



Corporate Governance Policy

1. Scope of this Policy

This Corporate Governance Policy applies to Morningstar Australasia Pty Ltd ("Morningstar Australasia"), and Morningstar Investment Management Australia Ltd ("Morningstar Investment Management") (together "Morningstar") and their directors, and officers, authorised representatives, and employees.

Morningstar is part of the Morningstar, Inc. group of companies. As such, this Policy is to be read together with Morningstar, Inc.'s various global policies and procedures, including but not limited to the [Morningstar, Inc. Code of Ethics](#). To the extent that there are discrepancies between Morningstar, Inc.'s global policies and procedures and this Policy, this Policy will take precedence in relation to Morningstar.

This Corporate Governance Policy is available on Morningstar's websites.

2. Executive Summary

This Corporate Governance Policy outlines Morningstar's commitment to establish and maintain corporate governance practices which reflect the requirements of the industry, the law and regulators, and meets the expectations of our client, including those who subscribe to and use our information products and software and/or invest in Morningstar's Managed Portfolios and Managed Funds. It sets out:

- Information about who Morningstar is
- An overview of the corporate governance framework including the code of ethics, risk and compliance frameworks and complaint handling and whistleblower protection procedures
- Roles and responsibilities of the boards, committees and management
- How directors are remunerated, how conflicts of interest are managed by directors and director training
- Asset Stewardship Principles for Morningstar Investment Management

3. About Morningstar

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Morningstar, Inc. is a publicly listed company (NASDAQ:MORN). The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers, institutional investors and sponsors, and private capital market participants. Morningstar, Inc. provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, and real-time global market data. Morningstar, Inc. also offers investment management services through its investment



advisory subsidiaries. The company has operations in 27 countries.

Morningstar Australasia is a subsidiary of Morningstar, Inc. and has been serving the Australian and New Zealand markets since 1999, with an office currently located in Sydney. Morningstar Australasia operates on the belief that quality financial advice creates better outcomes for investors. We have operations spread across equity research, managed fund, ETF, and LIC research, data, software development, product and solutions, client service, sales, marketing, and corporate services. While other companies may offer research, ratings, software, or data services, we are unique in delivering all of these specifically with the goal of helping investors achieve better outcomes. As a provider of independent research, Morningstar Australasia is able to provide truly objective information. We are always innovating, adding new data, analytics, metrics, and research methodologies that illuminate investing. The unique point of view represented in our research, paired with the way we use information design and technology to communicate complex financial information, sets us apart from other businesses in our space.

Morningstar Investment Management forms part of Morningstar, Inc.'s global investment management business, a global leader in asset allocation, investment research and portfolio construction. Guided by seven investment principles, Morningstar Investment Management is committed to focusing on its mission to design portfolios that help investors reach their financial goals. We put investors first; we're independent-minded; we invest for the long term; we're valuation-driven investors; we take a fundamental approach; we strive to minimise costs; and we build portfolios holistically. The group's global investment management team applies its disciplined investment process to all strategies and portfolios, bringing together core capabilities in asset allocation, investment selection, and portfolio construction. This robust process integrates proprietary research and leading investment techniques. In addition to advisory services, the group's investment professionals build and manage model portfolios for financial advisors in Australia to create strategies that incorporate a wide variety of investment objectives.

4. Roles and Responsibilities

The Board of Directors of Morningstar Investment Management and Morningstar Australasia have ultimate accountability for the Corporate Governance Policy. In performing their responsibilities, the Boards of Morningstar Investment Management and Morningstar Australasia are supported by various committees and roles, which each have their own accountabilities. These are set out in **Appendix 1 Roles and Responsibilities**.

Morningstar, Inc.'s General Counsel, with assistance from the local board chairperson(s) is responsible for the determining the appropriate Board composition and appointments. The General Counsel ensures the Boards are made up of competent executives who, as a group, have the necessary breadth of experience and diversity of skills to ensure that the boards can discharge its duties.



