

Morningstar™ Qualitative Research Process

Key Benefits

- ▶ Morningstar Recommendation gives a clear, direct and actionable opinion on an investment strategy.
- ▶ Report sections focus directly on the key issues of which advisers should be aware.
- ▶ Extensive holdings, valuation multiples, and extended performance data give meaningful insights into current and future drivers of the strategy and its performance outcomes.

Introduction

The purpose of Morningstar’s qualitative research is to determine which fund managers deserve the attention of advisers and investors, and which do not. Morningstar assesses managers based on how we believe they will perform in the future over an economic cycle, against both peers and accepted benchmarks. Our model rewards managers which are open and transparent, have a well-run investment process, and importantly, are good fiduciaries of investors’ monies.

Our qualitative research assesses a fund manager’s capacity in an asset class in five key areas: the investment people; the investment philosophy and process; the composition of the investment portfolio, and how it reflects the process; the fund manager’s parent; and the performance track record. The portfolio and performance are considered as key outcomes of the investment process.

Key issues – People

We assess the key individuals making the investment decisions, and the composition of the investment team, including relative size and resources; experience levels, and the mix and balance of skills leading to the overall team skillset; the degree of team stability; team members’ familiarity with and ability to articulate the promoted investment philosophy and strategies; and any key person risks. In short, how good is the team, and how does it stack up against peers?

Key issues – Process, Portfolio

We assess the investment philosophy and process, research drivers, and portfolio construction and implementation. Is there a clearly-articulated investment philosophy and a process discipline?

How does the process work in practice? How is research performed, what are the key drivers, and how is it different to competitors? Is the research effort logically consistent with the stated investment process? We also consider whether the construction and management of the Portfolio reflects the process, and analyse key portfolio characteristics through our holdings-based analysis, to gain insights into the nature of the portfolio both currently and in the past.

Key issues – Parent

We assess the fund manager’s parent and/or ownership structure, including organisational and ownership stability. Morningstar focuses on one key parentage issue: is the fund manager likely to be a good steward of investors’ money? Among the many factors we consider are the types of products, fees, the investment and corporate culture, back office functions, transparency, and tax awareness, to highlight key points.

Key issues – Performance

We do not explicitly rate Performance, which is captured in our Morningstar Star Rating. Instead, we seek to understand the key drivers of past performance, and how they relate to the investment process and philosophy. What has the fund manager got right or wrong, and why? How is the portfolio positioned currently, and why?

Outputs

The headline published end result is the new Morningstar Recommendation, which signals the extent to which Morningstar recommends the strategy for advisers to consider using in client portfolios. The five-point Morningstar Recommendation scale is ‘Highly Recommended’, ‘Recommended’, ‘Investment Grade’, ‘Hold’, or ‘Avoid’.

How Does It Work?



