



International Fund Awards Methodology, China

Morningstar Methodology Paper
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Contents

Statement of Purpose	3
Eligible Universe	4
Morningstar Category Awards Methodology	5
Categories Eligible for Awards	5
Awards Selection Procedure	6
Awards Selection Method	6

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Statement of Purpose

The objective of the Morningstar Fund Awards is to recognize those funds and fund groups 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 emphasize a fund's one-year performance. However, we do not wish to be in the position of giving 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, and we do not wish to steer them to offerings that may not be good longer-term investments.

The awards methodology therefore emphasizes the one-year period, but funds must also have delivered strong three-year returns after adjusting for risk within the awards peer groups in order to obtain an award.

Eligible Universe

Awards will be determined for each individual national fund market.

Only funds that are recorded in the Morningstar database as available for sale in a given market will be eligible to receive an award in that market.

For the Morningstar Category Awards only: In order to ensure Morningstar analysts can carry out effective qualitative checks for potential winners, the selection range of the Morningstar (China) Annual Fund Awards is confined to Chinese domestic open-end funds which have at least one-year return and are set up with the approval of CSRC. The minimum number of funds required within the same category to offer an award is 5.

There are 5 award categories at present, including Aggressive Allocation Fund, Hybrid Fund, Aggressive Bond Fund, Normal Bond Fund and Pure Bond Fund. Each category has one award winner. Factors such as return, risk, fee level, and management team determine award winners.

Morningstar Category Awards Methodology

Categories Eligible for Awards

Mutual Funds:

- ▶ Aggressive Allocation Fund
- ▶ Hybrid Fund
- ▶ Aggressive Bond Fund
- ▶ Normal Bond Fund
- ▶ Pure Bond Fund

Awards Selection Procedure

Phase 1: Determine the shortlist, primarily through quantitative screening;

Phase 2: Carry out qualitative analysis and grade funds on the list. We supplement the evaluation by conducting questionnaires aimed at verifying the description provided in product prospectus, and the information the fund management team disclose to investors in public statements;

Phase 3: Integrate the results of quantitative and qualitative analysis and decide the final award owners.

Awards Selection Method

Morningstar (China) comprehensively uses quantitative evaluation and qualitative analysis in the selection of the Annual Fund Awards.

Quantitative evaluation will investigate the following aspects, but not limited to: fund total annual returns ratio, risk, risk-adjusted returns; whether the management team has changed in current year; proportion of indexing investment; long-term performance; annual fee level, etc.

Qualitative analysis focuses on the factors like tenure of fund manager, stability of the fund management team, consistency between investment strategy (or investment procedure) and the prospectus, investor service, regulatory record, and so on.

Among them, quantitative evaluation adopts the following screening rules.

1. Ranking in the top 1/4 in total annual return for mutual funds except Bond Funds.
2. Higher Morningstar Risk Adjusted Returns (MRAR) compared with the similar funds. The constituting rule of this comprehensive index is as below:

Calculation Period	Weighted Percentage 1	Weighted Percentage 2	Weighted Percentage 3
1 Year	20%	40%	100%
2 Years	30%	60%	--
3 Years	50%	--	--

3. The fund manager's tenure should be at least one year till the end of evaluation year, that is to say the fund management team doesn't have any material changes in that year.

The stability of the fund management team has great influence on the fund's investment strategy and performance. Changing fund manager frequently is adverse to the stability of the

fund and investors' acquaintance with the manager. Therefore, this is an important consideration when Morningstar evaluates funds.

Morningstar has the following standards when defining the fund management team stability: If the fund has only one manager, then the manager should not be replaced in that year; if the fund has two or more managers, then at least one manager should be on the job for that year.

4. The proportion of Index Investment cannot be higher than 50%. This is because Morningstar Annual Fund Awards focus on the active investment capacity of fund managers.
5. Volatility (Standard Deviation) and Morningstar Risk Coefficient (Downside Risk) are considered.
6. Lower operation fee rate. Morningstar favours funds that charge a lower fee compared with the funds in the same category, given the material impact of fees on total return.

What needs to be clarified here is that, even though the quantitative indicators including current total annual returns ratio, risks, risk-adjusted returns, and the stability of manager's tenure play important roles in the awards selection, qualitative factors such as performance stability of the last three years, volatility and downside risk, fee rate, stability of the fund management team and regulatory history are also key factors to be considered.