
Morningstar Market Share Report Technical Explanation

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Introducing the Technical Explanation for the Morningstar Market Share Report

This technical document will assist subscribers with interpreting the data contained in the Morningstar Market Share Commentary and Data files. It also instructs fund managers on how to provide accurate data for the Morningstar Market Share Report.

The Morningstar Market Share Report breaks fund management into three distinctive business functions; marketing, manufacturing and administration. Participants in fund management gain their competitive edge by out-performing in one or more of these three major functions.

The Morningstar Market Share Report is designed to assist fund management businesses maintain their competitive advantage by providing the following information.

- ▶ **Funds Under Management (FUM)** is the net assets of managed fund products or groups of products, and relates to marketing of managed funds. Net funds flow (NFF) for a given period measures the amount of net new assets attracted into a managed fund product or group of products, and is therefore a measure of marketing success for that period. Both measures relate to unlisted managed funds only and exclude any other investment vehicles such as discrete portfolios and listed managed investments.

This marketing function includes promotion of managed funds and developing relationships with those who want professional investment management and their advisers.

- ▶ **Total Investment Management (TIM)** measures the scale of a participant's investment management task. That is, the net value of the assets on which the manager is performing security selection, irrespective of the vehicle in which those assets are invested. This is often referred to in the industry as 'manufacturing'.
- ▶ **Funds Under Administration in Platforms (FUA)** and net FUA flows measure each manager's scale of administration of platforms, and the net flows into the platforms administered by that manager. Broadly speaking, platforms are master trusts and wraps and are the most common method of investment for retail clients.

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Total Investment Management (TIM)

Total investment management (TIM) is a measure of the net amount of money an investment manager has to invest on behalf of other managers and/or direct clients. (TIM is net of all borrowings. It is possible to measure a gross TIM—that is, the total of gross assets under investment management including borrowings. This figure is also provided in the Morningstar Market Share Report, but is the same as net TIM for the majority of managers.)

TIM is the total net money managed by the investment manager, after adjusting for all cross-investments between managed funds, discrete portfolios and any other entities, and deducting outsourced investment management monies. 'Managed' refers to the carrying out of the investment management process, including asset allocation and security selection for multisector funds, or security selection for sector funds. An entity that conducts only asset allocation and/or external manager selection is not considered to be an investment manager and would, therefore, have a TIM of zero. Similarly, assets on which a manager only performs tactical asset allocation or currency overlay (with the security selection performed by another firm or firms) are not to be included in the TIM calculation for that manager. (The amounts in overlays must not appear on the TIM form, apart from the current net market value of capital contributed to manage the overlay. This amount is usually small relative to the fully exposed value of the assets.)

A manager may manage money that has been sourced from its own managed funds (listed or unlisted) or manage money on behalf of other parties via a discrete portfolio (by mandate). These amounts are included in TIM, but double counting must be avoided. Where a manager outsources investment management of its funds to separately owned investment managers, these amounts are subtracted from the TIM. However, where a manager outsources investment management to a foreign parent or other subsidiary of a foreign parent then it should include this amount as part of its TIM. That is, the manager should not classify these assets as being outsourced and should not deduct them from its TIM calculation.

Where a manager outsources investment management to an entity that is not an associate but the arrangement is exclusive, then this is still outsourcing and the assets involved are not to be included in TIM. For example, say an Australian manager outsources investment management in foreign bonds to a New York specialist manager on the basis that the latter does not manage on behalf of any other party in Australia. The amount involved is to be regarded as outsourced and not counted in the Australian manager's TIM.

Figures for Australian and foreign-sourced TIM are sought from managers, but unless specified otherwise a figure quoted for TIM is Australian-sourced only (and net of borrowings). Managers supplying data are requested to ensure that they comply with Morningstar's definitions.

