

Morningstar® Australia & New Zealand Target Allocation Index Family to Replace Australia & New Zealand Multi-Sector Market Index Series

Frequently Asked Questions

What is this change?

As of 29th October 2021, Morningstar will be replacing the Morningstar Category Benchmark for all Australian and New Zealand Multisector Fund Categories with the newly released Morningstar Target Allocation Index Family. As such, we will be retiring the legacy AU & NZ Multi-Sector Market Index series as of 31st December 2021.

Why is Morningstar Australasia retiring the Multi-Sector Market Index Series?

As Morningstar has grown its index business globally, we want to ensure that clients can access more of the collective insight of Morningstar; the new Target Allocation Index Family harnesses global methodology, with local considerations. Furthermore, the new index family is managed by our global index team which provides a robust maintenance, governance, and calculation process. To deliver one best in class multi-asset index family and methodology, we will be retiring the legacy Multi-Sector Market Index Series.

When will the Multi-Sector Market Index Series retire?

Retirement will take place as of 31st December 2021 and this index family will no longer be maintained.

How can I access the new Target Allocation Index Family data?

The Target Allocation Index data is currently being rolled out to Morningstar products. Below are expected timeframes for data being available in respective products. Please contact your customer support representative for more details on how to access the index family.

- Adviser Research Centre: October 2021
- Morningstar Direct: Available
- Data Feeds: Available

What is the Target Allocation Index Family?

The Morningstar® Australia and New Zealand Target Allocation Index family is a broadly diversified set of indexes designed to help investors with differing risk tolerance levels benchmark their multi-asset portfolios. The indexes are designed to maintain a fixed level of equity exposure and are aligned with the Morningstar Category classifications for funds. The underlying index weights are derived from eligible open-end funds in Morningstar's fund holdings data. The indexes serve as an unbiased tool for benchmarking and reporting on multi-asset portfolios and are offered across risk tolerances designed for local investors.

What are the key objectives of the Morningstar® Target Allocation Indexes?

- ▶ **Transparency:** The construction and maintenance of the indexes follow clear and well-defined rules.
- ▶ **Representativeness:** These indexes have simple construction rules that reflect the aggregate asset allocation decisions of the multi-asset fund managers in a certain Morningstar Category.
- ▶ **Aligned with Morningstar Categories:** The indexes closely align with the Morningstar Category system for funds.
- ▶ **Home bias:** The indexes are built to capture the home bias exhibited by the funds in a specific region to ensure better representation of a local investor's experience.
- ▶ **Investable:** Morningstar index security selections pass liquidity and pricing screens to ensure index accuracy and promote index replication.
- ▶ **Seamless asset-class representation:** Index building blocks from one source enhance attribution analysis by eliminating asset-class overlap

What are the major differences from the legacy Multi-Sector Market Index Series to the new Target Allocation Index Family?

The objective of the index families maintains the same—to offer a diversified mix of stocks and bonds created for local investors to benchmark their allocation funds and to make accurate comparisons between multi-sector funds. The risk profiles also remain the same (Conservative, Moderate, Balanced, Growth, and Aggressive). However, there are differences that the Target Allocation Family offers:

► **Equity Centred:** Each Morningstar Category in Australia and New Zealand considered in the index family has a defined range of allocation toward equity and property asset classes as listed below. The definitions of each Morningstar Category are made public and reviewed semi-annually.

Region	Morningstar Category Name	Equity and Property Allocation	Midpoint
Australia and New Zealand	Multisector Conservative	0%-20%	10%
	Multisector Moderate	21%-40%	30%
	Multisector Balanced	41%-60%	50%
	Multisector Growth	61%-80%	70%
	Multisector Aggressive	81%-100%	90%

► **Building Blocks:** Morningstar Indexes represent all asset classes and are the building blocks to the aggregate Target Allocation Index Family. Rulebooks for each of the indexes can be found on page 7 of the rulebook attached.

