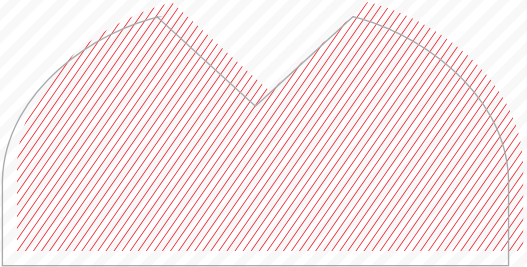**Morningstar Direct^{SM} Training Guide**

Setting Your User Preferences

MORNINGSTAR Direct

MORNINGSTAR

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Morningstar Direct November 2017

Setting Your User Preferences in Morningstar Direct^{SM}

Global settings in the File menu define settings on the application level. As you start using the various product areas such as Performance Reporting, Equity Attribution, and Presentation Studio, they will have their own specific user preferences. In this manual, you will learn how to set your user preferences in Morningstar Direct^{SM}.

Overview

The General settings cover a wide range of options. Remember that these apply globally, throughout the application. Also, changes you make here also affect the depiction of information in Morningstar Direct Cloud.

Exercise 1: Managing your general settings

To manage your general settings, do the following:

1. From the menu bar select **File**…**Set User Preferences**. The Set User Preferences window opens. The General tab is selected by default.

Select this option from the menu bar to set your preferences
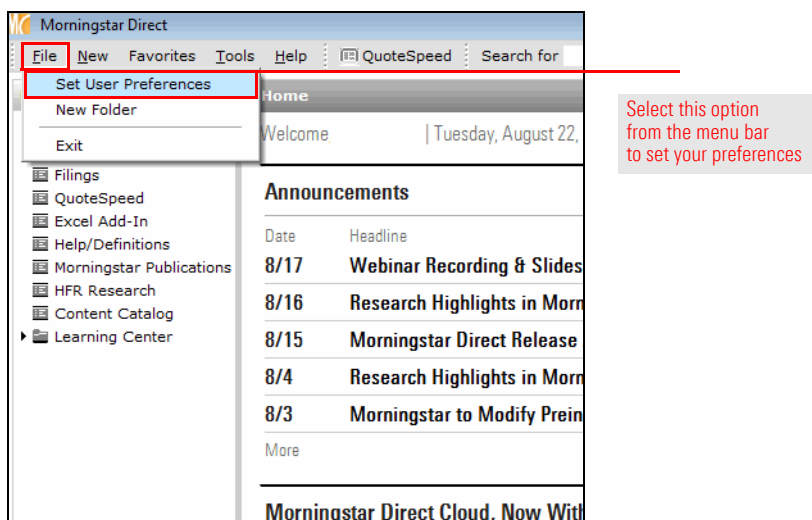
2. On the General tab, consider changing the following settings:

Setting	What to Consider
Decimal places	The value you set here affects every numeric value you see in the desktop application, and in Morningstar Direct Cloud. Although it might seem obvious to keep this value at "2," the Morningstar Risk Model data points (available only in Morningstar Direct Cloud) are sometimes so small so as to need to be expressed to five decimal places in order to be seen.
PDF page size	Users outside of the United States can select A4 as an option here, rather than the 8.5" X 11" US Letter option.
PDF orientation	This setting refers only to pre-built reports generated by the application. For reports you create in Presentation Studio, you can choose the page orientation for each template or report you create.
Benchmark 1	The default option here is the S&P 500 TR index, and applies to model portfolios and accounts you create in the application when you generate pre-built reports for them. This setting does not affect modules outside of Portfolio Management.
Benchmark 2	To show a second benchmark on pre-built reports for model portfolios or accounts, first **uncheck** the box for **Don't use benchmark 2**, then select an option using the **Find** button.
Risk-free proxy	The value here is used when calculating Sharpe Ratio, MPT statistics, and other data points where the risk-free rate needs to be considered.
Currency	This field controls how return values are depicted in the application. The default value of Base Currency references the base currency for the fund. Instead, you can choose to see returns depicted in another currency.
Local country	This field controls the domicile for funds shown in the Local Databases module. For example, if United States is selected, then the Mutual Funds universe in the Local Databases module will show only open-end funds domiciled for sale in the US.
Default universe	The value here is what is shown when you are attempting to find investments. For example, when you are in the Workspace module to create a list of multiple investments, the universe you select here is the one you search by default. Likewise, if you are creating a performance report and using a search to select the investments for the report, the universe chosen here is selected by default. (In both cases, you can always choose to find investments among other universes.)