5. Corporate Governance Framework

Morningstar's corporate governance framework, including this Corporate Governance Policy assists the Board of Directors for Morningstar Investment Management and Morningstar Australasia in supervising the management of the business and affairs of each company.

In addition to this Corporate Governance Policy, Morningstar's corporate governance framework includes the following elements:

Board and Committee Charters

- Charters and constitutions set out the procedural and operational framework for the establishment and operation of Committees and Boards

Code of Ethics

- All employees are expected to incorporate ethics into their daily work. All employees are required to read the [Morningstar, Inc. Code of Ethics](#) carefully and attest they have complied with it annually.
- Any employee who suspects that the Code of Ethics has been or may have been violated are required to immediately notify the Global Chief Compliance Officer, the regional Chief Compliance Officer or the legal department. When in doubt about the appropriateness of any conduct, staff are encouraged to discuss with their manager or a member of the human resources team or an officer of Morningstar, Inc. to seek guidance before taking any action.
- If staff are not comfortable speaking to someone directly, we have established a confidential Ethics hotline which can be used to express concerns anonymously.

Compliance Program

- Morningstar has implemented a Compliance program that applies to all employees. The Compliance program incorporates several policies and a compliance handbook and is an important resource for employees. The goal and objective of the Compliance program is to ensure that Morningstar complies with its obligations arising from laws and regulations, internal policies and procedures, and contractual arrangements.
- The Compliance team is responsible for administering, maintaining and improving the Compliance program as well as providing guidance to the business teams on compliance matters. Key compliance obligations identified by Compliance are allocated to individual managers and monitored on a quarterly basis. The Compliance team reports to the respective Boards and the Morningstar Investment Management Compliance Committee on a quarterly basis.
- Key compliance obligations also include:
 - Personal trading requirements - such as a prohibition on trading securities that appear on a restricted list or during blackout periods, no front running or scalping, not to derive any advantage personally from information that is not generally available and obtained during

the course of employment, to obtain pre-approval for participation in an initial public offering and to ensure personal trading does not contravene any legal requirements including laws concerning insider trading, price manipulation, false trading, market rigging and short selling. Employees are required to provide holdings reports, transactions reports, and quarterly policy declarations to Compliance.

- Conflicts of Interest considerations - ensuring conflicts of interest are addressed, evaluated and appropriately managed in accordance with our Conflicts of Interest Policy. Among other things, our compliance framework includes steps to prevent personal profit, direct or indirect, from knowledge about pending or currently considered securities transactions or unpublished investment research. Employees are also prohibited from accepting or offering any gift, entertainment, meal, or favour that would influence or potentially influence their conduct, or that could reasonably be viewed by an outside observer as affecting their judgment or actions in the performance of their duties on behalf of Morningstar. We maintain registers that record all conflicts identified and reported to the Compliance team, as well as gifts and entertainment received and given by Morningstar.
- Risk and compliance incidents management - Our Compliance program documents the framework and governance steps to be followed by staff when identifying and reporting errors, breaches and operational incidents. Once an incident is recorded, appropriate action is taken to rectify the incident and appropriate measures are implemented to prevent recurrence. There are no minimum thresholds or maximum limits embedded within our procedures and each incident is recorded by Compliance irrespective of impact caused.

Risk Management Framework

- The Risk Management Framework comprises a Risk Management Policy, a Risk Appetite Statement and the Risk Assessment process which includes risk profiling and assessments, monitoring and reporting. Our risk appetite guides our decision making and assists with prioritisation of risk mitigation strategies (including allocation of resources) for those risks beyond our Risk Appetite. Key risks identified by the Risk Management Committee are included in the business' risk register, are monitored by the risk owners in the business and by Compliance & Risk.

Remuneration policy

- We attract and retain staff through a market competitive remuneration structure and career development programs. The remuneration structure typically includes a fixed salary component based on skills and experience and variable components linked to key performance criteria and/or company performance. Restricted stock in Morningstar, Inc. may be awarded to high performing employees to encourage long-term thinking and to align with the interests of clients and shareholders.

