

Morningstar Global Equity Classification: New Sector Structure

▶ **October 2010**

How Our New Sector Data Can Benefit You

Easier Portfolio Building

- ▶ Simplified classification structure allows for intelligent diversification
 - ▶ Intuitive breakdown of investment universe aids allocation decisions
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Improved Portfolio Attribution

- ▶ Grouping of companies by market behavior facilitates peer comparisons
 - ▶ Focus on economic sensitivity in sector scheme better captures performance
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Global Scope Aligns with Portfolio Managers' View
















- ▶ Industries updated based on changing technologies and evolving markets, and reflect research from Morningstar's global teams
 - ▶ Market-based system follows a portfolio manager's logic to investing
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More Intuitive and Comparable to Industry Standards

- ▶ Sectors map easily to S&P GICS, Dow Jones' ICB, and Thomson Reuters Business Classification
- ▶ Standard methodology allows numerous cross-comparisons















Old Morningstar Sector Scheme

- ▶ Classification Basis: Production of Good or Service

Super Sector	Sector	Examples
Information 	 Software	Microsoft, Oracle
	 Hardware	IBM, Intel
	 Media	McGraw-Hill, Time Warner
	 Telecommunications	Google, Vodafone
Service 	 Health Care	Merck, Pfizer
	 Consumer Services	Best Buy, Wal-Mart
	 Business Services	Hertz, Orbitz
	 Financial Services	Allianz, Westfield Group
Manufacturing 	 Consumer Goods	Coca-Cola, General Motors
	 Industrial Materials	Alcoa, Boeing
	 Energy	BP, ExxonMobil
	 Utilities	Duke Energy, Exelon

New Morningstar Sector Scheme

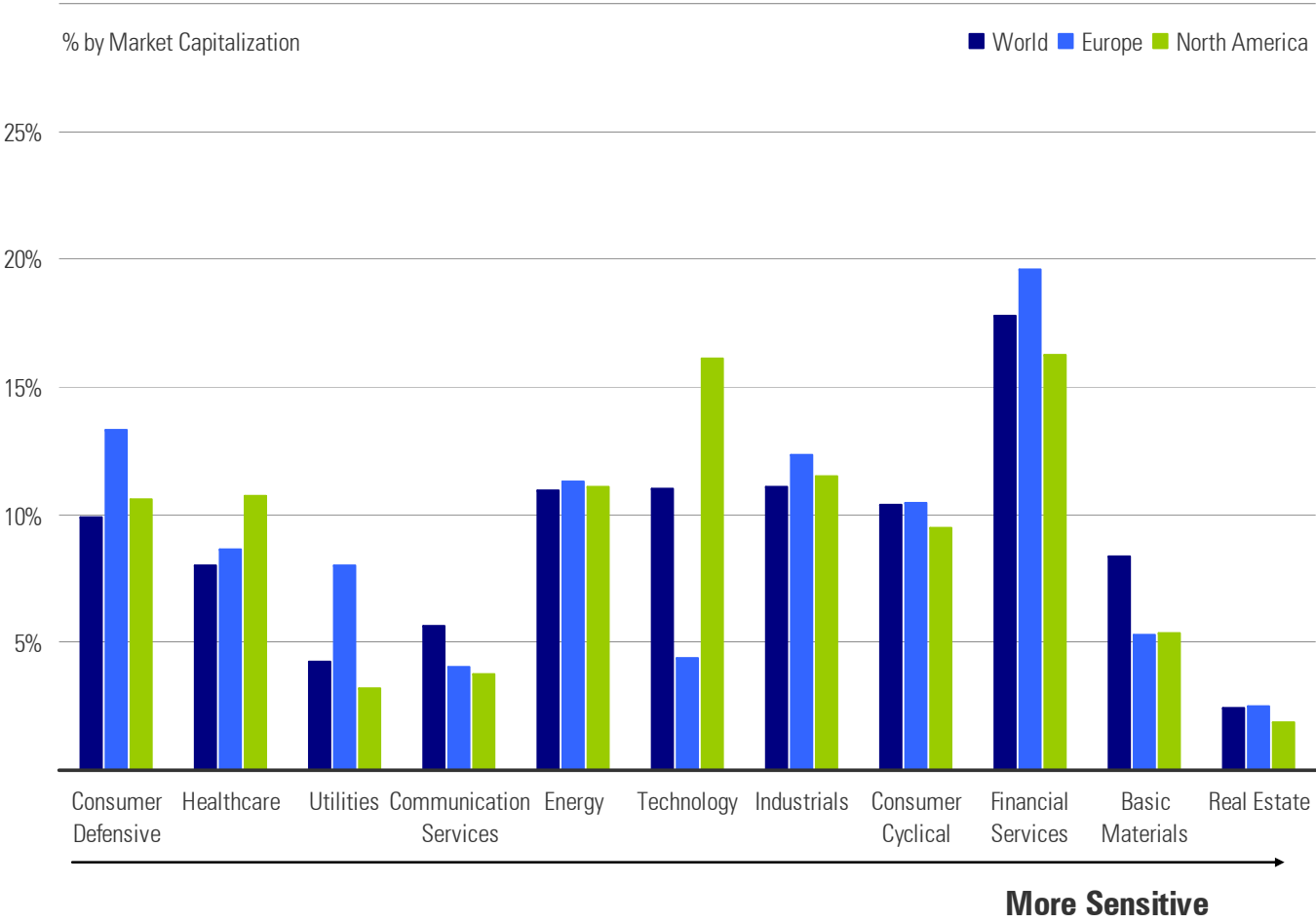
- ▶ Classification Basis: Economic Sensitivity

