

Deutsche Bond Ratings Policy Shows Shops' Divergent Practices

By [Emile Hallez](#), *Ignites*, November 3, 2017 [subscription required]

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[Deutsche Asset Management](#) recently alerted its fixed-income mutual fund investors that when credit ratings agencies have different scores for bonds, the company relies on the highest assessment.

It's a topic that not all fund providers have sought to address formally, and among those that have, policies differ substantially. While some use the highest ratings, others opt for the median or lowest ratings, a review of fund documents shows.

Deutsche noted the change earlier this week in [a prospectus update](#), specifying, "If a fixed income security is rated differently among the three major ratings agencies (i.e. Moody's Investor Services, Inc., Fitch Investors Services, Inc., and [Standard & Poor's](#) Ratings Group), portfolio management would rely on the highest credit rating for purposes of the fund's investment policies."

The firm made the change to remove ambiguity; many of the funds' prospectuses refer to limits or guidelines on securities considered investment-grade or non-investment grade, though how that was measured in the past was unclear, says Greg Staples, co-head of fixed income in the Americas at Deutsche.

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Even a quick glance across the policies of several large bond funds shows that providers do not have a common view on how to treat discrepancies in securities ratings, says Niels Holch, executive director of the [Coalition of Mutual Fund Investors](#), in an e-mail response.

"My personal preference would be to leave it up to manager discretion. An investor is paying for active management and the judgment of the individual managers," Holch states. "In this circumstance, there is really no need to tie their hands with a one-size-fits-all rule that only looks to the highest credit rating for a particular bond."

Holch points to differences among several large bond fund families. For example, [Legg Mason](#) affiliate [Western Asset Management](#)'s Total Return Unconstrained Fund has a policy that states, "[I]n the event that NRSROs assign different ratings to the same security, a subadviser will determine which rating best reflects the security's quality and risk at that time."