Introduction

Morningstar’s Scorecards objectively rank funds based on the measures our research analysts study when assigning forward-looking ratings.

Morningstar’s Scorecards systematically grade funds relative to peers in their Morningstar Category on 12 measures that reflect the interrelationship of each fund’s price, people, parent, process, and performance. When the scoring factors are combined, Morningstar’s Scorecard’s results are correlated with future risk-adjusted outperformance.

At Morningstar, one of our goals is to provide the most effective investment data and research for investors.
Frequently Asked Questions

What are Morningstar’s Scorecards?
Morningstar’s Scorecards are a form of data-driven analysis created in 2016 to effectively compare open-end mutual funds and ETFs relative to other funds in their peer group.

Morningstar’s Scorecards are very specifically not about making recommendations; they are about acknowledging that if you have the right information you can make the right decision for yourself. They are meant to enhance, not replace, an investors’ process.

A Scorecard Report is delivered to clients after each month-end. Scorecard Reports can be easily shared among team members to automate the process and create consistency. This scalability accelerates the learning curve for new team members who have recently joined the firm.

What are the problems with the traditional model of evaluating funds?
The traditional way that many investors compare funds was to analyze a common set of measures that typically included past performance, size (assets), flows, and the manager’s reputation, among other metrics. However, we noticed two problems. First, these measures tended not to correlate with future performance, and second, the process was not well-defined and was subjective to the analysts conducting the review.

What problems do Morningstar’s Scorecards aim to solve?
The first problem is that conducting high-quality analysis is costly, both in time and the resources required. Morningstar’s U.S. manager research group has approximately 40 members and provides qualitative coverage for about 1,600 mutual funds and 200 ETFs. That is about 1/5th of the fund universe. Many of our clients have significantly smaller teams but are asked to evaluate a similar number of funds. In addition to the top-down scoring model, Morningstar’s Scorecard Reports also include Morningstar’s ratings. This gives our clients multiple perspectives, both objective and Morningstar’s view, to form their own decisions.

The second problem is that our clients typically have many responsibilities in addition to manager selection. When they use Morningstar’s Scorecards as a starting point, analysts can complete their fund-evaluation responsibilities much faster. This allows the analysts to focus more time on value-add areas that support the firm’s advisors and end clients.

Which type of firms use Morningstar’s Scorecards?
In the initial phase, Morningstar generated interest from home-office teams at wealth managers, brokerage firms, advisory firms, and private banks. These clients use Morningstar’s Scorecards as an input into their process for evaluating and monitoring the funds on their platforms, and for creating
recommended lists for their advisors. Primarily used as a starting point, the rules-based Scorecard provides analysts with the necessary insight to form their own opinion based on the circumstances. As a central resource for teams to share, each analyst in the firm's network has access to the same information. To manage regulatory risk, they often rely on Morningstar's Scorecards to identify and cut low-quality funds.

Since Morningstar's Scorecards are provided by an independent research provider (Morningstar), which has no conflict of interest, they can help an advisory firm with their fiduciary responsibility.

**How do Morningstar's Scorecards complement Morningstar's forward-looking analyst ratings?**

From a qualitative perspective, Morningstar's manager research group takes a holistic look at the fund and focuses on five pillars, which our analysts believe identify the strategies most likely to outperform their peers over the long run on a risk-adjusted basis. Final decisions are based on interviews with the portfolio manager. From a data-driven perspective, Morningstar's Scorecards were built to succeed on three dimensions: (1) forecasting power, (2) transparency, and (3) broad coverage. Morningstar's Scorecards aim to capture as much forecasting power as possible without losing interpretation and understanding. They are in no way substitutes for analyst judgment, but often provide valuable insights and serve as a very useful focal point in manager selection discussions.

Morningstar's Scorecards also complement Morningstar's quantitative rating system. This rating attempts to predict how Morningstar's manager research group would evaluate a fund and are assigned to most funds that do not receive analyst coverage. They rely on a random forest model. At the opposite end of the spectrum, Morningstar's Scorecards use a model that is less complex and more transparent, which can be helpful for investors who are trying to understand a fund's strengths and weaknesses. One or both can be valuable, depending on the client's needs.
How do Morningstar’s Scorecards complement Morningstar’s backward-looking star ratings?
Morningstar’s Scorecards are viewed as a substitute to using the star ratings, which are determined by a fund’s past performance. The star ratings can help someone learn how a fund has performed in the past, but if the goal is to choose the best funds for the future, Morningstar’s Scorecards provide a better starting point.

