



# China Fund Awards Methodology

Morningstar Methodology Paper  
January 2024

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2024

## Morningstar China Fund Awards Methodology

### **Statement of Purpose**

The objective of Morningstar Fund Awards is to recognise those funds that have added the most value within the context of a relevant peer group for investors over the past year and over the longer-term.

The awards are annual, so we believe it is appropriate to emphasise a fund's one-year performance. However, we do not believe that it serves investors well to give awards to funds that have posted a strong one-year return, but have otherwise not delivered good results for investors. We also recognize that investors often use awards as a "buy" signal, but we do not wish to steer them to offerings that may not be good longer-term investments.

The awards methodology therefore emphasises the one-year period, but funds must also have delivered strong three and five-year returns after adjusting for risk within the awards peer groups in order to obtain an award. Further, they must have been at least in the top half of their respective peer groups in at least three of the past five calendar years. In addition, Morningstar analysts will perform a qualitative review while selecting the nominees, as well as undergo a voting process to arrive at the winners. We believe this will ensure that the awards are given to funds which have earned strong one-year results, and have also shown they have the potential to continue to deliver for investors over the longer term.

## Eligible Universe

Only domestic funds that have been authorized by the China Securities Regulatory Commission and have at least five-year Morningstar Ratings will be eligible to receive an award.

The following fund types are excluded from the universe: closed-end funds and feeder funds.

## Categories Eligible for Awards

Equity	Large Blend Equity
	Large Growth Equity
	Large Value Equity
	Mid Blend Equity
	Mid Growth Equity
Allocation	Aggressive Allocation - Large Blend
	Aggressive Allocation - Large Growth
	Aggressive Allocation - Small/Mid-Cap
	Moderate Allocation
	Conservative Allocation
Aggressive Bond	Aggressive Bond
Normal Bond	Normal Bond
Pure Bond	Pure Bond
	Corporate Bond

## Scoring System

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

### Return Score = 80% of total score

Of the return score: 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):

Past one year	48%
Second year out	18%
Third year out	18%
Fourth year out	8%
Fifth year out	8%

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.

### **Quantitative Review**

Each fund in a relevant grouping will be subject to a quantitative screen as follows:

- ▶ Funds with less than 1 billion RMB in assets at the most recent date will be excluded.
- ▶ The fund's one-year return should rank in the top half among Morningstar Category peers.
- ▶ The fund should outperform its Morningstar Category peers in three out of past five calendar years.

### **Qualitative Review**

Based on the above screening, the nominees will be selected in each Morningstar Awards Category after the Morningstar analysts perform a qualitative review.

The analysts will complete the following checks:

- ▶ If the fund is managed by a sole manager, the portfolio manager's tenure should be no less than 3 years; if the fund is managed by more than one portfolio manager, its lead portfolio manager should have been at the helm for no less than 3 years.
- ▶ Any single institutional investor's ownership in the fund should not exceed 20%, unless Morningstar analysts believe the fund has sufficient and effective liquidity risk management measures in place to manage large redemption. Any fund that is customized for institutional investors will also be excluded.
- ▶ Funds that are deemed inaccessible to local market investors will be excluded.
- ▶ Any fund that is deemed to deviate from its stated mandate will be excluded.
- ▶ Morningstar analysts will perform qualitative review on the fund's current management teams and investment processes to ensure that these two key pillars underpin the fund's strong track record as well as contribute to its outperformance potential in the future.

### **Award Selection**

Morningstar analysts focus on at least three highest quantitatively ranked nominees after having confirmed their eligibility with the above quantitative and qualitative reviews. The list must also be approved by the Directors of Morningstar's China and Asia Manager Research teams. Morningstar China analysts will then select the winner(s) by a majority vote. If the vote was not able to distinguish a winner, the highest scoring fund will be selected.

### **For More Information**

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