

**Morningstar Category™
Definitions**



Morningstar Australasia Pty Ltd
August 2009

Contents

Introduction	3
Equity Funds	4
Balanced Funds	10
Fixed Income	11
Other	14
Morningstar Category Listing	16

Introduction

The Morningstar Category™ classification system for funds lets institutions, advisers and investors effectively compare like funds. We group funds which can be reasonably considered to be close investment alternatives, and for which performance and other statistical measures, such as fees, are comparable. The Morningstar Category classification system is a valuable referencing system to make fund selection efficient. Where possible, the Morningstar Category classification is intended to be compatible with Morningstar's portfolio building philosophy; providing a fundamental structure for effective portfolio diversification across all asset classes

Criteria for determining 'close investment alternatives' include (in order) whether:

- ▶ The tax treatment and legal characteristics of the funds is the same;
- ▶ Benchmarks, stated maximum and minimum exposures to asset classes, and possibly actual total exposures to various sectors, are similar and fall within the Morningstar definitions;
- ▶ The funds could be considered to be alternatives for performance comparisons and other statistical analysis and in constructing an investor's portfolio;
- ▶ The fund's investment style and market capitalisation constituency is considered to be highly consistent for portfolio construction purposes; and
- ▶ There are any other criteria that should be considered relevant by Morningstar. (For example, statements from the fund manager, where appropriate, may be considered when determining the classification of a fund.)

Morningstar's Category classification system, which has achieved widespread market acceptance, has been designed to ensure:

- ▶ Performance comparisons can be made within groupings where both volatility and return can be justifiably compared;
- ▶ Statistical analysis, including ratings, within groupings can be justifiably compared;
- ▶ Easy choice of competing funds and market analysis through a logical referencing scheme;
- ▶ Analysis does not suffer from inconsistency of taxation treatment; and
- ▶ A classification system which is easily-understood, user-friendly, technically-defensible, and able to be implemented within reasonable timeframes.

Equity Funds

Equity Region Australia Other

Equity Region Australia Other includes funds with portfolios that are almost exclusively dedicated to Australian stocks (that is less than 20% of the portfolio is in assets other than equities). These funds do not have any particular bias towards a style or size characteristic.

Morningstar Category Index: S&P/ASX 200 Accumulation Index

Equity Region Australia Large Value

Equity Region Australia Large Value funds invest primarily in large Australian companies that are less expensive and/or may be growing more slowly than other large-cap companies. Stocks in the top 70% of the capitalisation of the equities market are defined as large-cap. Value is generally characterised by low stock valuations (low price ratios and high dividend yields) and low growth rates (low growth rates for earnings, sales, book value, and cash flow).

Morningstar Category Index: S&P/ASX 200 Accumulation Index

Equity Region Australia Large Blend

Equity Region Australia Large Blend funds are those which are fairly representative of the overall stock market in size, growth rates, and price. Stocks in the top 70% of the capitalisation of the equities market are defined as large-cap. The blend style is assigned to portfolios of stocks with characteristics that are unable to be defined as either predominantly growth or value.

Morningstar Category Index: S&P/ASX 200 Accumulation Index

Equity Region Australia Large Growth

Equity Region Australia Large Growth funds invest in large Australian companies that are projected to grow faster than other large-cap stocks in the Australian market. Stocks in the top 70% of the capitalisation of the equities market are defined as large-cap. Companies defined as growth are those that generally exhibit high growth rates for earnings, sales, book value, and cash flow and tend to have high valuations (high price ratios and low dividend yields). In this category portfolios are generally focused on companies in rapidly expanding business sectors.

Morningstar Category Index: S&P/ASX 200 Accumulation Index

Equity Region Australia Large Geared

Funds that fall into this category invest predominantly in larger cap Australian stocks (that is stocks in companies that make up the top 70% of the capitalisation of the Australian equities market). An additional distinguishing characteristic of these funds is that the manager may raise further funds through borrowing directly from financial institutions to purchase extra stocks, thus taking on an increased element of risk.

Morningstar Category Index: S&P/ASX 200 Accumulation Index

Equity Funds

Equity Region Australia Mid/Small Value

Equity Region Australia Mid/Small Value funds invest primarily in small- to medium-sized companies that are less expensive or growing more slowly than other small- to medium-sized companies. Stocks in the Mid/Small range represent approximately 30% of the capitalisation in the Australian market. Value stocks are generally characterised by low stock valuations (low price ratios and high dividend yields) and low growth rates (low growth rates for earnings, sales, book value, and cash flow).