Super Sector	Sector	Examples
Cyclical 	 Basic Materials	Alcoa, Rio Tinto
	 Consumer Cyclical	Ford Motor Co., News Corp.
	 Financial Services	Allianz, Citigroup
	 Real Estate	Kimco Realty, Westfield Group
Sensitive 	 Communication Services	AT&T, Vodafone
	 Energy	BP, ExxonMobil
	 Industrials	3M, Boeing
	 Technology	Google, Microsoft
Defensive 	 Consumer Defensive	Coca-Cola, Wal-Mart
	 Healthcare	Merck, Pfizer
	 Utilities	Duke Energy, Exelon

New versus Old

- ▶ Classification basis shifted to economic sensitivity
 - ▶ Re-grouped companies based on similar market behavior
 - ▶ Added separate sector for Real Estate
 - ▶ Easier portfolio building & analysis
 - ▶ More comparable to industry standards
- ▶ Industries updated and globalized
 - ▶ Deleted obsolescent industries (e.g. Meat Products, Other Tobacco, Water Transport)
 - ▶ Created new industries to reflect changing technologies and capital market evolution (e.g. Solar Energy, Financial Exchanges)
 - ▶ Refined categories to capture global scope

Market Cap Distribution of New Sectors



High Correlation among Super Sector Constituents

Cyclical

	Basic Materials	Consumer Cyclical	Financial Services	Real Estate
Basic Materials	1			
Consumer Cyclical	0.795	1		
Financial Services	0.631	0.874	1	
Real Estate	0.698	0.907	0.863	1

Sensitive

	Communication Services	Energy	Industrials	Technology
Communication Services	1			
Energy	0.674	1		
Industrials	0.890	0.688	1	
Technology	0.877	0.697	0.872	1

Defensive

	Consumer Defensive	Healthcare	Utilities
Consumer Defensive	1		
Healthcare	0.816	1	
Utilities	0.620	0.680	1

- ▶ Strong correlation of sector returns within each Super Sector group, across U.S. (shown) and Global stock universes
- ▶ Correlation data confirms similar market behavior of Super Sector members

New Classification System versus Our Competitors'

- ▶ Market-based classification structure follows standard methodology
 - ▶ Morningstar sectors map easily to S&P GICS, Dow Jones' ICB, and Thomson Reuters Business Classification
 - ▶ Separate Real Estate sector is a differentiator
- ▶ Four-level hierarchy uses 11 Sectors and 148 Industries, versus 10 Sectors and 154 Sub-Industries for S&P, and 10 Economic Sectors and 124 Industries for Thomson Reuters
- ▶ Industry coverage spans 35,000+ global equities and is comparable to S&P universe
- ▶ Company classifications reviewed quarterly by dedicated team, with input from Morningstar Equity Analysts

Rollout Milestones

October 2010

**New Industries
Implemented**

March 2011

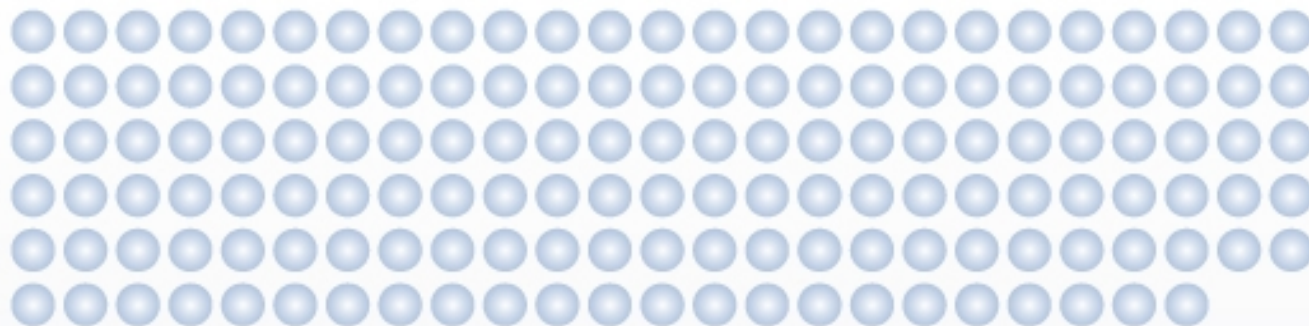
**New Sectors
Implemented**

Appendix

▶ Industry Change Details

Morningstar Industries

Declining from 213 to 148



- ▶ Consolidated over-lapping industries and removed obsolescent classifications
- ▶ Simplified number of Industry Groups to 68 from 91
- ▶ Re-divided commercial banks according to world region
- ▶ Updated utility classifications based on market regulation
- ▶ Introduced new industries for Solar Energy and Financial Exchanges