

Morningstar Rating™ for Australian Separate Accounts

Key Benefits

- ▶ Gives investors the ability to quickly and easily identify separate accounts that are worthy of further research—those with superior risk-adjusted returns.
- ▶ Allows investors to compare separate accounts by Morningstar Category to aid in portfolio construction.
- ▶ Provides investors with a familiar tool that is also used for managed funds.

The Morningstar Rating™ for separate accounts is a quantitative assessment of past performance—both return and risk—as measured from one to five stars. The Morningstar Rating, often referred to as the ‘star rating’, is a familiar tool that helps investors evaluate the risk-adjusted returns of separate accounts. It also helps identify management teams that are adding value over time, compared with others in their Morningstar Category™. As always, the Morningstar Rating is intended for use as a first step in the investment evaluation process.

Similarities

The Morningstar Rating for separate accounts is based on the same methodology that Morningstar uses to rate other investments, such as open-end managed funds.

- ▶ Star ratings are assigned to separate accounts in a bell curve distribution.
- ▶ The Morningstar Rating uses an enhanced risk-adjusted return measure based on ‘expected utility theory’, which accounts for all variations in a separate account’s monthly performance, with more emphasis on downward variation.
- ▶ The rating is an objective grade of demonstrated performance. It is not designed to try to anticipate future performance.
- ▶ Separate accounts are ranked against others in the same Morningstar Category. Categories are assigned based on extensive holdings-based portfolio analysis.
- ▶ Separate accounts are rated for up to three time periods (three, five, and 10 years). These ratings are weighted and combined to produce the overall Morningstar Rating.
- ▶ Morningstar will not calculate ratings for categories or time periods that contain fewer than five separate accounts.

Because separate accounts do not have multiple share classes, the corresponding adjustment for the fund rating is not applicable to the separate account rating.

Differences

There are some differences between the separate account rating methodology and the rating methodologies for other investments because of the unique way that separate account managers calculate and report investment performance.

- ▶ All separate account performance data is reported to Morningstar as a ‘composite’ of similarly managed portfolios.
- ▶ Morningstar rates separate accounts based on total returns that have not been adjusted for investment management fees.

Composites

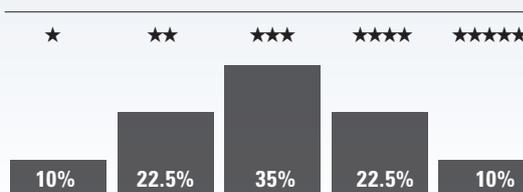
Investors in the same separate account may have slightly different portfolio holdings because each investor has customised account needs, tax considerations, and security preferences. Therefore, separate account managers calculate and report composite returns for each investment style they offer. The method for calculating composites can vary. To ensure that the ratings are fairly assigned, Morningstar will calculate ratings for only those firms that report composites according to the guidelines of the CFA Institute’s Global Investment Performance Standards (GIPS®).

No Adjustment for Fees

Unlike a managed fund where all investors in a fund pay the same fee, the fees for separate accounts can vary widely and are negotiated between the asset manager, the separate account provider, and the investor. Morningstar has therefore chosen to present performance before fees have been taken out.

The Morningstar Rating

The Morningstar Rating methodology ranks separate accounts by their Morningstar risk-adjusted return scores, and stars are assigned using the following scale:



When and Where

Morningstar Ratings for Australian-offered separate accounts will be recalculated and republished monthly, and may be licensed for use by providers in promotional materials. The star ratings are available in Morningstar™ Adviser Workstation, a complete practice and portfolio management platform for financial advisers, and Morningstar Direct™, a web-based global research platform that connects institutional investment professionals directly to Morningstar’s full universe of investment research and data.