Morningstar Medalist Rating – Asset Manager Event

November 2022

INTENDED FOR WHOLESALE AUDIENCES ONLY – DO NOT DISTRIBUTE

Important Information

Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at http://www.morningstar.com.au/s/fsg.pdf and http://www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest.

This presentation may contain certain forward-looking statements. We use words such as "expects", "anticipates", "believes", "estimates", "forecasts", and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. Morningstar's full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

Objectives

MORNINGSTAR®

Agenda

1. Introduction to the Medalist Ratings
   Annika
2. Why is it important for investors, advisers & asset managers
   Rick
3. How it works
   Annika
4. How asset managers can work with us, key data required
   Greg
5. Timeline
   Annika
6. Questions
   Annika, Rick, Greg

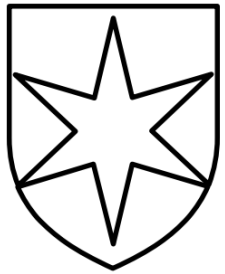
What are the Medalist Ratings?

Morningstar's Ratings Systems - Australia

Forward Looking Ratings		Commitment Assessment	Backward Looking Ratings		
Morningstar Medalist Rating		Morningstar ESG Commitment Level	Morningstar Sustainability Rating™	Low Carbon Designation™	
Silver		Advanced		✓	
Gold		—		—	
Gold		Leader		✓	
Bronze		Advanced		✓	
Silver		—		✓	
Bronze		—		✓	
Bronze		Advanced		✓	
Neutral		Advanced	—	—	

Data is the bedrock of Morningstar's Research

Data sophistication is a spectrum



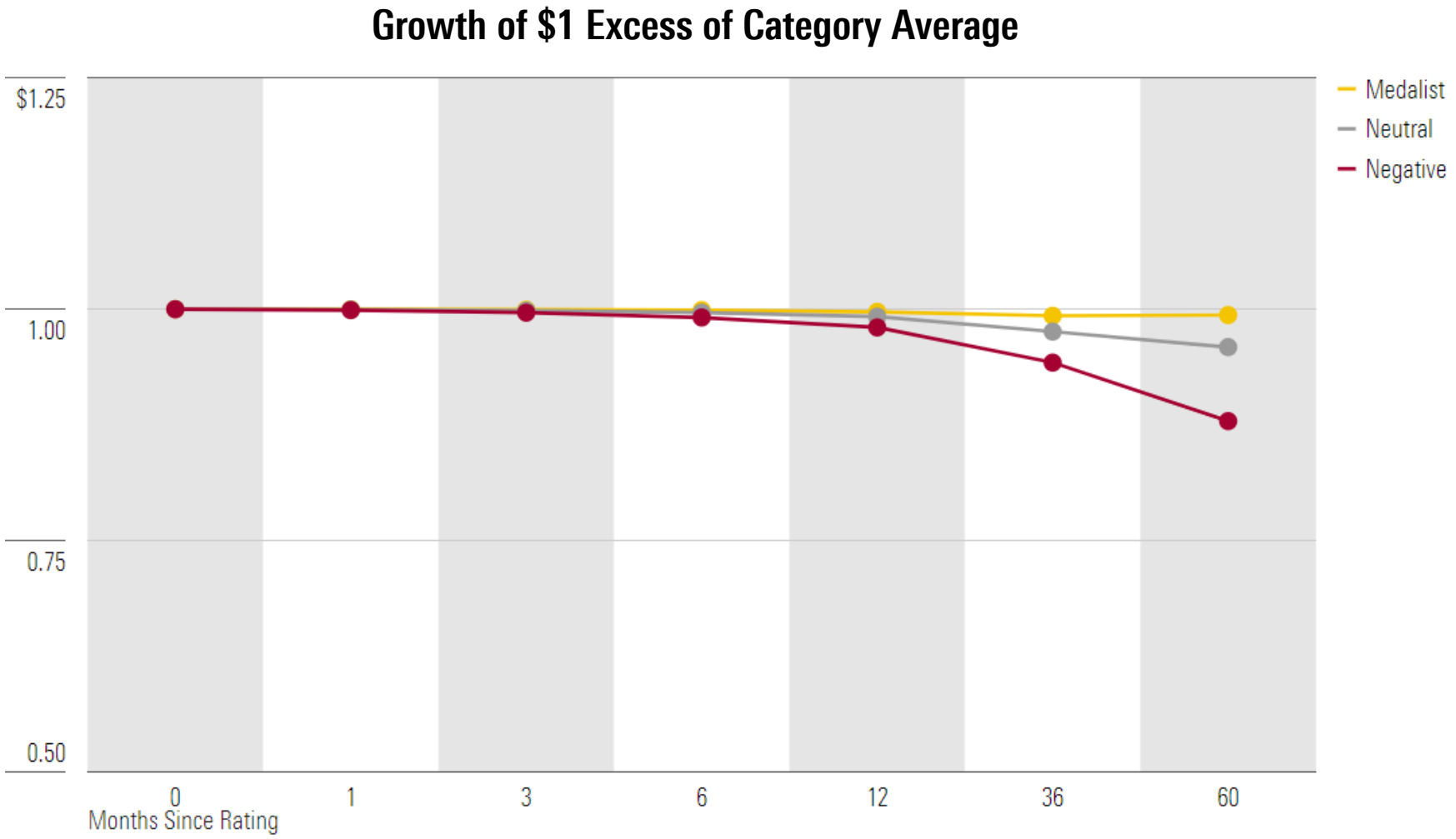
Introducing the Morningstar Medalist Rating, set to launch in 2023

Morningstar Pillars	
Process	High
People	High
Parent	Above Average

MORNINGSTAR®

The Medalist Rating is underpinned by three Pillars — Parent, People and Process, and these can be assigned by an analyst (directly or indirectly) or our machine-learning algorithm, to deliver a single effective forward-looking ratings system.

