Two Processes for Assessing a Fund

Morningstar Recommendation Benefit Summary

- Forward-looking qualitative measure
- Morningstar analyst opinion based on fundamental factors
- Applies to a manager's asset class investment strategy
- Captures recent changes to team and process

Morningstar Rating Benefit Summary

- Backward-looking quantitative measure
- Based on risk-adjusted returns
- Applied to individual funds
- Recalculated monthly within strict peer groups

Morningstar uses two distinct processes to assess the qualities of managed funds. It is important to understand the underlying approach and methodology for each as they are quite different and should be applied as separate assessment measures.

Morningstar Recommendation

Based on interviews with management and fundamental analyst research on the people, process and philosophy, the Morningstar Recommendation reflects our analyst insight and opinion on the capabilities of the strategy moving forward from today.

Analyst conviction is summarised on a five-point scale from 'Highly Recommended' to 'Avoid'. Investors must read the underlying report to gain a full understanding of the strategy. It is not a short-term view. Morningstar anticipates most funds will be held through an economic cycle. The view is expressed relative to other similar strategies and should not be viewed on its own as a recommendation to invest in a particular asset class or segment.

The Recommendation is reassessed annually, or when there is a fundamental change to people or the process, and only made available to clients subscribing to a relevant Morningstar service.

Morningstar Rating

Based only on the past performance of a fund over three-, five-, and 10-year periods, the Morningstar Rating is performance assessed against strict peer groups.

Using Morningstar Risk-Adjusted Returns which reward consistency and penalise downside risk, the Rating is recalculated with each monthly performance release.

Represented on a one- to five-star scale, the Rating is distributed widely through third-party financial planning software, the media, and various websites.

For a more detailed explanation of the Morningstar Recommendation and Morningstar Rating please see the relevant fact sheet at http://www.morningstar.com.au/productpages/methodology.asp

Explanation

NB: investors must read the relevant report to gain a full understanding of the strategy

Recommendation		Rating	
Morningstar Recommendation Highly Recommended (Strategy)	A strategy that stands out clearly as superior to comparable options and truly worthy of consideration.	MORNINGSTAR ★★★★★ ™	A *very good* performer. A fund whose historical risk-adjusted returns have been among the top 10.0 percent in its category.
Morningstar Recommendation Recommended (Strategy)	A strategy that has enough positive features to make it worth serious consideration.	MORNINGSTAR ★★★★ ™	A *good* performer. A fund whose historical risk-adjusted returns have been among the next 22.50 percent in its category.
Morningstar Recommendation Investment Grade (Strategy)	A competent strategy that either fails to stand out, or has offsetting positive and negative factors. While not a strategy we would recommend, it should get the job done.	MORNINGSTAR ★★★ ™	An *average* performer. A fund whose historical risk-adjusted returns have been among the next 35.0 percent in its category.
Morningstar Recommendation Hold (Strategy)	A strategy where investors should avoid placing new money. Something has happened to make us question the strategy, and we want to take time to see how things develop.	MORNINGSTAR ★★ ™	A *poor* performer. A fund whose historical risk-adjusted returns have been among the next 22.50 percent in its category.
Morningstar Recommendation Avoid (Strategy)	A strategy with material flaws from which prospective investors should stay away, and which existing investors need to reconsider seriously.	MORNINGSTAR ★ ™	A *very poor* performer. A fund whose historical risk-adjusted returns have been among the bottom 10.0 percent in its category.

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