



# METHODOLOGY MANAGED FUND STAR RATINGS March 2020

## **What are the Canstar *Managed Funds Star Ratings*?**

Canstar's *Managed Fund Star Ratings* involve a sophisticated and unique ratings methodology that compares both performance and features across managed funds. Canstar Star Ratings represent a shortlist of products, enabling consumers to narrow their search to funds that have been assessed and ranked.

Ratings range from five to one star. Five Star rated products have been assessed as offering outstanding value to consumers.

## **Eligibility requirements for the *Managed Funds Star Ratings***

To be eligible for the Canstar *Managed Funds Star Ratings*, a fund must:

- Have an initial required investment amount equal to or less than \$20,000.
- Be available directly to the consumer, or via direct application.
- Not have an entry fee (or deferred entry fee), initial contribution fee or establishment fee.
- Have a minimum of 5 years of performance history available at time of data handover. However, where a fund has been available for less than five years, an indicative rating will be provided for funds that have been available for a minimum of three years. In these instances, funds are compared against their peers for the period over which they have been available.
- Be open to new investors.
- Have minimum funds under management (FUM) of \$50m.
- Not be hedge fund or an ETF.
- Not be available only via a platform.

## **Consumer Profiles**

Managed Funds are rated across two categories, multi-sector funds and single asset class funds.

### **Multi-Sector**

Multi sector funds receive a rating in one of the four potential profiles based on growth asset allocation.

The table below provides an outline of profiles considered.

Profile	Benchmark	
	Growth Asset Allocation	Definition
Multi-Sector Moderate	21-40%	Multi-Sector Moderate consists of funds that invest in a number of sectors and have between 21% and 40% of their investments exposed to the growth sectors. These are typically defined as equity and property asset classes.
Multi-Sector Balanced	41% - 60%	Multi-Sector Balanced funds invest in a number of sectors and have 41% to 60% of their assets in growth sectors. These are typically defined as equity and property asset classes.
Multi-Sector Growth	61%-80%	Multi-Sector Growth funds invest in a number of sectors and have between 61% and 80% of their assets in growth sectors. These are typically defined as equity and property asset classes.
Multi-Sector Aggressive	Over 80%	Multi-Sector Aggressive funds invest in a number of sectors and have over 80% of their assets in growth sectors. These are typically defined as equity and property asset classes.
<p><b>Source:</b> Morningstar Category Definitions, <a href="https://corporate.morningstar.com/au/documents/MethodologyDocuments/MethodologyPapers/CategoryDefinitionsAustralia.pdf">https://corporate.morningstar.com/au/documents/MethodologyDocuments/MethodologyPapers/CategoryDefinitionsAustralia.pdf</a></p>		

### Single Asset Class Funds

Single Asset Class funds receive a rating in one of seven profiles, inclusive of fifteen fund categories. The seven profiles considered are:

- Australian Cash
- Australian Fixed Interest
- Australian Property
- Australian Shares – Large Cap
- Australian Shares – Mid/Small Cap
- Global Fixed Income & Bonds
- Global Shares – Large Cap

The table on the following page provides an outline of the fund categories considered within each profile along with their definitions.