Inclusions in TIM

TIM data includes qualifying assets in the following (after adjusting for cross-investing and outsourcing):

- ▶ Retail funds
- ▶ Wholesale funds
- ▶ Listed investments
- ▶ Discrete portfolios (sometimes referred to as 'mandates')
- ▶ Any other assets for which investment management is performed in-house, such as assets backing life, general and health insurance contracts, in-house superannuation funds, and direct property assets managed by internal teams.

Inclusion of Cash

Cash managed internally or by a related party is to be included in TIM. This amount (only) is reported as internally managed cash and therefore part of TIM for the combined entity.

For example, a fund management group owned by a bank may pass all the cash owned by its platforms to the bank's treasury for management or place it in a range of bank accounts offered by the bank parent. Irrespective of the fact that these amounts may be in bank accounts or however else they are held by the bank parent, they are cash amounts that were invested

in managed funds (the platforms) and the investment management is carried out by the bank parent and therefore the group. This applies whether the amounts are in an internally managed cash management trust, an account managed by the parent's treasury, or are lent out as home loans. We consider all of these situations to be investment management of cash from managed funds. The full balance sheet of the bank cannot be included as most of it derives from bank deposits by individuals or companies. Morningstar's TIM data only includes amounts derived from managed funds, discrete portfolios, life or friendly society pools, or listed pooled investments.

TAA and Currency Management

Asset allocation and currency overlays must not be included in TIM, apart from the small amount of capital provided to manage the overlay, whether the service is provided via a discrete portfolio or a fund. The reason for not counting the fully exposed value is because the manager is not performing security selection on this amount. Including the fully exposed value would also result in double counting in industry TIM. (In situations of multiple providers of services, Morningstar attributes the assets to only one provider so that it can calculate accurate industry figures without double counting.) The current net market value of capital contributed to managed funds that provide tactical asset allocation (TAA) and currency management can be included in TIM and FUM (and FUA if part of a platform).

Funds Under Administration in Platforms (FUA) and Net FUA Flows

FUA is a measure of a manager's scale in administering platforms, where 'administration' refers to the management of the investor's records (maintaining the unit registry, records of asset holdings, undertaking transactions on instructions and maintaining transaction details, generating reports to investors, etc). FUA is recorded in relation to platforms only. Platforms include investment wraps, superannuation and allocated pension master funds, and investment master funds. Retail and wholesale FUA data is collected separately because of cross-investment between manager's platforms. This separation began with the March 31, 2005 Market Share Report.

FUA essentially captures the identity of those administering the ultimate investor's account, as well as how much money is being administered. Retail FUA will differ from retail FUM and wholesale FUA from wholesale FUM if an entity manages products that are not platforms, administers investors' accounts on behalf of other managers' platforms, or outsources its administration to another company. Where administration is conducted by a number of entities, then the FUA will be attributed to the entity that is the dominant provider of those administration services.

Some managers undertake administration of platforms that are marketed by other firms under brand names chosen by those other firms, such as by re-branding of the manager's existing product. In these cases, the FUA is attributed to the manager performing the administration, not the marketer. The FUA for a firm that markets a platform and fully outsources its administration is zero.

Please note the following with regard to FUA data: Morningstar does not collect Australian and offshore sourced FUA data separately. FUA data includes both domestic and foreign sourced funds under administration.

Assets held by platforms may include direct shares. Direct investments from platforms into shares and other investments that are not managed funds are to be included in the FUA figures reported by managers. In the event that one of a manager's platforms invests

in another, the cross-investing must be deducted to avoid double counting. This elimination of double counting is to be applied to all funds managed by all entities included in a consolidated management group (consolidated manager).

Quarterly figures are also provided for retail and wholesale net flows of FUA and presented as 'net FUA flows'.

Funds Under Management (FUM)

Funds under management (FUM) is a measure of how much money a manager has been able to accumulate in its products (including platforms). (Note that the assets of a product at any point in time consist of both accumulated net funds flow and investment returns, but it is strictly only the former that measures marketing success. However the magnitude of the entire assets determines revenue for the manager and it is this figure, not just the accumulated net flow that is of most interest to market observers.) At the manager and the industry level, separate retail and wholesale FUM is reported based on the allocation of every product to either a retail or a wholesale classification.

