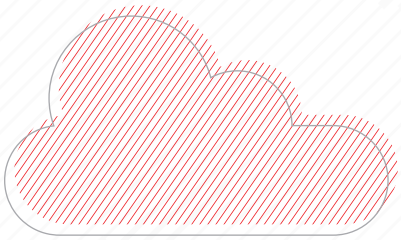
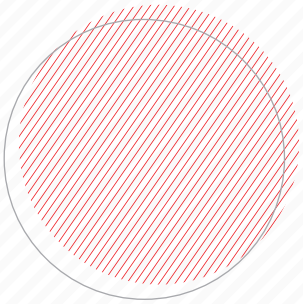
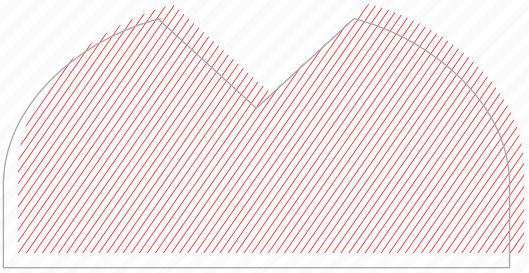
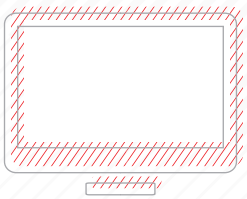
Investigating Strategies in the Web-Based Version of Morningstar Direct

Exercise Guide









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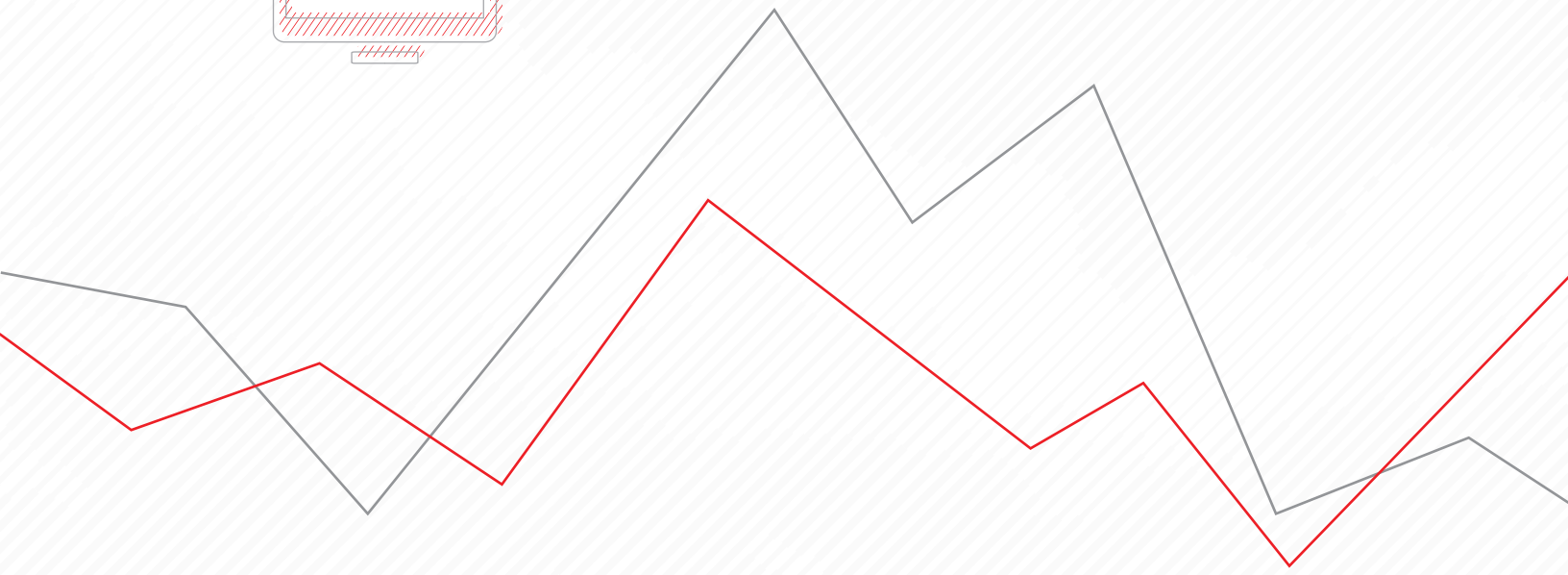

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Investigating Strategies in the Web-Based Version of Morningstar Direct℠

Overview

A strategy is a vehicle-agnostic approach to managing a pool of money by applying an imitable investment philosophy. A strategy depicts the intent of the manager(s), which can be executed through one or more different managed investment vehicles.

The strategy data within in the web-based version of Morningstar Direct℠ links together all managed investment vehicles applying the same investment decision-making process and portfolio construction approach. Note that strategies are not investment vehicles, but instead belong to their own investment universe.

Users have access to thousands of strategies in the web-based version of Morningstar Direct. The Strategy Analysis workbook offers data points, Morningstar research, and tools specific to analyzing strategies. This guide shows users how to find strategies and leverage the data and tools provided in the web-based version of Morningstar Direct to understand and analyze them.

The following topics are covered in this guide:

- Finding and Displaying Strategy Data in the Grid (page 5)
- Conducting a Detailed Analysis of a Strategy (page 13)

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Finding and Displaying Strategy Data in the Grid

Overview

How can users find strategies in the web-based edition of Morningstar Direct? What data points are available for strategies? This section covers the following topics:

- screening to find all strategies (page 5)
- saving and opening a list of strategies (page 7)
- opening a column set for strategies (page 9), and
- applying peer analytics to return data for strategies (page 11).

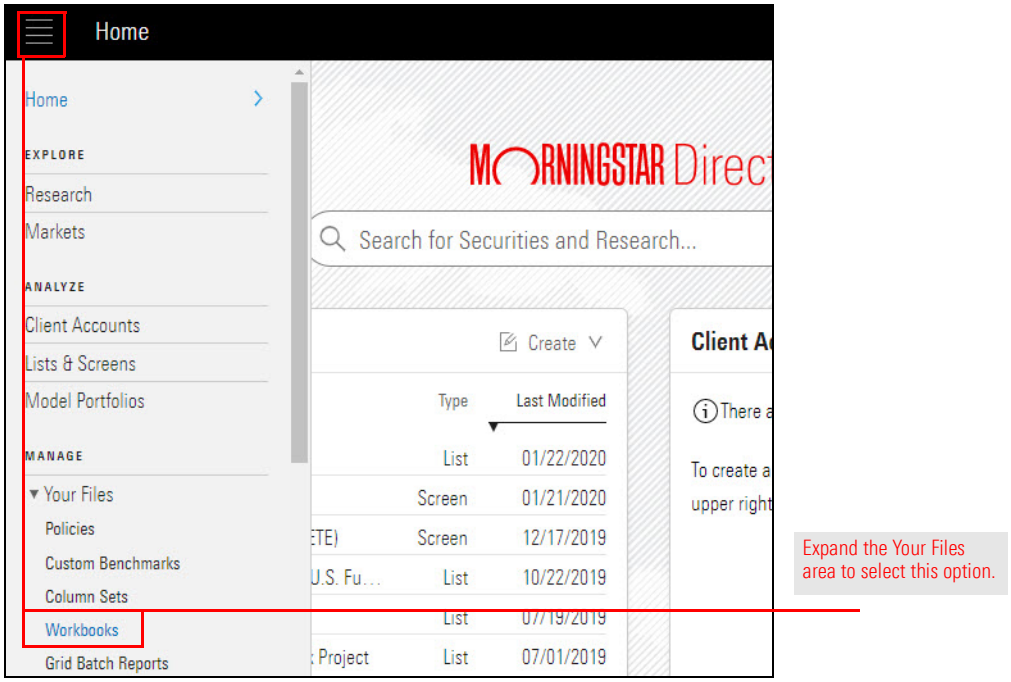
Exercise 1: Create a screen for all strategies

Strategies exist in their own universe, and have a unique workbook and column set available for their analysis. It will help to start by opening that workbook, then creating a screen for strategies. Note the following important points about creating a screen for strategies:

- when screening for strategies, no other data universes can be included, and
- the column set created specifically for strategies opens automatically in the Grid.