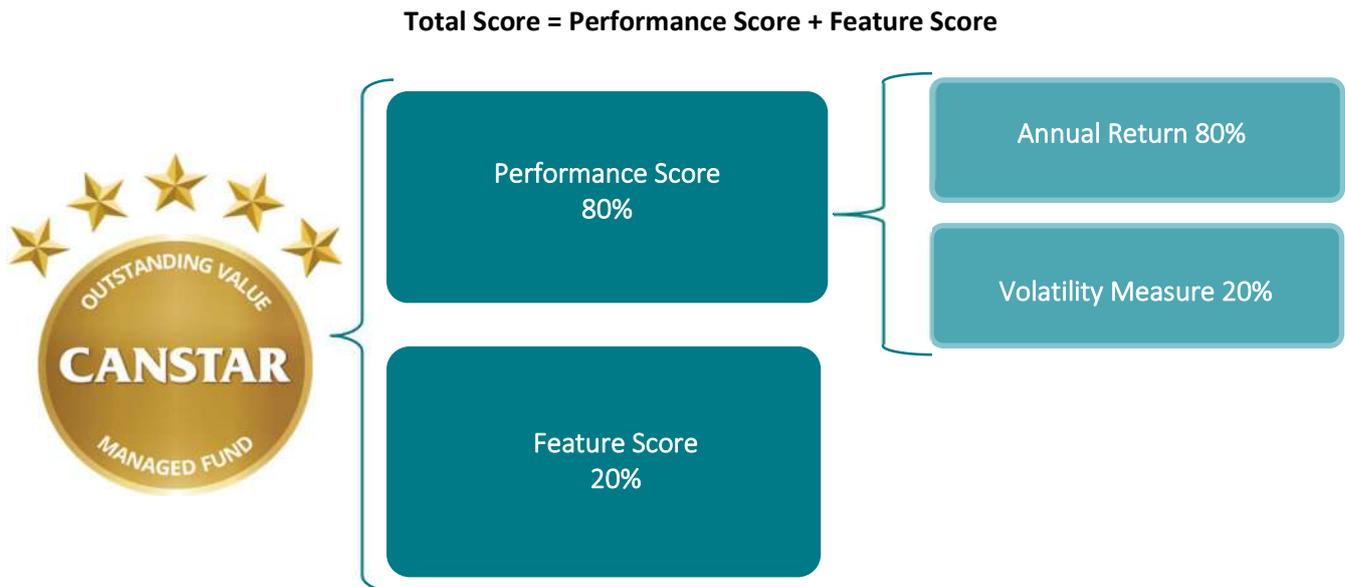
Fund Category	Definition
<b>Australian Cash</b>	
Australian Cash	Investment predominantly in highly liquid securities, such as bank deposits and bank bills. The overall maturity is expected to be less than one year. Exposures to cash/overnight accounts are also included.
<b>Australian Fixed Interest</b>	
Australian Short Term Fixed Interest	Investment predominantly in highly liquid securities, such as bank deposits and bank bills. They may also invest in direct fixed interest securities, as well as high quality corporate debt and asset-backed securities. They can also use derivatives to hedge and exploit market conditions. The overall maturity is expected to be less than one year. The average credit quality of the fund is typically 'A' or above, as rated by a recognised credit ratings agency.
Australian Bond	These include government and corporate debt, with terms to maturity generally greater than one year. The average credit quality of the fund is typically 'A –' or above, as rated by a recognised credit ratings agency.
<b>Australian Shares – Large Cap</b>	
<i>Stocks in the top 70% of the capitalisation of the equities market are defined as large cap.</i>	
Equity Australia Large Blend	The blend style is assigned to portfolios where neither growth- nor value characterised stocks dominate.
Equity Australia Large Growth	Generally characterised by high growth expectations (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Many portfolios focus on companies in rapidly expanding industries.
Equity Australia Large Value	Value is generally characterised by low stock valuations (low price ratios and high dividend yields) and low growth rates (low growth rates for earnings, sales, book value, and cash flow).
<b>Australian Shares – Mid/Small Cap</b>	
<i>Stocks in the bottom 30% of the capitalisation of the Australian equities market are defined as mid/small-cap.</i>	
Equity Australia Mid/Small Blend	The blend style is assigned to portfolios where neither growth- nor value characterised stocks predominate.
Equity Australia Mid/Small Growth	Growth stocks are generally characterised by high growth expectations (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most portfolios focus on companies in rapidly expanding industries.

Equity Australia Mid/Small Value	Value stocks are generally characterised by low stock valuations (low price ratios and high dividend yields) and low growth rates (low growth rates for earnings, sales, book value, and cash flow).
<b>Global Fixed Income &amp; Bonds</b>	
Bond- Global	Invest in foreign government and corporate debt, with terms to maturity generally greater than one year. The average credit quality of the fund is typically 'A –' or above, as rated by a recognised ratings agency.
Bond- Global/Australia	These consist of both government and corporate debt, with terms to maturity generally greater than one year. A small portion may also be invested in cash or cash-like securities to hedge currency risks. At least 25% of the portfolio invested in Australian Bonds is required.
<b>Global Shares – Large Cap</b>	
<i>Stocks in the top 70% of the capitalisation of the equities market are defined as large-cap.</i>	
Equity World Large Blend	The portfolio is not defined by an exposure to a single sector or region. The blend style is assigned to portfolios where neither growth nor value characterised stocks predominate.
Equity World Large Growth	Growth stocks are generally characterised by high growth expectations (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most portfolios focus on companies in rapidly expanding industries.
Equity World Large Value	Value stocks are generally characterised by low stock valuations (low price ratios and high dividend yields) and low growth rates (low growth rates for earnings, sales, book value, and cash flow).
<b>Australian Property</b>	
Australian Property	Funds invest almost exclusively in Australian listed property trusts. This may be either completely in their own right or through property syndicates. At least 75% of the portfolio is invested in listed property, with a smaller component in direct property and/or cash.
<p><b>Source:</b> Morningstar Category Definitions,  <a href="https://corporate.morningstar.com/au/documents/MethodologyDocuments/MethodologyPapers/CategoryDefinitionsAustralia.pdf">https://corporate.morningstar.com/au/documents/MethodologyDocuments/MethodologyPapers/CategoryDefinitionsAustralia.pdf</a></p>	

