



# METHODOLOGY

## MANAGED FUND STAR RATINGS

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

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

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

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

To be eligible for the Canstar *Managed Fund 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 five 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 five potential profiles based on growth asset allocation. The following table provides an outline of profiles considered.

Profile	Benchmark Growth Asset Allocation	Definition
Multi Sector Conservative	0%-20%	Multi Sector Conservative funds have portfolios that are invested in a number of sectors and have 20% or less of their investments in growth sectors. These are typically defined as equity and property asset classes.
Multi Sector Moderate	21-40%	The Multi Sector Moderate Category 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.
<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>		

Note due to the small number of multi sector conservative funds that meet the eligibility criteria, ratings were not awarded for funds within this profile in 2018.

### Single Asset Class Funds

Single asset class funds receive a rating in one of six profiles, inclusive of fifteen fund categories. The six profiles considered are:

- Australian Cash & Fixed Interest
- Australian Shares – Large Cap
- Australian Shares – Mid/Small Cap
- Global Fixed Income & Bonds
- Global Shares – Large Cap
- Equity Australia Real Estate

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

Fund Category	Definition
Australian Cash & Fixed Interest	
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.
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.
Australian Shares – Large Cap	
<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).
Australian Shares – Mid/Small Cap	
<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).
Global Fixed Income & Bonds	
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.

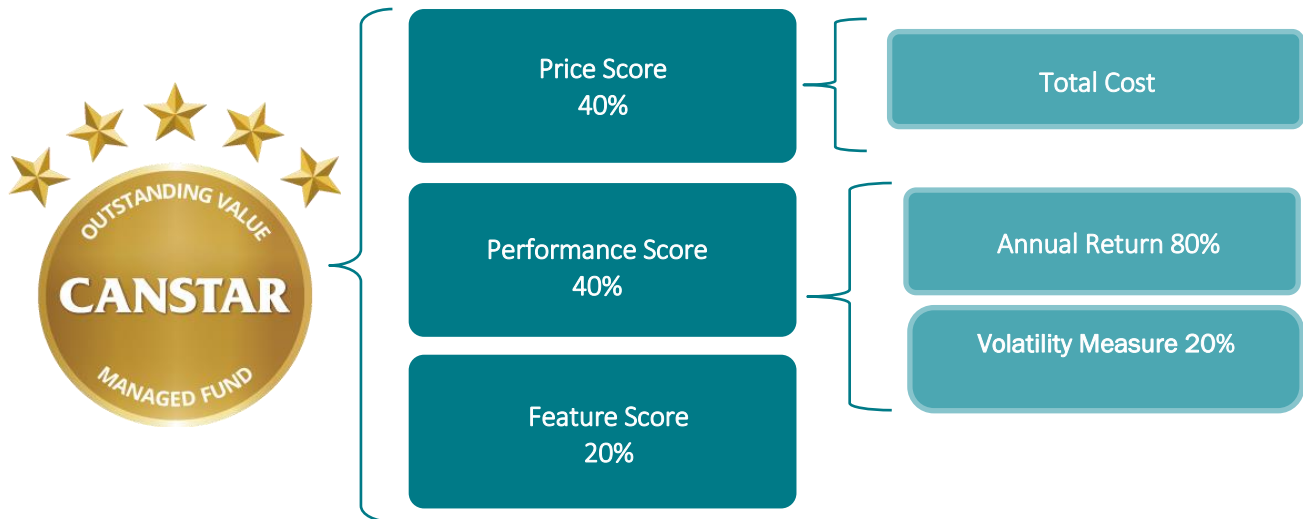
Bond- Global/Australia	These consist of both government and corporate debt, with terms to maturity generally greater than one year. A small portion may also be invested in cash or cash-like securities to hedge currency risks. At least 25% of the portfolio invested in Australian Bonds is required.
Global Shares – Large Cap	
<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).
Equity Australia Real Estate	
Equity Australia Real Estate	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.
<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>	

### How are the Star Ratings Calculated?

Each eligible managed fund product reviewed is awarded points for its pricing and performance, and the array of positive features attached to the product. Points are aggregated to achieve a price score, performance score and feature score.

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

$$\text{Total Score} = \text{Price Score} + \text{Performance Score} + \text{Feature Score}$$



### Price Score

The price score is based on the total cost of a hypothetical investment over a period of five years. The lowest priced product receives the highest price score and all other funds are indexed against it.

The total cost is calculated for an initial hypothetical investment of \$50,000 held for five years and then withdrawn completely from the fund. Fees considered fall within one of two categories, one-off fees and ongoing fees. Where a fund has been available for less than five years but at least three years, the total cost score is calculated over the length of time that the fund has been available and an indicative star rating is provided.

### One- Off Fees

One-off fees are typically associated with the opening or termination of an account and are charged directly to the consumer. One-off fees considered include:

Fee Type	Fee Description
Redemption/ Withdrawal Fee	The fee charged when a withdrawal is made from the fund.
Exit/Termination Fee	The fee charged when closing an account.
Transaction Fee (commonly Buy/Sell Spread)	The fee charged when buying/selling units of the fund.