For a product, FUM may also be referred to as product size and is defined as net assets within the associated fund, minus money sourced from the manager's other products (to avoid double counting). If cross-investment occurs between products managed by the same manager or another company within a fund management group, then the amount involved is to be counted against the product where it was first received from the external source.

For example, consider a retail product managed by XYZ Ltd. that holds \$100 million in net assets from external investors, and invests all of this into a wholesale fund, also managed by XYZ. The FUM is recorded for the retail product and the \$100 million is deducted in determining the product size for the wholesale product. Please note the following important points about FUM:

- ▶ As FUM is concerned only with managed funds, it includes platforms, but excludes all assets managed in discrete portfolios (which are also referred to as 'mandates'). Please see below regarding rules for inclusion of assets in 're-branded' platforms.
- ▶ Many fund managers now outsource investment management to other firms. This means FUM is not a measure of the scale of a manager's investment management task (or 'manufacturing' capability—see TIM). A fund manager's retail and wholesale FUM may be many billions of dollars each, while its TIM is zero.

- ▶ Morningstar does not collect Australian and offshore-sourced FUM data separately, but reports the combined figure.
- ▶ Because of the elimination of double counting in the calculation of FUM, retail and wholesale FUM can be added to assess total FUM for each manager, but it is not valid to add industry retail and wholesale FUM to produce a total FUM for the industry. Many manager's funds invest in other managers' funds, so therefore adding retail and wholesale FUM across all managers results in significant double counting.

Re-Branding of Platforms and Other Products

There are examples of platforms and other products being offered under names that do not have any connection to the administrator of the investor's records or the investment manager of the underlying assets. As FUM is a measure of marketing, the assets of a re-branded platform or other fund should be attributed to the company that markets the product.

In this context, 're-branding' means a platform offer based on an existing platform that offers either of the following:

1. Access to the existing platform via an offer document that has been re-named and altered to reflect another company's name and business (referred to in the following as the 'client', which is generally a financial planning firm). For example, ABC Investment Management Ltd administers the ABC IDPS (investor directed portfolio service) (or it could be the ABC Superannuation Master Fund). ABC has an existing guide or offer document. ABC re-brands this document for a client, HIJ Financial Planners Ltd, but remains the issuer/responsible entity/trustee of the platform and is named as such in the offer document.
2. The second situation is the same as above except that instead of accessing an existing ABC platform, access is provided to new platform specifically created for HIJ Financial planners. ABC is still the issuer/responsible entity/trustee.

Platforms may be re-branded to assist the distribution of the platform via external distribution channels. Since FUM is a measure of marketing, the assets of a re-branded platform should be attributed to the company that markets that platform. The first step in assessing this is to determine who offers the platform to the authorised representatives (financial planners) of the client. If the platform administrator has no contact with those planners, then it cannot claim the platform assets in its FUM. Assuming that this test is met then for assets in a re-branded product to be included in a firm's FUM and NFF (net funds flow), then that firm (which may also be the platform administrator) must perform the majority of the marketing task on an ongoing basis on behalf of the client. Specifically, the party that is credited with the FUM must meet the majority of following conditions:

1. Produce the offer document for the client (generally at their cost) and the directors of the client have little other role other than checking and approving it. The offer document can be the same as, or be quite different to, other offer documents produced by this party.
2. Communicate directly with the client's authorised representatives to provide the majority of the marketing of the product for them and train them on the platform and its operational procedures, at its cost. Training includes instruction in use of the product's web site by advisers and investors.
3. Produce most or all of the marketing documentation for the product at its cost.
4. Provide the adviser telephone help line for the platform at this party's cost.

Note also:

- ▶ The above analysis must be applied to each re-branded platform in attributing FUM. For example, the administrator of multiple re-branded platforms may have different marketing relationships for each of those platforms, meaning that it may not be able to claim the FUM of all of them.
- ▶ The marketer would usually provide speakers for, and sponsorship of, the client's professional development days. The marketer may also provide, at its own cost, educational and other support to advisers such as a help line for technical advice and seminars.
- ▶ Either party may own the name(s) under which the re-branded platform is marketed.