## How are the Star Ratings Calculated?

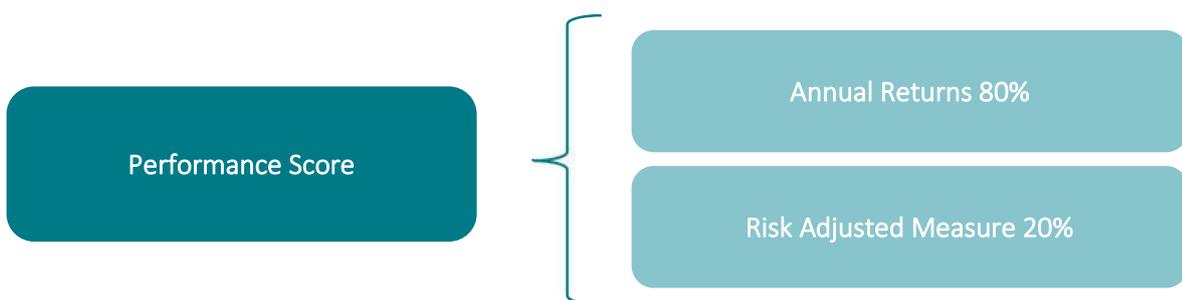
Each eligible Managed Fund reviewed is awarded points for its performance and the array of features attached to the fund. Points are aggregated to achieve performance score and feature score.

To arrive at the total score, Canstar applies a weight against the performance score and the feature score. The weights reflect the relative importance of performance and features in determining the products offering outstanding value. This method can be summarised as:



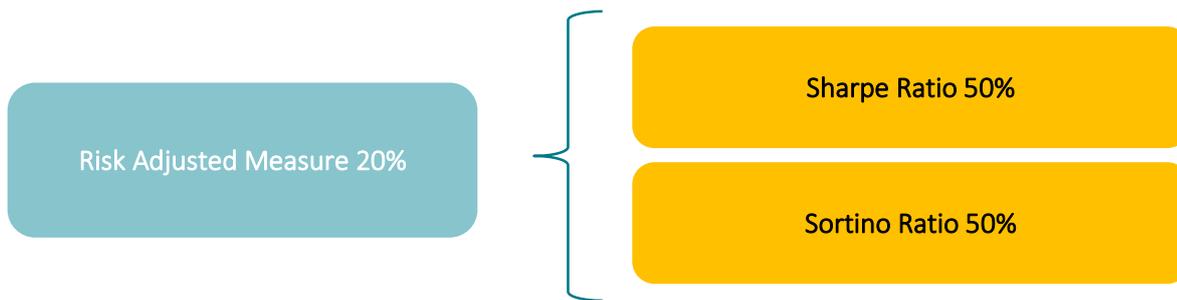
### Performance Score (80%)

The performance score is made up of two components, an annual return score and a risk adjusted measure score. The performance score can be summarised as:



Annual returns are calculated using the annual investment returns of a fund over the most recent five year period, with equal weight placed on each year. The fund with the highest annual return is allocated the maximum score, with all remaining funds within the profile scored against it. Investment returns are net of all fund fees and accrued tax.

The Risk Adjusted measure is made up of two equally weighted components, Sharpe ratio and Sortino ratio.



Description	
Sharpe Ratio	A measure of a funds excess return relative to the total variability of the fund.
Sortino Ratio	A measure of a funds excess return relative to the total downside variability of the fund.

Note that these movements in value of an investment are not realized as gains or losses until funds are accessed.

### Feature Score (20%)

The feature score takes into account a number of features within four different categories, with individual features allocated points and each category, and subcategory, assigned a weighting. The fund with the highest feature score is allocated the maximum score, with all remaining products within the profile scored against it.