### Ongoing fees

Ongoing fees are typically associated with membership and administration of the fund and are generally charged indirectly to the consumer through lower investment returns. In the total cost calculation, indirect fees are applied annually. Ongoing fees considered include:

Fee Type	Fee Description
Administration Fee	The fee charged to cover administrative service costs such as printing of product disclosure statements (PDS), annual reports and member statements.
Management Fee	The fee charged for the management of the investment.
Investor/Low Balance Fee	Some funds may charge this fee when the account balance/value of the investment holding drops below a certain level.

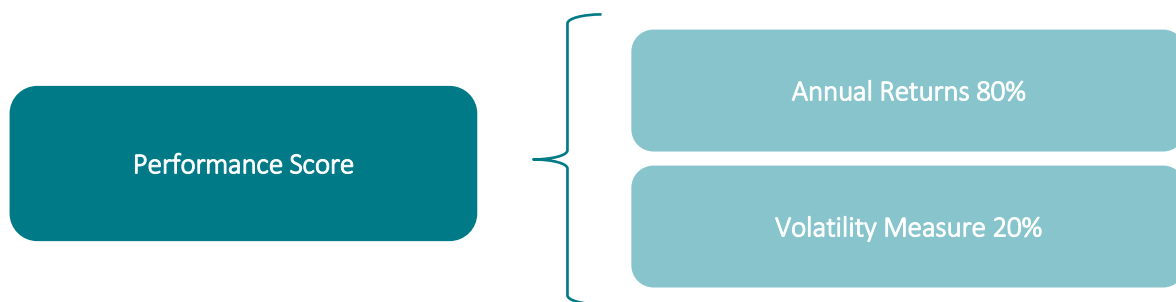
### Feature Score

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

Feature Category	Weight	Features Included
Investor Access	35%	<ul style="list-style-type: none"> <li>What channels are available to the investor to access the managed fund?</li> <li>Buy/Sell requests can be placed online or via phone</li> <li>Fund performance can be checked online</li> <li>Call centre availability</li> </ul>
Product Conditions	30%	<ul style="list-style-type: none"> <li>Minimum investment amount</li> <li>Minimum additional investment amount</li> <li>Payment methods available (e.g Cheque, BPAY, Direct Debit)</li> <li>Regular investment plan available</li> <li>Regular withdrawal plan available</li> <li>Minimum regular investment amount</li> <li>Minimum regular withdrawal amount</li> <li>The frequency options for making regular investments/withdrawals</li> </ul>
Distributions	25%	<ul style="list-style-type: none"> <li>Regular distribution available</li> <li>Frequency of fund distributions</li> <li>Reinvestment Plan available</li> </ul>
Other Fees and Rebates	10%	<ul style="list-style-type: none"> <li>Contribution fee</li> <li>Redemption fee</li> <li>Performance fee</li> <li>Fee rebates available</li> </ul>

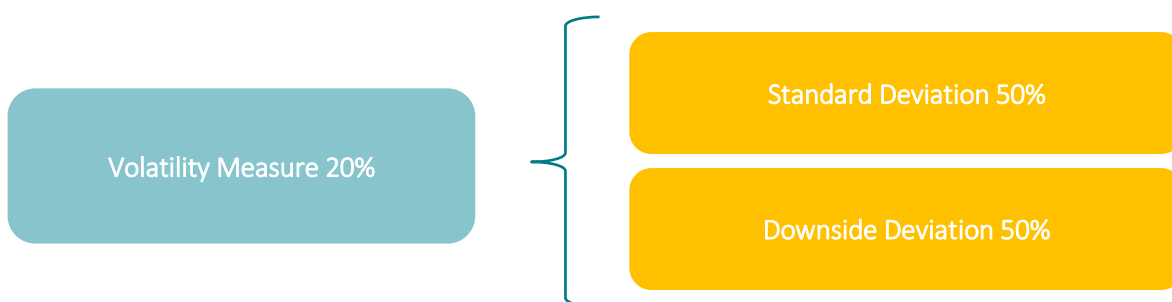
## Performance Score

The performance score is made up of two components, an annual returns score and a volatility 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 volatility measure is made up of two equally-weighted components, standard deviation and downside deviation.



Description	
Standard Deviation	Indicates how much the monthly return of the fund differs from the average monthly return of the fund.
Downside Deviation	Indicates how much the negative monthly return on the fund differs from the average monthly return of the fund.

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

## 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 outperformed 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 5-Star rating.

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

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. 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 you.

### **How often are managed funds reviewed for star rating purposes?**

All ratings are recalculated every 12 months. Canstar also monitors changes on an ongoing basis.

### **Does Canstar rate other product areas?**

Canstar researches, compares and rates the suite of banking, wealth and insurance products listed below. These star ratings 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.



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|---------------------------|------------------------|----------------------|
| • Account-based pensions  | • Home loans           | • Superannuation     |
| • Agribusiness            | • Landlord insurance   | • Term deposits      |
| • Business banking        | • Life insurance       | • Travel insurance   |
| • Business life insurance | • Managed investments  | • Travel money cards |
| • Car insurance           | • Margin lending       | • Youth banking      |
| • Credit cards            | • Online banking       |                      |
| • Deposit accounts        | • Online share trading |                      |
| • Direct life insurance   | • Package banking      |                      |
| • First home buyer        | • Personal loans       |                      |
| • Health insurance        | • Pet insurance        |                      |
| • Home and contents       | • Rewards programs     |                      |

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