Training and development

- Morningstar values the ongoing professional development of staff and encourages continuing education of staff in their chosen career paths. We also have compulsory risk and compliance training requirements in areas critical to Morningstar's business.
- We encourage staff to be responsible for managing their career and will provide the support and tools to assist in this process. We offer a range of digital and in-person opportunities, events, and an annual stipend that supports employees in furthering their professional development both inside and outside of Morningstar. We cover the Certified Financial Analyst (CFA) exam and registration fees, have a Morningstar Scholar's program for staff wishing to pursue a job-related degree, and host a program dedicated to advancing leaders.
- Training is key to ensuring staff remain aware of the regulatory requirements and Morningstar's expectations of them. Compliance training is provided in a number of forms, including face to face presentations and workshops, dissemination of written material, intranet communication and online training.

Complaints and dispute resolution

- Morningstar aims to provide quality ongoing service and has established and documented procedures for dealing with service issues and complaints.
- If a client has a complaint, they are encouraged to contact or to advise the business in the first instance. All complaints are registered in the Complaints register. All complaints received will be acknowledged within 3 business days of receipt. The business teams, with guidance from Compliance as necessary, will work with the client to arrive at a satisfactory resolution. Every effort is made to resolve the complaint within 21 days of receipt. In any event, we will finalise our response no later than 45 days after receipt for Australian clients and 40 days for New Zealand clients
- If a client is still not satisfied, they may refer the matter to the Australian Financial Complaints Authority (AFCA) which is an independent dispute resolution body whose services are free to complainants. Morningstar Investment Management and Morningstar Australasia are each members of AFCA. For New Zealand clients, they may refer the matter to Financial Services Complaints Limited (FSCL), which is an independent dispute resolution body in New Zealand. Morningstar Australasia and Morningstar Research Limited are each a member of FSCL.

Morningstar Investment Management has also implemented Asset Stewardship Principles which outlines its approach to effective asset stewardship for investors which can be found at **Appendix 2 Asset Stewardship Principles**.

6. Board remuneration

Executive Directors do not receive additional remuneration for their executive director roles and are remunerated in accordance with their employment agreements.



7. Board Committees

The company constitutions enable the Board to delegate certain functions to relevant committees and management. The roles and responsibilities delegated to the Board Committees are captured in the charters of each of the four established committees namely:

- ▶ Morningstar Risk Management Committee
- ▶ Morningstar Investment Management Compliance Committee
- ▶ Morningstar Investment Management Due Diligence Committee
- ▶ Morningstar Investment Management Asia Pacific Investment Policy Committee

A summary of each committee's responsibilities is set out in **Appendix 1 Roles and Responsibilities**.

8. Managing Conflicts of Interest – Directors and Officers

Directors must ensure that they comply with their legal obligations to disclose any material personal interest that they have in a matter that relates to the affairs of the company. As there is no legal definition of what constitutes a material personal interest, Morningstar considers that a matter may be material where the personal interests of a director or officer could interfere with, or could reasonably be perceived to interfere with, the exercise of a director or officer's unfettered and independent judgement. The law requires that Directors do not allow a conflict of interest to compromise their position as a director of the company. Morningstar has in place procedures that requires directors and officers to disclose a material personal interest in a matter that relates to the affairs of Morningstar as soon as practicable after the director or officer become aware of their interest in the matter.

9. Director Training

Upon appointment directors are provided with information about their duties and obligations as a director.

On an ongoing basis, directors are expected to participate in continued professional development to maintain their professional skills and qualifications, and as required to meet any regulatory requirements. From time to time, Morningstar may provide dedicated training to directors and officers on an as needed basis.

10. Non-compliance

If you become aware of any non-compliance or potential non-compliance with this policy, please report it immediately to the Compliance department.



