Morningstar Medalist Ratings – Improving Ratings Stability

Dear Valued Fund Research Client,

Morningstar is pleased to inform you that we will be further enhancing our Morningstar Medalist Ratings on 30 April 2024.

We will be updating our rating threshold process, where we will move to a 12-month rolling process instead of the current monthly processing to improve month by month rating stability.

The Medalist Rating is a single, effective forward-looking rating that allows advisers, AFSLs, and investors to screen, sort, and rank a comprehensive rated universe of over 3000 Australian-domiciled funds to discover best-in-class managed investment products.

The Morningstar Medalist Rating has greatly expanded coverage to our market-leading fund ratings whilst maintaining our independent business model and leveraging our valuable global analyst capability alongside machine learning algorithm techniques.

Since its final round of implementation in November 2023, we have recognised feedback from our customers that some of the algorithmically generated ratings have been changing at a frequency higher than expected.

As a result, Morningstar has worked to consider and progress improvements that will provide further stability to our rating-setting process.

What is Changing?

Rating thresholds demarcate the expected net alpha we require to earn a given rating level. For actively managed funds, the top 15% of investments earning positive expected net alpha are rated Gold, the next 35% are rated Silver, and the bottom 50% of funds with positive expected net alpha are rated Bronze.

The top 70% of funds with zero or negative expected net alpha are rated Neutral, and the bottom 30% are rated Negative. (The criteria differ for passive funds, but the percentages are the same.)

This change will shift from taking discrete monthly percentages as the thresholds for the funds allotted Medalist Rating to using a rolling 12-month average, which is expected to enhance the stability of the rating thresholds and therefore the Ratings themselves.

At the time of the change, there is a potential for some funds to shift in their ratings, though we expect only a small number of categories to see a modest shift in ratings.

We will continue to explore additional methodological enhancements in our effort to further improve the Medalist Ratings' usability in your work assisting investors.

If you have any questions or feedback, please contact our support team.
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Kind regards,

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