



# Pension Fund Awards Methodology, Spain

Morningstar Methodology Paper  
January 2019

# Contents

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Statement of Purpose	3
Types of Award	4
Eligible Universe	4
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Morningstar Category Awards Methodology	5
<b>Categories Eligible for Awards</b>	5
<b>Scoring System</b>	6
<b>Qualitative Review</b>	7
<b>Awards Selection</b>	7
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Morningstar Fund House Awards	8
<b>Awards Categories</b>	8
<b>Eligible Funds</b>	8
<b>Scoring System</b>	8
<b>Qualitative Review</b>	9
<b>Awards Selection</b>	9

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2019

## Morningstar Pension Fund Awards Methodology, Spain

### **Statement of Purpose**

The objective of the quantitatively driven Morningstar International Fund Awards program is to recognise 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 program is distinct from the qualitative awards issued by Morningstar's research team.

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.

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. We believe this combination will ensure that the awards are given to funds which have earned strong one-year results, and have also shown they have the ability to earn strong long-term returns without undue risk.

## 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, only funds that have reported at least four complete portfolios to Morningstar between 1 September 2017 and 31 December 2018 are eligible for an award.

The following fund types are excluded from the universe: Insurance funds, closed-end funds. Currency-hedged share-classes of funds are also excluded unless they are in a category specifically for currency-hedged funds and share classes. All funds or share classes in unrated Morningstar categories are excluded from participating in the awards.

The smallest 10% of funds in each category are excluded from the awards based on the latest June end portfolio size expressed in EUR. In lieu of this measure, analysts may also exclude funds with less than EUR 5 million in assets at 31 December or the nearest date for which assets are available.

## Morningstar Category Awards Methodology

### Categories Eligible for Pension Fund Awards

#### Equity:

- ▶ Spain Equity PP
- ▶ Europe/Eurozone Equity PP (Europe Equity PP, Eurozone Equity PP)
- ▶ Global Equity PP

#### Fixed Income:

- ▶ Euro Bond (Diversified Bond PP)

#### Balanced:

- ▶ Euro Allocation (Aggressive Balanced PP, Cautious Balanced PP, Moderate Balanced PP)

## Scoring System

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

### Return Score = 80% of total score

One year: 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.

## Qualitative Review

Based on the above calculations, the 10 funds with the lowest scores in each Morningstar Awards Category will be reviewed by Morningstar's qualitative research analysts in that market.

The analysts will complete the following checks:

- ▶ If an analyst has reason to believe that a fund cannot continue to outperform, he will submit his concerns to the heads of Morningstar's European Research, and they can elect to remove the fund from consideration at their discretion.
- ▶ Any fund that is deemed to have deviated from its stated mandate will be removed from consideration.
- ▶ Any fund that has not outperformed its Morningstar category median in at least three of the past five calendar years will be removed from consideration unless Morningstar's qualitative analysts believe a fund has exceptional merit that the criteria fails to capture.
- ▶ Morningstar analysts can remove a fund from consideration if that fund has not beaten its representative Open-End funds Morningstar category average on a 5-yr Morningstar Risk-Adjusted Return basis.

## Award Selection

Upon the completion of this review, the fund with the **lowest** score in each eligible Morningstar Category or grouping thereof will receive the award for that Morningstar Category or Category grouping.