Morningstar Category Index: S&P/ASX Small Ordinaries Accumulation Index

Equity Region Australia Mid/Small Blend

Equity Region Australia Mid/Small Blend funds invest primarily in small to medium sized Australian companies that represent approximately 30% of the capitalisation of equities in the Australian market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Morningstar Category Index: S&P/ASX Small Ordinaries Accumulation Index

Equity Region Australia Mid/Small Growth

Equity Region Australia Mid/Small Growth portfolios invest primarily in small to medium sized Australian companies that are projected to grow faster than other small to medium sized companies. Stocks in the Mid/Small range represent approximately 30% of the capitalisation of the Australian equities market. Growth is defined based on high growth expectations (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). In this category portfolios are generally focused on companies in rapidly expanding business sectors.

Morningstar Category Index: S&P/ASX Small Ordinaries Accumulation Index

Equity Region World / Australia

Equity Region World/Australia funds have portfolios of stocks which have an approximately 50/50 split between International and Australian securities and might also hold a small portion of their portfolio in cash or like securities. These funds may also hedge currency risks to some small degree.

Morningstar Category Index: MSCI World Accumulation Index Net Dividends Reinvested \$A - Unhedged

Equity Funds

Equity Region World Large Value

Equity Region World Large Value funds consist primarily of stocks in big companies that are less expensive or growing more slowly than other large-cap company stocks. Stocks in the top 70% of the capitalisation of any equities market are defined as large-cap, and the portfolio shows no bias to any particular world region. Value stocks are generally characterised by low stock valuations (low price ratios and high dividend yields) and low growth rates (low growth rates for earnings, sales, book value, and cash flow).

Morningstar Category Index: MSCI World Accumulation Index Net Dividends Reinvested \$A - Unhedged

Equity Region World Large Blend

Equity Region World Large Blend funds have portfolios of stocks from around the globe which are defined as large, but display neither strong growth nor value characteristics. Stocks in the top 70% of the capitalisation of an equities market are defined as large-cap, and the portfolio shows no bias to any particular world region. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Morningstar Category Index: MSCI World Accumulation Index Net Dividends Reinvested \$A - Unhedged

Equity Region World Large Growth

Equity Region World Large Growth portfolios invest in big companies from around the world that are projected to grow faster than other global large-cap stocks. Stocks in the top 70% of the capitalisation of the equities market are defined as large-cap. Growth is typically characterised by higher growth expectations (high growth rates for earnings, sales, book value, and cashflow) and higher valuations (high price ratios and low dividend yields). Most of these funds focus their portfolios on companies in rapidly expanding industries.

Morningstar Category Index: MSCI World Accumulation Index Net Dividends Reinvested \$A - Unhedged

Equity Region World Mid/Small Value

Equity Region World Mid/Small Value funds invest primarily in small to medium sized global companies that are less expensive or growing more slowly than other small to medium sized companies. The portfolios of these funds show no bias to any particular world region. Stocks in the Mid/Small range represent approximately 30% of the capitalisation of an equities market. Value stocks are generally characterised by low stock valuations (low price ratios and high dividend yields) and low growth rates (low growth rates for earnings, sales, book value, and cash flow).

Morningstar Category Index: MSCI World Small Cap Accumulation Index Net Dividends Reinvested \$A – Unhedged

Equity Funds

Equity Region World Mid/Small Blend

Equity Region World Mid/Small Blend funds invest primarily in small to medium sized global companies that represent approximately 30% of the capitalisation of their equities market but display neither strong growth nor value characteristics (the blend style is assigned to portfolios where neither growth nor value characteristics predominate). The portfolio shows no bias to any particular world region.

Morningstar Category Index: MSCI World Small Cap Accumulation Index Net Dividends Reinvested \$A - Unhedged

Equity Region World Mid/Small Growth

Equity Region World Mid/Small Growth funds invest primarily in small to medium sized global companies that are projected to grow faster than other small- to medium-sized global stocks. The stocks in the Mid/Small range represent approximately 30% of the capitalisation of an equities market, and the portfolio shows no bias to any particular world region. Growth is defined based on high growth expectations (high growth rates for earnings, sales, book value, and cashflow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on global companies in rapidly expanding industries.