Algorithmic Ratings and the Australian Universe – 5 Year Study

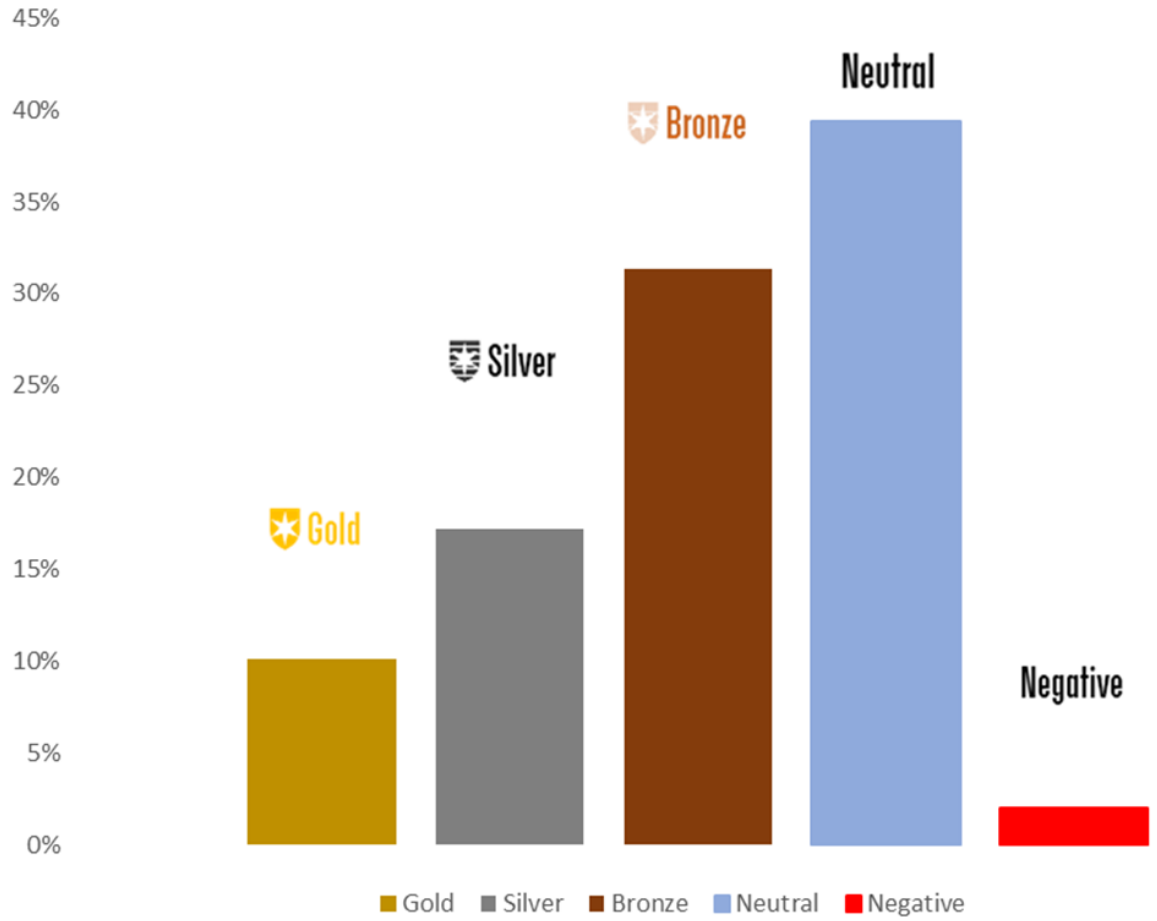


Date: 9/30/2022. "Australian Universe" represents open-ended schemes and exchange traded funds (excluding superannuation and pension funds) across Equity, Fixed Interest and Allocation strategies.

MORNINGSTAR®

What Does Good Research Output Look Like?

- User-pays business model
- Ratings spread
- Research coverage selection processes
- Consistent methodology
- Global analyst model



Source: Adviser Research Centre, May 2022

MORNINGSTAR®

Why are the Medalist Ratings important for investors, advisers and asset managers?

Investment Research is Integral to Our Mission

MORNINGSTAR®

Morningstar Research Business Summary

LEADING POSITION#

- > 7500 financial professionals
- ~6000 advisers
- > 1700 AFSLs
- > 150 Asset Managers
- Top 10 platforms
- Data > 10,000 funds

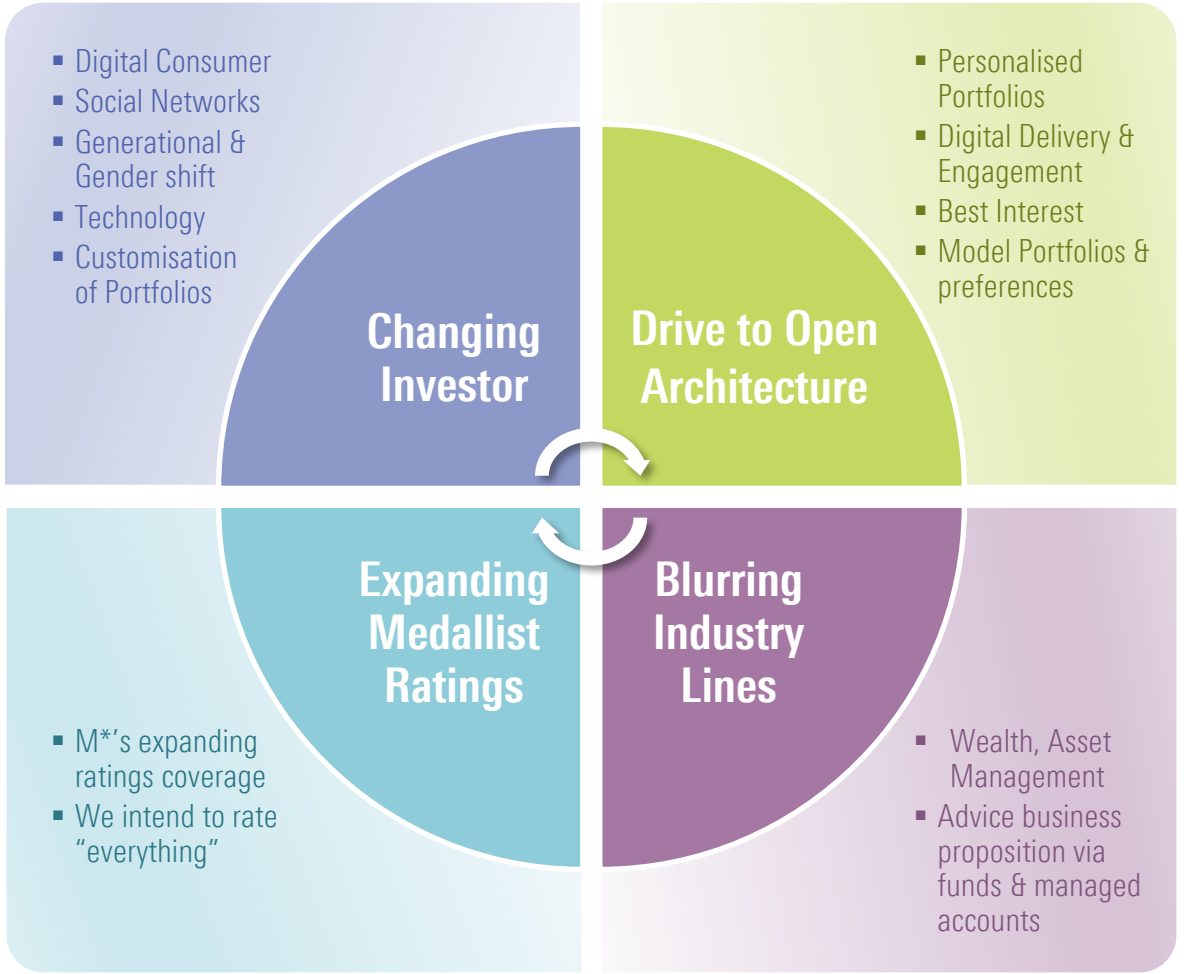
INDEPENDENCE & BRAND

- We have the Brand
- No pay for play to produce Research or Ratings
- Ratings reach
- Geographic reach
- Customisable solutions
- Appropriate separation of duties and reporting lines

Source: Usage Stats, as at 30 Sept 2022, ~ On the basis of quality data being received

Business Case for Medalist Ratings

- Our ratings are ubiquitous, Ratings are a quality 'Gate'
- The industry is changing
- Growth of the managed investment universe > 1m by 2025 demands scalability
- Scalability without breaking our Independent business model – we don't charge to produce research or a rating
- Solution: Scaling our Analyst efforts, using technology without affecting our Independent Business Model
- Why Now? Results over past 5 &10 years meets efficacy expectations
- Result: Increased impact of ratings for our users, simplification & natural evolution