Setting	What to Consider
Return/Price type	This field affects the prices shown for some portfolio holdings created in the Portfolio Management module. If you enter a portfolio by weight or dollar amount, then this field does not apply (because the system assumes you have entered the correct pre- or post-tax data here).
	This field applies only to those portfolios created by entering the number of shares for a holding, or by using an existing portfolio to create a new portfolio by retaining shares from the original portfolio.
	The two options here are Mixed and Pre-Tax. If you select Pre-Tax here, the price and return always use pre-tax values. The Mixed option uses a logic based on the investment type and the domicile of the investment. Namely, if the post-tax value is provided by the investment's company, and Mixed is selected here, then the post-tax value is shown. If no post-tax data is provided, or if it does not apply to the investment type, then pre-tax data is shown.
Language	This value changes the interface to use a particular language (where possible) after you restart Morningstar Direct. The language on both pre-built reports and reports from Presentation Studio also reflect the choice you make here.
Asset class type	Several different, country-based asset allocation lineups are available for use in the Workspace module. The choice here determines the data shown when you select the Asset Allocation data set.
Custom Peer Group Ranking	In the U.S. and Canada, Morningstar uses a fractional weighting approach to calculate official category averages and fund percentile rankings (except for US VA and VL subaccounts; these do not use the fractional methodology). This is designed to minimize the effect funds with multiple share classes have on both category averages and percentile rankings (compared to funds with only one share class).
	In order to replicate Morningstar's updated methodology in custom calculations in Performance Reporting and Presentation Studio, users should make sure they set this field to "Morningstar Methodology." This ensures peer group percentile ranks are being calculated using fractional weighting and a combined (OE+ETF) universe.
	If users wish to continue calculating ranks using a simple average calculation, they have the ability to set this preference as applies to either a combined or separate OE/ETF universe.

Setting	What to Consider
Save cache files to	This field points to a local folder on your computer where certain files are saved as you use Morningstar Direct. If you encounter problems with Morningstar Direct, you can sometimes resolve the issue by using this field to reference where the files are stored, closing Morningstar Direct, then clearing the folder and restarting Morningstar Direct.
Stock Intersect Holding #	This value affects how many holdings (up to 2,000) are shown when the Stock Intersection report is opened via the Action menu in the Workspace module. This affects only the system Stock Intersection report; the Stock Intersection PDF always shows the intersection among the top 25 holdings across portfolios.
Extended performance	When this box is checked, extended performance is automatically calculated for investments across the application using older share classes of the same fund. You can read about Morningstar's methodology for extended performance calculations.
Use ETF Proxy for Unavailable Index Portfolios	If you do not have constituent rights to the holdings of an index, this setting (when checked) will simply use an ETF Proxy (as designated by Morningstar) instead when generating certain holdings-based reports from the Workspace module, such as Stock Intersection.

3. If you make any changes here, click **OK** to save them.

The settings for the Portfolio Management module ask you to consider the following:

Exercise 2: Change your Portfolio Management settings

▶ How do you want to handle performance calculation returns?

▶ What general account settings do you want to set for tax lots and transactions?

▶ What settings do you want to default to when creating reports from this module?

Do the following:

1. If the Set User Preferences window is not already open, from the menu bar select **File**…**Set User Preferences**. The Set User Preferences window opens.
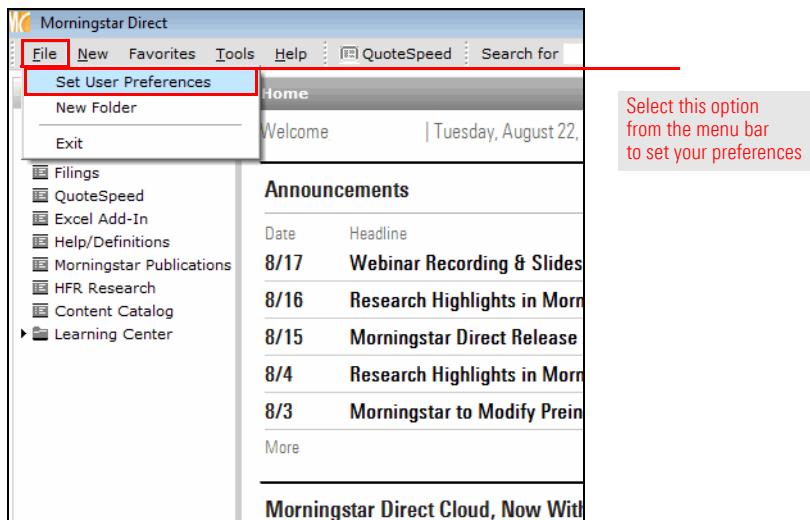
2. Select the **Portfolio Management** tab. Use the following table as a reference for making changes here.