- ▶ It is not essential for the product offerer to market to potential and existing investors such as at seminars or via direct mail. This is not required for attributing the assets in products that are not re-branded.
- ▶ The product design may be a joint exercise between the marketer and the client.
- ▶ Administration of commissions is an administrative, not marketing, function and so should not be taken into account when attributing assets for FUM.
- ▶ Re-branding is not outsourced administration. The administrator of a platform is the entity that administers the investor's records, including transactions. Morningstar attributes the assets (after deducting cross-investment) in a platform to the FUA of the administrator. Assets in platforms administered by a responsible entity and marketed by it under its name are included in its FUA. An administrator may also administer platforms that are marketed by other parties, in which case the assets involved are included in its FUA, but not its FUM. Identifying the administrator is usually not difficult and is a different exercise to identifying the primary marketer.

Funds Flows

Funds Flows: Inflows and Outflows of FUM

FUM inflows (gross) for each product measure new money invested into that product by investors, money switched from other products within the manager's suite of products, distributions reinvested, and amounts invested as part of a regular deposit plan.

FUM outflows (gross) represents the total amount of money paid out on withdrawals from a product, money paid out of the product following a switch, and money paid out as distributions (without deduction of reinvestments). Pension payments are included in outflows.

Net funds flow (NFF) is the amount of money received, less the amount of money paid out of the product. NFF is calculated as FUM inflows less FUM outflows.

All of these figures must be adjusted by the manager for cross-investment between products prior to supply to Morningstar.

Measuring TIM, FUA, and FUM

TIM and FUM are two distinct measures. Calculating TIM starts with where the investment management (security selection) takes place, such as a discrete portfolio or the pool of assets owned by a wholesale fund. FUM is reported by Morningstar at the product and manager level, and is measured at the entry point of money into the manager's business.

Consider that ABC Fund Management administers a master fund with \$300 million in assets: \$100 million of this is invested in the ABC Balanced Fund (wholesale), which contains no other assets; and \$200 million in the master fund is invested with other managers. Of the \$100 million in the Balanced Fund, \$40 million is passed to another manager, which carries out investment management on that \$40 million; ABC performs investment management on the remaining \$60 million in its Balanced Fund. Assume there are no other assets subject to investment management by ABC. In this situation, ABC's TIM is \$60 million because that is the total of net assets on which ABC performs investment management (in its Balanced Fund). (Note that Morningstar only records TIM at the manager level and not at the product level.) FUA in this case would be \$300 million, because this is the total of assets in the master fund, assuming the master fund is administered in-house by ABC and that ABC does not provide administration for any other platforms. The point of investment is the basis for calculating retail FUM as \$300 million, which is made up of just the \$300 million in the master fund, where the money was first invested with the manager. (That is, FUM for the master fund would be reported as \$300 million and FUM for the Balanced Fund is zero because of the interfunding whereby all of the Balanced Fund's assets are from the internal master fund. Note that platforms are included in FUM calculations.)

For managers supplying data to Morningstar, the best approaches for calculating data are as follows:

- ▶ For TIM, start adding from where the investment management takes place, separating Australian from foreign sourced assets first and deducting assets for which investment management is outsourced. This will generate domestic and overseas-sourced TIM figures. The

investment-management outsourcing figure includes all assets for which the manager only determines asset allocation and/or selects external investment managers. (See the TIM form for detailed instructions on providing TIM and its components.)

- ▶ For FUA, add up all amounts in platforms and deduct amounts for which platform administration is outsourced. Include assets in other promoters' platforms (branded by those other promoters), which are administered in-house ('insourcing').
- ▶ For retail or wholesale FUM, add up all amounts at the point where they are received from external investors, including amounts invested into platforms, and ensure cross investments are not counted more than once.
- ▶ Retail and wholesale FUM totals are only required from managers for confirmation as Morningstar calculates these by adding individual product FUM figures. Measure individual product sizes, based on net assets, at the point where money is received from external investors, ensuring cross-investments are not counted more than once.