To screen for all strategies, do the following:

1. From the **Menu**, select **Your Files** > **Workbooks**.



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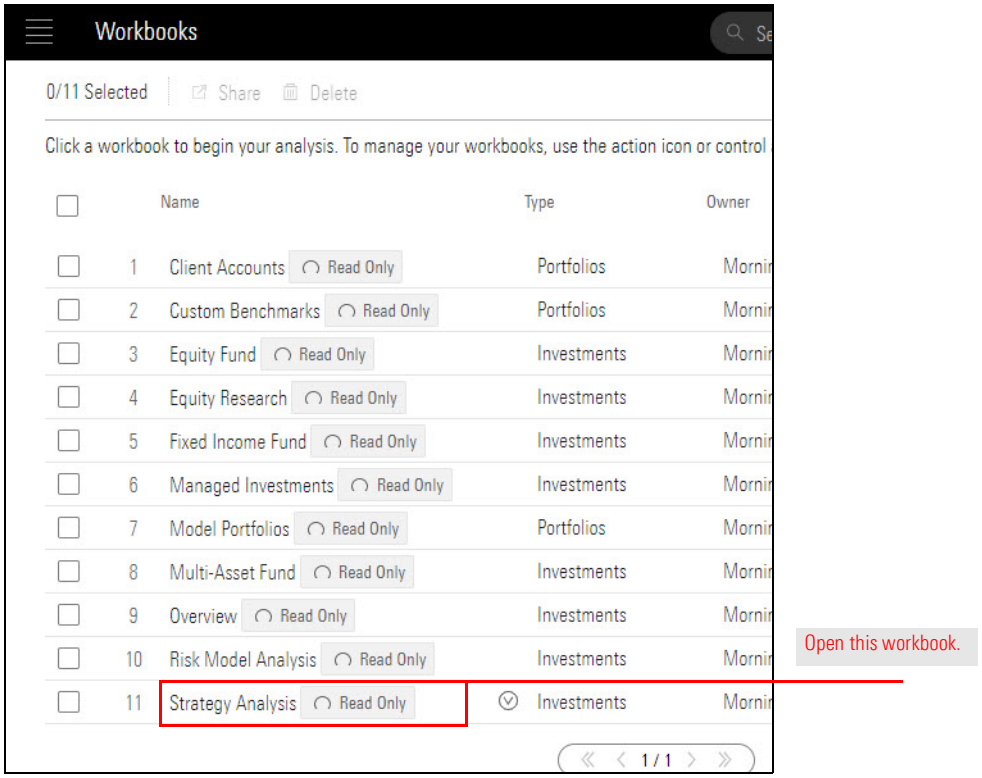
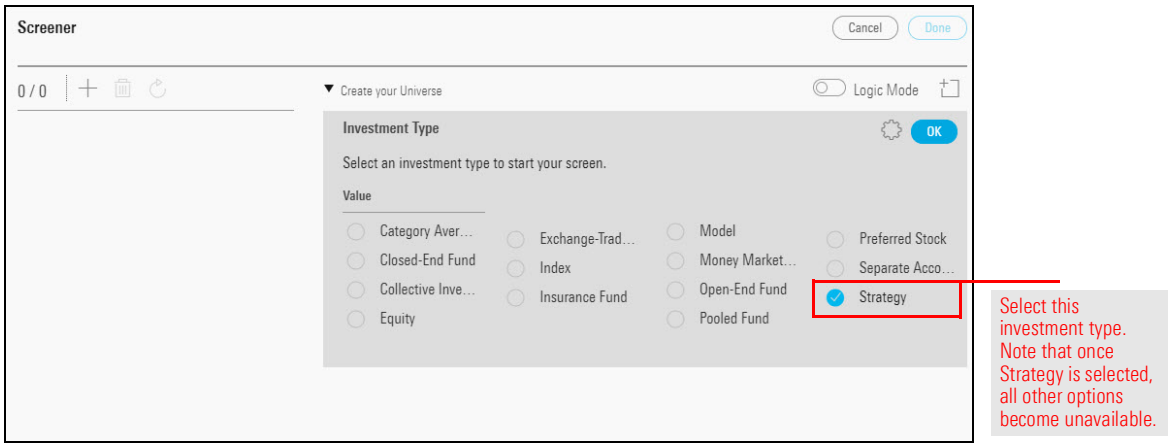
2. Select the **Strategy Analysis** workbook.



3. When prompted to select a list or screen to view in the workbook, click **New Screen**.
4. From the Investment Type area, select only the option for **Strategy**, then click **OK**.



5. Click **Done**. When screening for strategies, the Strategy Analysis column set displays by default in the Grid.

   ☞ Note: The performance data showing in the Strategy Analysis column set is for a strategy's representative vehicle, which is named under the Strategy Performance Source column. If the full name of the representative vehicle cannot be seen in the column (even after stretching it to its maximum width), simply **hover the cursor** over that cell to see its full name appear in a tooltip.

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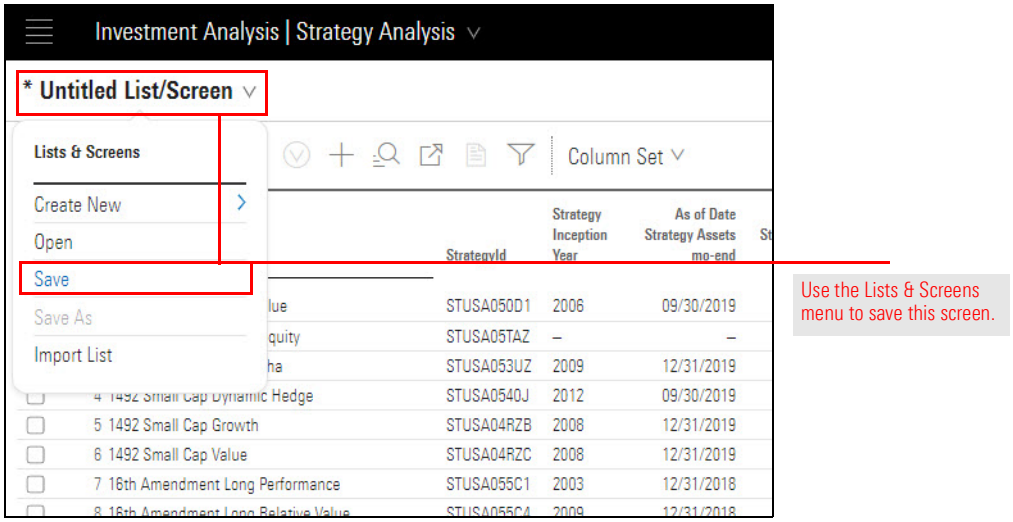
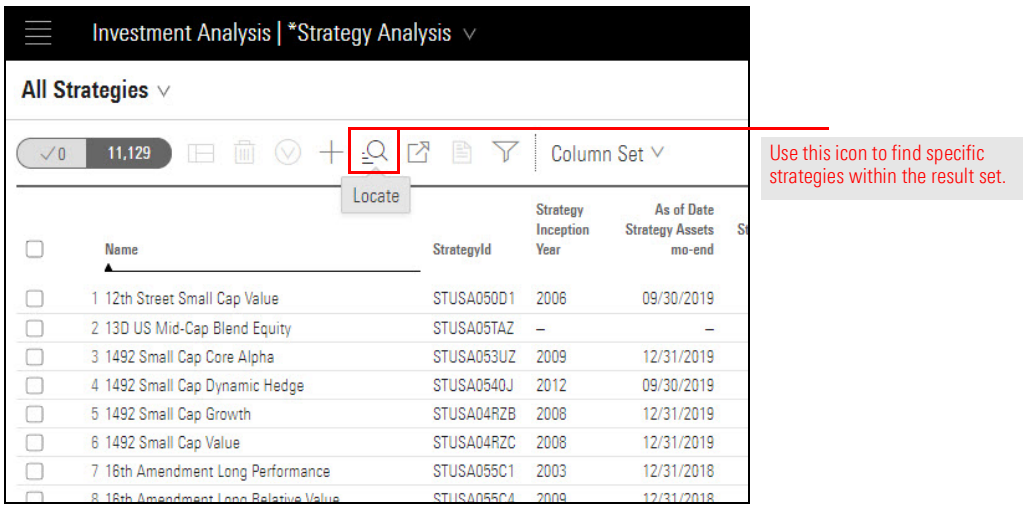
6. **Save** the screen with the name **All Strategies**.