Region	Asset Class	Index Name
Australia	Australian Equity	Morningstar Australia GR AUD
	International Equity (Hedged)	Morningstar Global ex-Australia NR Hedged AUD
	International Equity (Unhedged)	Morningstar Global ex-Australia NR AUD
	Australian Property	Morningstar Australia REIT GR AUD
	International Property	Morningstar Global ex-Australia REIT NR Hedged AUD
	Domestic Fixed Income	Morningstar Australia Core Bond GR AUD
	International Fixed Income	Morningstar Global ex-Australia Core Bond GR Hedged AUD
	Cash	Morningstar Australia Cash GR AUD

► **Global Equity Hedging:** To better represent the asset-class risk, International Equity allocations in Australia are further split into hedged and unhedged portions.

► **Performance Inception Date:** Each region's respective performance start date is the following:

- Australia: 30th June 2000
- New Zealand: 30th June 2000

► **Reconstitution:** The indexes are reconstituted *annually* and implemented after the close of business on the last business day of June and effective the following business day. The data used to reconstitute the indexes is as of the last calendar day of April.

► **Rebalancing:** The indexes are rebalanced *monthly* and implemented after the close of business on the last business day of every month and effective the following business day.

► **Return Type:** The Target Allocation Index Family are reported using Net Return (NR) to reflect a more appropriate taxation scenario for local investors.

How do these changes effect differences in returns overtime?

The following correlation data tables highlight the strong return correlation between legacy index family and Target Allocation family.

Australian Indexes - Return Correlation

Correlation Matrix - Conservative

Time Period: 1/07/2000 to 31/08/2021

	1	2
1 Morningstar AUS Con Tgt Alloc NR AUD	1.00	
2 Morningstar Aus Msec Conservative TR AUD	0.92	1.00

Correlation Matrix - Moderate

Time Period: 1/07/2000 to 31/08/2021

	1	2
1 Morningstar AUS Mod Tgt Alloc NR AUD	1.00	
2 Morningstar Aus Msec Moderate TR AUD	0.98	1.00

Correlation Matrix - Balanced

Time Period: 1/07/2000 to 31/08/2021

	1	2
1 Morningstar AUS Balance Tgt Alloc NR AUD	1.00	
2 Morningstar Aus Msec Balanced TR AUD	0.98	1.00

Correlation Matrix - Growth

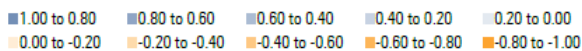
Time Period: 1/07/2000 to 31/08/2021

	1	2
1 Morningstar AUS Growth Tgt Alloc NR AUD	1.00	
2 Morningstar Aus Msec Growth TR AUD	0.98	1.00

Correlation Matrix - Aggressive

Time Period: 1/07/2000 to 31/08/2021

	1	2
1 Morningstar AUS Agg Tgt Alloc NR AUD	1.00	
2 Morningstar Aus Msec Aggressive TR AUD	0.98	1.00



New Zealand Indexes - Return Correlation

Correlation Matrix - Conservative

Time Period: 1/10/2007 to 31/08/2021

	1	2
1 Morningstar NZ Con Tgt Alloc NR NZD	1.00	
2 Morningstar NZ Msec Conservative TR NZD	0.99	1.00

Correlation Matrix - Moderate

Time Period: 1/10/2007 to 31/08/2021

	1	2
1 Morningstar NZ Mod Tgt Alloc NR NZD	1.00	
2 Morningstar NZ Msec Moderate TR NZD	0.99	1.00

Correlation Matrix - Balanced

Time Period: 1/10/2007 to 31/08/2021

	1	2
1 Morningstar NZ Balance Tgt Alloc NR NZD	1.00	
2 Morningstar NZ Msec Balanced TR NZD	0.98	1.00

Correlation Matrix - Growth

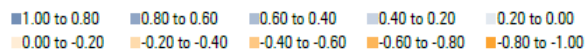
Time Period: 1/10/2007 to 31/08/2021

	1	2
1 Morningstar NZ Growth Tgt Alloc NR NZD	1.00	
2 Morningstar NZ Msec Growth TR NZD	0.98	1.00

Correlation Matrix - Aggressive

Time Period: 1/10/2007 to 31/08/2021

	1	2
1 Morningstar NZ Agg Tgt Alloc NR NZD	1.00	
2 Morningstar NZ Msec Aggressive TR NZD	0.97	1.00



Source: Morningstar Direct as of 31st August 2021.