

## Morningstar Manager Research Ratings Guide



# Morningstar's Forward-Looking Rating Systems

The Morningstar Analyst Rating and Morningstar Quantitative Rating systems are assigned on a five-tier scale.

## Gold

This rating is assigned to funds with competitive advantages across all five pillars. Our analysts have the highest level of conviction that these funds will outperform their benchmark or peers, within the level of risk taken, over a full market cycle.

## Silver

This rating is assigned to funds with competitive advantages across most of the five pillars. Our analysts have a high level of conviction that these funds will outperform their benchmark or peers, within the level of risk taken, over a full market cycle.

## Bronze

This rating is assigned to funds with competitive advantages across most of the five pillars. Our analysts have a sufficient level of conviction that these funds will outperform their benchmark or peers, within the level of risk taken, over a full market cycle.

## Neutral

This rating is assigned to funds without any competitive advantages across the five pillars. Our analysts do not believe these funds will outperform their benchmark or peers, within the level of risk taken, over a full market cycle.

## Negative

This rating is assigned to funds with competitive disadvantages across one or more of the five pillars. Our analysts believe these funds will underperform their benchmark or peers, within the level of risk taken, over a full market cycle.

## Under Review

This designation signals that a material change has occurred and the event requires further review to determine the impact on the rating. Our analysts aim to assign a new rating, or maintain the previous rating, within two weeks of the event.



The ratings are updated minimally once per year and more frequently as events warrant.

- ▶ [Methodology: Morningstar Analyst Rating](#)
- ▶ [Methodology: Morningstar Analyst Rating for ETFs](#)
- ▶ [Methodology: Morningstar Quantitative Rating](#)

# Manager Research Methodology | Our Five-Pillar Framework

For more than two decades of conducting manager research, Morningstar's global analyst team has identified five key areas that we believe are crucial to predicting the future success of a strategy: [People](#), [Parent](#), [Process](#), [Performance](#), and [Price](#).



Process



Performance



People



Parent



Price

## Process

Our analysts are agnostic to a manager's overall style, meaning that for equity managers, we do not prefer value to growth or momentum, or vice versa. For fixed-income managers both high-quality and credit-sensitive styles are viable. For multi-asset class funds, a wide range of approaches to asset allocation can succeed. We look for funds with a performance objective and investment process, for both security selection and portfolio construction, that is sensible, clearly defined, and repeatable. It must also be implemented effectively. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and prospectus objective. Our analysts look to define the key edge of a manager's process, and the suitability of the fund for different types of investors given the risks we would expect to see in its portfolio.

## Performance

We do not believe past performance is predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of return and risk patterns is vital to determining if a fund is delivering to our expectations. It is extremely important that performance be viewed within the context of risks taken, and we prefer to focus on downside risk.

## People

The overall quality of a strategy's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a strategy's investment team requires that our analysts assess their experience, ability, stability, and alignment of interests.

## Parent

We believe the parent organization is of utmost importance in evaluating funds. Although other factors may have more immediate impact, they would not be sustainable without backing from the fund firm. Further, the fund firm and its management set the tone for key elements of our evaluation. We prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship. The former tend to operate within their circle of competence, do a good job of aligning manager interests with those of funds owners, charge reasonable fees, and treat fund owners' capital as if it were their own. The latter might be characterized by their view of fund investors as sales opportunities— they tend to offer faddish products in an attempt to gather assets, and have higher charges and incentive programs that do a poor job of aligning managers' interests with those of fund investors. Although relatively few firms fall obviously at one extreme or another, determining where a fund company falls on the spectrum is a key part of our research approach.

## Price

Morningstar's research has shown that fund expenses are one of the better predictors of performance. Costs cannot be ignored. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

## Our Manager Research Group

We have earned trust from investors and advisors because we translate a flood of information into research that gives them the stories behind investments and the context to make informed decisions. Our analyst research and ratings also help advisors and other financial professionals find suitable investments for their clients.

