

Morningstar Analyst Rating™ for Funds

Key Benefits

- ▶ **Investors First.** Morningstar always conducts its research with the end investor in mind.
- ▶ **Long History.** Morningstar has produced written, analyst-driven research on funds dating back to 1986.
- ▶ **Independence.** Morningstar does not charge fund managers to be rated, nor do fund managers commission research or ratings. Morningstar's decision to report on a fund is determined solely by the analyst team.
- ▶ **Relevant Coverage.** The analyst team bases coverage decisions on asset size, investment merit, and market demand.
- ▶ **Full Spectrum Scale.** The Morningstar Analyst Rating has been developed to identify not only good funds, but also mediocre and poor investments through Neutral and Negative ratings.
- ▶ **Local and Global Expertise.** Morningstar has a team of more than 100 fund analysts worldwide.

Overview

The need for objective, in-depth, and long-term-focused research on managed funds has never been greater. Morningstar's fund analyst research provides insights into a fund's sustainable advantages and forward-looking perspectives into how the fund is likely to behave in a variety of market environments, helping investors, advisers, and other market participants select superior funds, maintain realistic performance expectations, and manage investment portfolios more effectively.

While Morningstar fund research analysts worldwide have long shared a common research philosophy, Morningstar has now brought the various teams' research processes together, and introducing a new harmonised system of Analyst Ratings for funds.

Although the designations have changed, the underlying principles which have been the basis for our fund analyst research in Australia and New Zealand over the past decade remain the same.

Investors First. Morningstar always conducts its fund research with the end investor's best interests in mind.

Independence. Morningstar maintains its independence and objectivity by not charging or accepting payment from fund managers for the production of managed fund research or ratings. We commercialise our fund research by incorporating ratings and research reports into software products and websites, and by licensing our intellectual property after

research has been completed. Once a fund has been selected for inclusion, we will publish an Analyst Rating and research report irrespective of whether the outcome is positive or negative. And funds will remain on our coverage list until we, rather than the fund manager, elect to cease coverage.

Relevant Coverage. We determine relevant coverage on the basis of investment merit, asset size, and market demand, to ensure that we cover funds that are most relevant to investors and their advisers. In Australia and New Zealand, we provide analyst research on more than 375 investment strategies mapping to over 4,500 individual funds.

Balanced Ratings Scale. The Morningstar Analyst Rating for funds has been developed to not only identify good funds, but also mediocre and poor ones through neutral and negative ratings. The Analyst Rating is a qualitative, forward-looking measure based on analyst research, while the Morningstar Rating for funds (the 'star rating') is a purely quantitative, backwards-looking measure that rates historical performance on the basis of risk-adjusted returns without fund analyst input.

Local and Global Expertise. Morningstar has more than 100 fund analysts around the world, concentrated in Sydney, London, Chicago, and Toronto. Ten analysts are dedicated to researching Australian and New Zealand funds.

Research Methodology: The Five Pillars

Morningstar evaluates funds on the basis of five key pillars we believe will identify funds most likely to outperform over the long term on a risk-adjusted basis. These five pillars are People, Process, Performance, Parent, and Price. The ultimate view on the individual pillars and how they come together is driven by the analyst's overall assessment and overseen by an Analyst Ratings Committee. The approach serves not as a formula but as a robust analytical framework ensuring consistency across Morningstar's global coverage universe. Our research continues to be based on interviews with investment staff and fundamental analysis, and undertaken on a peer-relative basis. Research reports communicate our opinions clearly and succinctly, and will be updated at least every 12–15 months, or whenever there is a material change to investment process or personnel.

The Five Pillars

Morningstar evaluates funds on the basis of five key pillars which we believe identify funds most likely to outperform over the long term on a risk-adjusted basis.



People

How talented are the fund's managers and analysts? Do the experience and resources match the strategy?



Process

What is the fund's strategy and does management have a competitive advantage enabling it to execute the process well and consistently over time?



Performance

Is the fund's performance pattern logical given its process? Has the fund earned its keep with strong risk-adjusted returns over relevant time periods?



Parent

What priorities prevail at the firm? Stewardship or salesmanship?



Price

Is the fund a good value proposition compared with similar funds sold through similar channels?

Morningstar Analyst Rating™ for Funds

The Morningstar Analyst Rating for funds is the summary expression of Morningstar's forward-looking analysis. Morningstar analysts assign the ratings globally on a five-tier scale with three positive ratings of Gold, Silver, and Bronze, as well as Neutral, Negative, and Under Review designations. The move to three positive ratings enables our fund research analysts to highlight conviction in a fund more precisely than previously.

The Analyst Rating is based on the analyst's conviction in the fund's ability to outperform its peer group and/or relevant benchmark on a risk-adjusted basis over the long term. The Analyst Rating does not express a view on a given asset class or peer group, but seeks to evaluate each fund within the context of an appropriate benchmark and peer group given what the fund is trying to achieve with its portfolio.

From Morningstar Recommendations to Morningstar Analyst Ratings: The Shift to the New Model

Positive Ratings

Highly Recommended
Recommended



Gold

These funds have our highest-conviction recommendations and stand out as best-of-breed for their investment mandate.



Silver

Funds that fall in this band are high-conviction recommendations. They have notable advantages across several, but perhaps not all, of the five pillars.



Bronze

These funds have advantages that clearly outweigh any disadvantages, giving us the conviction to award them a positive rating.

Neutral Ratings

Investment Grade

Neutral

These are funds in which we do not have a strong positive or negative conviction. In our judgement, they are not likely to deliver standout returns, but not likely to seriously underperform either.

Negative Rating

Avoid

Negative

These funds possess at least one flaw that we believe is likely to significantly hamper future performance, such as high fees or an unstable management team.

Fund Under Review

Hold

Under Review

This designation means that a change at a rated fund requires further review to determine the impact on the rating.

Not Ratable

This designation means either that a fund has failed to provide sufficient transparency to determine a rating, or that we are providing information on a new strategy where investors require guidance as to suitability, but there is not yet sufficient information to rate the fund.