



ANAHEIM  
2009

The Annual Conference of the Financial Planning Community

<b>TRACK:</b>	<b><i>WEALTH &amp; INVESTMENT MANAGEMENT</i></b>
<b>SESSION: 979028</b>	<b>MORNINGSTAR'S APPROACH TO FUND ANALYSIS</b>
	SUNDAY, OCTOBER 11, 2009
	11:00 AM - 12:00 PM
<b>PRESENTER:</b>	Karen Dolan, CFA, MBA
	Morningstar, Inc.
	22 West Washington Street
	Chicago, IL 60602

Karen Dolan is director of fund analysis for Morningstar, managing Morningstar's team of fund analysts and directing its coverage of mutual funds. Prior to assuming her current role in February 2008, Dolan was a senior mutual fund analyst. She joined Morningstar in 2002 and the fund analyst team in 2004. Dolan holds a bachelor's degree in economics and English from the University of Michigan, Ann Arbor and a master's degree in business administration from the University of Chicago Graduate School of Business. Dolan holds the Chartered Financial Analyst (CFA) designation.

Beyond Stars: Using Fund Analysis to Improve the Investor Experience

► **Karen Dolan, CFA**  
Director of Fund Analysis  
Morningstar, Inc.

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A Role for Fund Analysis

- The Problem: Investor returns fall short
- The Solution: A close study of fundamentals can lead to a better match between the investor and investment

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Performance from an Investor's Point of View

90% gain = \$5 billion loss

The total return and actual investor experience in real estate funds from January 1999 to December 2008.

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**Performance from an Investor's Point of View**

Category	10 Yr Asset-Wght Inv Return	10 Yr Asset Wght TR	Gap
Large Blend	-0.60	-0.11	-0.49%
Large Growth	-1.87	0.09	-1.96%
Large Value	0.49	1.62	-1.13%
Mid-Cap Blend	4.14	5.70	-1.56%
Mid-Cap Growth	0.16	3.10	-2.94%
Mid-Cap Value	2.31	6.41	-4.10%
Small Blend	4.66	6.71	-2.05%
Small Growth	1.85	3.43	-1.58%
Small Value	5.44	7.41	-1.97%

Asset-weighted average annualized returns over 10 years ending 7/31/2009 4

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Investors' emotions are costing more than expense ratios.

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**Improving the Investor Experience**

- Tilt the odds in your favor with low expense ratios
- Partner with good stewards
- Dig deep into portfolios

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**Fees Matter  
Domestic Equity Funds**

Category Expense Quintile	% Surviving Period	Average Cat. Rank	Average Std. Dev. Rank
Cheapest Quintile	74	48	51
2	66	48	48
3	61	46	52
4	60	56	52
Most Expensive Quintile	46	54	53

Average Performance and survivorship rates over 10-year period by expense quintiles based on 1999 expense data

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**Fees Matter  
Especially for Bond Funds...**

Category Expense Quintile	% Surviving Period	Average Cat. Rank	Average St. Dev. Rank
Cheapest Quintile	73	36	46
2	67	43	48
3	64	50	49
4	59	58	53
Most Expensive Quintile	54	69	60

Average Performance and survivorship rates over 10-year period by expense quintiles based on 1999 expense data

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**Fees Matter  
Estimated Fund Flows**

Expense Ratios at least 20% less than broad group average	Expense Ratios +/- 20% of broad group average	Expense Ratios at least 20% greater than broad group average
\$1,300 B	\$185 B	(\$116 B)

Estimated flow figures for five-year period ending 7/31/2009 9

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### Improving the Investor Experience

Advisors have responded by moving assets to cheaper funds, but there's more we can do to close the gap.

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### Partner with Managers who are Aligned with Shareholders

Ownership Level	Avg Rank Cat 5yrs	# of Funds
More than \$1,000,000	42	413
Between \$500,001 and \$999,999	44	197
Between \$100,001 AND \$500,000	46	679
Between \$50,001 AND \$100,000	50	285
Between \$10,001 AND \$50,000	50	393
Between \$1 AND \$10,000	52	159
\$0	54	2,257

Ownership data is based on the most recent SAI as of 7/1/2009 11

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### Partner with Good Stewards How do the Largest 10 Fund Families Stack Up?

