



Morningstar Category Averages

Morningstar Australasia
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What are Morningstar™ Category Averages?

Morningstar Category Averages are a simple average of the returns of all funds that belong to a particular peer group. These peer groups are very distinct groups of funds, and are defined based on their investment style and structure. More specifically, the following criteria determine the peer groups:

- | | |
|---------------|---|
| 1) Universe | e.g. Open Ended, Closed Ended, Separate Accounts |
| 2) Legal Type | e.g. Investment Trust, Superannuation, Pension & Annuities |
| 3) Category | e.g. Equity World Large Value, Australian Bonds – Diversified |

Pension and Annuities have been combined and are not considered as two different legal types. As these funds have the same tax implications it makes sense to consider these fund together as opposed to separately.

Morningstar has retired the retail and wholesale peer group we no longer differentiate wholesale and retail anymore.

The Morningstar Category Averages for each month are calculated twice only. The averages are calculated at the time of performance release, which is usually on the sixth working day of each month, and on the last day of the following month.

Calculation Methodology

Morningstar Category Averages are useful as they can be used as a benchmark to compare how a fund has performed against other funds with similar investment strategies. Each category average return requires only a minimum of one fund per peer group in order for a return to be calculated. The category average also begins at the first available one month return in the peer group. The category averages are on a survivorship free basis.

Standard deviations and a Sharpe index are also calculated for the Morningstar Category Averages by using its total value index series. (For further details on Standard Deviation and Sharpe Ratio, refer to the Risk Calculation Methodology Paper). The average statistics can then be used as a benchmark for comparison with individual funds in the particular peer group.

In order to ensure transparency and consistency, the methodology for the Morningstar Category Averages calculation has been kept very straightforward. It is based on a simple (or arithmetic) average. Looking at one peer group for a particular month end, in order to determine the one month index return (R), we add up the one-month returns for all funds (r_1 to r_n) within that peer group, and divide by the total number of funds (n). This return is then used to generate a one-month trailing return series for the index, from which returns for other periods can be calculated. Returns for periods greater than one year are annualised.

$$R = \frac{\sum_{i=1}^n r}{n}$$

As an example, if there are three Superannuation Funds that invest in Bonds – Australia, on the basis of the calculated one-month returns of these funds as at 31 May 2011, the following index return is achieved:

Fund	One Month Return as at 30/05/2011 (%)
Super Bonds - Australia Fund 1	$r_1 = 2.35$
Super Bonds - Australia Fund 2	$r_2 = 1.49$
Super Bonds - Australia Fund 3	$r_3 = 1.95$
Morningstar Peer Group Super Bonds - Australia	$R = 1.93^*$

$$* R = (2.35 + 1.49 + 1.95) / 3$$

In order to generate the performance series over a number of months, we look at each previous month end category average return to generate a performance series

Date	One Month Return (%)
31/03/2011	1.89
30/04/2011	1.97
31/05/2011	1.93
3 Month return as at 31/05/2011	2.12

Morningstar Categories Listing

Australian Cash
Australian Short Term Fixed Interest
Bonds - Australia
Bonds - Global
Bonds - Global / Australia
Diversified Credit
Equity Asia Pacific w/o Japan
Equity Australia Large Blend
Equity Australia Large Geared
Equity Australia Large Growth
Equity Australia Large Value
Equity Australia Mid/Small Blend
Equity Australia Mid/Small Growth
Equity Australia Mid/Small Value
Equity Australia Other
Equity Australia Real Estate
Equity Emerging Markets
Equity Europe
Equity Global Real Estate
Equity Global Technology
Equity Japan
Equity North America
Equity World - Currency Hedged
Equity World / Australia
Equity World Large Blend
Equity World Large Growth
Equity World Large Value
Equity World Mid/Small
Equity World Other
Hedge Funds - Australia
Hedge Funds - Global
High Yield Credit
Infrastructure - Global
Miscellaneous
Mortgages
Mortgages Aggressive
Multisector Aggressive
Multisector Balanced
Multisector Conservative
Multisector Growth
Multisector Moderate
Multi-Strategy Income
Reserve Backed
Unlisted and Direct Property