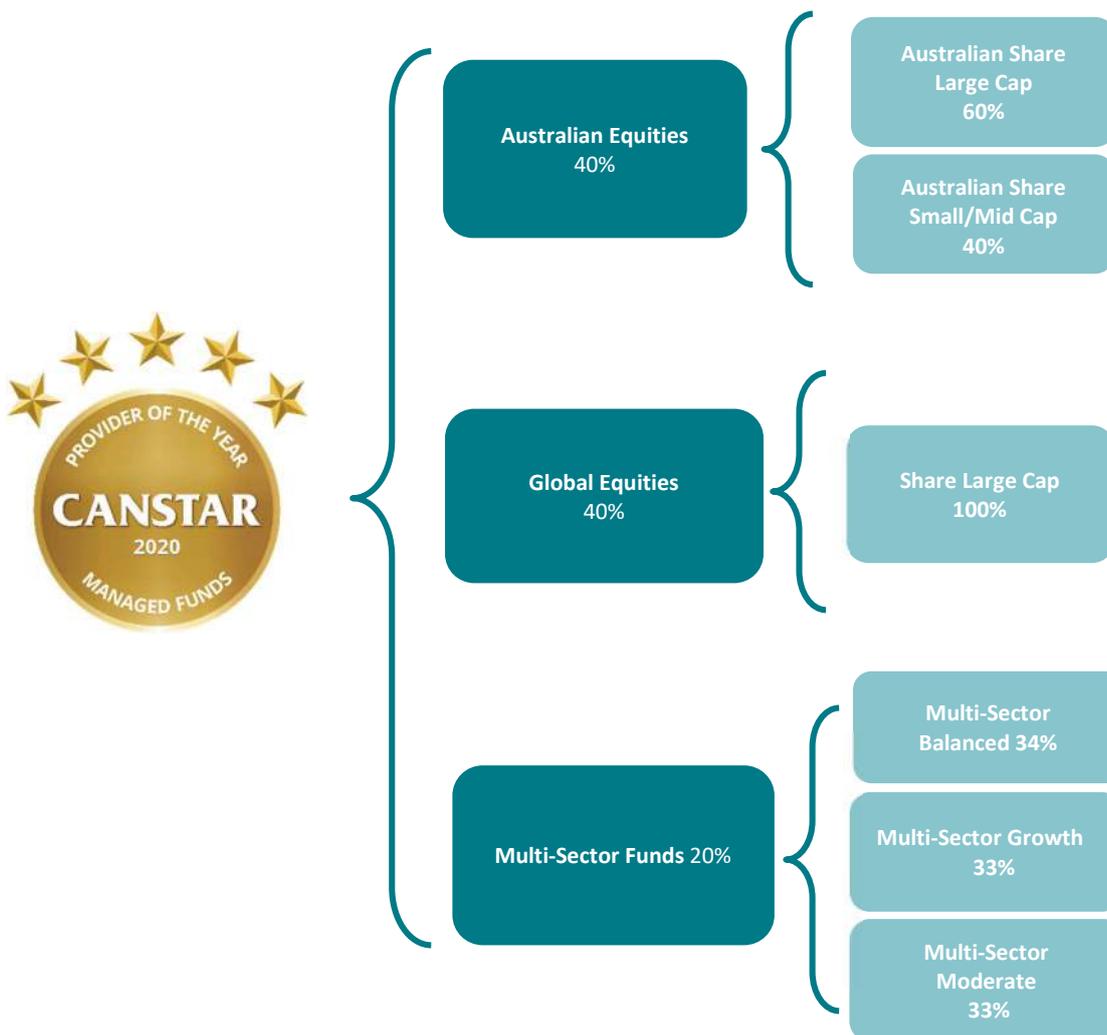
Category/Subcategory	Weight
<b>Opening</b>	<b>35%</b>
Application	30%
Payment	70%
<b>Investment Flexibility</b>	<b>20%</b>
Investment Options	50%
Distribution	50%
<b>Support</b>	<b>25%</b>
<b>Closing</b>	<b>20%</b>

## How are the Canstar Managed Funds Awards Calculated?

### Canstar Provider of the Year Award

Canstar recognises providers that perform well across a variety of different asset classes and profiles. The Canstar Managed Funds Provider of the Year is awarded based on the weighted score of a provider's top performing funds across the assets classes and profiles outlined below. The weights are determined for asset classes and profiles based on the relative importance of each.