Our research comes from candid analysts who are willing to diverge from conventional wisdom and stand by their opinions. Our analysts work on a team that's truly independent and structurally separate from other Morningstar businesses. They are required to report on investments fairly, accurately, and from the investor's point of view. They ask tough questions. They remove the camouflage that disguises many investments and replace it with transparency. We judge every investment by what it does—not what its manager says it does. Our analysts also use proven methodologies to make sure we're evaluating every investment according to the same standards. They examine the fundamentals of each investment and consider how it's likely to perform over the long term. Our approach helps people find undervalued investments they can hold onto and benefit from for years. We are often contrarian—we don't dismiss investments that have underperformed if their fundamentals look good and we caution investors about high-performing investments that we're not confident in.

### **Independence**

Morningstar does not conduct issuer-paid research, nor do asset managers pay to be rated. Morningstar's decision to rate a strategy is determined solely by our Manager Research group. Further, we do not allow any explicit or implied pressure applied by anyone outside our Manager Research group to influence or change our opinions or conclusions. We have no conflict of interest.

### **Long History**

Morningstar has produced written, analyst-driven research on managed investments dating back to 1986.

### **Relevant Coverage**

The Manager Research group bases coverage decisions on asset size, investment merit and market demand.

### **Consistency**

Our Code of Ethics and Ratings Committee prevents undue influence on any Analyst Rating by any single individual.

## Our Manager Research Ratings Committee

Our Ratings Committee is made up of senior members in the group and ensures consistency globally and across asset classes. Our structure allows the group to maintain continuity in the event that someone leaves the firm. Before each committee meeting, the analyst produces an internal rating note which assesses each of the fund's five pillars. The final rating will be approved when the committee is satisfied with the soundness of the judgments expressed in each area. We aim to keep an open mind to new evidence, though our focus is on long-term fundamentals rather than recent results. After the rating is formed, analysts will begin to write up a detailed research report which justifies the rating decision, evaluate each of the five pillars, provide guidance on how the fund might behave in different market environments, and highlight key developments in performance and portfolio holdings.

# Manager Research Coverage Determination Process

## [Coverage Determination Guide](#)

When making decisions on research coverage, the manager research group leaders evaluate requests from our clients, our commitment to helping investors, and overall economic and market conditions. Generally speaking, we aim to cover the best and largest funds that will benefit the most investors. We will not consider coverage requests that create conflict of interests. Our intention is to provide research at the highest level, now and in the future, for the benefit of investors worldwide.

### **Balance**

Our clients require robust and unique investment ideas across multiple asset classes.

### **Relevance**

Our coverage will favor the addition of funds that have high assets or positive asset flows. In the U.S., we cover almost every fund with more than \$5 billion in assets. Initiating coverage of a fund with less than \$250 million in assets is rare.

### **Permanence**

Additions are made with the expectation that a strategy has long-term investment merit.

### **Resources**

We want our analysts to spend their time focused on helping investors to find good investment ideas. The size of our coverage list must ensure this objective can be met to good effect.

## Morningstar's Global Fund Report

We believe transparency is important and our analysts invest considerable time in writing [detailed research reports](#) that are enhanced with our proprietary graphics and calculations. The reports justify the ratings decision, evaluate each of the five key pillars, provide readers with guidance on how the fund might behave in different market environments, and highlight key developments in performance and portfolio holdings. Prior to releasing each report, Morningstar's analysts have their reports vetted through a rigorous review process by an editorial team.

## The Morningstar Star Rating

### [Methodology: Morningstar Rating](#)

This is a proprietary data point that is quantitatively driven. Funds are rated from one to five stars based on how well the strategy performed after adjusting for risk in comparison to similar funds. Within each Morningstar Category, the top 10% of funds receive five-stars and the bottom 10% receives one-star. Funds are rated for up to three time periods—three-, five-, and ten-years—and these ratings are combined to produce an overall star rating, which is noted within the Report. Funds with less than three years of history are not rated. Morningstar Ratings are based entirely on a mathematical evaluation of past performance. Using Morningstar Ratings to select or recommend funds would not be considered prudent to comply with providing best-interest advice.

## Our Code of Ethics

- ▶ [Morningstar Manager Research Integrity Policy](#)
- ▶ [Morningstar Securities Trading and Disclosure Policy](#)

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