Market Fund, which in turn could affect the fund's credit quality. This is despite the incident was not directly related to the fund.
- We are placing the 'twAAf' fixed-income fund credit quality rating on Capital Money Market Fund on CreditWatch with negative implications.
- We aim to resolve the CreditWatch after we have greater clarity on the potential impact of the incident, particularly on the credit quality of Capital Money Market Fund

Rating Action

Taiwan Ratings Corp. today placed its 'twAAf' fixed-income fund credit quality rating on **Capital Money Market Fund** on CreditWatch with negative implications.

Rationale

The CreditWatch placement follows a recently revealed compliance incident involving the misconduct of the previous equity fund portfolio manager of the fund company, Capital Investment Trust Corp. (Capital IT). We believe this event has harmed the reputation of the fund company and we are uncertain as to any ripple effect on the fund size that could materially degrade the near-term credit quality of the fund's invested portfolio. This is despite the compliance incident is not directly related to Capital Money Market fund. Moreover, we believe Capital IT already has comprehensive risk and compliance procedures in place to manage the money market fund under stringent regulations on funds in Taiwan.

Our fixed-income fund credit quality rating on Capital Money Market Fund reflects several factors including: the adequate credit quality of the fund's portfolio exposure compared with global peers', our strong assessment of Capital IT's risk management and compliance, as well as the adequate management and organization, credit culture and credit research of the fund company. Our negative portfolio risk assessment reflects the fund's concentration risk; however, a further rating sensitivity test on the fund's investment concentration indicates only a minor impact on the fund's credit scores and

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results in no adjustment to the fund rating. Finally, the rating reflects our positive assessment and associated one-notch upward adjustment to our comparable ratings analysis on the fund. This mainly reflects the strong assessment of the fund company's risk management and compliance under stringent regulatory requirements enforced on fixed-income funds in Taiwan.

CreditWatch

We aim to resolve the CreditWatch placement within the next 90 days as soon as we receive more clarity on the impact of the incident on the fund size and credit quality. We could resolve the CreditWatch status and lower the fixed-income fund credit quality rating on Capital Money Market Fund by one-notch if the size of the net redemption of the money market fund materially exceeds the industry average, which in turn results in significant deterioration in the fund's portfolio credit quality. Conversely, we could affirm the rating if Capital IT and the fund portfolio manager can effectively manage the risk of redemption and maintain the credit quality of the invested portfolio.

Definition of A Fixed-Income Fund Credit Quality Rating

A Taiwan Ratings fund credit quality rating is a forward-looking opinion about the overall credit quality of a fixed-income investment fund relative to that of other fixed-income investment funds in Taiwan.

Taiwan Ratings fund credit quality ratings, identified by the 'f' suffix (as are the global scale fund credit quality ratings), are assigned to fixed-income funds, actively or passively managed, typically exhibiting variable net asset values, and also include a country prefix denoted as 'tw'. Taiwan Ratings fund credit quality ratings reflect the credit risks of the fund's portfolio investments, the level of the fund's counterparty risk, and the risk of the fund's management ability and willingness to maintain current fund credit quality. Unlike traditional credit ratings (e.g., issuer credit ratings), a Taiwan Ratings fund credit quality rating does not address a fund's ability to meet payment obligations and is not a commentary on yield levels.

Related Criteria

- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com – June 26, 2018
- Fund Credit Quality Ratings Methodology - June 26, 2017

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

CreditWatch Action

	To	From
Capital Money Market Fund		
Fixed-income Fund Credit Quality Rating	twAAf/WatchNeg	twAAf

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