The weight placed on each asset class and profile is as follows:



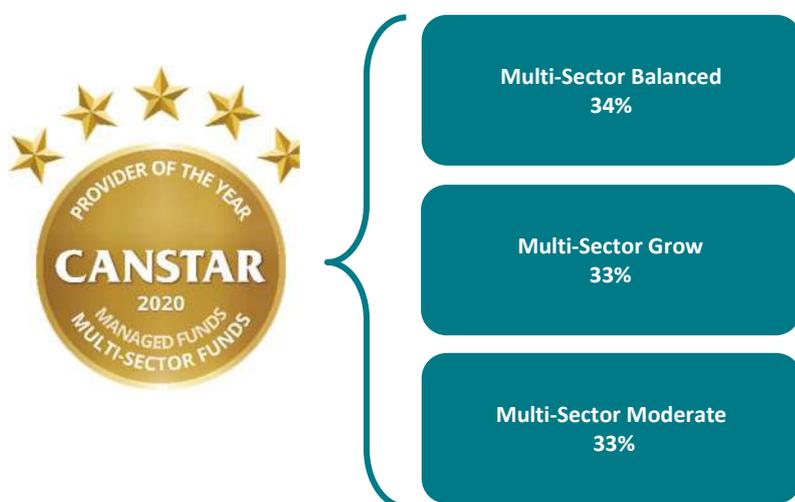
### Australian Equities Provider of the Year

Canstar recognises Providers that perform well across Australian Equities collectively leading to the delivery of outstanding value to customers. The Canstar Australian Equities Provider of the Year is awarded based on the weighted score of a provider’s top performing funds within both “Australian Shares Large Cap” and “Australian Shares Mid to Small Cap”. The weights are determined for asset classes and profiles based on the relative importance of each in providing outstanding value for customers.



### Multi-Sector Funds Fund of the Year

Canstar recognises funds that perform well across Multi-Sector Funds collectively leading to the delivery of outstanding value to customers. The Canstar Multi-Sector Funds Provider of the Year is awarded based on the weighted score of a provider’s top performing funds within Multi-Sector Growth, Multi-Sector Balanced and Multi-Sector Moderate. The weights are determined for asset classes and profiles based on the relative importance of each in providing outstanding value for customers.



## What additional rules are applied to Canstar *Managed Fund Star Ratings*?

An additional overlay is applied by Canstar which examines a fund's performance over the past five years for signs of persistent underperformance. Compared to other funds within our prescribed profiles, funds that have consistently underperformed across the majority of the past five years (i.e. investment returns reside in the bottom quartile in four out of five years) achieve no more than a three-star rating. Additionally, when compared to other funds within our prescribed profiles, four-star rated funds that have consistently overperformed across the majority of the past five years (i.e. investment returns reside in the top quartile in four out of five years) achieve a five-star rating.

## Does Canstar rate all products available in the market?

Canstar endeavours to include the majority of product providers in the market and to compare the product features most relevant to consumers. However, this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to specific consumers.

## How often are products reviewed for awards or star ratings purposes?

All ratings are fully recalculated every twelve months based on the latest product offerings within the market. Additionally, Canstar monitors product changes on an ongoing basis. Star Rating and award results are published in a variety of mediums (newspapers, magazines, television, websites, etc).

## Does Canstar rate other product areas?

Canstar researches, compares and rates the suite of banking, wealth and insurance products listed below. These star ratings and awards use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the Canstar website at [www.canstar.com.au](http://www.canstar.com.au) if you would like to view the latest Star Ratings reports of interest.



- Account Based Pensions
- Agribusiness
- Business Banking
- Car Insurance
- Car Loans
- Credit Cards
- Deposit Accounts
- Direct Life Insurance
- First Home Buyer
- Health Insurance
- Home & Contents
- Home Loans
- Landlord Insurance
- Managed Investments
- Margin Lending
- Online Banking
- Online Share Trading
- Package Banking
- Personal Loans
- Pet Insurance
- Reward Programs
- Superannuation
- Term Deposits
- Travel Credit & Debit Cards
- Travel Insurance
- Travel Money Cards
- Youth Banking

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The ratings and awards results do not include all providers and may not compare all features relevant to you. The rating or award is only one factor to take into account when considering these products. Canstar acknowledges that past performance is not a reliable indicator of future performance.

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