Morningstar Category Index: MSCI World Small Cap Accumulation Index Net Dividends Reinvested \$A – Unhedged

Equity Region World Other

The Equity World Other category includes portfolios that are almost exclusively dedicated to international stocks (that is less than 20% of the portfolio is in assets other than equities). These portfolios do not have any particular bias towards a style or size characteristic.

Morningstar Category Index: MSCI World Accumulation Index Net Dividends Reinvested \$A - Unhedged

Equity Region North America

Equity Region North America funds focus their investment in the securities of companies from the United States of America and/or Canada. Generally, stocks from these countries account for at least 75% of the portfolio holdings in the fund.

Morningstar Category Index: MSCI USA Accumulation Index with Net Dividends Reinvested \$A - Unhedged

Equity Funds

Equity Region Europe

Equity Region Europe funds focus their investments in securities originating from companies from the European region. Generally, stocks from Europe account for at least 75% of the portfolio holdings and may also include exposure to stocks from emerging markets in the region.

Morningstar Category Index: MSCI Europe Accumulation Index Net Dividends Reinvested \$A - Unhedged

Equity Region Asia Pacific w/o Japan

Equity Region Asia Pacific without Japan funds focus on investing in securities originating from companies from the Asia Pacific region, excluding Japan. Generally, stocks from these Asian countries account for at least 75% of the portfolio holdings and may include stocks emerging markets in the region.

Morningstar Category Index: MSCI AC Asia Ex-Japan NR AUD

Equity Region Japan

Equity Region Japan funds that are dedicated to investing in securities originating from companies domiciled in Japan. Japanese stocks account for at least 75% of the portfolio holdings.

Morningstar Category Index: MSCI Japan Net Dividends Reinvested \$A – Unhedged

Equity Region Emerging Markets

Equity Region Emerging Markets funds are those that focus on investing in securities originating from companies from emerging markets around the globe. Emerging market exposures generally account for at least 75% of the portfolio holdings.

Morningstar Category Index: MSCI Emerging Market Free Net Dividends Reinvested \$A – Unhedged

Equity Sector Australia - Real Estate

Equity Sector Australia - Real Estate funds are exposed mainly to Australian listed property trusts. This may be either completely in their own right or through property syndicates. At least 75% exposure to listed property is expected with a smaller component in direct property and/or cash.

Morningstar Category Index: S&P/ASX 200 Property Trusts Accumulation Index

Equity Funds

Equity Sector Australia - Natural Resources

Equity Sector Australia - Natural Resources funds are mainly exposed to the Australian natural resource sector (that is approximately 75% of the fund's money is invested in Australian resource stocks). These include mining/exploration and energy companies.

Morningstar Category Index: S&P/ASX 200 Accumulation Index

Equity Sector Global - Technology

Equity Sector Global - Technology fund portfolios are typically exposed to international technology companies, without any specific regional bias in company selection. These are, most commonly, computer, Internet, and communications stocks.

Morningstar Category Index: MSCI World Accumulation Index Net Dividends Reinvested \$A – Unhedged

Equity Sector Global - Real Estate

Equity Sector Global - Real Estate funds are mainly invested in to international listed property trusts. They may have direct real estate holdings or invest through property syndicates. We expect the fund to have at least a 75% exposure to listed property trusts (otherwise known as REITs), with a smaller component of the funds investments held in direct property and/or cash.

Morningstar Category Index: UBS Global Investors Ex Australia Hdg NR AUD

Balanced Funds

Multisector - Conservative

Multisector - Conservative funds have portfolios that are invested in a number of sectors and have 20% or less of their investments in growth sectors (typically defined as equity and property asset classes).

Morningstar Category Index: Multisector Defensive Market Index

Multisector - Moderate

The Multisector - Moderate Category consists of funds that invest in a number of sectors and have between 21% and 40% of their investments exposed to the growth sectors (typically defined as equity and property asset classes).

Morningstar Category Index: Multisector Moderate Market Index

Multisector - Balanced

Multisector - Balanced funds invest in a number of sectors and have 41% to 60% of their assets in growth sectors (typically defined as equity and property asset classes).

Morningstar Category Index: Multisector Balanced Market Index

Multisector - Growth

Multisector - Growth funds invest in a number of sectors and have between 61% and 80% of their assets in growth sectors (typically defined as equity and property asset classes).

Morningstar Category Index: Multisector Growth Market Index

Multisector - Aggressive

Multisector - Aggressive funds invest in a number of sectors and have over 80% of their assets in growth sectors (typically defined as equity and property asset classes).