MORNINGSTAR®

Barriers to Entry Reduced – Democratising Ratings

- ASIC recognition via Report 702, that Research houses act as gate keepers
- Gate keeping affects the flow of capital and barrier to entry
- Morningstar's intent is to reduce barriers to entry
- Medalist Ratings democratises ratings

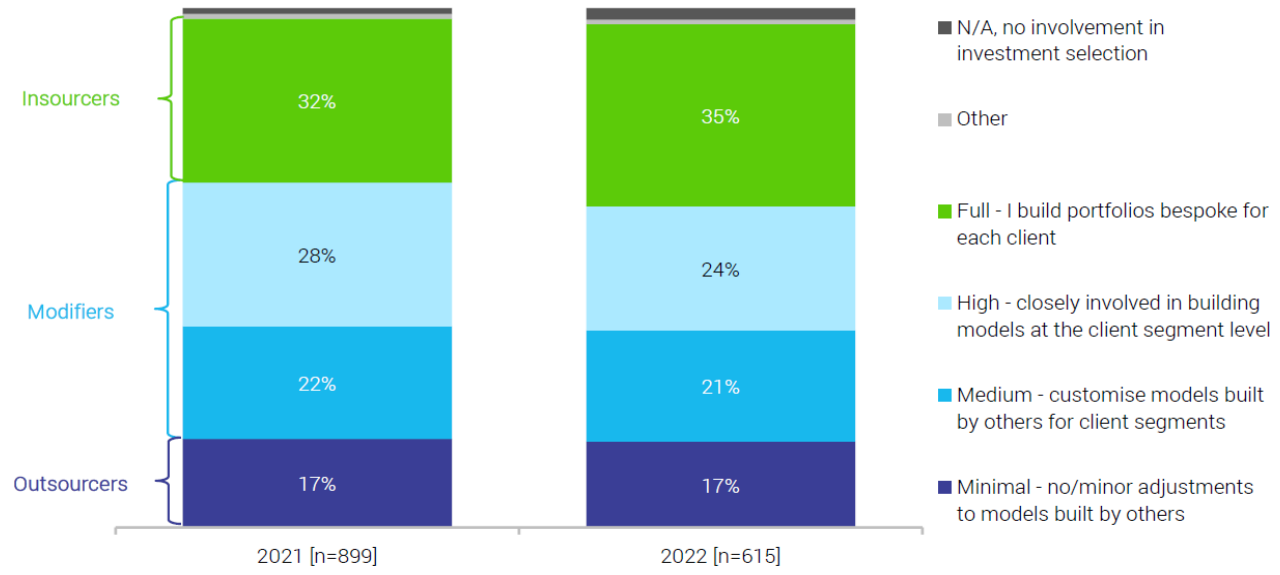
Lowers the barriers to entry and improves the likelihood of access

Use Case: 1/3 Advisers Build Portfolios, majority modify. ~20% outsource

Research = Advice Decision Support to Comply with FASEA 5 & 6

Attitudinally, one in three advisers are 'Insourcers', i.e. those who build bespoke portfolios for each client – as a central part of their CVP

Q1 What is your involvement in selecting individual investments in client portfolios?
Among financial advisers



Investment Trends

- Basis of Advice for recommendations
- Support to validate Best Interest recommendations
- Documentary evidence of considered thinking (documents matter!)
- Comparison of options & discernment
- Models portfolios
- Client preference recognition
- Client Communication and Review support

Source: Investment Trends as at December 2021

MORNINGSTAR®

AFSL Use Case - Ratings as Quality Control & Gate Keeping

Folders > Approved Product List - AFSL Example

Action | Save | Calculate | Edit | Undo | Locate | Tools | Export | View Default

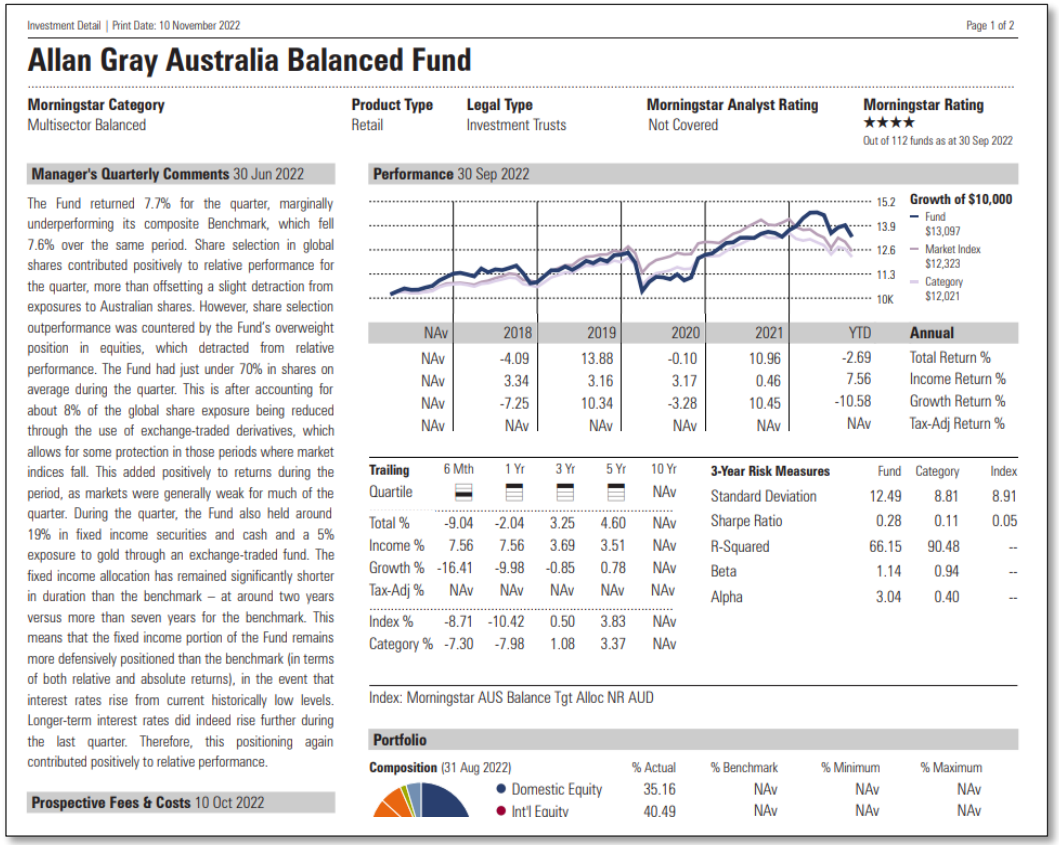
	Name Report Currency: Australian Dollar	Ticker	Investment Management Fees & Costs (Prospective)	Performance Fee Costs (Prospective)	Total Cost Ratio (Prospective)	Morningstar Analyst Rating	Morningstar Analyst Rating - Parent Pillar	Morningstar Analyst Rating - People Pillar	Morningstar Analyst Rating - Process Pillar	Morningstar ESG Commitment Level Strategy Assessment	Morningstar Sustainability Rating™	Low Carbon Designation™
1	**Australian Shares - Australia Large Blend**											
2	Alphinity Australian Share	3566	0.90	0.00	0.90	Bronze	Above Average	Above Average	Above Average		3	No
3	Alphinity Sustainable Share	10167	0.95	0.00	0.95	Bronze	Above Average	Above Average	Above Average	Advanced	4	No
4	Fidelity Australian Equities	12292	0.85	0.00	0.85	Gold	Above Average	High	High		3	No
5	Pengana Australian Equities Class A	18190	1.06	0.69	1.75	Neutral	Average	Above Average	Average		4	✓
6	Vanguard Australian Shares ETF	VAS	0.10		0.10	Bronze	High	Above Average	Average	Low	3	No
7	Vanguard Australian Shares Index	4488	0.16		0.16	Bronze	High	Above Average	Average	Low	3	No