Exercise 2: Locate and save a subset of strategies

Now that a screen for all strategies exists, it is easy to select specific items from the results to save to a list. In this exercise, certain small-cap value strategies will be selected and saved to a list for further analysis. Do the following:

1. The All Strategies screen should be open. Click the **Locate** icon.



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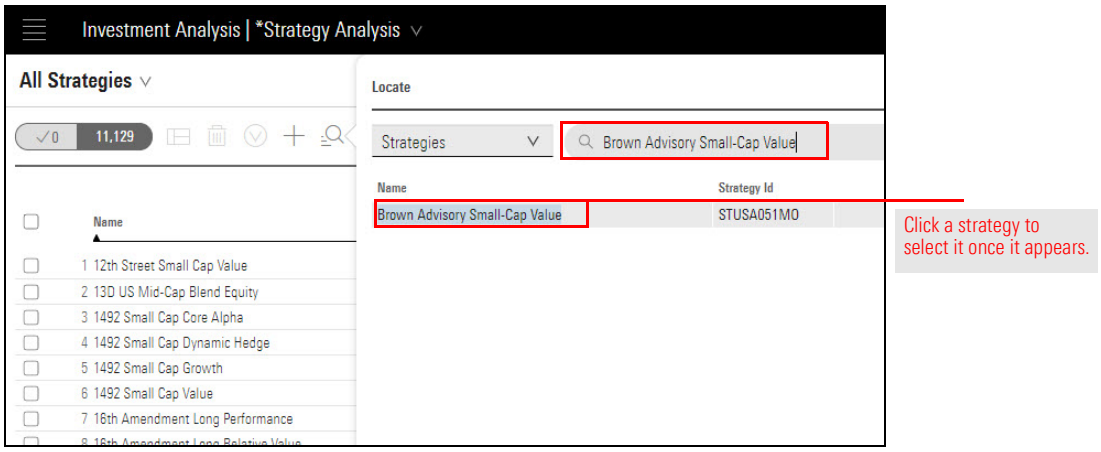
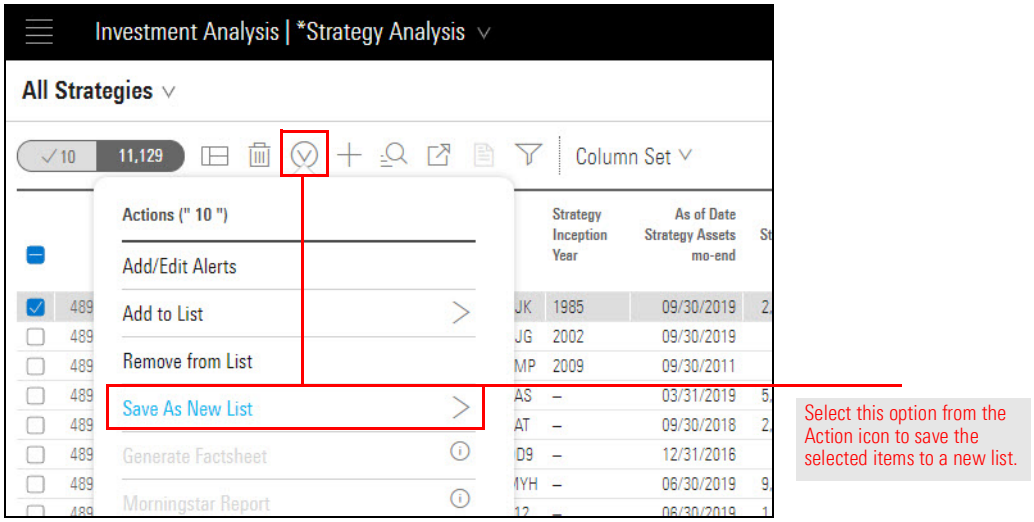
2. Enter the following **names**, one at a time. As each strategy is found, **click** to select it.

   ☞ Note: Unlike other investments, it is not possible to search for multiple strategies at once, either by name or Strategy ID.



   Locate and select the following strategies:
   - Brown Advisory Small-Cap Value
   - Frontier Small Cap Value
   - Fuller & Thaler Small-Cap Value
   - Hotchkis & Wiley - Sm-Cap Val
   - Goldman Sachs US Small Cap Value
   - Integrity Small Cap Value Equity
   - Perkins US Small Cap Value
   - Sycamore Small Cap Value Equity
   - Wasatch Small Cap Value, and
   - WFAM Special US Small Cap Value Eq.

3. **Click away** from the search pop-up to close it.
4. From the toolbar above the Grid, click **Action** > **Save to New List**.



5. Name the list **Small Cap Value Strategies**, then click **Done**.

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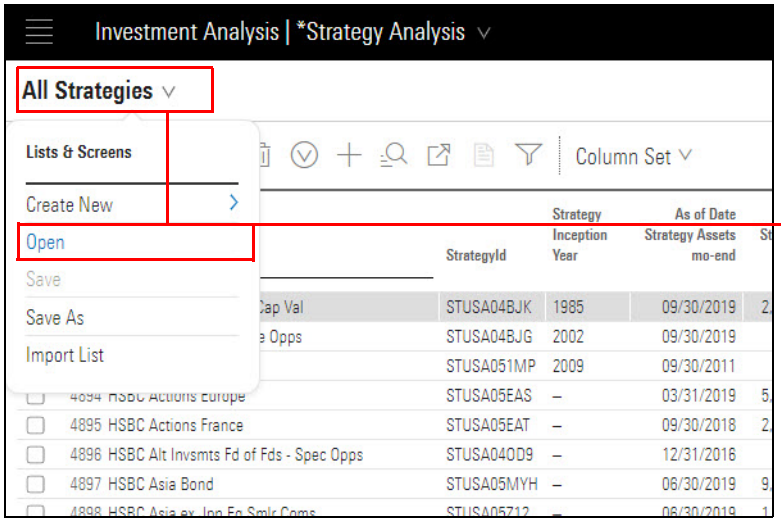
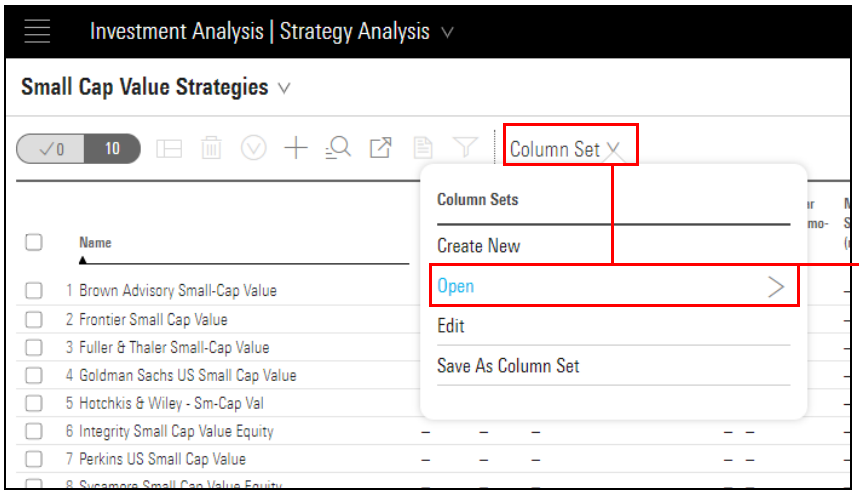
6. Use the **Lists & Screens menu** to **open** the **Small Cap Value Strategies** list.



Exercise 3: Open the Strategy Analysis column set

In the previous exercise, a list of strategies was saved, then opened. Even though the list was opened in the same Strategy Analysis workbook, note that the column set in the Grid has changed from what was seen when the screen was created. When opening a list of strategies, the Strategy Analysis column set must be manually opened. To open this column set, do the following:

1. From the **Column Set** menu, select **Open**.



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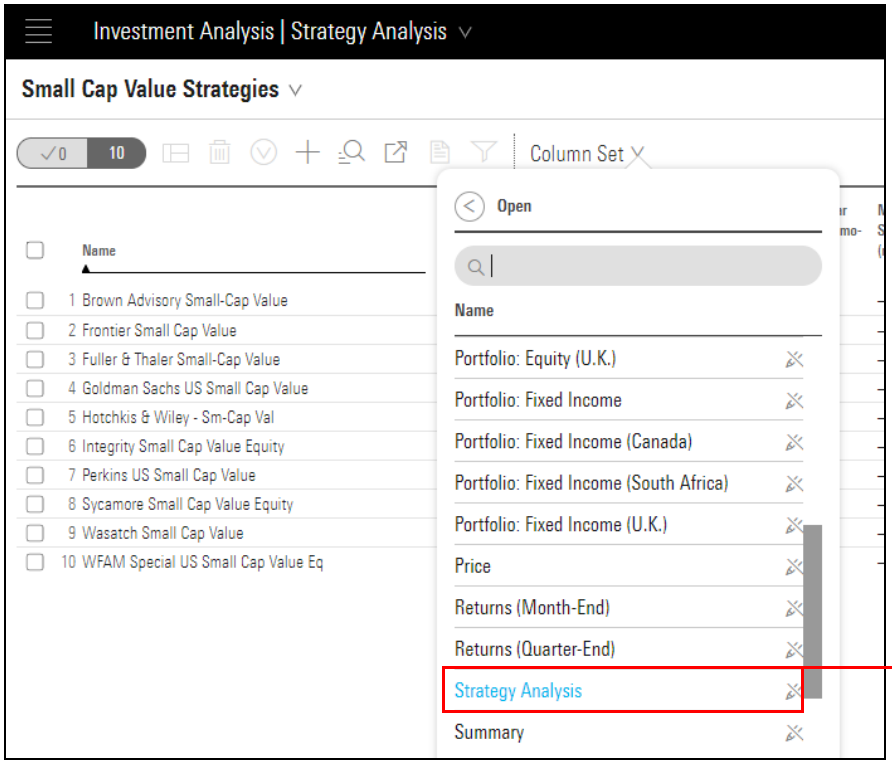
2. Scroll down to select the **Strategy Analysis** column set. The same data points seen when the screen for strategies was created are now available.