Morningstar Category Index: Multisector Aggressive Market Index

Fixed Income

Australian Cash

Australian Cash includes funds that invest predominantly in highly liquid market type securities, such as bank deposits and bank bills. The overall maturity is expected to be less than twelve months. Exposures to cash/overnight accounts are also included.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Australian Cash Enhanced

Australian Cash Enhanced funds invest in securities that are generally similar to the Australian Cash. However, Australian Cash Enhanced funds can have exposure to direct fixed interest securities, as well as high quality corporate debt and asset backed securities. They may also use derivatives to hedge and exploit market conditions. The funds are expected to have an average duration of twelve months or less and an average credit quality level of A or above as rated by a recognised ratings agency.

Morningstar Category Index: UBS Bank 0 + Years

Mortgages

Mortgage funds will predominately have exposure to a diversified portfolio of registered first mortgages secured over Australian property. They may also invest in fixed interest, money market securities or cash. This category will exclude any fund falling under the Mortgages – Aggressive definition.

Morningstar Category Index: UBS Composite 0 + Years

Mortgages - Aggressive

Mortgage - Aggressive funds have similar investments to the Mortgages category, however, Mortgages - Aggressive Funds will have an exposure of 20% or more to Mezzanine Debt, Development/Construction loans, Pre-developed/Vacant Land or Specialty Loans (such as hotels and retirement villages) and other higher risk securities.

Morningstar Category Index: UBS Composite 0 + Years

Australian Bonds

The Australian Bonds category comprises funds that invest in traditional Australian fixed interest securities. These securities include government and corporate debt, with terms to maturity greater than 1 year. The average credit quality of the fund is expected to be A- or above as rated by a recognised ratings agency.

Morningstar Category Index: UBS Composite 0 + Years

Fixed Income

Global Bond

The Global Bonds category comprises funds that are predominantly exposed to foreign government and corporate debt, with terms to maturity greater than 1 year. The average credit quality of the fund is expected to be A- or above as rated by a recognised ratings agency.

Morningstar Category Index: BarCap Global Aggregate Index Hedged \$A

Global/Australian Bonds

The Global/Australian Bond category contains funds that are invested in a combination of global and Australian bonds similar to those in the Australian and Global Bond categories above. They may also invest in a small portion of cash or like securities to hedge currency risks. At least 25% exposure to Australian Bonds is required.

Morningstar Category Index: 50% BarCap Global Aggregate Index Hedged \$A/ 50% UBS Composite 0 + Years

Diversified Credit

Diversified Credit funds predominately invest in a range of Australian and/or global credit securities. They focus on active credit selection to deliver potentially higher returns compared to government bonds. While these funds can invest in sub investment grade and unrated issues, the average credit quality of the fund is expected to be BBB or above (investment grade) as rated by a recognised ratings agency.

Morningstar Category Index: BarCap Global Aggregate Index Hedged \$A

High Yield Credit

High Yield Credit funds generally invest in a variety of credit securities similar to Diversified Credits except that the average credit quality is sub-investment grade, as rated by a recognised ratings agency. This includes allocations to emerging market debt, junk bonds, structured credit and unrated issues.

Morningstar Category Index: BarCap Global Aggregate Index Hedged \$A

Fixed Income

Multi-Strategy Income

The Multi-Strategy Income category contains funds that are generally exposed to a combination of different sectors in order to provide an enhanced yield. Investments can include domestic and international government bonds, corporate debt, private debt and hybrid securities. These funds may also have a small allocation to listed properties, shares and share option strategies (no more than 20%) provided the focus remains on income generation.

Morningstar Category Index: UBS Composite 0 + Years

Reserve Backed

Reserve Backed funds focus their portfolios in highly 'secure' holdings such as high quality debt securities and blue chip stocks - these funds typically guarantee a particular return on an investment and generally declare a rate of return for the fund.

Morningstar Category Index: Australia Commonwealth Bank All Series/All Maturities Accumulation Index

Unlisted and Direct Property - Australia

Unlisted and Direct Property - Australia funds have portfolios that are invested completely in direct Australian property (including syndicates) and Australian unlisted property securities. A small portion of the portfolio may also be held in cash. In general, no distinction is made between the different types of property holdings.