Source: Morningstar Direct as at 30 October 2022

MORNINGSTAR®

Adviser Use Case: One is a fact sheet – One is Research

Support BID recommendations with Research



Investment Detail | Print Date: 10 November 2022 — Page 1 of 2

Allan Gray Australia Balanced Fund

Morningstar Category
Multisector Balanced

Product Type
Retail

Legal Type
Investment Trusts

Morningstar Analyst Rating
Not Covered

Morningstar Rating
★★★★
Out of 112 funds as at 30 Sep 2022

Manager's Quarterly Comments 30 Jun 2022

The Fund returned 7.7% for the quarter, marginally underperforming its composite Benchmark, which fell 7.6% over the same period. Share selection in global shares contributed positively to relative performance for the quarter, more than offsetting a slight detraction from exposures to Australian shares. However, share selection outperformance was countered by the Fund's overweight position in equities, which detracted from relative performance. The Fund had just under 70% in shares on average during the quarter. This is after accounting for about 8% of the global share exposure being reduced through the use of exchange-traded derivatives, which allows for some protection in those periods where market indices fall. This added positively to returns during the period, as markets were generally weak for much of the quarter. During the quarter, the Fund also held around 19% in fixed income securities and cash and a 5% exposure to gold through an exchange-traded fund. The fixed income allocation has remained significantly shorter in duration than the benchmark – at around two years versus more than seven years for the benchmark. This means that the fixed income portion of the Fund remains more defensively positioned than the benchmark (in terms of both relative and absolute returns), in the event that interest rates rise from current historically low levels. Longer-term interest rates did indeed rise further during the last quarter. Therefore, this positioning again contributed positively to relative performance.

Prospective Fees & Costs 10 Oct 2022

Performance 30 Sep 2022

NAv	2018	2019	2020	2021	YTD	Annual
NAv	-4.09	13.88	-0.10	10.96	-2.69	Total Return %
NAv	3.34	3.16	3.17	0.46	7.56	Income Return %
NAv	-7.25	10.34	-3.28	10.45	-10.58	Growth Return %
NAv	NAv	NAv	NAv	NAv	NAv	Tax-Adj Return %

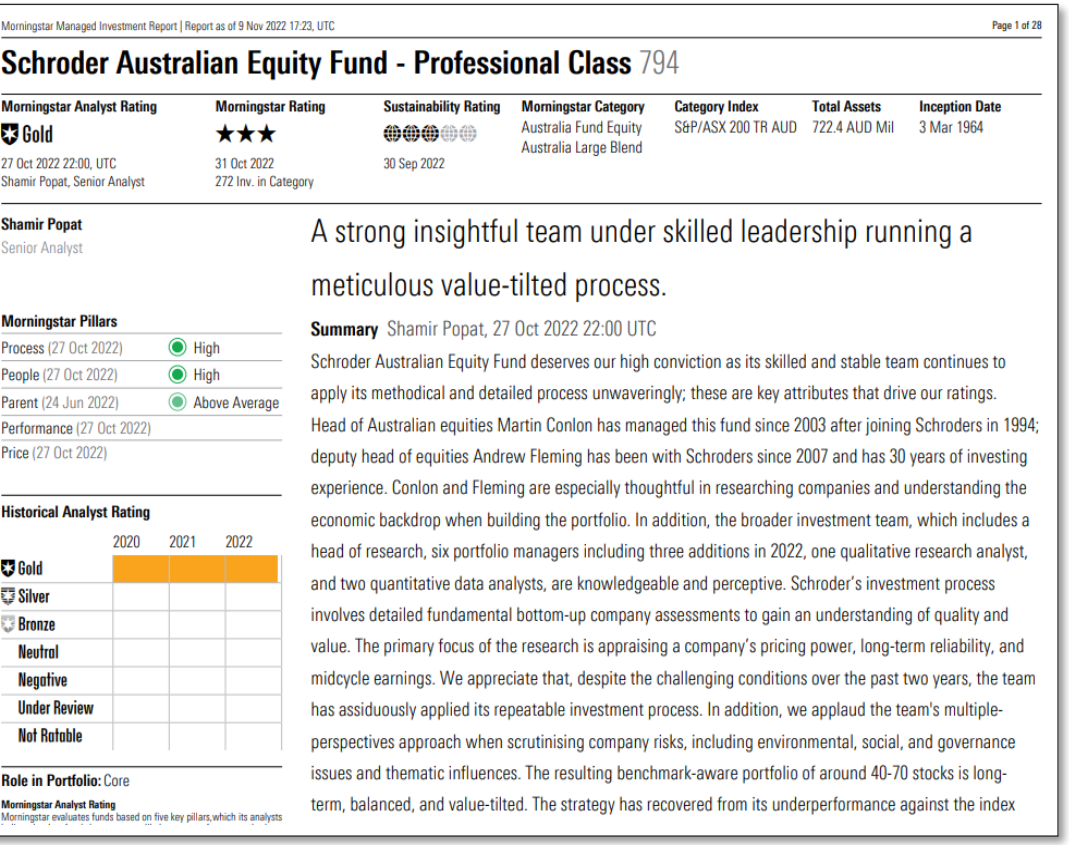
Trailing	6 Mth	1 Yr	3 Yr	5 Yr	10 Yr
Quartile					NAv
Total %	-9.04	-2.04	3.25	4.60	NAv
Income %	7.56	7.56	3.69	3.51	NAv
Growth %	-16.41	-9.98	-0.85	0.78	NAv
Tax-Adj %	NAv	NAv	NAv	NAv	NAv
Index %	-8.71	-10.42	0.50	3.83	NAv
Category %	-7.30	-7.98	1.08	3.37	NAv

3-Year Risk Measures	Fund	Category	Index
Standard Deviation	12.49	8.81	8.91
Sharpe Ratio	0.28	0.11	0.05
R-Squared	66.15	90.48	--
Beta	1.14	0.94	--
Alpha	3.04	0.40	--

Index: Morningstar AUS Balance Tgt Alloc NR AUD

Portfolio

Composition (31 Aug 2022)	% Actual	% Benchmark	% Minimum	% Maximum
Domestic Equity	35.16	NAv	NAv	NAv
Int'l Equity	40.49	NAv	NAv	NAv



Morningstar Managed Investment Report | Report as of 9 Nov 2022 17:23, UTC — Page 1 of 28

