Morningstar Medalist Rating Update
Frequently Asked Questions

What is changing?

Morningstar is making updates to the Morningstar Medalist Rating methodology and its underlying pillars to simplify the rating structure, make the rating more transparent for investors, and enhance stability—empowering investors to more easily identify investments with the potential to outperform their Morningstar Category average.

Specifically, the following key enhancements will be applied to the Medalist Rating:

- **Taking a Category-Relative Approach**: Strategies will be evaluated against their Morningstar Category average rather than a benchmark, enabling investors to more easily identify Medalist options within a category and make meaningful peer comparisons.

- **New Quantitative Calculations**: We are moving to a new algorithmic pillar methodology which employs a simplified approach that will be easier for investors to understand. The algorithmic fundamental pillars (People, Process, Parent) will now include greater visibility into the underlying inputs — including new metrics like Fund Manager Successful Experience— so investors can better understand how a Medalist Rating is determined. There will continue to be a delineation between pillar ratings that come from an analyst or algorithm.

- **New Price Score**: A Morningstar Medalist Rating Price Score from –2.5 to 2.5 will explicitly reflect whether an investment's fee is a liability or competitive advantage, subtracting from or adding to the overall rating.

- **Assigning Medals with Fixed Rating Thresholds**: Medalist Ratings will be determined by a simple combination of fundamental pillar ratings and a Medalist Rating Price Score, increasing stability by eliminating a forced distribution of ratings that caused ratings to change based on updates to other strategies.

What is not changing?

The Medalist Rating will continue to be expressed as Gold, Silver, Bronze, Neutral or Negative, with three fundamental pillar inputs: People, Process and Parent. Morningstar analysts' qualitative evaluations of People, Process and Parent are unchanged. When analysts do not provide a qualitative analysis of one or more pillars, we'll use algorithmically generated fundamental pillar ratings (other than in Australia[1]), allowing Morningstar to rate more than 350,000 share classes globally.

[1] In Australia only, from March 31, 2026, Medalist Ratings based on any algorithmically generated fundamental pillars will be withdrawn. Fund costs will be accounted for in all analyst-assigned ratings in Australia (just as they are elsewhere) by the Medalist Rating Price Score.

Why change the methodology now?

We've received valuable feedback from investors indicating that they found the previous version of the Medalist Rating methodology too complicated and difficult to understand how a Medalist Rating was determined. We also heard feedback that the algorithmically generated pillars changed too frequently, and there were too few Medalist-Rated funds in some categories to support investors who only include Gold, Silver, or Bronze rated funds in their portfolios.

The changes to the methodology are primarily designed to address those concerns by making the process more transparent, straightforward, and stable, helping investors to understand the inputs and criteria used for each Medalist Rating. The updated methodology will provide a wider range of Medalists, giving investors more recommended funds to choose from when constructing a portfolio and facing practical constraints, like availability on investment platforms.

How will the shift to a simplified structure impact the consistency of fund ratings and investors' confidence in using these ratings over time?

The previous methodology's forced distribution of ratings caused fluctuation in fund ratings based on changing conditions at peer funds, which investors found frustrating. The updated methodology is more stable, meaning it encourages buying and holding strong investments and increases the likelihood of better long-term returns. The methodology's algorithmic pillars will be much easier to follow, and the associated report text will directly

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explain the algorithm's inputs and output. Investors are more likely to put merit in a methodology that they understand well and therefore may use it efficaciously in their portfolios.

Why did you move from benchmarks to category averages?
Morningstar regularly calculates and publishes category-average returns, measuring the typical experience of a fund investor in each category. Morningstar datapoints such as Quartile Rank and Percentile Rank make it easier to determine a fund's success relative to its category.

By contrast, comparing a fund's return to its category benchmark can be more challenging. Morningstar has fewer datapoints that compare the fund's return with the category benchmark relative to the category average. Additionally, the benchmark's holdings and allocations may not represent the typical fundholders' experience especially among asset-allocation funds, which makes comparison with the benchmark less meaningful.

What is the new Medalist Price Score (MPS) and how is it calculated?
The MPS is a continuous score running from negative 2.5 (most expensive) to positive 2.5 (cheapest) based on the percentile rank of a vehicle's expense ratio within its Morningstar Category. Because it progresses in decimalized increments, the score can appropriately reflect even fine distinctions in fees and also avoids the sharp changes between score levels associated with bucketing of fees into integer-value scores. MPS is assigned a 30% weight in the Medalist Rating for actively managed funds and a 40% weight in the Medalist Rating for passively managed funds.

When will the updated methodology take effect?
All Medalist ratings globally will be updated with the new criteria in April 2026.

How many Medalist Ratings does Morningstar issue globally?
As of November 2025, Morningstar assigns Medalist Ratings to more than 350,000 share classes globally, and about 175,000 of those ratings are issued to traditional mutual funds and ETF shares.

Are you changing the ratings scale?
There's no change to the scale of the Medalist Rating. It remains Gold, Silver, Bronze, Neutral or Negative.