Setting	What to Consider
Missing Security	How should Morningstar Direct calculate the return for an account if an investment did not exist at the time of the calculation? For example, consider a mutual fund with only three years of history. If it is included in an account, and you want to see the five-year return for the account, how should the application calculate that return? ▸ **Missing returns**: If a portfolio constituent's return is missing, then the Account/Model Portfolio/Custom Benchmark's return will not be calculated. (This is the default option.) ▸ **Based on security's prices**: For any security with missing performance, the missing returns are calculated using its imported or Morningstar prices depending on a security's price source setting. (You can set a default price source setting on the Import tab of the Set User Preferences window.) If a price is missing for a date, the previous day's price is used In other words, it assumes a return of 0 for that date. ▸ **Rescale weights**: In this case, the returns are based on a reweighted average. For example, if an Account/Model Portfolio/Custom Benchmark has three, equal-weighted securities and one security is missing performance for a certain period, then the return of the Account/Model Portfolio/Custom Benchmark with this option would equally weight the other two securities at 50% each for that time period. ▸ **Zero return**: In this case, for the security with a missing return, a 0 return is usedm rather than simply not calculating a return, or doing a reweighting. For example in the sample above, the return for the Account/Model Portfolio/Custom Benchmark would be: Return = $(r1*w1 + r2*w2 + 0.00*w3)/(w1+w2+w3)$.
Closed End Funds	In Workspace. when calculating custom returns for portfolios with Closed End funds in an account, you can choose to use either Market Return or Total Return. Market Return is based on the market price, while Total Return uses the NAV.
ETFs	In Workspace, when calculating custom returns for portfolios with ETFs, you can choose to use either Market Return or Total Return for the portfolio. Market Return is based on the market price, while Total Return uses the NAV.

Setting	What to Consider
CITs	In Workspace. when calculating custom returns for portfolios with Collective Investment Trusts in an account, you can choose to use either Gross Return or Net Return.
Cash Component	When the box is checked for Use Risk-free Proxy Return, the return for the risk-free proxy as set on the General tab in the Set User Preferences window is used. If the box is unchecked, the return for the cash component of an account is 0%.
Use Gross Return	If you check this box, when you create a new portfolio the Use Gross Return box on the General settings page of the portfolio window is checked by default.
Show Liquidated Holding	When checked, and when the weight of the security is 0 for a portfolio, the security will show in the Holding Summary view. Otherwise, the liquidated holding does not show.
Capital flow Limit for TWR Calculation (%)	This setting does not apply to portfolios in Morningstar Direct.
Tax lot methods	This setting does not apply to portfolios in Morningstar Direct.
Transaction	This setting does not apply to portfolios in Morningstar Direct.
Report Setting	When you create account-level reports from the Portfolio Management module, you are able to set certain default settings such as the benchmark used, what sections of the report to include, and more. The setting here determines whether Morningstar's default settings are used, or your default settings are used. To see the Morningstar default settings, simply **create an account** in the Portfolio Management module, then use the **Action** menu to generate a report for it. To create your own report settings, make any changes on the Report Settings dialog box you want, then **save** those settings with the name **My Default Report Settings**.
Add Logo to Cover Page	TEST THIS To automatically place your firm's logo on the cover page of every account-level report, select the appropriate file here. You will also need to remember to select the Cover Page option whenever it is offered. This setting does not add the logo to the cover page for reports created in Presentation Studio.
Add Logo to Footer	To place your firm's logo in the footer of every account-level report, select the appropriate file here. Not for PS

3. If you make any changes here, click **OK** to save them.

The Import tab is used to do the following:

▸ set the default price source and settings for imported security performance calculations
▸ select security-matching filter settings concerning exchanges/currencies (so the correct version of an investment is recognized when importing)
▸ create automated import settings relevant to custodian templates for import, and
▸ choose how to handle any custom data points you import.