Schroder Australian Equity Fund - Professional Class 794

Morningstar Analyst Rating	Morningstar Rating	Sustainability Rating	Morningstar Category	Category Index	Total Assets	Inception Date
Gold	★★★		Australia Fund Equity Australia Large Blend	S&P/ASX 200 TR AUD	722.4 AUD Mil	3 Mar 1964
27 Oct 2022 22:00, UTC Shamir Popat, Senior Analyst	31 Oct 2022 272 Inv. in Category	30 Sep 2022				

Shamir Popat
Senior Analyst

Morningstar Pillars

Process (27 Oct 2022)	High
People (27 Oct 2022)	High
Parent (24 Jun 2022)	Above Average
Performance (27 Oct 2022)	
Price (27 Oct 2022)	

Historical Analyst Rating

	2020	2021	2022
Gold			
Silver			
Bronze			
Neutral			
Negative			
Under Review			
Not Ratable			

Role in Portfolio: Core

Morningstar Analyst Rating
Morningstar evaluates funds based on five key pillars, which its analysts

A strong insightful team under skilled leadership running a meticulous value-tilted process.

Summary Shamir Popat, 27 Oct 2022 22:00 UTC

Schroder Australian Equity Fund deserves our high conviction as its skilled and stable team continues to apply its methodical and detailed process unwaveringly; these are key attributes that drive our ratings. Head of Australian equities Martin Conlon has managed this fund since 2003 after joining Schroders in 1994; deputy head of equities Andrew Fleming has been with Schroders since 2007 and has 30 years of investing experience. Conlon and Fleming are especially thoughtful in researching companies and understanding the economic backdrop when building the portfolio. In addition, the broader investment team, which includes a head of research, six portfolio managers including three additions in 2022, one qualitative research analyst, and two quantitative data analysts, are knowledgeable and perceptive. Schroder's investment process involves detailed fundamental bottom-up company assessments to gain an understanding of quality and value. The primary focus of the research is appraising a company's pricing power, long-term reliability, and midcycle earnings. We appreciate that, despite the challenging conditions over the past two years, the team has assiduously applied its repeatable investment process. In addition, we applaud the team's multiple-perspectives approach when scrutinising company risks, including environmental, social, and governance issues and thematic influences. The resulting benchmark-aware portfolio of around 40-70 stocks is long-term, balanced, and value-tilted. The strategy has recovered from its underperformance against the index

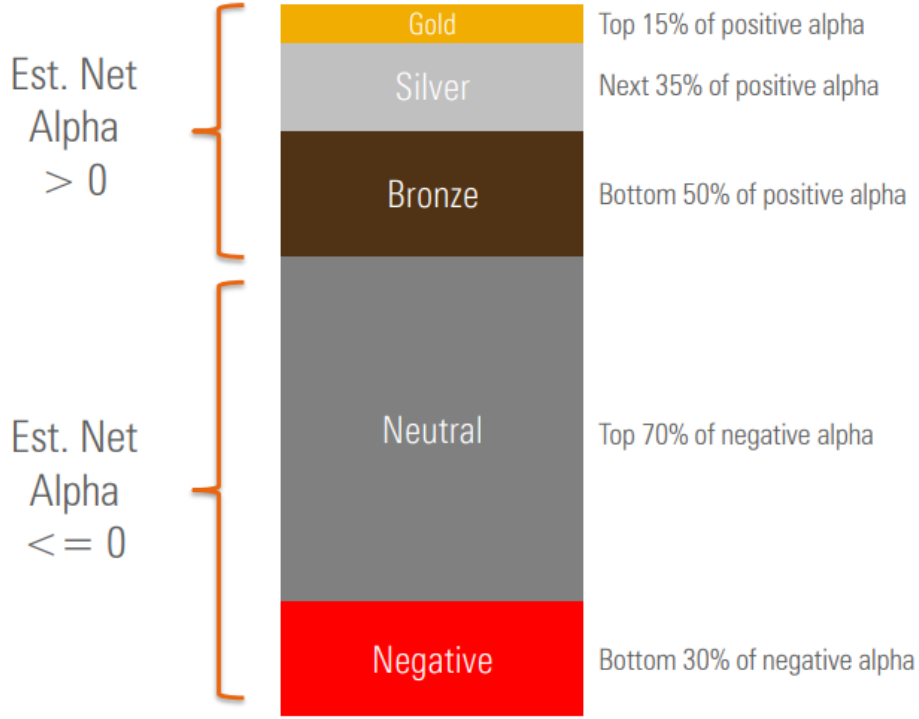
Source: Morningstar Advisor Research Centre

MORNINGSTAR®

How does the Medalist Rating work?

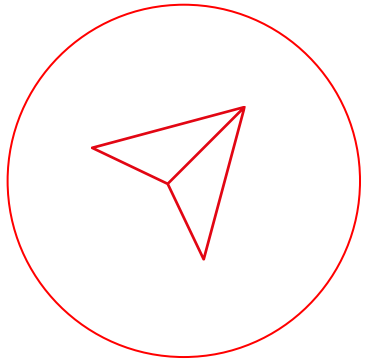
Importance Of Pillars – Parent, People, Process

Pillar Description	Active Methodology Weight	Passive Methodology Weight
Parent – assessment of the asset management first	10%	10%
People – assessment of the investment professionals	45%	10%
Process – assessment of the investment process	45%	80%

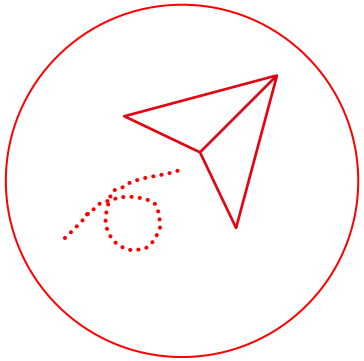


Source: Morningstar Analyst Rating Methodology

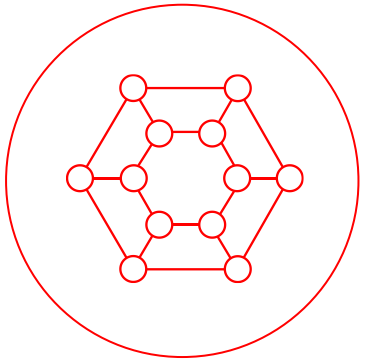
Pillars Assignments – The Morningstar Medalist Rating