Morningstar Market Share Report does not provide details on assets held in a number of other legal types, including regular premium life insurance, employer sponsored (that is, in-house company) superannuation funds, government or industry superannuation funds, or self-managed superannuation funds.

Legal Structures Included

Morningstar has adopted the legal structures previously utilised by Standard & Poor's for the purpose of the Market Share Report.

The Morningstar Market Share Report does not provide details on assets held in a number of other legal types, including regular premium life insurance, employer sponsored (that is, in-house company) superannuation funds, government of industry superannuation funds, or self-managed superannuation funds.

The table below demonstrates the tax structure codes and names used to categorise funds with respect to the Morningstar Market Share Excel Data which accompanies the Morningstar Market Share Commentary.

Market Share Tax Structure Name	Market Share Tax Structure	Details of Structure
Investment Bond and Friendly Society Bond	B	A single-premium investment product issued by life insurance companies or friendly societies that operates in the same manner as a unit trust, except that the return is provided to the investor net of tax.
Allocated Pension and Annuity	K	An account established to provide a flexible, regular income stream. It has special tax and social security features. The investment risk remains with the investor. An allocated pension may be exhausted prior to death.
Super Fund- Public Offer	S	Retail Super Funds established to accept money from individuals.
Managed Investment	T	Managed investments may be registered.
Pooled Super Trust	P	Super funds established to accept money from only from other superannuation entities.
Immediate Annuity	N	Insurance policy
Wrap (IDPS) or Wrap-Like (IDPS-like)	W	Services for acquiring and holding investments that involve arrangements for the custody of assets and consolidated reporting. There will generally be a menu of investment opportunities associated with an IDPS. An important feature of this service is that the investor makes all the investment decisions.

Fund Reconstruction and Impact on FUM–Retail and Wholesale

Managers may list funds, delist funds, close funds, and transfer the assets held within one product to another product marketed by the manager or they may transfer funds to a new fund manager.

- ▶ Should unlisted funds be listed on the Australian Stock Exchange, they will be removed from that manager's FUM total. (FUM only includes unlisted managed funds.) Funds delisted will be added back into that manager's FUM total. TIM will be unaffected by this change (although its components will be affected).
- ▶ When a fund closes and the money held in it is transferred to another of the manager's suite of funds, then the manager reports a negative NFF (of FUM) equal to the amount transferred for the closing fund and an equivalent positive NFF for the fund that receives the money. The fund that is closed will eventually be removed from the Morningstar Market Share Report.
- ▶ When a fund is transferred to another manager, or when managers merge or a takeover occurs, the recording of net assets and funds flow for the particular fund is not affected. However the manager totals will change as the fund is transferred to the new manager.

Market Share Data: Frequently Asked Questions

Q How could a manager have less in retail FUM than retail FUA?

A An example of this is a fictional ABC group with retail FUA of \$17.6 billion and retail FUM of \$14.2 billion at a particular date. A reason could be that the ABC group engages in extensive contract platform administration for external clients (insourcing). ABC administers these platforms and so the assets are included in its FUA, but the other managers (ABC's external clients) are the responsible entities for, and undertake the marketing of, those platforms and so the assets are counted in the retail FUM of the those other managers. In this case, ABC is performing platform administration for external clients on \$3.4 billion in net assets.

Q How could a manager have less in retail FUA than retail FUM?

A This outcome can occur where a manager operates platforms but also has significant assets in retail investment products that are not platforms. The manager may, for example, have \$500 million in retail platforms administered in-house with no re-branding (no outsourcing or insourcing) and \$100 million in retail unit trusts that are not platforms. In this case, retail FUA is \$500 million and retail FUM is \$600 million. The latter is the sum of the \$500 million in platforms and \$100 million in retail trusts.

