



International Fund Awards Methodology, Mexico

Morningstar Methodology Paper
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2021

Morningstar International Fund Awards Methodology, Mexico

Statement of Purpose

The objective of the quantitatively driven Morningstar International Fund Awards program is to recognise those funds and fund groups that have added the most value within the context of a relevant peer group for investors over the past year and over the longer-term. The program is distinct from the qualitative awards issued by Morningstar's research team.

The awards are annual, so we believe it is appropriate to emphasise a fund's one-year performance. However, we do not believe that it serves investors well to give awards to funds that have posted a strong one-year return, but have otherwise not delivered good results for investors.

The awards methodology therefore emphasises the one-year period, but funds must also have delivered strong three-year returns after adjusting for risk within the awards peer groups in order to obtain an award. Further, they must have been at least in the top half of their respective peer groups in at least two of the past three calendar years. We believe this combination will ensure that the awards are given to funds which have earned strong one-year results, and have also shown they have the ability to earn strong long-term returns without undue risk.

Types of Award

There are two types of Morningstar Fund Award: Morningstar Category Awards and Morningstar Fund House Awards.

Morningstar Category Awards:

These awards are given to the funds with the best risk-adjusted performance within their Morningstar Categories or groupings of Morningstar Categories, subject to qualitative review.

Morningstar Fund House Awards:

These awards are given to the fund groups with the strongest performing fund line-ups on a risk adjusted basis. Fund performance is evaluated within the Morningstar Categories.

Eligible Universe

Awards will be determined for each individual national fund market.

Only funds that are recorded in the Morningstar database as available for sale in a given market will be eligible to receive an award in that market.

The following fund types are excluded from the universe: Insurance funds, closed-end funds. Currency-hedged share-classes of funds are also excluded unless they are in a category specifically for currency-hedged funds and share classes. All funds or share classes in unrated Morningstar categories are excluded from participating in the awards.

The smallest 10% of funds in each category are excluded from the awards based on the latest November end portfolio size expressed in Mexican Pesos. In lieu of this measure, analysts may also exclude funds with less than 50 million Mexican Pesos in assets at 31 December.

Morningstar Category Awards Methodology

Categories Eligible for Awards

Equity:

- ▶ Global Equity
- ▶ Mexico Equity

Fixed Income:

- ▶ MXN Long Term Debt
- ▶ MXN Medium Term Debt
- ▶ MXN Short Term Debt

Allocation:

- ▶ MXN Allocation (MXN Aggressive Allocation, MXN Cautious Allocation, MXN Moderate Allocation)

Scoring System

Each fund in a relevant grouping will be scored as follows:

Return Score = 80% of total score

One year: 25% of total score, based on one-year return percentile rank in Morningstar Category

Three year: 55% of total score, of which three-year return percentile rank in Morningstar Category.

Risk Score =20% of total score

Three year: 20% of total score, based on three-year Morningstar Risk percentile rank in Morningstar Category.

Based on above weights, the effective weight of each year in the calculation is as follows, including both risk and return (figures are rounded to nearest whole number):

Past one year	50%
Second year out	25%
Third year out	25%

The weights are designed to place due emphasis on the most recent year given that the awards are annual in nature, but are also meant to favour those funds that have delivered risk-adjusted outperformance on a sustained basis over the longer term.

Qualitative Review

Based on the above calculations, the 10 funds with the lowest scores in each Morningstar Awards Category will be reviewed by Morningstar's qualitative research analysts in that market.

The analysts will complete the following checks:

- ▶ All institutional share classes will be removed unless readily available to retail investors.
- ▶ Funds that are deemed inaccessible to local market investors will be excluded.
- ▶ If an analyst has reason to believe that a fund cannot continue to outperform, he will submit his concerns to the heads of Morningstar's Research team, and they can elect to remove the fund from consideration at their discretion.
- ▶ Any fund that is deemed to have deviated materially from its stated mandate will be removed from consideration.
- ▶ Any fund that has not outperformed its Morningstar category median in at least two of the past three calendar years will be removed from consideration unless Morningstar's qualitative analysts believe a fund has exceptional merit that the criterion fails to capture.
- ▶ Funds with a minimum initial investment above MXN 200.000 will not be eligible for the awards.

Award Selection

Upon the completion of the following screens, the fund with the **lowest** score in each eligible Morningstar Category or grouping thereof will receive the award for that Morningstar Category or Category grouping.

Morningstar Fund House Awards

Award Categories

Morningstar Best Equity Fund House Award: Fund houses with at least three equity funds with Morningstar Ratings available for sale in a given market are eligible.

Morningstar Best Fixed-Interest Fund House Award: Fund houses with at least three fixed-interest funds with Morningstar Ratings available for sale in a given market are eligible. Money markets are not eligible for inclusion.

Morningstar Best Overall Fund House Award: Fund houses with at least three equity funds and 3 fixed-interest funds with Morningstar Ratings available for sale in a given market are eligible. Money markets are not eligible for inclusion.

Eligible Funds

Only those funds with three-year Morningstar Ratings are eligible for inclusion in the scoring (see below). Thus, funds without three-year records or funds in unrated Morningstar Categories are excluded from the scoring process.

Scoring System

For each of the above awards, Morningstar will calculate House Scores using the following methodology:

Determine the three-year Morningstar Risk-Adjusted Return (MRAR) for each share class of each fund run by a given house, and the percentile rank of that return score within its Morningstar Category.

Determine the average percentile rank of each *fund's* MRAR by taking the mean MRAR percentile rank of all its classes.

Determine the mean percentile rank of each fund house's MRAR by taking the mean of its funds' MRAR percentile ranks (the lower a group's mean percentile rank, the better its performance).

Qualitative Review

Morningstar analysts will review the scoring results and may disqualify a firm if there are extenuating circumstances. These might include (but are not limited to) the loss of a group of talented managers, substantial increases to fund expenses, non-availability of the house's funds to retail investors in the relevant market, or being taken over by another group. Each disqualification must be approved by the heads of Morningstar's research team. The review is intended to prevent giving an award on the basis of performance that we believe is unlikely to be repeated due to structural factors.

Awards Selection

The remaining fund firms with the lowest score in each of the above groups will receive the relevant Morningstar Fund House Award. There will only be one award in each of the categories listed above. If there are fewer than three eligible groups in any of these categories, no award will be made in that category.