Directly Assigned,
by Analyst



Indirectly Assigned
(inheritance logic applied),
by Analyst



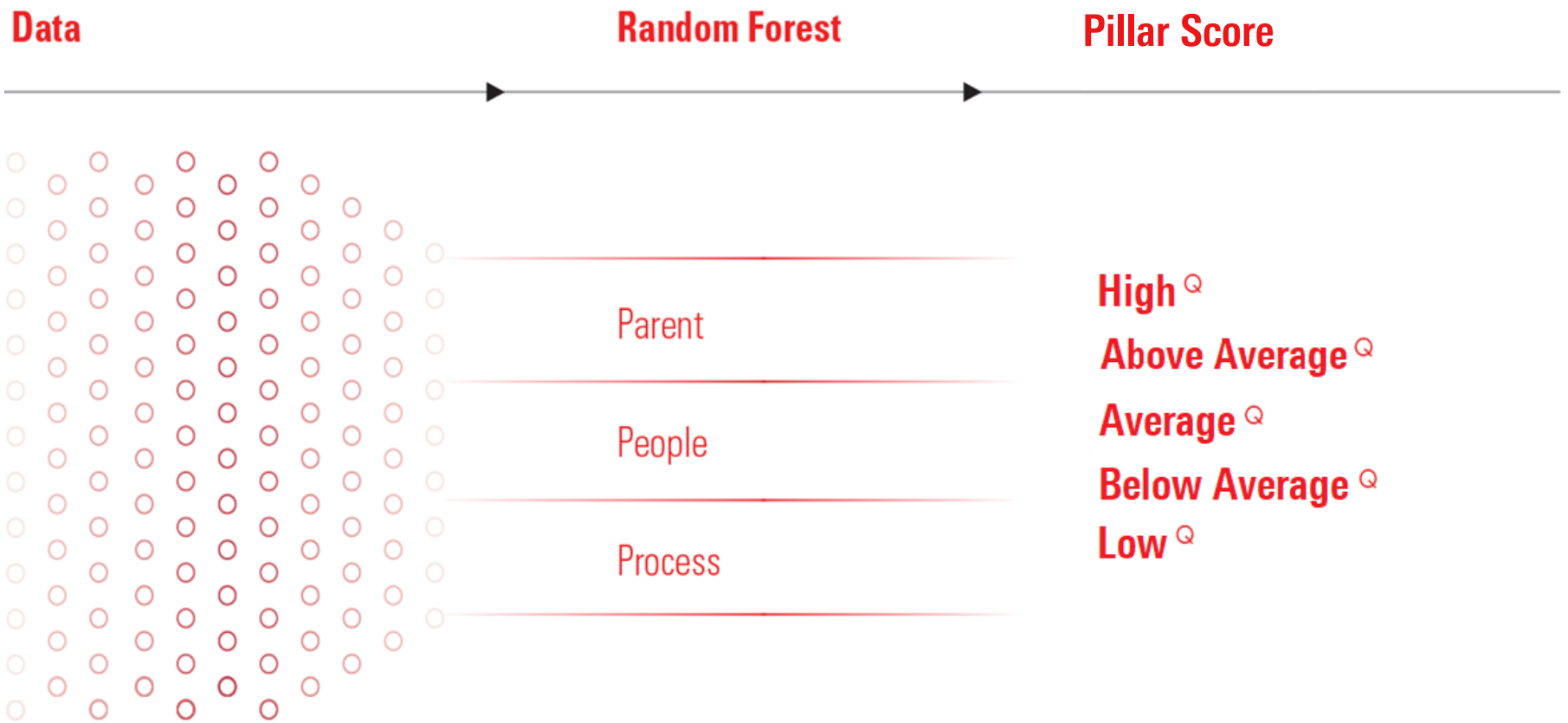
Algorithmically Assigned

“Indirectly Assigned by An Analyst” - Inheritance is a Natural Evolution – Initial Australian Findings

- Inheritance is expected to drive a large portion of algorithmically derived ratings and text.
  - **60%* of additional ratings** inherit at least one pillar score and text from an analyst
    - **11%*** expected to inherit **all three** pillar scores
    - **25%*** expected to inherit **two** pillar scores
    - **24%*** expected to inherit **one** pillar score

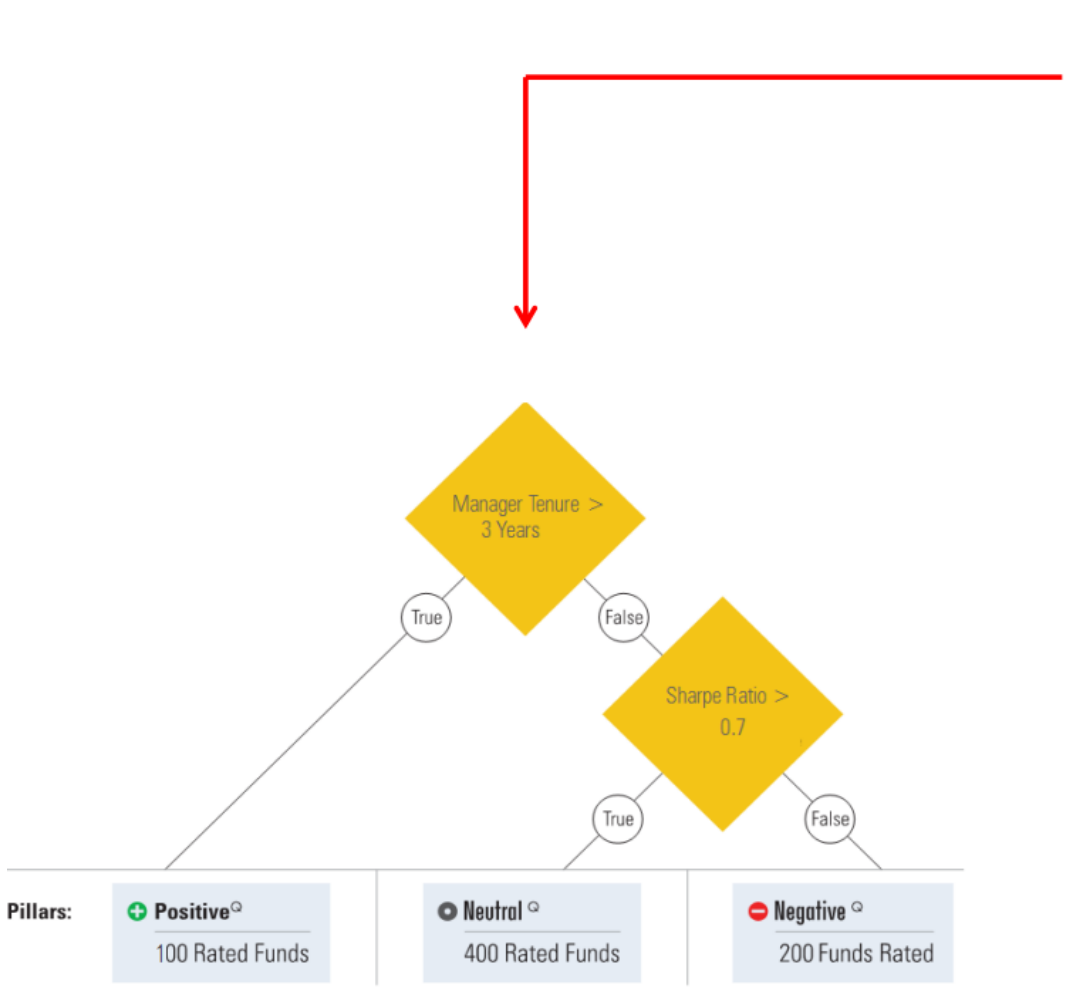
*Estimates based on available universe of products as at 30 June 2022