Q How could a manager have low or zero TIM, but billions in FUA and FUM?

A Any manager that does not perform security selection will have a TIM of zero, even if it undertakes asset allocation and/or external manager selection.

Q A platform manager appears to outsource all investment management, but reports a figure for TIM that is all cash?

A This is similar to the previous example where the manager may report billions in FUA and FUM, but only a few hundred million in TIM, all of which is cash. An example of this is where the manager administers and markets its own platform, but only carries out security

selection on cash, with all other investment management outsourced. An example might be a bank-owned administrator and marketer of a platform that places all of the platform's cash in an account operated by the bank parent. The bank is effectively carrying out investment management on the cash and it is from a source that makes it eligible for inclusion in TIM. Therefore, the dollar value of the cash is included in the TIM for the group. Note that this does not mean that all other cash managed by the bank is included in the group's TIM unless that other cash has been received via a managed fund, listed investment company, or trust or is part of a discretely managed portfolio under an investment management mandate from an external client. Note also that if the bank was not the parent of the platform administrator, but unrelated, then the cash could not be included in TIM for the platform administrator. Only assets subject to investment management by related parties can be included in the TIM for a group.

Q How could a manager have a figure for TIM of millions of dollars but zero retail FUM?

A This can occur where the manager only manages wholesale funds, discrete mandates, listed property trusts, listed investment companies, health funds and/or general insurance, and does not offer retail funds.

Q We know that net assets from foreign sources are reported separately from Australian sources in calculating TIM, but what about FUA and FUM?

A In calculating both FUA and FUM, Morningstar does not separate assets from foreign and domestic sources. That is, managers are asked to report figures for FUA and FUM net of interfunding and ignoring whether the assets are sourced from within Australia or overseas.

Q How could a manager have all the investment management of its international shares portfolio performed overseas, but the full amount included in its TIM?

A This can be the case if the investment management is only performed by a parent company or some other

company in the group of which it is a part. An example is Credit Suisse Asset Management Australia, which outsources some of its international equities investment management to a sister company domiciled overseas. If the investment management is undertaken overseas, by an unrelated firm, then the assets involved cannot be included in the Australian manager's TIM.

Examples

The following examples show various scenarios at a particular date and the resulting figures that would be presented for the various measurement perspectives at that date. For simplicity, it is assumed in the following that all of the assets are sourced from Australia.

Example 1

Gecko Ltd. offers a retail investment master fund only with \$100 million in net assets and outsources all investment management. It undertakes all administration itself, but does not provide administration to any other organisation.

TIM = \$0

Retail FUA = \$100 million

Retail FUM = \$100 million

Wholesale FUM = \$0

Example 2

CLM Funds Management offers a retail wrap with \$3 billion in assets for which it undertakes security selection for cash only of \$500 million. It outsources all other investment management. (The cash holdings of its wrap clients are all invested in a bank account of its parent, which is a bank.) It provides administration for the wrap investors on the whole \$3 billion and provides an administration service for all of the assets of a wholesale master fund of \$200 million that is offered by another company, as the responsible entity under the other company's brand name.

TIM = \$500 million

Retail FUA = \$3,000 million

Wholesale FUA = \$200 million

Retail FUM = \$3,000 million

Wholesale FUM = \$0 million

Example 3

MP Asset Management does not offer a master fund or wrap, but provides the ultimate investment management of all of the \$100 million in an unrelated company's master fund. It also offers a geared unit trust to the retail market and has achieved \$400 million in gross assets in this fund, of which \$100 million is borrowed (= net assets of \$300 million). It also offers an ungeared wholesale unit trust, which consists of \$900 million in assets. There is no interfunding.

TIM (net) = \$1,300 million (= \$100 million + \$300 million + \$900 million).

Retail and wholesale FUA = \$0 (no platform).

Retail FUM = \$300 million (one retail product).