   ☞ Note: To ensure this column set is automatically associated with this list in the future, save the workbook with a unique name. Then, the first time this list is opened from either the Home page, or the Lists & Screens page (from the Menu), be sure to select that workbook.



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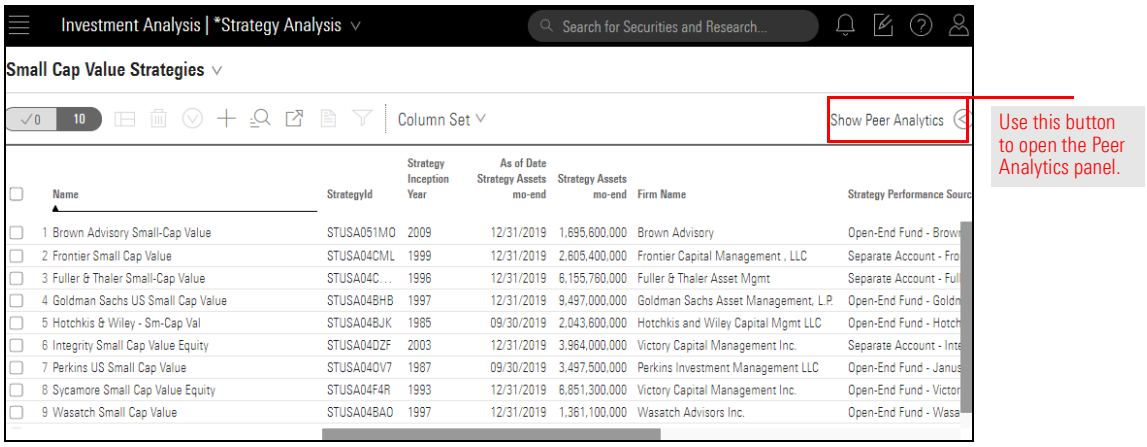
Exercise 4: Use Peer Analytics to highlight return data

To better visualize each strategy's returns over the range of time periods shown in the column set, the Conditional Formatting tool in the Peer Analytics window can be used.

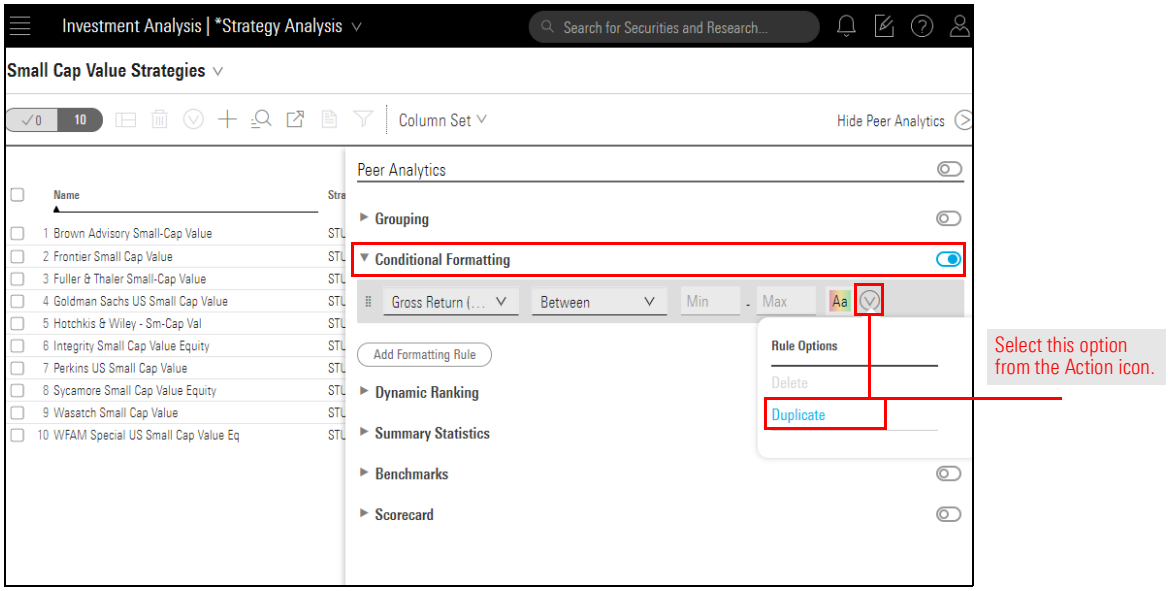
> ☞ Note: Users without the Mercer Add-on cannot use the Grouping or Dynamic Ranking functions within the Peer Analytics panel to arrange and compare strategies by Morningstar Category, but a custom data point could be used for this purpose.

Do the following:

1. The Small Cap Value Strategies list should be open. Click **Show Peer Analytics**. The Peer Analytics panel opens from the right.



2. Click the toggle for **Conditional Formatting**.
3. In the first drop-down field, select **Gross Return (1Y qtr-end)**.
4. From the **Action** icon to the right of the first row, select **Duplicate**. A copy of the first row is created.



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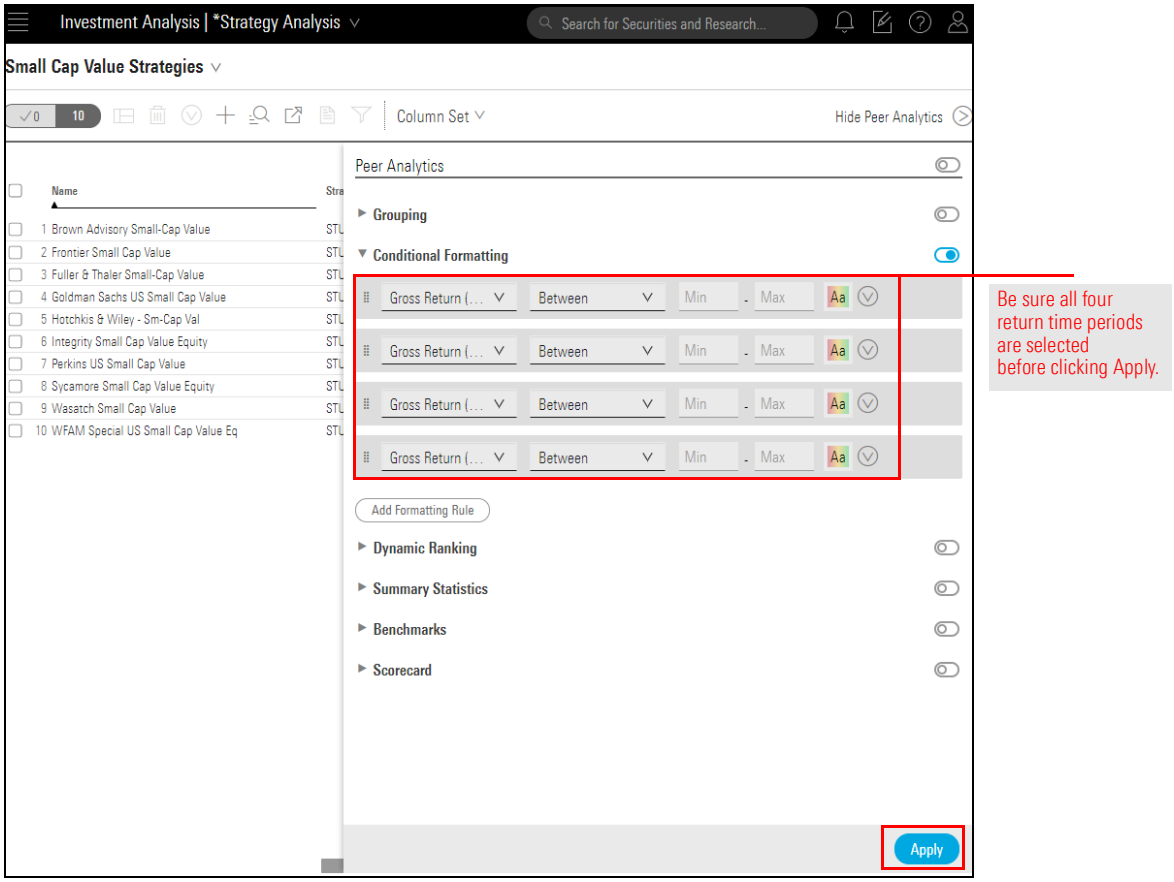
5. In the new row, select **Gross Return (3Y qtr-end)**.
6. Repeat step 4 to **duplicate** the second row.
7. In the new row, select **Gross Return (5Y qtr-end)**.
8. Repeat step 4 to **duplicate** the third row.
9. In the new row, select **Gross Return (10Y qtr-end)**.
10. Click **Apply**.



11. Click **Hide Peer Analytics** to close the Peer Analytics window. The color assigned to each cell in a column is chosen relative to the return values for the strategies in the list, and not to those in a category or peer group.

    ☞ Note: To retain these settings, save the workbook.