What are the criteria for a fund to receive a Morningstar Medalist Rating?
Morningstar analysts determine which funds will be qualitatively covered based on inputs such as investor interest, assets under management, and the likelihood of earning a Gold, Silver, or Bronze rating. When analysts do not provide a qualitative analysis of one or more pillars, we'll use algorithmically generated fundamental pillar ratings (other than in Australia[2]). Morningstar produces algorithmically generated fundamental pillars for funds that have at least 12 months of performance, and meet other eligibility requirements, such as meeting data disclosure minimums and residing in a category where Medalist Ratings are issued. Morningstar, for example, does not issue Medalist Ratings to cryptocurrency funds.

[2] In Australia only, from March 31, 2026, Medalist Ratings based on any algorithmically generated fundamental pillars will be withdrawn. Fund costs will be accounted for in all analyst-assigned ratings in Australia (just as they are elsewhere) by the Medalist Rating Price Score.

Do you plan to make changes to other ratings such as the Morningstar Rating?
We have no plans to change other ratings, including the Morningstar Rating, which is often referred to as the "star rating."

Client Details

Where will the new Medalist Rating Price Score and input data for Morningstar Medalist Ratings be available?
Each rated share class's fundamental pillar ratings and Medalist Rating Price Score will be available within Morningstar research, including the Managed Investment Report. The input data for the algorithmically generated pillars will be available in the grid view of Morningstar Direct and other Morningstar software solutions.

How will clients access historical data?
All Medalist ratings globally will be updated with the new criteria in April 2026.

When will the updated methodology take effect?
Morningstar makes its ratings available in a time series in institutional software solutions, like Morningstar Direct, so investors may examine how Medalist Ratings have changed over months and years.

What actions will clients need to take for this update?
The updated Medalist Ratings will flow through automatically into the Morningstar products where they are currently available when they go live in April 2026.

If clients wish to incorporate net new datapoints that support the new methodology—including the Medalist Rating Price Score and the calculated data used to determine the algorithmically generated fundamental pillars—they'll need to update their processes or saved items to pull in and route the new data.

Will this change the timing and frequency of Rating reviews?
No. The Medalist Ratings with analyst-driven qualitative fundamental pillars will continue to be updated at least every 14 months, while the Medalist Ratings with 100% algorithmic fundamental pillars will be updated monthly.

<u>Impact Analysis</u>

How will the ratings distribution change in the new methodology?
As with any change to methodology, we perform modeling and back testing to review how ratings and efficacy may be affected. We modeled funds' existing fundamental pillar ratings in the updated methodology, and we found that the approach produced fewer Bronze, Neutral, and Negative ratings and more Gold and Silver ratings, compared to the existing methodology.

Medalist Rating Global Distribution: New vs Current Methodology
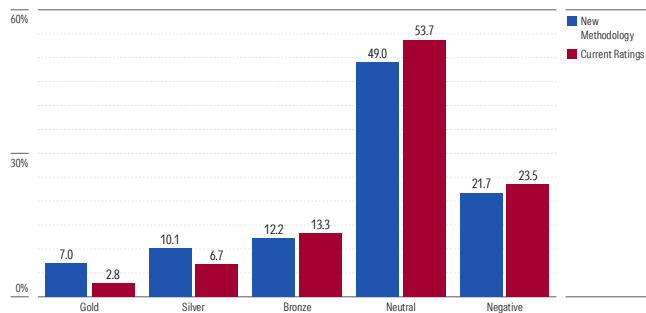
Source: Morningstar. Data as of 09/30/2025.

What is the expected performance of the new Medalist Rating?
We back tested the updated methodology to determine whether the ratings – if they had been issued in the past – would have been efficacious in predicting funds' future outperformance relative to the fund's category average return. The back test showed that (a) Gold-rated funds generally outperformed Silver-rated funds, Silver-rated funds generally outperformed Bronze-rated funds, and so forth; and (b) the funds that would have been rated as Gold, Silver, and Bronze under the updated methodology would have on average outperformed the category average overall across asset classes.

Cumulative Excess Return vs Category Average - New Methodology

Source: Morningstar. Data as of 08/31/2025.
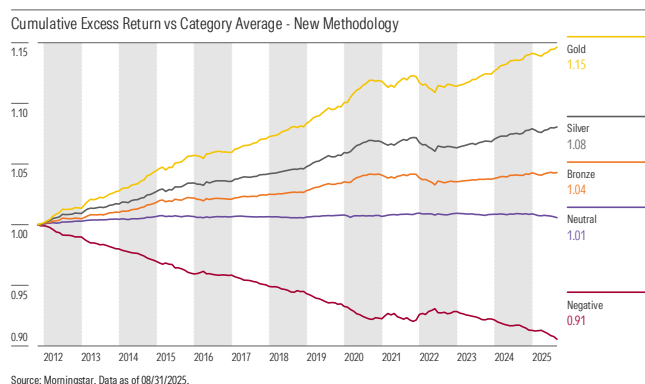
How will you measure efficacy going forward?
Going forward, we'll measure the ratings' results relative to the category average because it better reflects how funds in the category invest and allows for easier peer-based comparisons.