Wholesale FUM = \$900 million

Example 4—Interfunding with External Administration

Aggressive Funds Management offers five retail unit trusts with net assets of \$1 billion each and a single wholesale fund with assets of \$7 billion. All of the assets of three of the retail funds are invested in the wholesale fund (total \$3 billion) and \$500 million from the fourth is invested in discrete portfolios, which total \$4 billion. Aggressive performs investment management on all the discrete portfolios, all of the assets of the fifth retail trust, and on all of the assets in the wholesale fund except for \$300 million, which is managed offshore by an unrelated company. Aggressive Funds Management's only other offering is a retail wrap account holding \$1.4 billion. Aggressive outsources all administration of its funds, including the wrap, but is the responsible entity for all and carries out all the marketing of all the products. Of the \$1.4 billion in the wrap, \$300 million is invested in Aggressive Funds Management's discrete portfolios, and the remaining \$1.1 billion is passed to other firms for investment management.

The three perspectives for Aggressive Funds Management are explained below with a summary table following. Note that the final objective in relation to investment management is to determine TIM at the manager level. The split below is presented only to illustrate the calculation process used to determine the TIM for Aggressive Funds Management. Calculations and explanations follow:

- ▶ TIM is calculated by adding up the net assets for which Aggressive Funds Management performs investment management. Considering firstly the discrete portfolios, which are at the end of the interfunding chain, Aggressive Funds Management performs investment management on all of the \$4 billion in the discrete portfolios. Second, TIM includes the \$7 billion managed

in the wholesale fund, less the \$300 million diverted offshore to another investment manager. Investment management is only performed directly by Aggressive Funds Management in relation to two of the retail unit trusts and for only half of the assets of one of those, so the total contribution to TIM for the five retail funds is \$1.5 billion.

- ▶ Retail and wholesale FUA are both zero because all administration of the wrap is outsourced. If the administration of the \$1.4 billion in the wrap was performed in-house, the retail FUA figure would be \$1.4 billion.
- ▶ The five retail trusts accept money directly from the public, totalling \$5 billion in net assets, so their contribution to retail FUM is \$5 billion. In addition, Aggressive Funds Management has taken \$1.4 billion directly from the public into its wrap account. Although Aggressive Funds Management outsources the administration of this wrap, it markets the product to retail investors and their advisers and is the responsible entity for it; therefore, the \$1.4 billion in the wrap is part of Aggressive Funds Management’s retail marketing achievements.
- ▶ In calculating FUM, discrete portfolios are ignored as they are not managed funds, so the only possible contributor to wholesale FUM is Aggressive Funds Management’s single wholesale fund with net assets of \$7 billion. However, there is interfunding into that wholesale fund totalling \$3 billion from three of the retail funds; therefore, its contribution to wholesale FUM net of interfunding is \$4 billion.

total net assets of \$700 million. It has \$800 million in a wholesale managed investment, all sourced from external clients. It performs investment management on discretely managed portfolios, totalling \$2.2 billion, all sourced from external clients. All the funds are in completely separate pools and there is no interfunding. (That is, none of the retail or wholesale funds invests in any of the other funds.) XYZ’s subsidiary manages a listed investment company with net assets (not market capitalisation) of \$100 million. It carries out security selection and asset allocation internally for all of the above money, except for \$400 million in offshore bonds from the subsidiary’s retail unit trust. The investment management on this \$400 million is outsourced to a U.S. manager. In addition, it markets and administers a retail master fund for superannuation and ordinary money with \$1.3 billion in assets, of which it performs investment management on \$200 million in a discrete portfolio (additional to that recorded above) and has placed the remainder with other investment managers. It does not outsource any administration for any of its funds.

The three perspectives for XYZ are calculated below and the figures summarised in the following table. Note that the figures presented are all for the ‘consolidated manager’, meaning that assets are added across all subsidiaries and the parent company to arrive at numbers for the group as a whole. This means that the assets in the retail unit trust managed by a subsidiary are included with those of the parent company.