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Conducting a Detailed Analysis of a Strategy

Overview

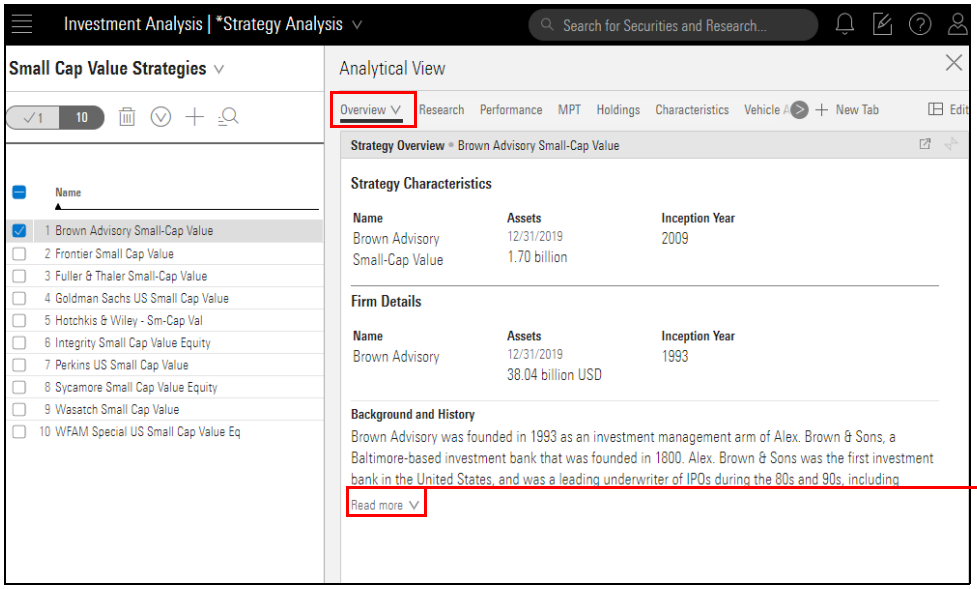
This section contains a number of exercises to help users analyze strategy data in the Analytical View of the Strategy Analysis workbook. The following exercises are covered:

- Read the background and history of a strategy and its firm (page 13)
- Review Morningstar research for a strategy (page 14)
- Compare the performance of multiple vehicles (page 16)
- Examine market cap characteristics for strategies (page 18)
- See the intersection of holdings among multiple strategies (page 19), and
- See what vehicles a strategy offers (page 21).

Exercise 5: Read the background and history of a strategy and its firm

The data shown on the Overview tab of the Analytical View can also be seen in the Grid, but reading it on the Overview tab can be easier given the layout of the Strategy Overview component. Do the following:

1. The Small Cap Value Strategies list should be open in the Strategy Analysis workbook. Click the **name** of the strategy in the first row. The Analytical View opens, and the Overview tab is selected by default.
2. Review the data in the component for both the strategy and the firm.
3. Under the Background and History section, click **Read more** to see the firms full description.



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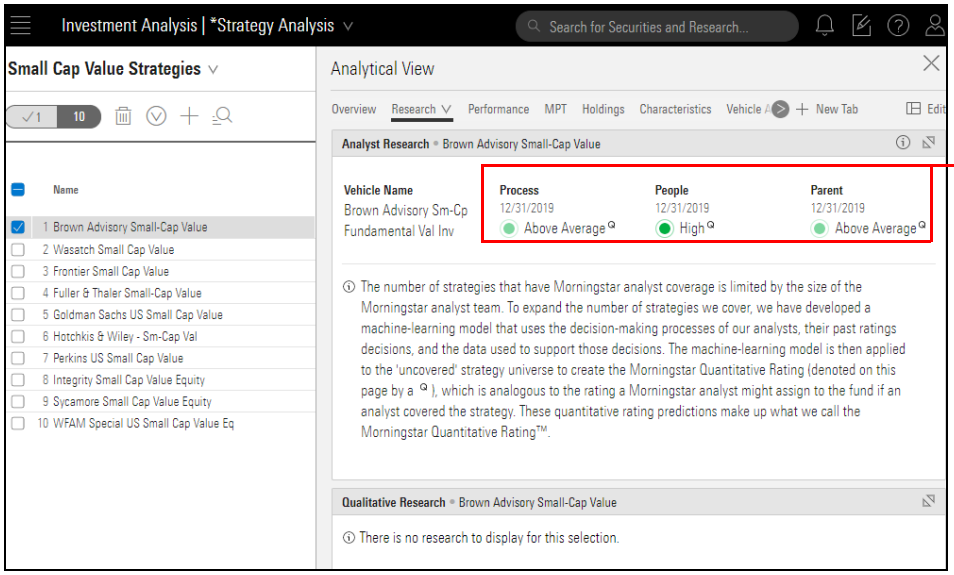
Exercise 6: Review Morningstar research for a strategy

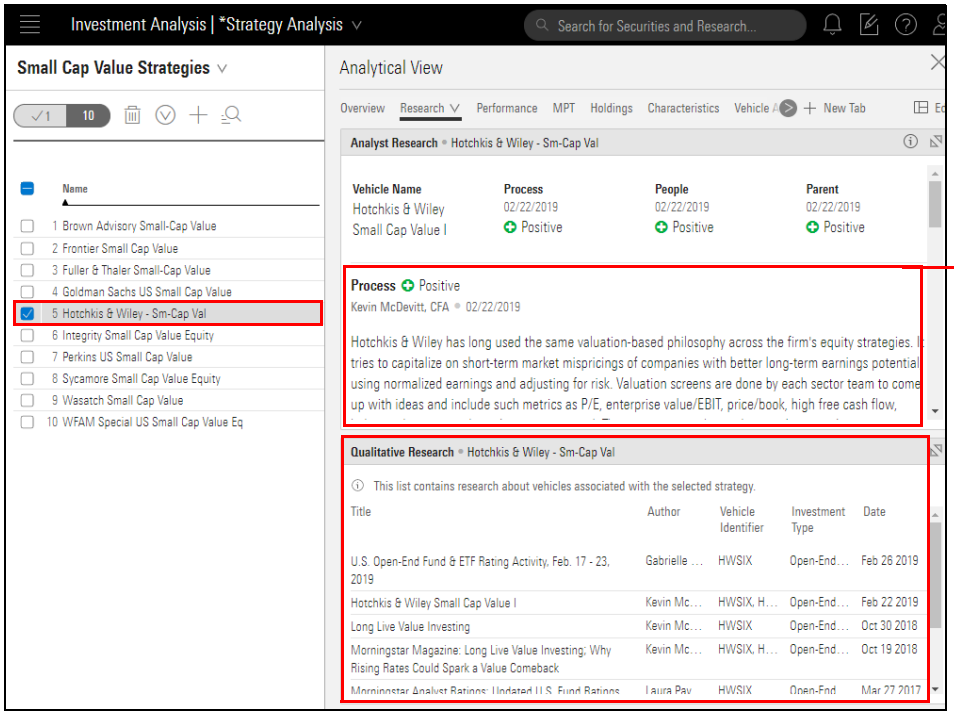
Not all strategies offer Morningstar research, and some that do offer a quantitative analysis rather than a qualitative analysis. To explore what Morningstar research is available for different strategies, do the following:

1. The strategy in the first row should be selected. Click the **Research** tab. Note that this strategy offer quantitative data, but no qualitative research.



The superscript Q here indicates that this is quantitative, and not qualitative data.

2. In the Grid panel to the left, click the **Hotchkis & Wiley - Sm-Cap Val** strategy.



Note the Morningstar Analyst write up here for the representative vehicle, and the additional reports available from the Qualitative Research component.

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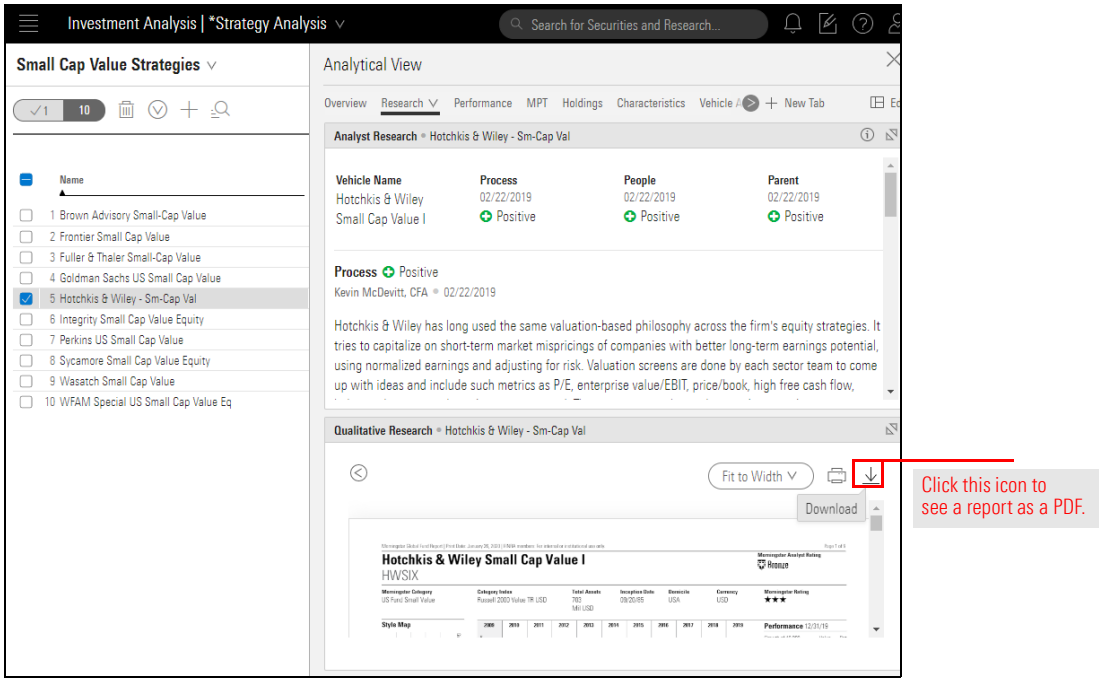
3. The Qualitative Research component contains any qualitative research related to the selected strategy or the firm that employs it. To read an item, click the report's **title**.