Do the following:

1. If the Set User Preferences window is not already open, from the menu bar select **File**…**Set User Preferences**. The Set User Preferences window opens.
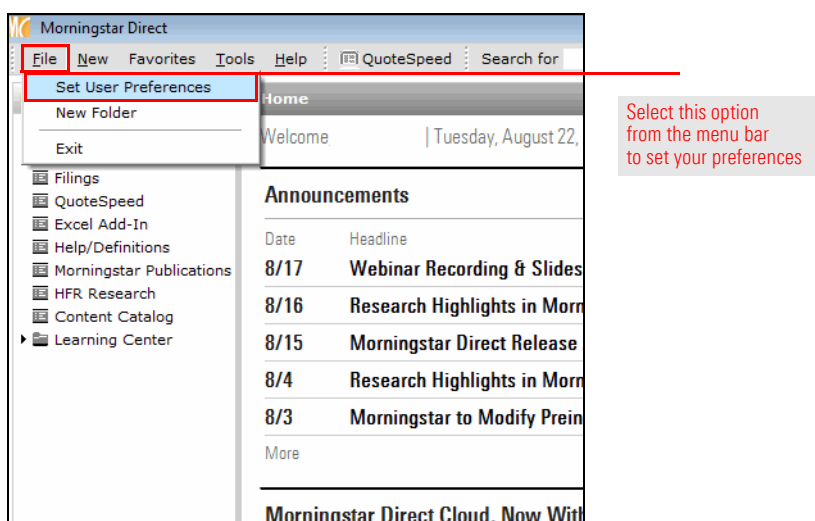
2. Select the **Import** tab. Use the following table as a reference for making changes here.

Setting	What to Consider
Price Source	In the event a discrepancy exists between the price Morningstar has for a security, and the price you see at your custodian (which is presumed to be the source for an imported account), select the option here you want to use when importing. This choice affects either the market value or number of shares of a holding.
Rebalancing frequency	The system automatically rebalances to the most recently imported portfolio.
Rebalancing based on	Rebalancing can take place either on a calendar period (month end, quarter end, etc.), or relative to the effective date of the portfolio.

Setting	What to Consider
Performance calculation start date	When calculating the return of a portfolio, you can default to using: ▸ the earliest common date shared by the holdings in the portfolio ▸ the earliest available price starts at the inception date for the oldest holding for each holding (going back to its inception date), or ▸ the first portfolio date you identify when you import the portfolio.
Investment Matching Filters	When you import a security by name and ticker, multiple instances of that holding might be found, due to it being traded on multiple exchanges around the world. Setting filters here ensures that investments from only the exchanges you identify are imported. Likewise, the Set Currency Filter ensures that the investments you import always come into Morningstar Direct in the currencies you designate. Be sure to uncheck the box for Auto-select Representative Performance Stream Investments, as this overrides the filters you set here.
Auto-Select Representative Performance Stream Investments	This field overrides the Investment Matching Filters, and when checked, brings in all matching securities from all exchanges.
Schedule Batch Job Create Batch Job Auto-Share Portfolios	You can schedule imports to take place automatically. To ensure you set up the parameters correctly, please work with your Client Service Consultant at Morningstar.
Choose your Custom Database Settings	When you create entries in your custom database upon importing, choose whether to add new entries in the database, or overwrite the full database with what you import.

3. If you make any changes here, click **OK** to save them.

Most modules in Morningstar Direct allow you to export the rows and columns you are looking at in a grid view to either Microsoft Excel or a PDF. When you use either the **Export** icon or the **PDF** icon on the toolbar to do this, several summary statistics can be included automatically.

The Export tab is used to do the following with regard to this action:

- ▶ choose the summary statistics to include when you export or print content
- ▶ when exporting or printing, choose whether breakpoints in the Summary Statistics area should be set at the quartile, quintile or decile level, and
- ▶ choose how to display the Morningstar Rating and Morningstar Style Box upon export.

To set your export settings, do the following:

1. If the Set User Preferences window is not already open, from the menu bar select **File**…**Set User Preferences**. The Set User Preferences window opens.

