
Global Investor Experience Methodology

Fees and Expenses

Morningstar Manager Research

30 March 2022

Contents

- 1 Six Survey Questions
- 1 Quantitative Measures
- 3 Market Summary Graphics

Important Disclosure

The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit: <http://global.morningstar.com/equitydisclosures>

Methodology

The grades in the Global Investor Experience Fees and Expenses study were based on responses to six questions in a fixed-response survey completed by in-house, market-expert analysts, plus other inputs determined quantitatively by leveraging Morningstar's comprehensive and extensive global database of managed products. The five grades are:

- ▶ Top
- ▶ Above Average
- ▶ Average
- ▶ Below Average
- ▶ Bottom

Six Survey Questions

- ▶ Are all sales loads and breakpoints fixed, or are loads negotiable?
- ▶ Are funds permitted to charge asymmetrical performance fees?
- ▶ Do fund documents disclose the relevant terms of the performance fee such that an investor can accurately estimate expenses?
- ▶ Is it common for investors to pay for advice outside of commissions and expenses?
- ▶ When purchasing funds without advice, are investors able to easily buy funds without loads?
- ▶ When purchasing funds without advice, are investors able to easily buy funds without trail commissions?

Quantitative Measures

- ▶ Asset-weighted median expense ratio — Allocation (Available for Sale)
- ▶ Asset-weighted median expense ratio — Allocation (Locally Domiciled Only)
- ▶ Asset-weighted median expense ratio — Equity (Available for Sale)
- ▶ Asset-weighted median expense ratio — Equity (Locally Domiciled Only)
- ▶ Asset-weighted median expense ratio — Fixed Income (Available for Sale)
- ▶ Asset-weighted median expense ratio — Fixed Income (Locally Domiciled Only)
- ▶ What percentage of funds report a front load (Available for Sale)?
- ▶ What percentage of funds report a front load (Locally Domiciled Only)?

The primary metric used in the quantitative scoring was the asset-weighted median expense ratio. The construction of this metric involved filtering the universe of available funds in each domicile to include only those share classes relevant to the purpose of this study of retail investor experiences.

We adjusted the assets used in the weightings for available-for-sale funds in each market to better reflect the propensity of domestic investors to invest in nonlocally domiciled share classes. These adjustments were made based on the local market knowledge of our analysts and supported by industry data (where available) and independent discussions with a panel of large, cross-border asset managers.

Expense ratio selection was based on the methodology developed for [Morningstar's Representative Cost data point](#).

The study considered open-end funds in the following broad asset classes: allocation, equity, and fixed income. Share classes were omitted from the study if they:

- ▶ Lacked a current expense ratio
- ▶ Were inactive (liquidated) at the time of the study
- ▶ Were identified as being unavailable to retail investors, often labelled 'institutional' in Morningstar's database
- ▶ Had a minimum initial investment amount above USD 100,000

The distinction of being an institutional investor has become less clear-cut in the United Kingdom and Netherlands, where embedded commissions are largely prohibited. Fund firms have taken different approaches to comply, with many launching 'clean' retail-facing share classes, and others opening their institutional ranges to retail investors. This change was honoured in our calculation, and an adjustment was estimated to reflect the proportion of retail investors to institutional investors in those classes in the UK and Netherlands.

Exchange-traded fund expense data was not included in asset-weighted median calculations, as it wasn't possible to accurately measure ETF ownership within each market for many domiciles represented in this study.

Once the appropriate share classes were selected, we sorted each asset class group by expense ratio and calculated a weight and cumulative weight using net assets converted to a common currency. Then, according to that cumulative weight, we determined the 50th percentile expense ratio. This was the asset-weighted median.

Market Summary Graphics

In the 2022 study, we include market summaries for each of the 26 markets graded. In the left column, we display:

- ▶ Fees and Expenses Grade—This is a grade for the market and results from consideration of the qualitative survey results as well as quantitative inputs.
- ▶ Asset-Weighted Medians—These inputs are significant to the overall grade and are therefore featured prominently. For closed fund markets, the asset-weighted medians for locally domiciled share classes and available-for-sale share classes are identical.
- ▶ Fees and Expenses Detail, GIE Market Rank—This is the absolute rank of the asset-weighted median for a particular asset class, compared against the other markets included in the study.
- ▶ Fees and Expenses Detail, Graphic—The graphic displays the range of retail fund expense ratios observed within the asset class for the market, eliminating outliers (weighted percentile below 5% or above 95%). The asset-weighted median is displayed as a vertical bar within the range.
- ▶ ETF Usage—The graphic indicates whether retail investor use of ETFs in the market is considered low, medium, or high by Morningstar's local experts and directors of global ETF research. The same information is reflected in Exhibit 5: Fees and Expenses—Market Characteristics.

For More Information

Grant Kennaway

Grant.Kennaway@morningstar.com



22 West Washington Street
Chicago, IL 60602 USA

©2022 Morningstar. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses, and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete, or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses, or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To license the research, call +1 312 696-6869.