Representative Cost Methodology

Introduction
The costs charged for an investment is one of the biggest predictors of future outperformance. Given the differences in the way fees are calculated, reported and named across different market it is difficult to ensure like for like comparisons.

Morningstar are introducing 'representative cost' fields, that will contain the best information on the re-occurring cost that are charged via the fund itself, so would not include one-off cost or cost charged by third parties such as advisers or platforms, nor one-off costs charged on entry or exit.

The fields will be a monthly time series of those fees charged, one series will exclude any transaction costs and the other will include transaction costs. The fees will be available as both and annualised and unannualised series.

Representative cost methodology
Each market will have different rules on how the field(s) will be constructed, but there will be common themes.

Annual fee levels will be de-annualised to a monthly level by raising to the power of $(1/12)$ so

$$\text{Monthly fee} = \text{annual fee}^{1/12}$$

Where the fees are expressed in decimal format (5% would be represented a 1.05).

Fees can only be rolled forward or back up to (and including) 12 months after the month in which they were reported. The exception to this is for the latest reported value that may be rolled forward up to 15 months.

For markets that report both actual and estimated (forward looking) fees the actual values are preferred for periods prior to the last reported fee date, estimated values are preferred for periods after the last reported fee.
General market rule
For markets that do not have special rules the net expense ratio (this can be from the annual report, semi-annual report or other source) will be used to calculate the representative cost excluding transaction cost field only. This will be calculated by:

- Taking the net expense ratio values for the share class, and place those values on the reported date (if the reported date is mid-month then place on the month end).
- Fill in the missing monthly points by rolling back the values up to 12 months (or until the previous reported value) first.
- After rolling back missing month ends may be filled by rolling the values forward up to 12 months.
- The latest value may be rolled forward up to 15 months (to allow for publishing and collection of the next annual report).

Note for the US market the representative cost series will not include acquired expenses from other funds it may invest in.

Canadian Market
As the Canadian market publishes transaction cost information both the including and excluding transaction cost fields will be calculated.

The excluding transaction cost time-series will be calculated by using the manager expense ratio (from the annual report, semi-annual report or other source). This will be calculated by:

- Taking the manager expense ratio values for the share class, place those values on the reported date (if the reported date is mid-month then place on the month end).
- Fill in the missing monthly points by rolling back the values up to 12 months (or until the previous reported value) first.
- After rolling back missing month ends may be filled by rolling the values forward up to 12 months.
- The latest value may be rolled forward up to 15 months (to allow for publishing and collection of the next annual report).

The including transaction cost time-series will be calculated using the manager expense ratio and the trading expense.

- Taking the manager expense ratio and trading expense values for the share class, place those values on the reported date (if the reported date is mid-month then place on the month end).
- Fill in the missing monthly points by rolling back the values up to 12 months (or until the previous reported value) first.
- After rolling back missing month ends may be filled by rolling the values forward up to 12 months.
- The latest value may be rolled forward up to 15 months (to allow for publishing and collection of the next annual report).

- For months with both a manager expense ratio and a trading expense - add them together to obtain month’s representative cost
- If a month does not have both a manager expense ratio and a trading expense a representative cost will not be displayed.
**European Market**

As the European market publishes transaction cost information both the including and excluding transaction cost fields will be calculated.

The fee disclosure regime in Europe changed in 2010 with the introduction of the KIID and again in 2018 with the introduction of MiFID II rules. The excluding transaction cost field will blend together these regimes into one time series, the relevant fees are: -

- **MiFID ex-ante costs** - Sum the Ongoing cost estimated and performance fee estimated fields
- **MiFID ex post cost** - Sum the Ongoing cost actual and performance fee actual fields
- **Annual report ongoing charge plus performance fee** - Sum the annual report ongoing charge and annual report performance fee
- **KIID ongoing charge plus performance fee** - Sum the KIID ongoing charge and annual report performance fee (if within 6 months of the KIID date)
- **Net expense ratio** - Use the net expense ratio

If month in question is after the last fee data was reported for that share class then
- If date is up to 15 months after the MiFID ex-ante costs roll this value forward;
- If not and date is up to 15 months after a MiFID ex-post cost roll this value forward;
- if not and date is up to 15 months after the annual report ongoing charge plus performance fee data roll this value forward;
- If not and date is up to 15 months after the KIID ongoing charge plus performance fee roll this data forward;
- If not and date is up to 15 months after the net expense ratio roll this value forward.

