Investment Analysis Scorecard: Methodology Snapshot

Factors of 12-Point Scoring Methodology

Quantitative Factors
83.3% of total

Style Related
16.7% of total

- 5-Year Consistency: 1 point if the style consistency is less than 29
- 5-Year R^2: 1 point if the R^2 is at least 80%

Return Based
33.3% of total

- 1-Year Return: 1 point if the investment outperformed the peer group median
- 3-Year Return: 1 point if the investment outperformed the peer group median
- 5-Year Return: 1 point if the investment outperformed the peer group median
- 5-Year Up Capture/Down Capture: 1 point if this ratio is greater than 1

Risk Based
33.3% of total

- 3-Year Information Ratio: 1 point if the ratio is greater than 0
- 5-Year Information Ratio: 1 point if the ratio is greater than 0
- 3-Year Beta: 1 point if the beta is between 0.75 and 1.15
- 5-Year Beta: 1 point if the beta is between 0.75 and 1.15

Qualitative Factors
16.7% of total

Expense Ratio:
8.4% of total

- Net Expense Ratio: 1 point if the ratio is less than or equal to the category average

Manager Tenure
8.4% of total

- Longest Tenured Manager: 1 point if the tenure of the longest tenured manager is greater than the category average

Investment Analysis Scorecard: Factor Details

Style-Related Factors *(16.7% of total score)*

- Style Consistency* < 29
  - When selecting an investment, you want to know that it has provided a relatively “true” exposure to the category in which it falls
  - A 5-year style consistency score of less than 29 implies that the divergence of an investment portfolio from its stated investment style or objective as measured by the consistency from the Morningstar category is minimal
- $R^2 \geq 80\%$
  - When selecting an investment, you want to know how correlated the investment’s returns are with its benchmark index
  - This value of R^2 implies that the investment’s return moves in the same direction as the index 80% or more of the time

** Please note: For target date funds, style drift is expected and therefore, not a useful statistic to evaluate. For these funds, instead of style drift, we use the 5-year Sharpe ratio. If the Sharpe ratio is greater than the category median, the investment receives a score of 1.*

Investment Analysis Scorecard: Factor Details

Return-Based Factors *(33.3% of total score)*

- 1-, 3-, and 5-year return > peer group median
  - When selecting an investment, you want to know that it has demonstrated an ability to outperform relative to its peers
  - A total return greater than the peer group median implies that the investment has outperformed more than half of other investments in its same category
  - The investment can potentially receive 1 point for each time period: 1-, 3-, and 5-years
- Up capture/Down capture > 1
  - When selecting an investment, you want to know that it "captures" more than 100% of market returns in up markets and helps "cushion" the loss in down markets by capturing less than 100% of the fall
  - A ratio of greater than 1 implies that the investment captures more when the market is up than when it is down

Investment Analysis Scorecard: Factor Details

Risk-Based Factors *(33.3% of total score)*

- 3- and 5-year Information Ratio > 0
  - When selecting an investment, you want to know how its returns compare to the index and to the amount of risk it took to generate those returns
  - An Information Ratio greater than 0 implies that the investment outperformed its benchmark index
- 0.75 < 3- and 5-year Beta < 1.15
  - When selecting an investment, you want to know how much risk the manager takes on relative to their benchmark index. You want managers to take some risk—as you need to take some risk to generate decent returns—but, not so much risk that it is egregious.
  - A Beta of 1 means that the manager is taking on the same level of risk as the benchmark index
  - A Beta between 0.75 and 1.15 implies that the manager is taking on risk that is between 75% and 115% of the benchmark index

Investment Analysis Scorecard: Factor Details

Qualitative Factors *(16.7% of total score)*

- Net expense ratio ≤ category average*
    - When selecting an investment, you want to know how much it costs as total fees reduce the total return captured by the investor
    - An expense ratio less than the category average implies that the fund charges no more than the average of all others that fall into the same category
- Longest manager tenure > category average
    - When selecting an investment, you want to know that the track record being reviewed is primarily one from the current management team
    - A tenure greater than the category average implies that the manager has been on the investment team for a relatively long period of time

**For Separate Accounts and Collective Investment Trusts (CITs), the "1st Management Fee/CAC (%) is used instead of Net Expense ratio due to their unique expense structure. These investments are scored against the Separate Account/CIT peer group, not the open end mutual fund peer group.*