

# Morningstar® Analyst Rating™ for Funds

## 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 funds dating back to 1986.
- ▶ **Independence.** Morningstar does not charge fund companies to be rated, nor do fund companies commission research or ratings. Morningstar's decision to report on a fund 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 fund analysts worldwide.

## Background

For more than 25 years, Morningstar analysts have been providing independent, qualitative written research on mutual funds. The research has always aimed to provide insights into funds' sustainable advantages and forward-looking perspective into how they might behave in a variety of market environments, helping investors choose superior funds, maintain realistic performance expectations, and manage their portfolios more wisely. The Morningstar Analyst Rating™ for funds is the latest development in the evolution of Morningstar's global fund research capabilities. While Morningstar's fund analysts worldwide have long shared a common research philosophy, the Analyst Rating now brings the teams' research processes together into a single, harmonized global rating system.

## Morningstar Analyst Rating for Funds

Unlike the backward-looking Morningstar Rating™ (often referred to as the "star rating"), which assigns 1 to 5 stars based on a fund'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 fund. 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 fund's ability to outperform its peer group and/or relevant benchmark on a risk-adjusted basis over the long term. If a fund receives a positive rating of Gold, Silver, or Bronze, it means Morningstar analysts think highly of the fund 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 a fund is the right fit for a particular portfolio and risk tolerance. It is intended to supplement investors'

and advisors' own work on funds and, along with written analysis, provide forward-looking perspective into a fund's abilities. It picks up where commonly watched measures of the past leave off.

## Research Methodology: The Five Pillars

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

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

**Performance:** Is the fund's performance pattern logical given its process? Has the fund 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?

**Price:** Is the fund a good value proposition compared with similar funds sold through similar channels?

The approach notably puts only partial weight on past performance and backward-looking risk measures and does not dismiss funds 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 Funds



**Gold**

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



**Silver**

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



**Bronze**

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

**Neutral**

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

**Negative**

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