Exercise 4: Change your export settings

Select this option from the menu bar to set your preferences
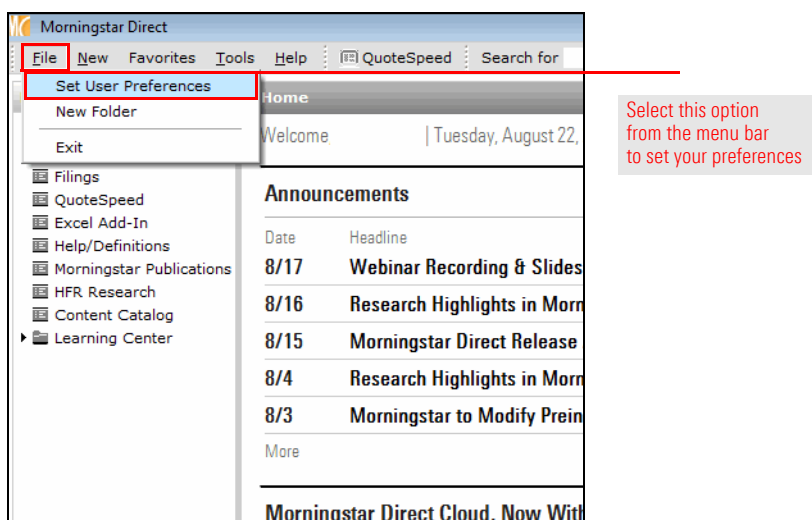
2. Select the **Export** tab. Use the following table as a reference for making changes here.

Setting	What to Consider
Choose the summary statistics you wish to include in	If you do not want any of these statistics to appear when you export or print a PDF from
n/tile breakpoints	When looking at the summary statistics among the rows you've exported, do you want these to be divided into quartiles, quintiles, or deciles? You can also elect to turn off this section from the summary statistics area.
Export Morningstar Star Rating and Morningstar Style Box	If you export columns containing either the Morningstar Star Rating or Morningstar Style Box, do you want these columns to display text or symbols? Choose an option from this area.

3. If you make any changes here, click **OK** to save them.

In the Workspace module, you can create custom calculations for several data points, including returns.

Exercise 5: Change your Return Settings

The Return Settings tab is used to do the following with regard to this action:

▶ choose the default return type for a variety of security types when using a custom calculation, and
▶ select a day of the week to serve as the end day for a week.

To set your return settings, do the following:

1. If the Set User Preferences window is not already open, from the menu bar select **File**…**Set User Preferences**. The Set User Preferences window opens.

Select this option from the menu bar to set your preferences
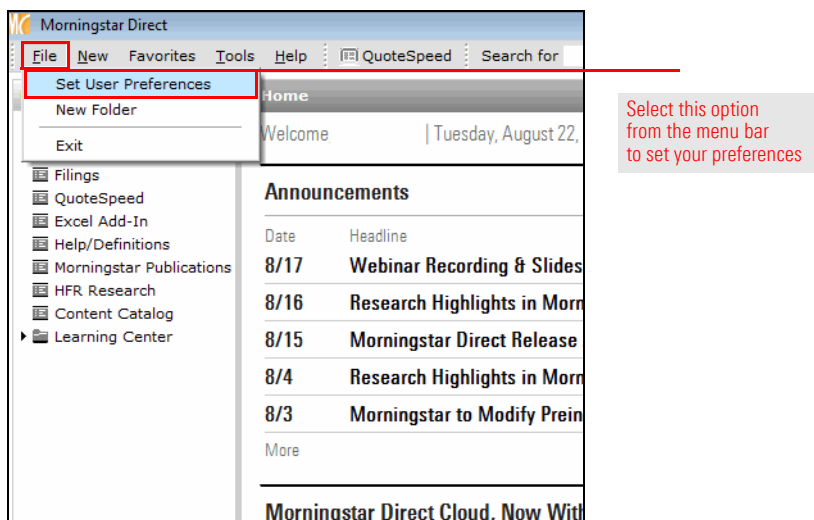
2. Select the **Report Settings** tab. Use the following table as a reference for making changes here.

| Setting	What to Consider
Default Return Type Mapping	For each security type, choose the default return type you want to see calculated for it.
Date Setting	Choose a day of the week to serve as the week's end. This will impact the weekly return values for your custom calculation.

3. If you make any changes here, click **OK** to save them.

When you create an advanced search (also known as a search by criteria) in the Local Databases, Global Databases, Workspace, or Performance Reporting modules, you have the option to select a single share class of each fund that's returned by the search. The parameter dictating which share class of a fund is returned can be set from the Set User Preferences window.

If more than one share class shares the selected preference for the criteria (e.g. more than one share class shares the lowest management fee and/or the oldest inception date) then all those share classes which match the selected preference will be judged using the next criterion (with any share classes that do not match the first preference being discarded). If no share classes for the fund match the preference chosen for the Currency, Distribution or Institutional criteria, then none of the share classes should be discarded, and so the next criterion is considered.

To invoke this setting, be sure to check the box on the Search Criteria dialog box for Use User Defined Primary Share Class.