Fund Family	Fund mergers since 2005	Funds Launched since 2005	Manager Retention, annualized since 2004	Corporate Culture Grade
Vanguard	1	12	93.15	A
American Funds	0	3	98.64	A
Fidelity Investments	9	35	86.18	B
PIMCO Funds	0	22	90.54	B
Franklin Templeton	12	16	91.89	B
T. Rowe Price	3	14	94.13	A
John Hancock	34	127	88.80	C
OppenheimerFunds	9	16	89.15	C
Dodge & Cox	0	1	96.09	A
Columbia	45	7	86.68	C

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### It's Tough to Build Lasting Partnerships With Poor Stewards

The ratio of domestic equity funds that were killed off

- A: 2%
- B: 8%
- C: 16%
- D: 25%
- F: 38%

Stewardship Grades as of December 2004 and the Subsequent Rate of Merged Acquisitions through July 2005

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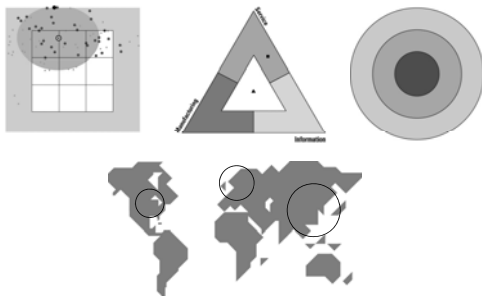
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### Improving the Investor Experience Peering into Portfolios to Set Expectations



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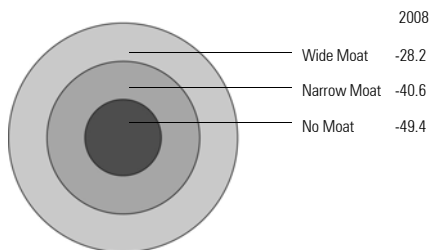
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### Viewing Strategies through Moat Lens



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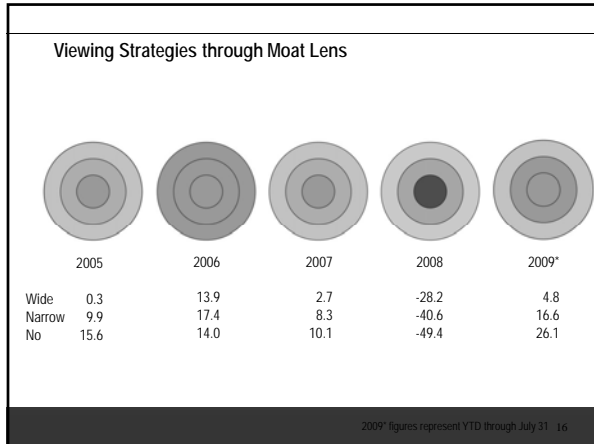
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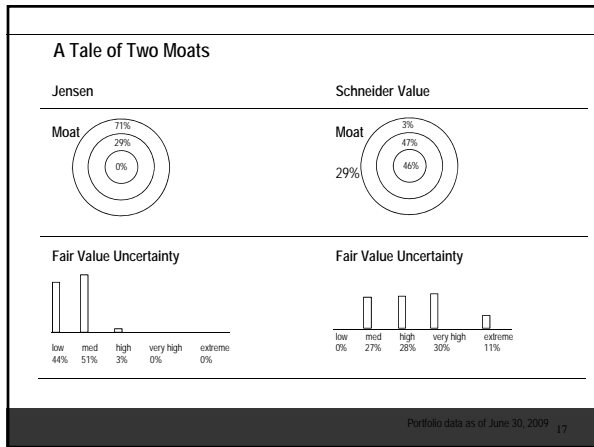
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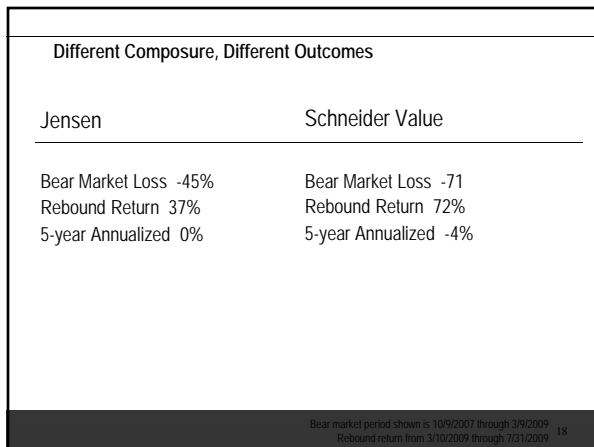
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**Improving the Investor Experience**

- Financial advisors are uniquely situated to close the investor return gap by choosing lower cost funds, demanding exemplary stewardship and relying on fundamental analysis of portfolios to shape client's expectations.
- Morningstar is proud of our longstanding relationship with this community in pursuing these goals.
- If the investor wins, we all win.

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Questions?

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