Morningstar Category Index: S&P/ASX 200 Property Trusts Accumulation Index

Unlisted and Direct Property - Global

Unlisted and Direct Property - Global funds are almost completely invested in direct property (including syndicates) and unlisted property securities originated from around the world. A small portion of the fund's investments may also be held in cash. Generally no distinction is made between differing types of property holdings.

Morningstar Category Index: S&P/ASX 200 Property Trusts Accumulation Index

Alternative - Australia Hedge Funds

Alternative - Australia Hedge Funds have portfolios that employ the use of derivative securities to minimise market movements in the underlying holdings in Australian securities. Portfolio holdings can include equities, bonds, hybrids and/or derivatives.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Alternative - Australia Long/Short

Alternative - Australia Long/Short funds are those which deliberately exploit Australian market movements through the use of a variety of derivative instruments. These can include (but are not limited to) futures, options, swaps, shorts sells along with physical positions. The holdings within the portfolios are mainly equities.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Alternative - Australia Private Equity

The Alternative - Australia Private Equity category consists of funds invested in equity securities of unlisted Australian companies. Private equities are generally far less liquid than publicly traded stock and thought of as more long-term investments. Private equity investments are not subject to the same high level of government regulation as stocks offered by the stock exchange.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Other

Alternative - Australia Infrastructure

Alternative - Australia Infrastructure funds usually invest in listed or unlisted infrastructure securities issued by Australian entities that have as their primary focus (in terms of income and/or assets) the management, ownership and/or operation of infrastructure and utilities assets.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Alternative - Australia Agricultural

Funds classified as Alternative - Australia Agricultural are those that invest in the Australian commodity/agriculture sector - investments can range from interests in vineyards to poultry farms to regional water rights.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Alternative - Global Hedge Funds

Alternative - Global Hedge Funds Global Hedge Funds consist of portfolios that use derivative securities to minimise the impact of market movements on underlying holdings in international securities. Holdings can include equities, bonds, hybrids and/or derivatives.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Alternative - Global Long/Short

Alternative - Global Long/Short Global Long/Short funds aim to deliberately exploit international market movements through the use of a variety of derivative instruments. These can include (but are not limited to) futures, options, swaps, shorts sells along with physical positions. The holdings are mainly equities.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Alternative - Global Infrastructure

Alternative - Global Infrastructure funds invest in listed or unlisted infrastructure securities issued by Australian entities that have as their primary focus (in terms of income and/or assets) the management, ownership and/or operation of infrastructure and utilities assets.

Morningstar Category Index: S&P Global Infrastructure Hedged NR

Miscellaneous

The Miscellaneous category contains funds that are not suited to and/or do not meet the criteria set for any of the other Morningstar categories. The funds in this category are reassessed regularly and when there are sufficient like funds to create a meaningful peer group, a new category is created with the appropriate funds from this category.

Morningstar Category Index: Australian 90 Day Bank Accepted Bill

Morningstar Category Listing

Equity Region Australia Other	Multisector - Balanced
Equity Region Australia Large Value	Multisector - Growth
Equity Region Australia Large Blend	Multisector - Aggressive
Equity Region Australia Large Growth	Australian Cash
Equity Region Australia Large Geared	Australian Cash Enhanced
Equity Region Australia Mid/Small Value	Mortgages
Equity Region Australia Mid/Small Blend	Mortgages - Aggressive
Equity Region Australia Mid/Small Growth	Australian Bonds
Equity Region World / Australia	Global Bonds
Equity Region World Large Value	Global/Australian Bonds
Equity Region World Large Blend	Diversified Credit
Equity Region World Large Growth	High Yield Credit
Equity Region World Mid/Small Value	Multi-Strategy Income
Equity Region World Mid/Small Blend	Reserve Backed
Equity Region World Mid/Small Growth	Unlisted and Direct Property - Australia
Equity Region World Other	Unlisted and Direct Property - Global
Equity Region North America	Alternative - Australia Hedge Funds
Equity Region Europe	Alternative - Australia Long/Short
Equity Region Asia Pacific w/o Japan	Alternative - Australia Agricultural
Equity Region Japan	Alternative - Australia Infrastructure
Equity Region Emerging Markets	Alternative - Australia Private Equity
Equity Sector Australia - Real Estate	Alternative - Global Hedge Funds
Equity Sector Australia - Natural Resources	Alternative - Global Long/Short
Equity Sector Global - Technology	Alternative - Global Infrastructure
Equity Sector Global - Real Estate	Miscellaneous
Multisector - Conservative	
Multisector - Moderate	