

# ***Morningstar's Commitment to Independence, Transparency, and Data Integrity***

July 2017

## ***About the Morningstar Rating™ for Funds (the “star rating”)***

The star rating is a quantitative assessment of a fund's past performance — both return and risk — as measured from one to five stars. It uses focused comparison groups to better measure fund manager skill. As always, the star rating is intended for use as the first step in the fund evaluation process. A high rating alone is not a sufficient basis for investment decisions.

The star rating is an improvement over past quantitative approaches to fund performance evaluations. Prior to the star rating, most fund evaluations focused on short-term raw performance. Evaluations ignored risk, as well as all external sales charges. This resulted in a system that was easily manipulated by fund companies that could influence category assignment and choose from multitudes of time periods.

The star rating is:

- An achievement measure, not an aptitude test. Morningstar has never made claims as to the predictive power of stars. Instead, we think of them as impartial grades on what a fund has delivered over a set period of time. As with grades, the intent is to focus the subject on delivering better results, not to attempt to predict the future career success of the student.
- An indicator that points investors toward funds with good attributes. Higher-rated funds tend to have lower costs and take more prudent risks. Other evaluation systems, like highest-performing funds in a category for the year, do not align as well with these beneficial attributes.
- An incomplete measure that, due to its reliance on past performance, is subject to mean reversion. Higher-rated funds can fade as an investment approach goes out of favor. Conversely, lower-rated funds can shift course or see their style come back in favor. We seek to limit these effects by comparing funds against others that share a similar investment style, measuring performance over longer examination periods, and incorporating risk into our evaluation. But mean reversion does play a role in future performance, which explains why we've never claimed the star rating is predictive.

The Morningstar Analyst Rating for Funds™, which we started publishing globally in 2011, attempts to look beyond past performance to assess a fund's future prospects. The Analyst Rating, which is qualitative and forward-looking, focuses more on issues that our analysts believe are predictive of future performance, such as the prudence of the underlying investment strategy, the talent and commitment of the management team, the parent firm's shareholder friendliness, and the competitiveness of expenses, as well as past performance.

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## ***About Stewardship***

Because we're focused on creating transparency for investors, we're the only research firm to publicly evaluate fund companies' stewardship. The Morningstar Analyst Rating for funds evaluates five key pillars of a fund: People, Process, Parent, Performance, and Price. The Parent pillar rating of Positive, Neutral, or Negative, represents Morningstar's qualitative view of a fund company's stewardship practices.

Criticizing potential clients in no way advances an evaluator's near-term commercial interests. We do this work to promote investor interests, not to flatter fund companies.

Our work benefits investors. We aim to shine a light on best practices to help investors and improve the industry.

This is a complex task, but our methodology is disclosed and we have updated it in response to industry and investor feedback. We welcome constructive criticism and will continue to hone our work.

## ***About Ethics and Compliance***

Independence, transparency, and integrity have been at the heart of Morningstar since day one, as has our mission to create great products that help investors reach their financial goals. The investor is always at the center of every one of our decisions. We do the right thing, the right way, for the right reasons — even if it's unpopular, or challenges members of our industry, costs us business, or is something no one has ever done before.

Our compliance manuals apply to our registered entities: our investment management group, investment research group, and credit ratings group. The compliance manuals spell out Morningstar's expectations in meeting high ethical standards, doing what is in the client's best interest, and complying with applicable laws and regulations.

Our Investment Research Integrity Policy establishes the critical process necessary to maintain the integrity of our investment research. There are specific policies for the equity research team and the manager research team.

Our Code of Ethics applies to all employees of Morningstar and its affiliates, and addresses conflicts of interest. Excerpted from the Code of Ethics:

*The core of our products and services is our data and investment research (including our editorial content). That's why it is vital that we in no way compromise the accuracy or the integrity of either. Morningstar has procedures in place for collecting, entering, and presenting data. These procedures, which are being strengthened continually, are designed to protect the integrity of our work and should be followed at all times.*

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*We have an obligation to our customers to provide them with data and analyses (including editorial content) that we believe to be accurate and objective. To help maintain the integrity of Morningstar's investment research, there is a strict functional separation between the fund and stock analyst groups (including for this purpose any employee who produces editorial content), on the one hand, and the company's sales teams, on the other.*

In addition to conflicts of interest, the Code of Ethics covers:

- Personal responsibility (accountability, professionalism)
- Gifts
- Non-Morningstar business activities
- Confidentiality
- Anti-bribery

### ***About Quality (Data Integrity)***

Since 2004, Morningstar has been an industry leader in adopting a formal, global quality program centered on investors' needs. We regularly collect feedback and use it to drive operational excellence and continuous improvements across our company.

We go the extra mile to deliver accurate data, research, products, and services to help our clients and investors reach their goals.

Quality is deeply embedded within our culture and employees use unified practices and consistent tools when working together across geographies.

Third parties seek us out as a trusted source of information:

- Regulators around the world choose to work with Morningstar because of our independence and the quality of our information.
- The world's most respected global media publications and portals rely on Morningstar data and research.
- In the last three years, Morningstar analysts, their research, and other spokespeople were cited by the media around the world at least 100 times per day.
- Global technology providers license Morningstar data to fuel their tools and analysis platforms.
- Our clients actively seek us out for our unique approach to quality.

### ***About Our Leadership Transition***

Kunal Kapoor became chief executive officer on January 1, 2017, succeeding Joe Mansueto. Kunal has had a 20-year career at Morningstar, in which he's held various leadership positions in product development, innovation, research, sales and marketing, and drove strategic

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prioritization across the firm. Kunal is well known across the business and among customers and easily transitioned into the CEO role.

Given their close working relationship over the years, Kunal and Joe Mansueto continue to engage on a regular basis. Moving forward, we're focused on improving our execution and scale to grow beyond a medium-sized company. This includes the following actions:

- Increasing speed and agility so that we can bring our capabilities together in a smarter and faster way
- Improving our ability to execute against our strategy
- Driving operational excellence as a core capability
- Continuing to improve alignment and accountability within teams
- Focusing on the convergence of data and technology to improve our core data operations