Exercise 6: Change your User Defined Primary settings
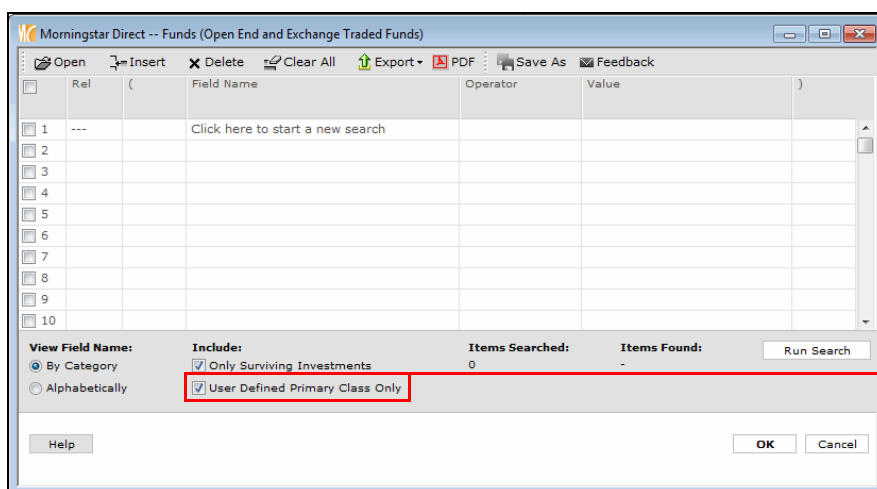
To invoke the user-defined primary share class settings, be sure this box is checked

To set your User Defined Primary Share Class settings, do the following:

1. If the Set User Preferences window is not already open, from the menu bar select **File**…**Set User Preferences**. The Set User Preferences window opens.
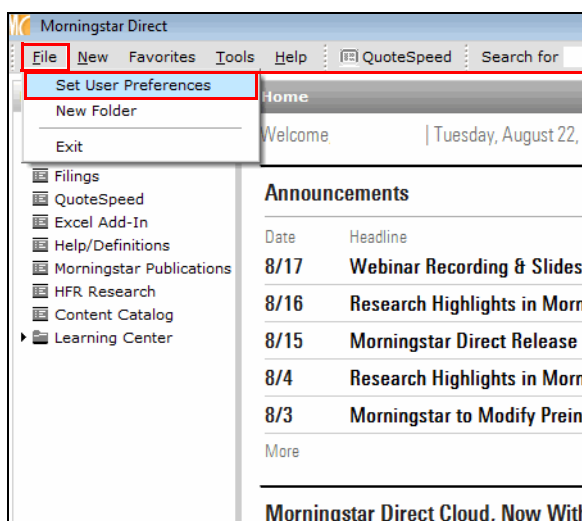
Select this option from the menu bar to set your preferences

2. Select the **User Defined Primary** tab. Use the following table as a reference for making changes here.

Criteria	Definition
Annual Report Net Expense Ratio	The percentage of fund assets used to pay for operating expenses and management fees, including 12b-1 fees, administrative fees, and all other asset-based costs incurred by the fund, except brokerage costs. Fund expenses are reflected in the fund's NAV. Sales charges are not included in the expense ratio. The expense ratio for fund of funds includes only the wrap or sponsor fees, and does not include the underlying fund fees.
Max Management Fee	The management fee is the maximum percentage deducted from a fund's average net assets to pay an advisor or subadvisor. It is collected from the prospectus.
Minimum Investment	The lowest initial amount an investor can make in a share class.
Institutional	This field allows you to choose whether you prefer to see the retail or institutional share class for a fund. Institutional funds meet one of the following qualifications: ▸ has the word "Institutional" in its name ▸ has a minimum initial purchase of $100,000 or more, or ▸ states in its prospectus that it is designed for institutional investors or those purchasing on a fiduciary basis.
Performance Start Date	The first date for which performance was recorded for an investment.
Distribution Status	The dividend distribution policy for the investment. Do they accumulate or distribute the income they collect?
Currency	The primary currency for the security.
Hedging Policy	Select whether to use the Hedged or Unhedged strategy.
Share Class Size (latest)	Based on the latest information Morningstar has for a fund's share classes, do you prefer to see one with the lowest asset level, or the highest?

3. To change the primacy of a selection, click anywhere in its row, then use the **arrow buttons** to move it up or down.
4. If you make any changes here, click **OK** to save them.