If month in question is on or before the last fee date was reported for that share class
- If there is a MiFID ex-post within the next 12 months roll this data back;
- If not and there is MiFID ex ante data in the prior 12 months roll forward that data;
- If not and there is AR ongoing charge plus performance fee within the next 12 months roll back that data;
- If not and there is KIID ongoing charge plus performance fee within the next 12 months roll back that data;
- If not and there is AR net expense ratio within the next 12 months roll back that data;
- If not and there is MiFID ex ante data within the next 12 months roll back that data;
- If there is MiFID ex post data up to 12 months prior roll forward that data;
- If there is KIID ongoing charge plus performance fee up to 12 months prior roll forward that data;
- If there is annual report ongoing charge plus performance fee up to 12 months prior roll forward that data;
- If there is AR net expense ratio up to 12 months prior roll forward that data;
- Otherwise no value should be calculated for that month end.
To calculate the including transaction cost time-series the following information would be used:

**MiFID ex-ante costs** - Sum the Ongoing cost estimated, performance fee estimated and transaction fee estimated fields. Note any negative transaction fees will be excluded from the calculation.

**MiFID ex post cost** - Sum the Ongoing cost actual, performance fee actual and transaction fee actual fields. Note any negative transaction fees will be excluded from the calculation.

If month in question is after the last fee (MiFID ex-post or ex-ante) data was reported for that share class
▶ If date is up to 15 months after the MiFID ex-ante costs roll this value forward;
▶ If not and date is up to 15 months after a MiFID ex-post cost roll this value forward.

If month in question is on or before the last fee date was reported for that share class
▶ If there is a MiFID ex-post within the next 12 months roll this data back;
▶ If not and there is MiFID ex ante data in the prior 12 months roll forward that data;
▶ If not and there is MiFID ex ante data within the next 12 months prior roll back that data;
▶ If there is MiFID ex post data up to 12 months prior roll forward that data;
▶ Otherwise no value should be calculated for that month end.

**Australian market**
As the Australian market publishes transaction cost information both the including and excluding transaction cost fields will be calculated.

The fee disclosure regime in Australia changed in 2018, to move to RG97, from indirect cost ratio, which itself was the successor to the management expense ratio.

The excluding transaction cost field will blend together these regimes into one time series, the relevant fees are:
- Total management cost — last financial year
- Total management cost — PDS (a forward looking measure)
- Indirect Cost Ratio
- Management expense ratio

If month in question is after the last fee data was reported for that share class then
▶ If date is up to 15 months after the Total management cost - PDS value use that data;
▶ If date is up to 15 months after the Total management cost - Last financial year value use that data;
▶ If not and date is up to 15 months after the indirect cost ratio data use that data;
▶ If not and date is up to 15 months after the Management expense ratio value use that data;
▶ If none of the above apply then value is blank/null for that month.
If month in question is on or before the last fee date was reported for that share class

- If there is a Total management cost - last financial year value within the next 12 months of that date roll back that data;
- If not and If there is an indirect cost ratio value within the next 12 months of that date roll back that data;
- If there is a Total management cost - PDS value within the next 12 months of that date roll back that data;
- If not and there is a MER value within the next 12 months of that date roll back that data;
- If not and there is Total management cost - PDS value up to 12 months prior roll forward that data;
- If there is Indirect cost ratio value up to 12 months prior roll forward that data;
- If there is Management expense ratio up to 12 months prior roll forward that data.

- Otherwise no value should be calculated for that month end.

To calculate the including transaction cost time-series the following information would be used:

- Total management cost - last financial year
- Total T&O costs inc recovered costs (transaction and operation costs)

- Take the ‘total management cost - last financial year’ values
- Fill in any missing monthly points by rolling back the values above up to 12 months (or until the previous value) first. After rolling back missing month end may be filled by rolling the values forward up to 12 months.
- Take the Net Total transactional and Operational costs' field values above
- Fill in any missing monthly points by rolling back the values above up to 12 months (or until the previous value) first. After rolling back missing month end may be filled by rolling the values forward up to 12 months.
- The latest value may be rolled forward up to 15 months (to allow for publishing and collection of the next annual report).
- For months with both a manager expense ratio and a trading expense - add them together to obtain month’s representative cost.
- If a month does not have both values a representative cost will not be displayed.
New Zealand Market
The New Zealand market does not publish transaction cost information so only the excluding transaction cost field will be calculated. The excluding transaction cost time-series will be calculated by using the manager expense ratio (from the annual report, semi-annual report or other source). This will be calculated by:

- Taking the manager expense ratio values for the share class, and place those values on the reported date (if the reported date is mid-month then place on the month end).
- Fill in the missing monthly points by rolling back the values up to 12 months (or until the previous reported value) first.
- After rolling back missing month end may be filled by rolling the values forward up to 12 months.
- The latest value may be rolled forward up to 15 months (to allow for publishing and collection of the next annual report).

Methodology History
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