If you are not comfortable speaking to someone directly, Morningstar has established a confidential hot-line called the Morningstar Ethics Hotline which you can use to express your concerns. The Morningstar Ethics Hotline is available 24 hours a day, seven days a week at <https://www.integrity-helpline.com/morn.jsp> or on the following telephone numbers if calling:

Australia 1800 14 1924
New Zealand 0800 450464

Breaches of this policy may lead to disciplinary action up to and including termination of employment.

11. Further information and advice

If you have any questions about this Policy, please contact a member of the Compliance department.

For more information about the regulatory requirements applicable to this Policy please refer to:

- ▶ [ASIC Company Officeholder duties information page](#)
- ▶ [Corporations Act Sections 181-184](#)
- ▶ [Financial Services Council Standard 23: Principles of Internal Governance and Asset Stewardship](#)

12. Policy Review

As part of its commitment to ensuring its Corporate Governance program remains effective and current, the Boards will review this Policy on as needs basis.

Any change in this Policy will be subject to approval by the Boards of Morningstar Investment Management and Morningstar Australia.

Version Number	Modified By	Modifications Made	Date Modified	Status
1.0	Fiona White	Initial Policy	December 2018	Final
1.1	Fiona White	Annual Review <ul style="list-style-type: none">• Addition of NZ complaint requirements• Inclusion of risk culture as a board responsibility• Additional statement on proxy voting process for internally managed funds.	June 2020	Final



Appendix 1

Roles and Responsibilities

Role	Ongoing Accountability / Responsibility
Boards	<ul style="list-style-type: none"> ▶ Setting and promoting a risk management culture within Morningstar Australia. ▶ Ensuring all regulatory and legal requirements are met, including financial reporting obligations. ▶ Ensuring appropriate risk management, conflict management and compliance programs are in place. ▶ Ensuring Morningstar’s business operates ethically and transparently. ▶ Reporting any material personal interests in accordance with this policy. ▶ Provide direction to Senior Management by identifying the principle risks facing the companies and setting the risk appetite statement. ▶ Ensuring appropriately skilled resources are allocated to compliance and risk management to provide assurances to the board and senior management that the compliance and risk management program is being implemented across the business.
Board Chairperson	<ul style="list-style-type: none"> ▶ Providing appropriate leadership to the board ▶ Assisting Morningstar, Inc’s General Counsel with ensuring board membership is robust, balanced and appropriate to Morningstar’s needs ▶ Directing board discussion to ensure critical issues facing the business are addressed. ▶ Monitoring the board’s performance. ▶ Approving the minutes and ensuring they are an accurate reflection of the board meeting.
Company Secretary	<ul style="list-style-type: none"> ▶ Establishing the agenda for each board meeting with input from the chairperson. ▶ Recording the minutes and ensuring they are signed and maintained in accordance with Corporations Act. ▶ Director appointment and resignation process including completing relevant fit and proper checks on all new director appointments including ASIC disqualified persons check and relevant police checks. ▶ Maintaining the Directors and Officers conflict of interest register.

