Methodology

Introduction
The Morningstar Fee Level – Australia for mutual funds was developed to help investors compare a fund share class’ relative level of fees with those of similar funds. The methodology applies to all Australia-based mutual funds in Morningstar’s database.

Methodology
Fund share classes are first grouped together according to the following category groupings. Some Australia fund share classes are not included in any of these groups and will not receive a fee-level rank.

Category Groupings
1. Asian Equities
2. Australian Equities - Large-caps
3. Australian Equities - Small-caps
4. Australian Listed Property
5. Emerging Market Equities
6. Emerging Market Debt
7. Australian Bonds
8. Global & Australia 50/50 Bonds
9. Global Bonds
10. Australian Diversified Credit
11. Unconstrained Fixed Income
12. Australian Short Term Debt
13. Mortgages
14. Global Listed Infrastructure
15. Global Listed Property
16. Large-cap Global Equities
17. Small-cap Global Equities
18. Multi-sector Aggressive
19. Multi-sector Balanced
20. Multi-sector Conservative
21. Multi-sector Growth
22. Multi-sector Moderate
23. Multi-sector Flexible
24. Multisector life stages - 1940s and earlier
25. Multisector life stages -1950s
26. Multisector life stages - 1960s
27. Multisector life stages -1970s
Methodology

28. Multisector life stages - 1980s
29. Multisector life stages - 1990s and later
30. Alternative - Macro Trading
31. Alternative - Multistrategy
32. Alternative - Other
33. Alternative - Systematic Trend

Distribution Class Criteria
Comparison groups are further determined by the criteria listed below. This allows for an "apples to apples" comparison of fund share classes with similar minimums, and by extension, roughly comparable distribution channels and expense structures.

Data Points Required (Most Recent):
Minimum Investment

Min Initial $50,000 and Above: Minimum investment is $50,000 or greater.

Min Initial Below $50,000: Minimum investment is less than $50,000.
Methodology

Example distribution class comparison groups include:

1. Asian Equities – Min Initial $50,000 and Above
2. Asian Equities – Min Initial Below $50,000
3. Australian Equities – Large-caps – Min Initial $50,000 and Above
4. Australian Equities – Large-caps – Min Initial Below $50,000

33 category groups * 2 distributions classes = 66 ranking groups

**Ranking**

Within each Comparison group (66 total), a fund share class' most recent Total Cost Ratio will be ranked against its peers, using 5 quintiles. Each share class is assigned a quintile score (1 to 5) and corresponding Fee Grade/Label (High, +Avg (Above Average), Avg (Average), -Avg (Below Average), Low).

Morningstar uses the following formula to determine the percentile rank of an expense ratio in a series. Percentile ranks range from 1 (best) to 100 (worse) with all intermediate values spread evenly over that range.
Methodology

All observations are ranked in the desired order (ascending). Percentile ranks are assigned as follows:

\[
PctRank(v[i]) = \text{Roundup}\left\{100 \times \left(\frac{C[i]-1}{n-1}\right)\right\}
\]

With a special case whereby any PctRank=0 is transformed to PctRank=1

Roundup is a function to round the result up to the next integer.

where:

- \(PctRank(v[i])\) = Percentile rank for fund \(i\)
- \(v[i]\) = The value being ranked for fund \(i\)
- \(C[i]\) = The absolute rank of fund \(i\)
- \(n\) = The total number of observations

Morningstar does not require a minimum number of items in order to percentile rank a set of data. For example, if there are only three fund share classes in a distribution class for a comparison group, we will percentile rank those three (1, 50, 100).

Percentile ranks are then mapped into quintiles in the following manner.

<table>
<thead>
<tr>
<th>Range</th>
<th>Quintile</th>
<th>Word Label</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 &lt; Percentile Rank &lt;= 20</td>
<td>1</td>
<td>Low</td>
</tr>
<tr>
<td>20 &lt; Percentile Rank &lt;= 40</td>
<td>2</td>
<td>Below Average or - Avg</td>
</tr>
<tr>
<td>40 &lt; Percentile Rank &lt;= 60</td>
<td>3</td>
<td>Average or Avg</td>
</tr>
<tr>
<td>60 &lt; Percentile Rank &lt;= 80</td>
<td>4</td>
<td>Above Average or + Avg</td>
</tr>
<tr>
<td>80 &lt; Percentile Rank &lt;= 100</td>
<td>5</td>
<td>High</td>
</tr>
</tbody>
</table>