Can you demonstrate the efficacy of Morningstar’s Scorecards?
Our testing shows Morningstar’s Scorecards have had a high correlation with future (unknown) risk-adjusted performance and increase the likelihood of picking the best funds. During a 14-year period (2002-2015), there was a 78% probability that a top-scoring fund would have performed better than its peer group average. Further, there was only a 6% probability that a top-scoring fund would perform in the bottom quartile of its peer group.

The methodology document provides an in-depth explanation of this analysis in addition to other forecasting tests that were conducted to determine the scoring criteria.

What types of investments are scored?
Morningstar’s Scorecards evaluate open-end mutual funds and exchange-traded funds.

How do Morningstar’s Scorecards distinguish between funds across asset classes?
Within one Scorecard Report, there are six distinct styles of scoring models. The scoring criteria are adjusted for each style to capture the differences between funds with different objectives. For example, the scoring rubric for actively-managed equity funds is different than the rubric for passively-managed bond funds. Morningstar has automated the process to apply the correct style for any list of funds that spans multiple asset classes.

Do you offer a Scorecard for fund families?
Yes, we also provide a Scorecard for fund families. The fund family scores are updated semi-annually in Morningstar’s Fund Family 150 Report, which provides a comprehensive analysis of the 150 largest fund families in the U.S.

Are Morningstar’s Scorecards different from Morningstar’s Best Interest Scorecard?
Yes, the Best Interest Scorecard is a report card that compares one’s current portfolio with a hypothetical portfolio and is outside the scope of the manager selection process.
How often is the scoring methodology updated?
Morningstar will adjust the scoring methodology infrequently, but potential improvements will be evaluated on an ongoing basis. Any modifications will likely be attributed to evolving market conditions or new insights. We will provide notification to clients in advance of future changes.

What is on the roadmap for the future?
Morningstar plans to offer Morningstar's Scorecards to individual investors. Screening funds effectively is a major focus of investors. In the 10th anniversary of the Morningstar magazine, our leaders focused on Morningstar's latest initiatives for helping investors make better decisions. Our belief is that investors don’t need more raw data, they need more predictive data in a form they can understand and use. Morningstar's Scorecards convert complex, raw data into an easy-to-understand result.

What is the licensing fee to use Morningstar’s Scorecards?
Morningstar’s Scorecards, as part of Morningstar's Due Diligence Reports bundle, can be licensed on an annual basis from Morningstar. The bundle includes Scorecards, watchlists, alerts, and medalist screens, in addition to a service that supports customization. The licensing fee depends on the use and distribution required by the client, but the offering is typically around 50% of what would be required to hire an additional analyst.

How do Morningstar’s Scorecards help investors?
Our mission is to empower investor success. Everything we do at Morningstar is in the service of the investor. The investing ecosystem is complex and navigating it with confidence requires a trusted, independent voice. Our perspective—built every day by more than 5,000 employees across the globe—is delivered to institutions, advisors, and individuals with a single-minded purpose: to empower every investor with the conviction that he or she can make better-informed decisions and realize success on his or her own terms.

Our independence and our history of innovation make us a trusted resource for investors. While other companies may offer research, ratings, data, or software products, we are one of the few companies that can deliver all of these with the best interest of the investor in mind. We believe putting investors first, paired with the way we use information design and technology to communicate complex financial information, sets us apart from our peers in the financial services industry.

Morningstar’s Scorecards align with Morningstar’s mission to create the most effective investment data, research, and ratings for investors. Consistent with Morningstar’s guiding principles, the Scorecards put investors first, reflect our independent research framework, focus on the long term, reward low costs, and help investors build portfolios holistically.
Built on Morningstar’s Data — One of Morningstar’s greatest assets is our extensive data coverage. Morningstar’s proprietary coverage on approximately 30,000 open-end mutual funds and exchange-traded funds in the U.S. enables us to offer a Scorecard that is reliable and complete.

Investors First — Morningstar always conducts its research with the end investor in mind.

Methodology Oversight by Morningstar Manager Research — Decades of manager research experience provides inputs to our methodology.

An Independent View — Morningstar does not charge fund companies to be rated, nor do fund companies commission research or ratings.

Investor Recognition — According to a Wall Street Journal survey, Morningstar ranked highest among the four leading mutual fund information providers in name recognition and in perceptions of data accuracy and completeness. Because investors know and trust Morningstar, they feel more confident in making informed investment decisions when they’re armed with Morningstar information.

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