
Primary Share in Market Methodology

Morningstar Research

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Methodology History

Version: 2.0

Date: 1 August 2021

Description: Original publication

Introduction

Morningstar identifies a Primary Share in Market for open-end funds and exchange-traded funds. This is a proprietary data point and the primary share class is identified by the application of a set of hierarchical criteria.

The primary share class identified by Morningstar is the one considered the most representative proxy for a fund for a specified "available for sale" region and Morningstar Category. In most cases the share class chosen will be the most retail-focused version (based upon annual management charge, minimum investment, currency, and other factors), but this may not be the case where a fund has a share class that is less retail-focused but has a much longer performance track record.

The Primary Share in Market differs from the oldest share class in that it is applied at an "available for sale" level. This ensures each fund has a primary share class for each market it is sold in, as the oldest share class may not be for sale in all markets. Also, the Primary Share in Market considers the fund's category, so a fund may have more than one primary share class if it has currency-hedged share classes that are in a different category from the unhedged share classes. As such, each available for sale/category combination for the fund will have its own Primary Share in Market.

The criteria include some measures that will have a material difference on the suitability of an individual share class to be designated as the primary share, whereas as other later criteria progress, they become less influential--for example, selecting Accumulation share classes rather than Income share classes. As such, a fund manager may ask for a fund's primary share class to be changed from that defined by the criteria. In such instances, the request will be reviewed and assessed for approval. No request will be approved where the change relates to a significant measure, such as fund fees.

Primary Share in Market Criteria

The methodology for determining a primary share class uses a set of criteria, applied in order, to filter all a fund's share classes until only one remains. If, for any one of the criteria, none of a fund's share classes meet the criterion, then that criterion will be passed over. These criteria are the original from inception of the designation and are applied globally.

Criteria

- ▶ Performance and Operations "ready"
- ▶ AMC (actual management charge) is highest
- ▶ Inception date is oldest
- ▶ Distribution status is accumulation
- ▶ Minimum initial investment is lowest
- ▶ Currency, local currency of the specified Registered Class is preferred
- ▶ Name, comes first alphabetically

Note: For UK registered funds, if the fund has an IA Primary Share Class, this will be taken as the Morningstar Primary Share in Market.

Criteria Review at 1 August 2021

Since the original launch of this designation, the data points available to best identify a fund's Primary Share in Market have evolved, and new data points are also available. We are updating and refining the criteria to make use of these enhanced options.

The principal inclusion is the use of two data points available with version 3 of the European MiFID Template (EMT3.0): Q00110, fund share class without retrocession; and Q08030, financial instrument ongoing cost ex post. Where these are unavailable for a fund for any reason, similar, equivalent or additional criteria are used to allow the criteria to be applicable globally.

At this time, the revised criteria will be applied only to the Offshore Territories (as defined in Morningstar Direct) and UK available for sale universes. There will be no other changes, and the current criteria will continue to apply to all other universes. The application of the revised criteria to other universes will be periodically reviewed.

Revised Criteria

Data points, as named in Morningstar Direct

- ▶ Active share class(es) that are not dormant, not "virtual," not restricted by investor type, not offering a negotiable fee
- ▶ Performance and Operations "ready"
- ▶ Fund share class without retrocession
- ▶ Ongoing cost actual, highest-charging share class
- ▶ KIID ongoing charge, highest-charging share class
- ▶ Annual report net expense ratio, highest-charging share class
- ▶ Maximum management fee, highest-charging share class
- ▶ Performance start date is oldest
- ▶ Inception date is oldest
- ▶ Distribution status is accumulation
- ▶ Minimum initial investment is lowest
- ▶ Currency, local currency of the specified Registered Class is preferred
- ▶ Name, comes first alphabetically

Note: For UK registered funds, if the fund has an IA Primary Share Class, this will be taken as the Morningstar Primary Share in Market. ■■

Methodology History

Version 1.0		Codification of criteria
Version 2.0	1 August 2021	Inclusion of EMT3.0 data points

History of Changes

Event	Effective date	Universes affected
Version 1.0		All universes
Version 2.0	1 August 2021	Offshore Territories & UK