Morningstar Stock Sector Structure

Key Benefits
- Provides an accessible and directly comparable way of classifying Australian stocks
- Enables more robust portfolio construction and management by identifying sector exposures and concentrations of funds and overall portfolios
- Makes it easier to see and understand investment choices being made by portfolio managers

Background

Fund and portfolio diversification is generally taken to mean investment style, market capitalisation, and fund manager identity. But stock sector diversification is equally important. When building portfolios for investors, advisers need robust, accessible tools they can use to ensure they're not involuntarily 'doubling up' an investor's exposure to a particular sector of the economy.

Morningstar's Sectors for Australian Stocks

In 2010, Morningstar relaunched its sector classification system. The new system offers a unified and consistent framework for mapping the equity universe based on the market the company serves rather than the type of business it conducts.

The classification structure divides companies listed on the Australian sharemarket into three 'Super Sectors': **Cyclical**, **Defensive**, and **Sensitive**.

- The **Cyclical** super sector has four sectors: Basic Materials, Consumer Cyclical, Financial Services, and Real Estate.
- The **Defensive** super sector has three sectors: Consumer Defensive, Healthcare, and Utilities.
- The **Sensitive** super sector also has four sectors: Communication Services, Energy, Industrials, and Technology.

Key Benefits for Advisers and Investors

Our Australian stock sector classification structure provides a graphically accessible way of identifying and understanding different funds' sector exposures, and fund portfolio managers' investment choices.

Advisers and investors can use this to identify quickly and easily similarities and differences between funds' sector allocations, and take steps to diversify away concentrated exposures.

At the overall portfolio level, the stock sector classification structure also enables identification of multiple exposures in both fund stock holdings and investors' direct holdings of stocks. The result is a unified system which applies to both individual funds, and to overall portfolios.

When and Where

Morningstar's stock sector classifications – updated each time portfolio holdings data is received from fund managers – are live in Morningstar products.

How to Find Out More

To find out more about how to access Morningstar's stock sector classifications, just contact your Morningstar account manager direct or contact our sales team on +61 2 9276 4445 or helpdesk.au@morningstar.com

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Morningstar Stock Sector Structure

Cyclical	Defensive	Sensitive
Basic Materials	Consumer Defensive	Communication Services
Consumer Cyclical	Healthcare	Energy
Financial Services	Utilities	Industrials
Real Estate		Technology

Each company within Morningstar's Australian and international stock universes is assigned a sector, which are reviewed continually.

Morningstar Stock Sector Descriptions

Cyclical Super Sector

Sectors that roll up into the Cyclical Super Sector are highly sensitive to business cycle peaks and troughs.

Basic Materials

Companies that manufacture chemicals, building materials, and paper products. This sector also includes companies engaged in commodities exploration and processing. Companies in this sector include BHP Billiton and Rio Tinto, and Nufarm.

Consumer Cyclical

This sector includes retail stores, auto and auto parts manufacturers, companies engaged in residential construction, lodging facilities, restaurants, and entertainment companies. Companies in this sector include Hyundai Motor Company, McDonald's, and News Corporation.

Financial Services

Companies that provide financial services, including banks, savings and loans, asset management companies, credit services, investment brokerage firms, and insurance companies. Companies in this sector include Allianz, Commonwealth Bank, and IOOF.

Real Estate

This sector includes mortgage companies, property management companies, and REITs. Companies in this sector include Westfield Retail Trust, Vornado Realty Trust, and Simon Property Group, Inc.

Defensive Super Sector

Sectors that roll up into the Defensive Super Sector are anticyclical stocks.

Consumer Defensive

Companies engaged in the manufacturing of food, beverages, household and personal products, packaging, or tobacco. Also includes companies that provide services such as education & training services. Companies in this sector include Woolworths, Procter & Gamble, and Coca Cola.

Health Care

This sector includes biotechnology, pharmaceuticals, research services, home health care, hospitals, long-term care facilities, and medical equipment and supplies. Companies in this sector include Johnson & Johnson and Pfizer Inc.

Utilities

Electric, gas, and water utilities. Companies in this sector include AGL, APA Group and Envestra.

Sensitive Super Sector

Sectors that roll up into the Sensitive Super Sector have moderate correlations with business cycles.

Communication Services

Companies that provide communication services using fixed-line networks or those that provide wireless access and services. This sector also includes companies that provide Internet services such as access, navigation and Internet related software and services. Companies in this sector include Telstra, Vodafone and iiNET.

Energy

Companies that produce or refine oil and gas, oil field services and equipment companies, and pipeline operators. This sector also includes companies engaged in the mining of coal. Companies in this sector include Origin Energy, Caltex and Woodside.

Industrials

Companies that manufacture machinery, hand-held tools, and industrial products. This sector also includes aerospace and defense firms as well as companies engaged in transportation and logistic services. Companies in this sector include General Electric Company and Boeing.

Technology

Companies engaged in the design, development, and support of computer operating systems and applications. This sector also includes companies that provide computer technology consulting services. Also includes companies engaged in the manufacturing of computer equipment, data storage products, networking products, semiconductors, and components. Companies in this sector include Apple, Google, and Microsoft.

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