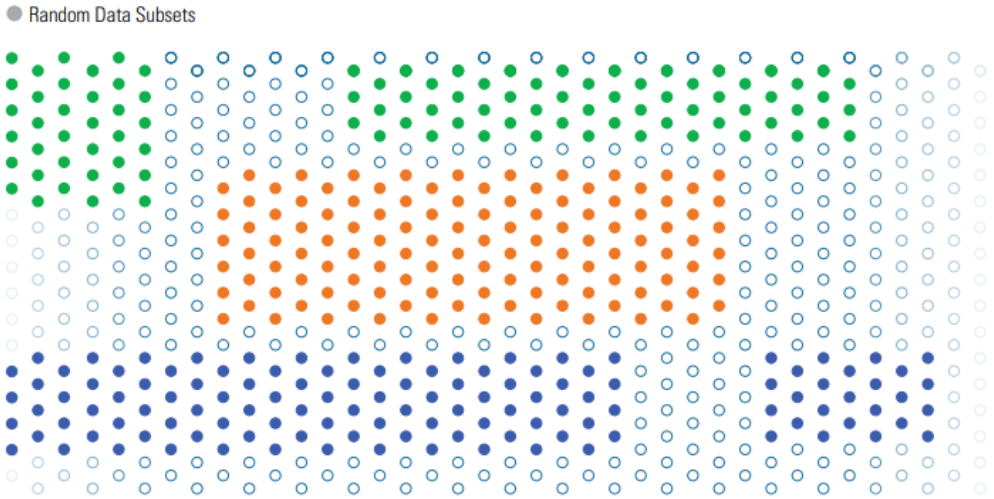
Algorithmically Assigned Pillars - Random Forest Model



Source: Morningstar, Inc.

Two Models – Positive And Negative





Source: Morningstar, Inc.

MORNINGSTAR®

How the Medalist Rating Appears In Products?

NEW DATA POINT

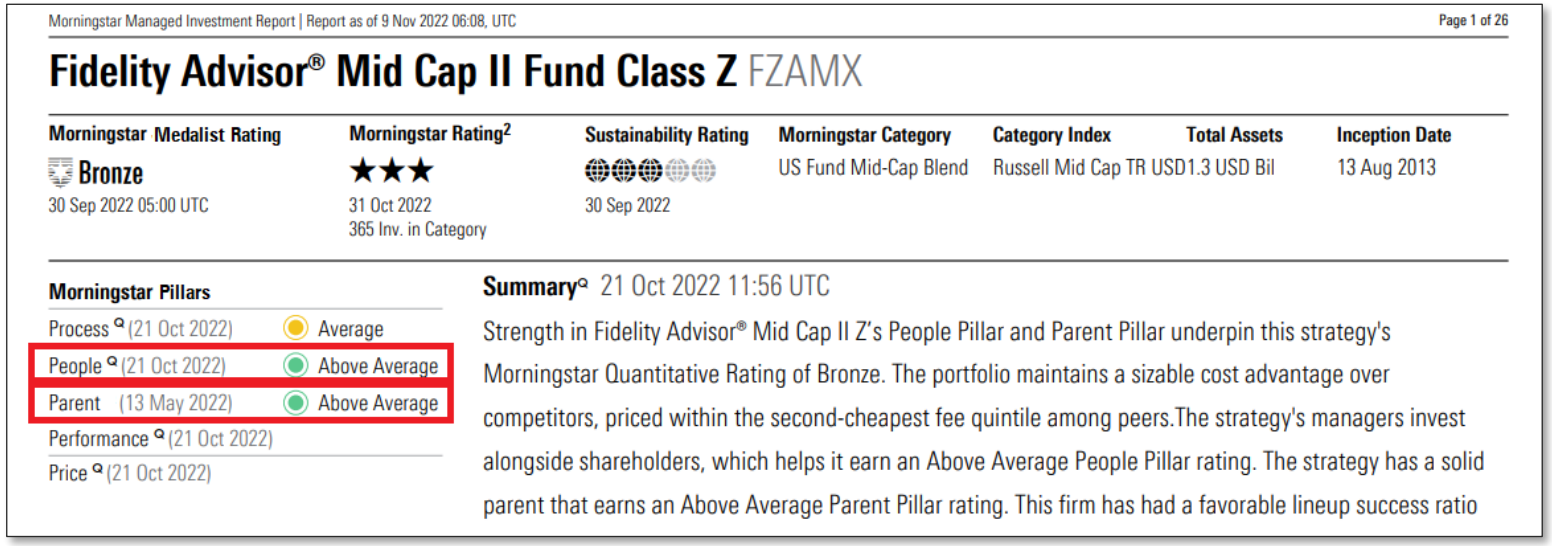
Analyst-Driven Proportion

NEW DATA POINT

Percentage (%) Data Coverage

Managed Investment Name	Morningstar Medalist Rating	Morningstar Medalist Rating - Parent Pillar	Morningstar Medalist Rating - Process Pillar	Morningstar Medalist Rating - People Pillar
Product 1	Gold	High	High[Q]	High[Q]
Product 2	Negative	Low[Q]	Low[Q]	Below Average[Q]
Product 3	Silver	Above Average	Above Average	Above Average
Product 4	Bronze	Above Average	Average	Above Average
Product 5	Neutral	Average	Average	Average[Q]

US Case Study – Managed Investment Report



Morningstar Managed Investment Report | Report as of 9 Nov 2022 06:08, UTC

Page 1 of 26

Fidelity Advisor® Mid Cap II Fund Class Z FZAMX

Morningstar Medalist Rating	Morningstar Rating[2]	Sustainability Rating	Morningstar Category	Category Index	Total Assets	Inception Date
Bronze 30 Sep 2022 05:00 UTC	★★★ 31 Oct 2022 365 Inv. in Category	30 Sep 2022	US Fund Mid-Cap Blend	Russell Mid Cap TR USD	1.3 USD Bil	13 Aug 2013

Morningstar Pillars

Process (21 Oct 2022)	Average
People (21 Oct 2022)	Above Average
Parent (13 May 2022)	Above Average
Performance (21 Oct 2022)	
Price (21 Oct 2022)	

Summary 21 Oct 2022 11:56 UTC

Strength in Fidelity Advisor® Mid Cap II Z's People Pillar and Parent Pillar underpin this strategy's Morningstar Quantitative Rating of Bronze. The portfolio maintains a sizable cost advantage over competitors, priced within the second-cheapest fee quintile among peers.The strategy's managers invest alongside shareholders, which helps it earn an Above Average People Pillar rating. The strategy has a solid parent that earns an Above Average Parent Pillar rating. This firm has had a favorable lineup success ratio

People Above Average | 21 Oct 2022 11:56 UTC

Fidelity Advisor® Mid Cap II Fund's sizable personal investments from managers and strong longest-tenured manager drives the strategy's Above Average People Pillar rating. Thomas Allen, the longest-tenured manager on the strategy, provides strong guidance, bringing forward over 25 years of portfolio management experience. The average Morningstar Rating of the strategies they currently manage is 2.4 stars, demonstrating underwhelming risk-adjusted performance. Despite having a small team, the two listed managers boast 16 years of portfolio management experience. As a team, they manage two investment vehicles together, with a Bronze asset-weighted average combined Morningstar Analyst and Quantitative Rating, indicating the potential to deliver positive alpha in aggregate. At least one member of the team has invested $1 million or more of their own capital in the fund alongside shareholders, which should help align their interests with the strategy's investors.

Parent Above Average | Robby Greengold Strategist, 13 May 2022 23:53 UTC

Fidelity earns an Above Average Parent rating because of its ability to stay ahead of its competition.