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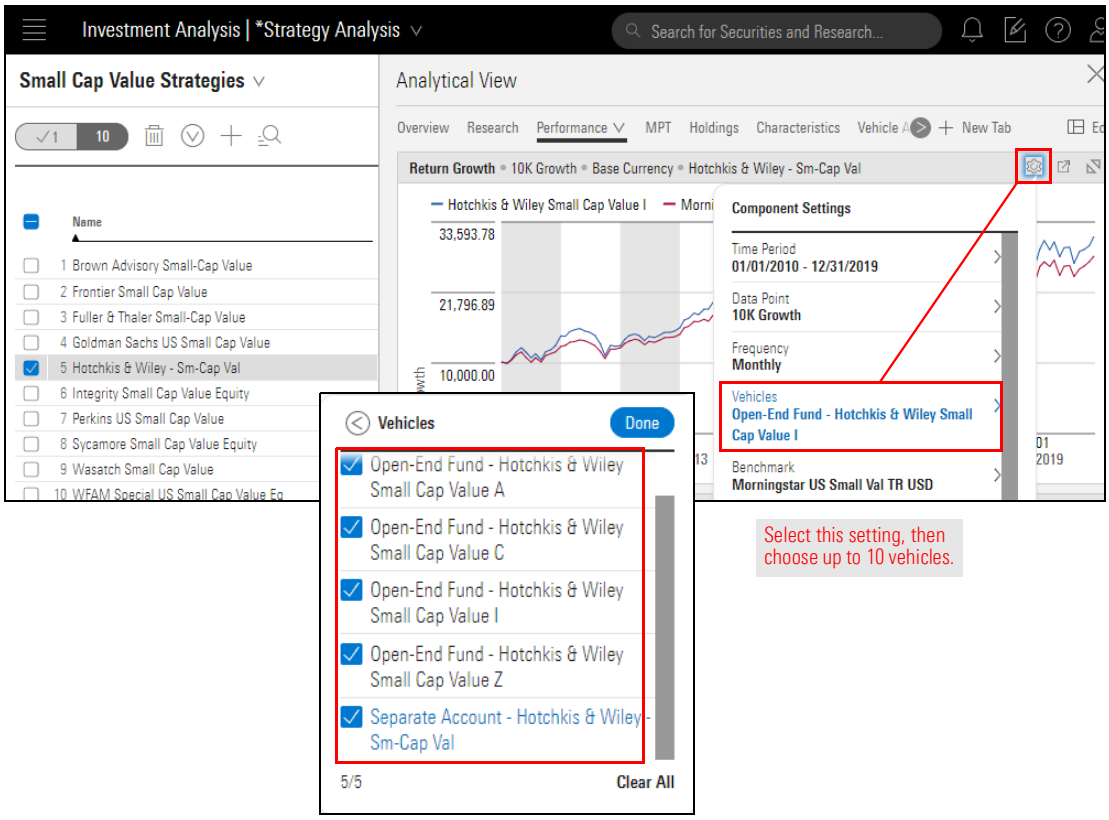
Exercise 7: Compare the performance of multiple vehicles

When visiting the Performance tab, note that the representative vehicle shows by default in both components. To see multiple vehicles for a strategy in the chart and table, do the following:

1. The Hotchkis & Wiley - Sm-Cap Val strategy should still be selected. Click the **Performance** tab.
2. In the Return Growth chart, click the **Component Settings** icon.
3. Select **Vehicles** > then check the box for **all available vehicles**.



4. Click **Done**.
5. Click away from the Component Settings menu to close it. Note that the time horizon updates to reflect the earliest common time period shared by all selected vehicles.

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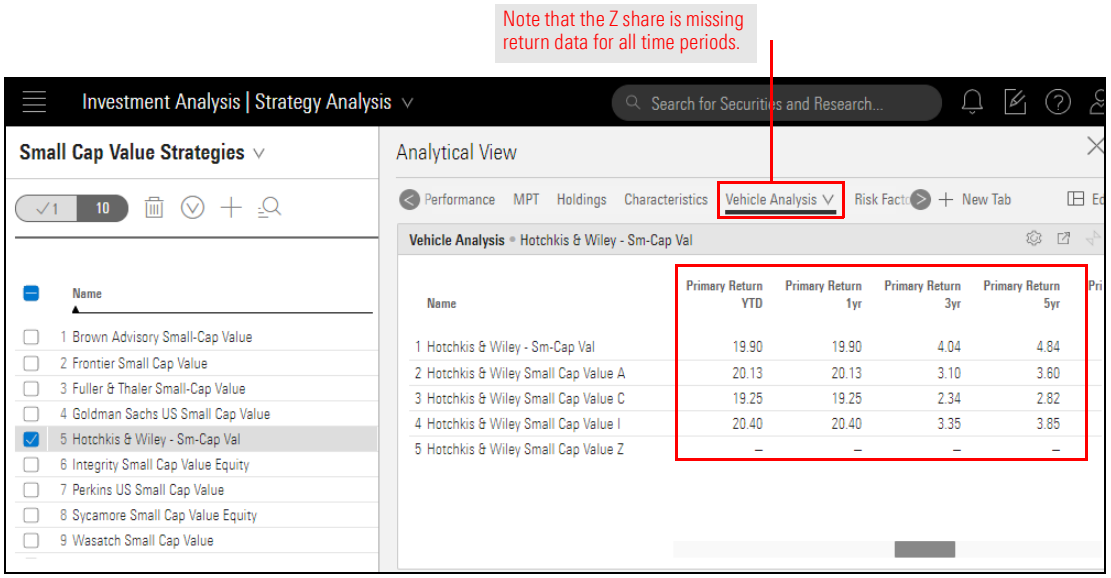
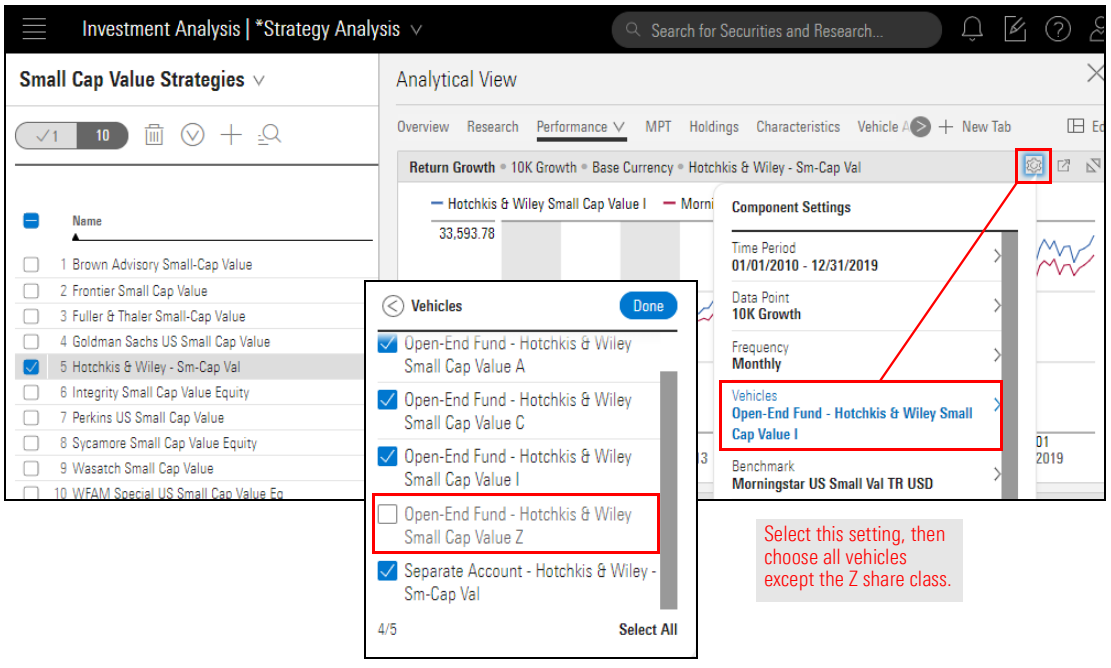
6. To see which vehicle has resulted in the truncated time horizon, click the **Vehicle Analysis** tab.
7. **Scroll right** to see which vehicle is missing return data for different time periods.