Wholesale (Mil. A\$)	TIM	FUA*	Retail FUM	W’sale FUM
Retail unit trusts	1,500		5,000	
Wholesale investment fund	6,700	-	-	4,000
Discrete portfolios (externally sourced)	4,000	-	-	-
Wrap (platform)		0	1,400	-
Totals	12,200	0	6,400	4,000

***FUA in the table refers to both retail and wholesale FUA**

Example 5—A Complex Product Mix

XYZ Life has numerous retail life investment products (\$600 million in assets accumulated from net flows and investment gains) plus life risk products (\$400 million), giving a total of \$1 billion. It also has a wholly owned subsidiary managing a retail unit trust, with

- ▶ The first point to note is that there is no interfunding, but there is outsourcing of investment management from the retail unit trust and the master fund. Therefore, in calculating the retail unit trust’s contribution to TIM, the \$400 million in offshore bonds, outsourced to another investment manager, must be deducted from the \$700 million net asset total in the fund. Similarly, outsourcing of investment management from the master fund is \$1.1 billion and its contribution to TIM is only \$200 million. (When completing the Morningstar form for TIM, there is a column for deduction of outsourcing of investment management so these amounts outsourced would appear in that column on the form.)

- ▶ It is convenient to start to calculate TIM with discrete portfolios, because usually 100% of the assets in discrete portfolios contribute to TIM. There is a contribution of \$2.2 billion from discrete portfolios from external clients and \$0.2 billion from the master fund managed by XYZ, giving a total of \$2.4 billion. Without

interfunding, investment management is performed on all the assets of each of the funds bar the master fund (partly diverted to a discrete portfolio), and bar the amount from the retail trust for which investment management is outsourced. So the assets of the wholesale fund, the retail life products, the life risk and immediate annuity products, and the listed investment company all contribute their full net assets to TIM, along with \$300 million of the \$700 million held by the retail unit trust.

- ▶ The master fund is administered in-house so all of its net assets of \$1.3 billion make up retail FUA. There is no insourcing of platform administration.

FUM does not include risk products so from insurance assets, retail FUM only includes the \$600 million from the retail life investment funds. The full \$700 million in the retail unit trust and the \$1.3 billion in the master fund are also included because all these assets are from external retail sources.

- ▶ Discrete portfolios are not included in FUM, so only the \$800 million in wholesale products is included in the wholesale FUM calculation.

(Mil. AS)	TIM	FUA FUM	Retail FUM	W'sale
Retail life investment products	600	-	600	-
Retail unit trust	300	-	700	-
Wholesale investment products	800	-	-	800
Discrete portfolios (platform + external)	2,400	-	-	-
Master fund (platform)	(See discrete portfolios above)	1,300	1,300	-
Life risk products	400	-	-	-
Listed investment company	100	-	-	-
Totals	4,600	1,300	2,600	800

Data Collection Techniques and Validation

Morningstar collects data from all major Australian fund managers across all major products.

TIM data is collected at the manager level, with some breakdown such as discrete portfolios versus funds and superannuation versus non-superannuation. Again, extensive validation and review is conducted to ensure accurate data is provided. Retail and wholesale FUA data is collected at the manager level, with some breakdown into legal types.

The FUM section of the Morningstar Market Share Report is constructed using a 'bottom-up' approach. Data for each material product offered by each fund manager is held on Morningstar's database, and FUM data is collected by product. Where a manager has a number of small products, these may be grouped and a combined FUM obtained. The benefit of using a bottom-up approach is that Morningstar can provide a variety of reports to demonstrate different aspects of fund marketing. These include reports by manager, category, and legal structure.

Data is mainly collected electronically and is subject to extensive automated audits. Morningstar also has a team of analysts who undertake logic checks and actively validate each of the fund managers contributions to ensure that the data provided in the Morningstar Market Share Report is complete and accurate. These automated audits are then overlaid by a high level analytical review to ensure that the results are complete, accurate, and reasonable.

Funds flow data is obtained directly from the manager where available. Morningstar's data is initially calculated by Morningstar and then compared with that provided by the manager to ensure accuracy.

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