The firm's successful stock-picking mutual funds fueled its rise to prominence, and it has adapted well to investor preferences that have shifted markedly over the past two decades. Index funds and exchange-traded funds have garnered most of the industry's flows as money has gushed from actively managed products—Fidelity's included. Yet overall, the asset-management division has continued to achieve positive organic growth by introducing or maintaining aggressive pricing on its own suite of passively managed funds and expanding its menu of client-demanded investment structures, such as managed accounts and collective investment trusts. These moves are made possible by the firm's strong distribution network, scale, established brand, and willingness to tolerate losses on some products in pursuit of broader strategic objectives.

MORNINGSTAR®

How Asset Managers Can Work With Us?

We have a global and local 24/5 service model to support asset managers

UP TO DATE **DATA**

Morningstar has significant resources asset managers can use to ensure their data is up to date

400+ DATA ANALYSTS

400+ Data Analysts ensuring your data is up to date across three data centres

24/5 EMAIL SUPPORT

24/5 Level 2 email support dedicated to Asset Managers

5 LOCAL DATA CONSULTANTS

Five local data consultants singularly focused on AU/NZ markets

Let's work together

- We need to work through gaps, and define reporting cadence that supports this, and works for you.
- Data provision needs to be operationalised within your firm
- We have created online documentation of when, what and how to ensure your rating stays up to date, and accurate

Rating Requirements?

EXCLUSIONS

- Esoteric categories
- Funds classified as a zero-fee fund or Morningstar fund

EXCLUSIONS

- <80% Data Coverage
- No fee data
- No TMD (initial and ongoing) for retail funds

Rating Requirements?

INVESTMENT TYPES INCLUDED

- Open-end funds / trusts
- Exchange-traded funds

INVESTMENT TYPES EXCLUDED

- Closed-end funds

Rating Requirements?

WHAT'S REQUIRED?

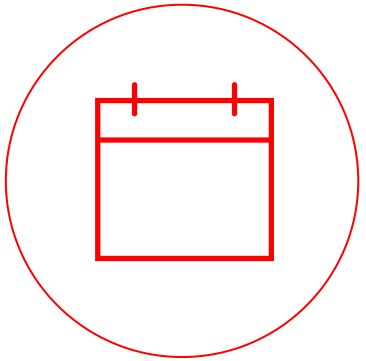
- Strategy / fund to be activated in M* system
- Product disclosure statement
- Target market determination
- Unit prices / distributions
- Fees and costs
- Portfolio holdings data; asset allocation data
- Fund size and flow data
- Manager information (including tenure and alignment to strategy)

What's Important To Receive A Rating / Best Possible Rating?

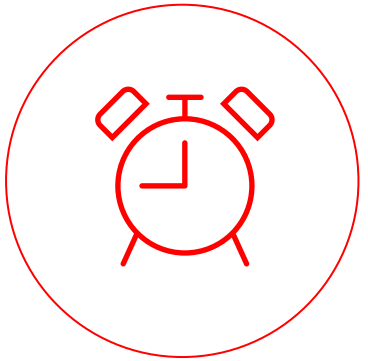
- Fulsome and consistent provision of data. Ratings will cease for strategies where data is not provided.
- All funds in your product suite to be rated – asset managers will not be able to selectively provide data for some of their 'better' funds and not provide data for funds where they believe a Neutral or Negative Rating will be issued.
- Ratings will be capped at Bronze for asset managers who do not provide Portfolio Holdings Data
- People Pillar scores will be capped if Manager Tenure data is not provided

Next Steps

Manager information requirements are coming your way in December



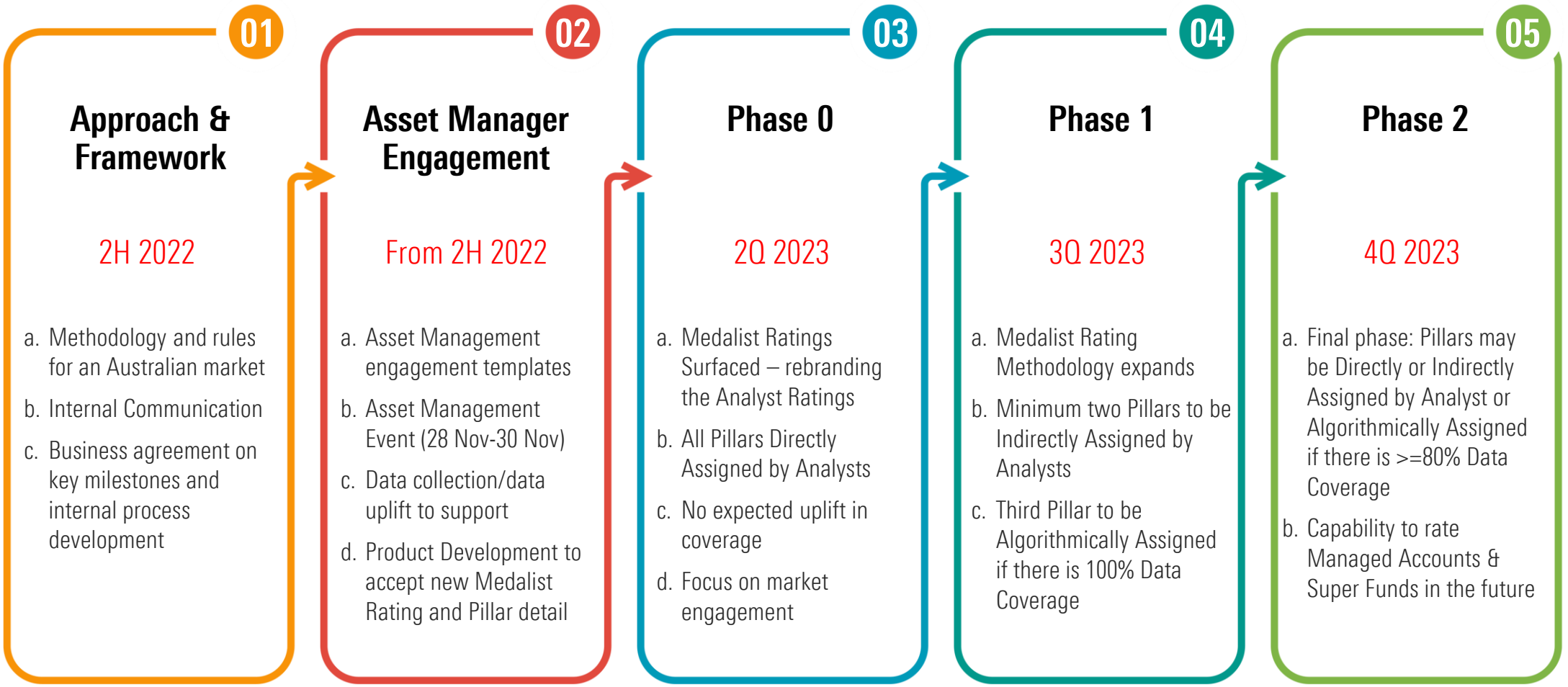
Set up some time with your local data consultant in early 2023 to go over any gaps



Don’t leave this until the last minute

Timeline and Key Milestones

Deliverables Sequencing



MORNINGSTAR®

Thank You