Morningstar Awards for Investing Excellence

Japan
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Statement of Purpose
The objective of the Morningstar Awards for Investing Excellence program in Japan is to recognise those funds that have not only delivered strong risk-adjusted returns in the past but are also deemed capable of serving investors well going forward. As such, these awards use a combination of a scoring based on past performance and risk over the trailing 12 months, 36 and 60 months and Morningstar’s forward-looking rating for funds, the Morningstar Medalist Rating™. This rating is the summary expression of Morningstar’s forward-looking analysis of investment strategies as offered via open-end funds, closed-end funds, exchange-traded funds, and separately managed accounts domiciled throughout the world. The Medalist Rating does not express a view on a given asset class or peer group; rather, it seeks to evaluate each strategy and associated vehicle within the context of an appropriate benchmark and peer group.

Morningstar expresses the Morningstar Medalist Rating on a five-tier scale running from Gold to Negative. For actively managed funds, Morningstar assigns Gold, Silver, and Bronze ratings to vehicles expected to add value, or “positive alpha,” over the long term when compared with their Morningstar Category index after accounting for fees and risk. For passive strategies, Morningstar assigns Gold, Silver, and Bronze ratings to vehicles expected to deliver alpha that exceeds the lesser of the category median net alpha, or zero, over the long term. (Morningstar defines “long term” as periods lasting at least five years).
Type of Award

Morningstar Category Awards:

These awards are given to the funds within their Morningstar Categories or groupings of Morningstar Categories that not only have achieved good relative risk-adjusted returns in the past but also should be able, in our opinion, to continue their good records on a risk-adjusted basis over time against their Morningstar Category index.

Morningstar Categories Eligible for Each Category Awards

Equity:

- **Japan Equity** (Japan Large-Cap Value Equity, Japan Large-Cap Blend Equity, Japan Large-Cap Growth Equity)
- **World Equity** (World Equity, World Equity – JPY Hedged, World ex-Japan Equity, World ex-Japan Equity - JPY Hedged, North America Equity, North America Equity – JPY Hedged)

Fixed Income:

- **Bond** (World Bond, World Bond - JPY Hedged, World ex-Japan Bond, World ex-Japan Bond - JPY Hedged, Japan Bond - Long/Intermediate)

Allocation:

- **Allocation** (Conservative Allocation, Moderately Conservative Allocation, Moderate Allocation, Moderately Aggressive Allocation, Aggressive Allocation)

REIT:

Morningstar Category Awards Methodology

Eligible Universe

Awards will be determined for the Japanese fund market. Only funds that are recorded in the Morningstar database as available for sale in Japan and tagged as publicly offered to local investors will be eligible to receive an award. Only funds that have established at least a 5 year record will be eligible. Funds with a redemption date set within the next 12 months from June 2023 are not eligible.

In order to ensure Morningstar analysts can carry out qualitative checks on potential winners, only funds that have reported at least one complete portfolio to Morningstar between 1 January 2022 and 30 June 2023 are eligible for an award.

The following fund types are excluded from the universe: Insurance funds, closed-end funds. Currency-hedged share-classes of funds are also excluded unless they are in a category specifically for currency-hedged funds and share classes. Exchange-Traded Funds (ETF) and index funds are excluded in the Japan Equity and REIT category awards, where the Bank of Japan is the dominant owner of ETFs in these categories.

Funds that carry a Morningstar Medalist Rating of Negative as of end-June 2023 are excluded.

Finally, funds with less than JPY 4 billion in assets at 30 June 2023 or at the next nearest date for which assets are available are excluded.

Awards Selection

The eligible funds each receive a score blending their relative performance and risk as described in the Appendix. The awards are annual, so we believe it is appropriate to emphasise a fund’s one-year performance. As such, they must have been in the top half of their peer group median in the last trailing 12 months. However, we do not wish to be in the position of giving awards to funds that have only posted a strong one-year return, but have otherwise not delivered good results for investors. For this reason, funds must also have delivered strong three-and five-year relative returns after adjusting for risk. Further, they must have been in the top half of their peer group median in at least three of the past five calendar years. Finally, we prioritize funds with a positive Morningstar Medalist Rating in the selection to reflect our forward-looking assessment of their potential to continue to outperform in the long term.
Qualitative Review

Based on the calculations described in the Appendix, the funds with the lowest scores in each Morningstar Awards Category will be reviewed by Morningstar’s research analysts.

The analysts will complete the following checks:

- **Morningstar Medalist Rating Level**: the analysts will check that the fund currently carries a Morningstar Medalist Rating of Bronze, Silver or Gold. In the event that no Bronze, Silver or Gold-rated funds satisfy the performance and eligibility criteria, Neutral-rated funds will be considered, subject to approval by the Head of Manager Research, Europe and Asia-Pacific. These Neutral-rated funds will undergo the same qualitative checks.

- **Morningstar Medalist Rating Stability**: the analysts will also assess the consistency and stability of the rating by looking at its evolution in the past six months. Funds that have seen ratings changes may be excluded. Further, analysts will check that the Medalist rating is based on at least 50% of data coverage. The Data Coverage % data point is a summary metric describing the level of data completeness used to generate the overall rating.

- **Accessibility**: Funds that are deemed inaccessible to local market investors will be excluded. All institutional share classes will be removed unless readily available to retail investors.

- **Performance Sustainability**: if the analysts have concerns - not captured by the Medalist Rating - that a fund cannot continue to outperform (upcoming change in fees, upheaval at the parent company, loss of one or several key investment professionals, change in investment strategy,…), then it may be excluded, subject to approval by the Head of Manager Research, Europe and Asia-Pacific.

Selection

- Upon the completion of the qualitative review, the three funds with the lowest scores in each eligible Morningstar Category or grouping thereof will be short listed. In the case that multiple index funds tracking the same index appear in that short list, only the one with the lowest score will be short listed.

- The fund with the lowest score in the short list will win the award for that Morningstar Category or Category grouping.
APPENDIX

Scoring System

Each fund in a relevant grouping will be scored as follows:

Return Score = 80% of total score

One year: 30% of total score, based on 1-year return percentile rank in Morningstar Category
Three- and five-year: 50% of total score, of which
40% = 3-year return percentile rank in Morningstar Category
60% = 5-year return percentile rank in Morningstar Category
(Note: 3-year and 5-year scores are scaled to represent 40% and 60% of the long-term portion of the return score, respectively. The 3-year return score constitutes 20% of the total score, and the 5-year return score constitutes 30% of the total score.)

Risk Score = 20% of total score

Of the risk score:
40% = 3-year Morningstar Risk percentile rank in Morningstar Category
60% = 5-year Morningstar Risk percentile rank in Morningstar Category
(Note: 3- and 5-year scores are scaled to represent 40% and 60% of the total risk score, respectively. The 3-year risk score constitutes 8% of the total score, and the five-year risk score constitutes 12% of the total score.)

Based on above weights, the effective weight of each year in the calculation is as follows, including both risk and return (figures are rounded to nearest whole number):

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<th>Past one year</th>
<th>48%</th>
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<td>Second year out</td>
<td>18%</td>
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<tr>
<td>Third year out</td>
<td>18%</td>
</tr>
<tr>
<td>Fourth year out</td>
<td>8%</td>
</tr>
<tr>
<td>Fifth year out</td>
<td>8%</td>
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The weights are designed to place due emphasis on the most recent year given that the awards are annual in nature, but are also meant to favour those funds that have delivered risk-adjusted outperformance on a sustained basis over the longer term.