8. Click the **Performance** tab. Note that the chart has reset to showing only the original representative vehicle.
9. In the Return Growth chart, click the **Component Settings** icon.
10. Select **Vehicles** > then check the box for **all vehicles, except the Z share class**.



11. Click **Done**.
12. To see the same information in the Performance Analysis table, repeat steps 2-4 from the **Component Settings** menu there.

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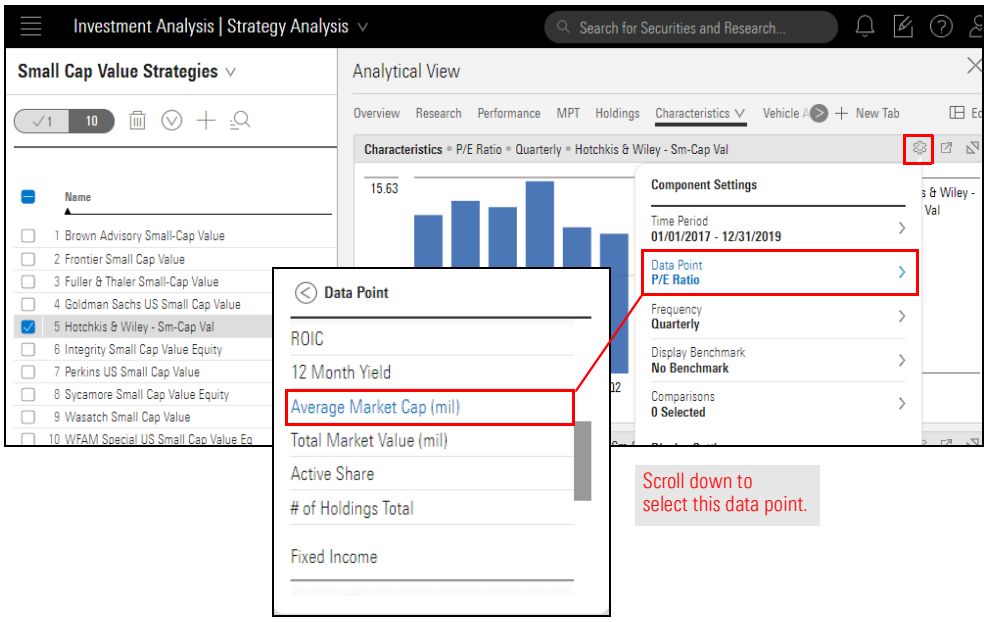
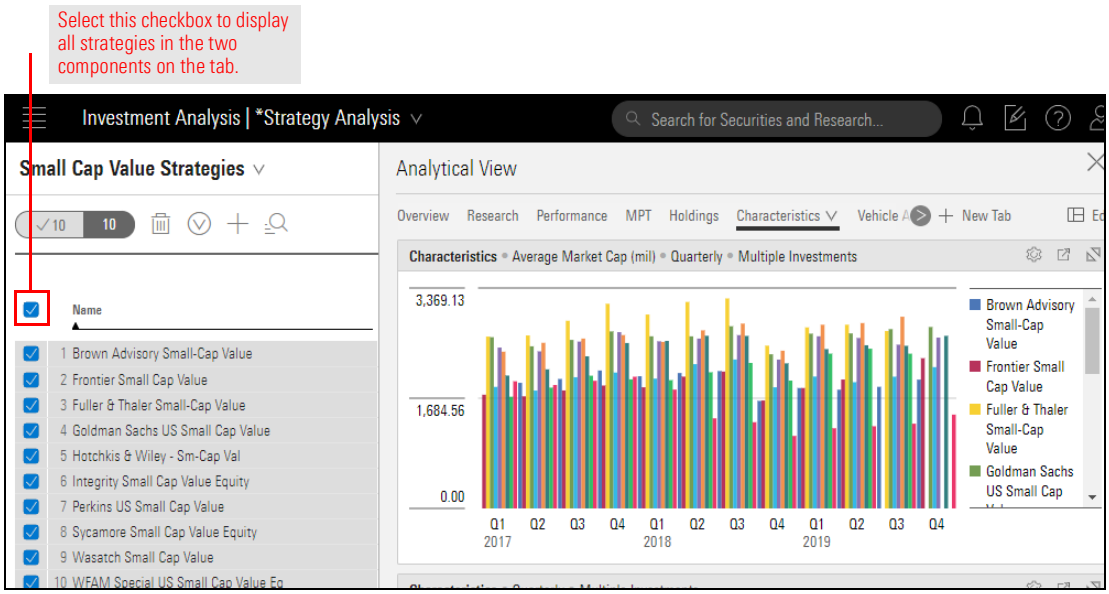
Exercise 8: Examine market cap characteristics for strategies

Which strategies tend to hold stocks with the smallest and largest market capitalizations? This question can be answered by comparing strategies in the list on the Characteristics tab. Do the following:

1. The Hotchkis & Wiley - Sm-Cap Val strategy should still be selected. Click the **Characteristics** tab.
2. In the component at the top of the tab, use the **Component Settings** icon to change the **Data Point** setting to **Average Market Cap (mil)**.



3. Click away from the Component Settings menu to close it.
4. In the Grid panel to the left, check the **Select All** box, then click it a second time to highlight all strategies in the list.



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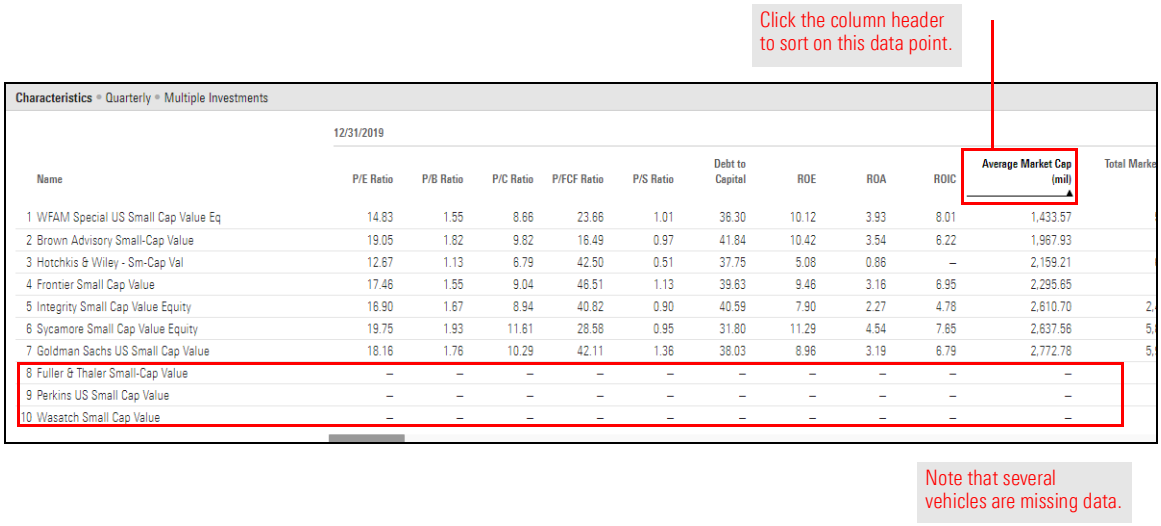
5. In the Characteristics component at the bottom, click the column header for **Average Market Cap (mil)** to sort on that column. Note that not all strategies have data available.

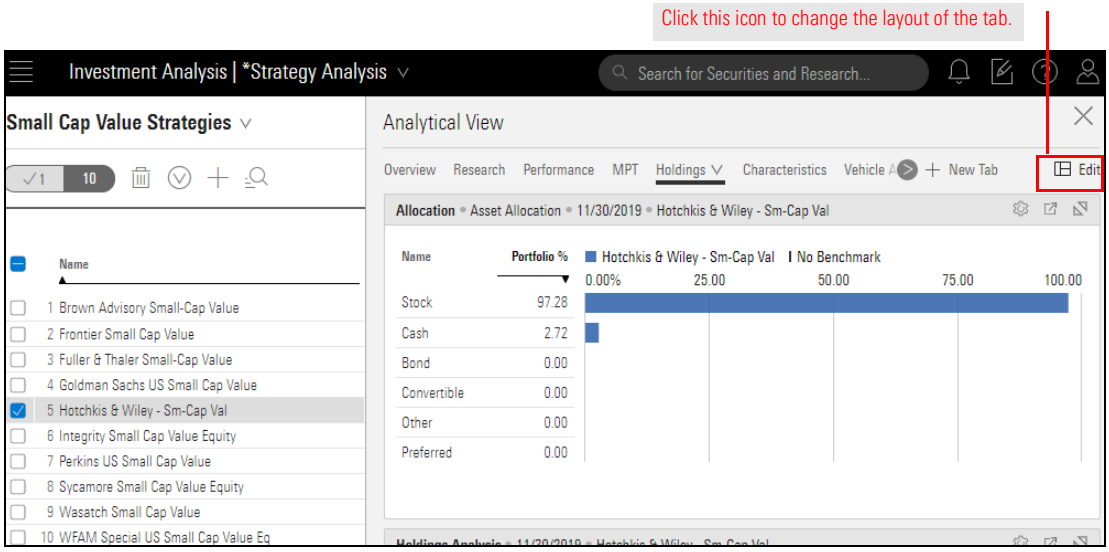


Exercise 9: See the intersection of holdings among multiple strategies

The Characteristics table showed which strategy has the smallest market capitalization among the strategies in the list. What holdings make it unique from the other Small Cap Value strategies here? The Holdings tab helps answer this question.

