

# Morningstar® Analyst Rating™ for Separately Managed Accounts

## Investor Benefits

- ▶ **Investors First.** Morningstar always conducts its research with the end investor in mind.
- ▶ **Long History.** Morningstar has produced written, analyst-driven research on managed investments dating back to 1986.
- ▶ **Independence.** Morningstar does not charge asset managers to have their managed investments rated, nor do asset managers commission research or ratings. Morningstar's decision to report on a managed investment 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 manager-research analysts worldwide.

## Background

For more than 30 years, Morningstar analysts have been providing independent, qualitative written research on managed investments. The research has always aimed to provide insights into the investments' sustainable advantages and a forward-looking perspective into how they might behave in a variety of market environments, helping investors choose superior investments, maintain realistic performance expectations, and manage their portfolios more wisely. The Morningstar Analyst Rating™ for separately managed accounts is the latest development in the evolution of Morningstar's research capabilities for managed investments. The approach to rating SMAs is consistent with Morningstar's global research philosophy for mutual funds and other managed investments.

## Morningstar Analyst Rating for Separately Managed Accounts

Unlike the backward-looking Morningstar Rating™ (often referred to as the "star rating"), which assigns 1 to 5 stars based on a managed investment's past risk- and load-adjusted returns versus category peers, the Analyst Rating is the summary expression of Morningstar's forward-looking analysis of a managed investment. Morningstar analysts assign the ratings on a five-tier scale with three positive ratings of Gold, Silver, and Bronze, a Neutral rating, and a Negative rating.

The Analyst Rating is based on the analyst's conviction in the investment's ability to outperform its peer group and/or relevant benchmark on a risk-adjusted basis over the long term. If an SMA receives a positive rating of Gold, Silver, or Bronze, it means Morningstar analysts think highly of the account and expect it to outperform over a full market cycle of at least five years. The Analyst Rating is not a market call, and it is not meant to replace investors' due-diligence process. It cannot assess whether

an SMA is the right fit for a particular portfolio and risk tolerance. It is intended to supplement investors' and advisors' own work on the investment and, along with written analysis, provide forward-looking perspectives on an SMA's attributes. It picks up where commonly watched measures of the past leave off.

## Research Methodology

Morningstar evaluates SMAs based on four key pillars—Process, Performance, People, and Parent—which its analysts believe lead to investments that are more likely to outperform over the long term on a risk-adjusted basis.

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

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

**People:** What is Morningstar's assessment of the manager's talent, tenure, and resources?

**Parent:** What priorities prevail at the firm? Stewardship or salesmanship?

The approach notably puts only partial weight on past performance and backward-looking risk measures and does not dismiss SMAs that have underperformed or have limited track records. Analysts consider numeric and qualitative factors, but 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.

### Morningstar Analyst Rating for Separately Managed Accounts



**Gold**

Best-of-breed SMA that distinguishes itself across the four pillars and has garnered the analysts' highest level of conviction.



**Silver**

SMA with notable advantages across several, but perhaps not all, of the four pillars—strengths that give the analysts a high level of conviction.



**Bronze**

SMA with advantages that outweigh the disadvantages across the four pillars and with a sufficient level of analyst conviction to warrant a positive rating.

**Neutral**

SMA that isn't likely to deliver standout returns but also isn't likely to significantly underperform, according to the analysts.

**Negative**

SMA that has at least one flaw likely to significantly hamper future performance and that is considered by analysts an inferior offering to its peers.