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# Fee Level for Funds—Europe, Asia, and Africa.

## Methodology

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Morningstar Research  
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### Introduction

The Morningstar Fee Level for funds in Europe, Asia, and Africa was developed to help investors compare a fund share class' fees with those of other retail classes within its same category. The methodology applies to all funds in Morningstar's Europe, Asia, and Africa category system, including exchange-traded and closed-end funds.

### Grouping

Fund share classes are first grouped together by Morningstar category.

Note that, unlike the Morningstar Fee Level methodology for other markets, this methodology ranks ETFs, CEFs, and open-end funds in the same category against each other. CEFs are compared with open-end funds and ETFs in this methodology as they are substitutes for one another. In the United Kingdom, regulation will from 2013 require advisers to be agnostic as to product type and to evaluate the entire spectrum of ETFs, CEFs, and open-end funds when selecting an investment.

Some funds are excluded from this grouping and subsequent ranking process. These exclusion metrics are listed and explained below:

- ▶ Funds with "Virtual Class" <> "No". Virtual Share Classes are excluded because they are duplicate records of existing classes that spot-rate convert all values into a different base currency. Virtual Share Classes can have the same ISIN as the underlying class they are based on and do not receive rankings or star ratings.
- ▶ Funds where "Institutional" = "Yes". Institutional share classes are excluded to allow investors to compare non-Institutional share classes with each other more accurately. This is also relevant because the Morningstar Analyst Ratings in Europe are issued based primarily on an evaluation of each fund's most retail class.

- ▶ Funds that have a high enough minimum investment to be considered institutional. These minimums vary for different base currencies (below). Excluding share classes with a minimum investment over a particular threshold is a second measure to exclude classes whose primary audience is institutional from this methodology. Note that the exclusion on minimum investment does not apply to ETFs or CEFs. This is because ETFs and CEFs are generally available to retail investors in single-share lots in the secondary market.
  - ▶ For share classes with a base currency of EUR, CHF, GBP, USD, HKD, TWD, SGD, AUD, or NZD, we exclude share classes where the Minimum Investment > 50,000 in the fund's base currency.
  - ▶ For share classes with a base currency of SEK, NOK or DKK, we exclude share classes where the Minimum Investment > 500,000 in the fund's base currency.
  - ▶ For share classes with base currency of ZAR, we exclude share classes where the Minimum Investment > 1,000,000 in the fund's base currency.
  - ▶ For share classes with base currency of JPY, we exclude share classes with the Minimum Investment > 5,000,000 in the fund's base currency.
  - ▶ For share classes in all other base currencies, we exclude share classes where the Minimum Investment > 100,000 in the fund's base currency.
  - ▶ In cases where minimum investments are reported as a unit of shares instead of a monetary amount, we exclude share classes where the Minimum Investment > 1,000 shares.

### Ranking

Within each Morningstar Category, a fund share class' most recent ongoing charge plus performance fee, or if the fund does not calculate ongoing charges annual report net expense ratio, will be ranked against its peers, using five quintiles. The fee should be annualized. If it is not annualized, it should be discarded in favor of an older fee that is annualized. Each share class is assigned a quintile score (1 to 5) and corresponding Fee Grade/Label (High, Above Average, Average, Below Average, Low).

Morningstar uses the following formula to determine the percentile ranks of the share classes' fees. Percentile ranks range from 1 (best) to 100 (worst) with all intermediate values spread evenly over that range.

All observations are ranked in the desired order (ascending). Percentile ranks are assigned as follows:

$$\text{PctRank} = i \text{ for } i = 1$$

$$\text{FLOOR}[99*(i-1)/(n-1)+1] \quad \text{for } i > 1$$

Where:

n	=	Total number of observations
i	=	Absolute rank of each observation
Floor	=	A function that rounds down to the next integer (e.g., 89.83 rounds down to 89)

Morningstar does not require a minimum number of items in order to percentile rank a set of data. For example, if there are only three fund share classes in a distribution class for a comparison group, we will percentile rank those three (1, 50, 100).

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#### Exhibit 1 Percentile Ranks Are Then Mapped Into Quintiles

Range	Quintile	Word Label
0 < Percentile Rank <= 20	1	Low
20 < Percentile Rank <= 40	2	Below Average or +Avg
40 < Percentile Rank <= 60	3	Average or Avg
60 < Percentile Rank <= 80	4	Above Average or -Avg
80 < Percentile Rank <= 100	5	High

Source: Morningstar, Inc.