The Holdings tab contains the Allocation chart and the Holdings Analysis table. Adding a component allows users to see the holdings of multiple strategies at once. To see what makes the strategy with the smallest market capitalization unique, and what holdings several of these peer strategies hold in common, do the following:

1. In the Grid panel to the left, click the **Hotchkis & Wiley - Sm-Cap Val** strategy so only it is selected.
2. Click the **Holdings** tab.
3. In the upper-right corner, click **Edit**. The Edit panel opens.



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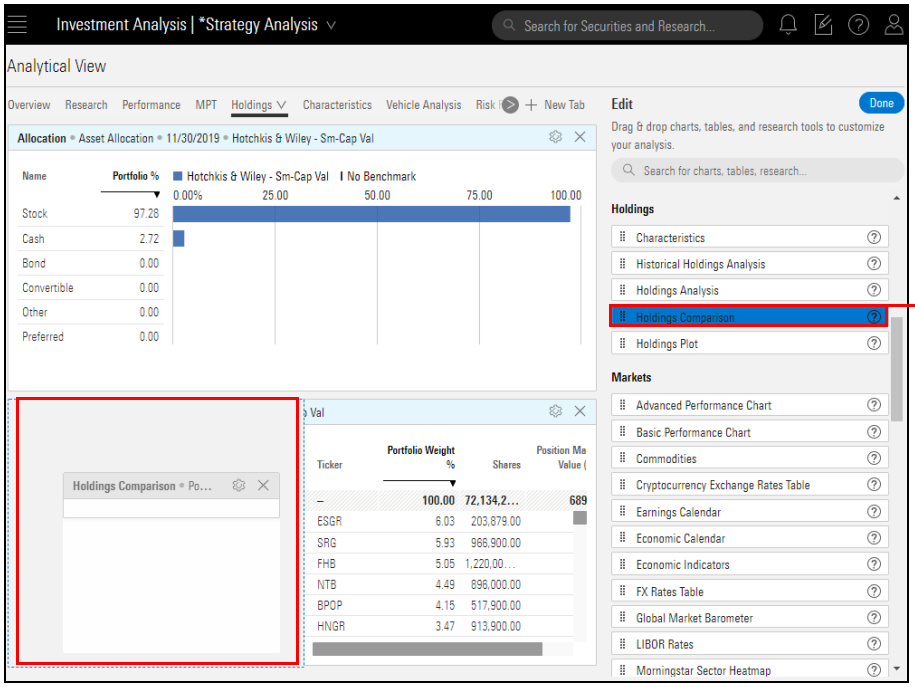
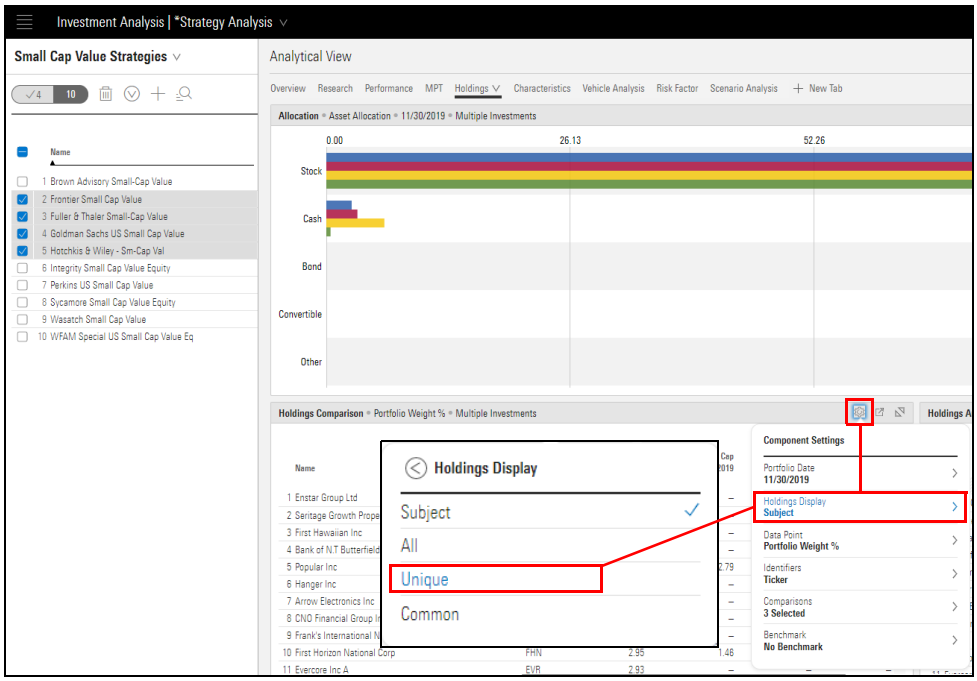
4. Under the Holdings section of the Edit panel, **click-and-drag** the **Holdings Comparison** component so it is to the left of the Holdings Analysis table.



Drag this component to the highlighted area.

5. Click **Done** to close the Edit panel.
6. In the Grid panel to the left, **check the box** to the left of three other strategies.
7. In the Holdings Comparison table, click the **Component Settings** icon and select **Holdings Display** > **Unique**.



Change the value of this setting to see what makes the originally selected strategy unique.

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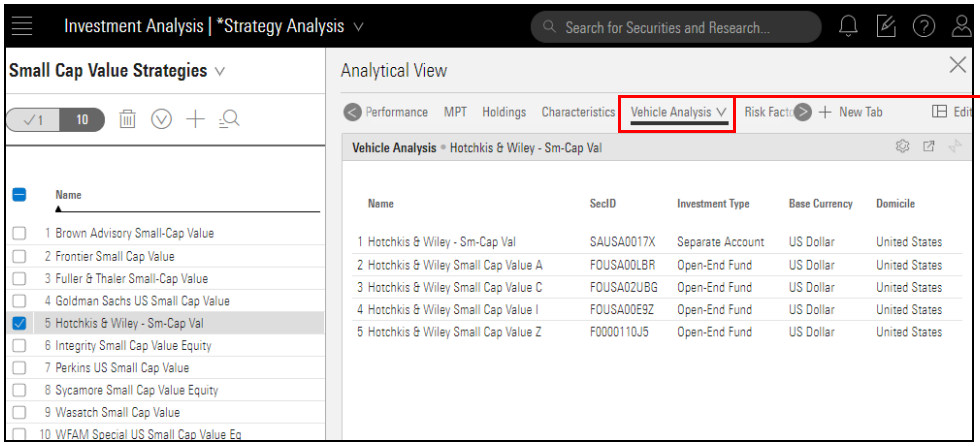
8. Click away from the Component Settings menu to close it. The holdings showing under the column for Hotchkis & Wiley - Sm-Cap Val are not owned by the other three strategies selected.
9. In the Holdings Comparison table, click the **Component Settings** icon and select **Holdings Display** > **All**.
10. Click away from the Component Settings menu to close it. The rows of holdings expand to show the holdings of all selected strategies.

☞ Note: To save the layout with this new component, be sure to save the workbook.

Exercise 10: See what vehicles a strategy offers

The Vehicle Analysis tab has just one component, a table showing the available vehicles for a strategy. These could be mutual funds, ETFs, separate accounts, variable annuities, and more. To analyze this data, do the following:

1. In the Grid panel to the left, click **Hotchkis & Wiley - Sm-Cap Val** so only it is selected.
2. Click the **Vehicle Analysis** tab.



3. **Scroll right** to take note of the following points and questions:
   - The SecID can help users perform additional analysis on the vehicles. Use the **Export** icon in the component header to open the data in this table in Microsoft® Excel®, then copy the SecIDs from there to create a new list in the web-based version of Morningstar Direct.

   ☞ Note: Some vehicle types, such as variable annuities, cannot be included in the list, as these investment types are not yet supported in the application.

   - How many different types of vehicles are available?
   - Which vehicles are closed to new investors?
   - Which vehicle(s) has the bulk of the strategy's assets?
   - How do the vehicles compare in terms of their Annual Report Next Expense Ratio?
   - How closely to the returns of the different vehicles follow one another?

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