Morningstar Risk Management Committee	<ul style="list-style-type: none"> ▶ Overseeing the implementation and operation of Morningstar’s Risk Management Program. ▶ Monitoring, reviewing and updating as necessary, Morningstar’s Risk Profile Report. ▶ Reviewing and endorsing changes to the Risk Management Program prior to Board approval. ▶ Receiving and reviewing risk monitoring reports. ▶ Reporting and escalation of any significant risk issues to the Board. ▶ Promoting a risk management culture within Morningstar.
Morningstar Investment Management Compliance Committee	<ul style="list-style-type: none"> ▶ Monitoring to what extent Morningstar complies with the Schemes’ Compliance Plans and to report on its findings to Morningstar. ▶ Report to the Board any actual or suspected breach of the Corporations Act involving the Schemes or any breach of the provisions which are prescribed by the Corporations Act to be included in the Schemes’ Constitution after it becomes aware of the relevant breach or suspected breach. ▶ Report to ASIC if the Committee is of the view that Morningstar has not taken or does not propose to take appropriate action to deal with a matter reported under the point noted above. ▶ Assess at regular intervals (determined by the Committee) whether the Schemes’ Compliance Plans are adequate, to report to Morningstar on the assessment and make recommendations to Morningstar about any changes that it considers should be made to the Compliance Plans. ▶ Do such other things as the Corporations Act requires.
Morningstar Investment Management Due Diligence Committee	<ul style="list-style-type: none"> ▶ Ensuring regulated Documents do not contain any statements which are misleading or deceptive. ▶ Ensuring there are no material omissions from the Regulated Documents. ▶ Ensuring no misleading or deceptive conduct is involved in the preparation of Regulated Documents and that all statements are appropriately qualified so as not to mislead. ▶ Ensuring regulated Documents satisfy all content requirements of the Law and include any other information which may be material to an investor’s decision to acquire a product. This requirement is circumscribed by: <ul style="list-style-type: none"> ○ the knowledge of the issuer and other involved parties including named advisors and directors; ○ the fact that information which could be expected to be generally known is not required to be disclosed; and ○ information which is not applicable to the product need not be disclosed. ▶ Ensuring regulated Documents satisfy all relevant FSC Standards. ▶ Ensuring all reasonable steps are taken to ensure that the Regulated Documents are not defective.



Morningstar Investment Management Asia Pacific Investment Policy Committee	<ul style="list-style-type: none">▶ Ensuring investment management provided is consistent with global investment policies set by Morningstar's Investment Management division.▶ Resolving any conflicts of interest arising from investment advisory and investment management activities.▶ Adopting, periodically reviewing and ratifying revised Investment Guidelines.▶ Monitoring compliance with Investment Guidelines and the performance relative to objectives of underlying portfolios.▶ Ratifying investment decisions taken by the investment sub-committees which encompass all matters relating to the investment management of the Model Portfolios including:<ul style="list-style-type: none">○ Investment strategy design, asset allocation, portfolio construction, and risk management.
Management	<ul style="list-style-type: none">▶ Management of day-to-day operations of Morningstar in accordance with Board delegations of authority and Morningstar, Inc. corporate policies.



Appendix 2

Morningstar Investment Management

Asset Stewardship Principles

Morningstar Investment Management's mission centres on helping investors reach their financial goals. We believe in the careful and responsible management of client's assets. In addition to the requirements set out in our Corporate Governance Policy, Morningstar Investment Management has developed these principles to exercise effective asset stewardship on behalf of investors.

How we align our purpose and values with our duty to clients

Our investment principles, which drive our investment decision-making, also aligns our purpose and values with our duty to clients. These seven investment principles guide our thinking, behavior and decision-making and have been inspired by the most experienced and successful investors in the last century.

We put investors first

- We believe the firms that put investors first win in the long term because their investors win.
- Since 1984, Morningstar, Inc. has been helping investors reach their financial goals. Our fiduciary duty to our investors is paramount.

We're independent-minded

- To deliver results, we think it's necessary to invest with conviction, even when it means standing apart from the crowd.
- Our research shows that making decisions based on fundamental analysis, rather than short-term factors and sentiment, delivers better long-term investment results.

We invest for the long term

- Taking a patient, long-term view helps to ride out the market's ups and downs and take advantage of opportunities when they arise.
- Investing with a multi-decade horizon aligns with investors' focus on increasing their purchasing power over their lifetimes.
- The long term is the only period where fundamental, valuation-driven investing works.

We're valuation-driven investors

- Anchoring decisions to an investment's fair value, or what it's really worth, leads to greater potential for returns.
- Valuation-driven investing through a long-term focus on the difference between price and intrinsic value enables investors to get more value than they're paying for.



We take a fundamental approach

- Powerful research is behind each portfolio position we hold, and we understand what drives the cash flows of every investment we analyse.
- Fundamental investing incorporates a focus on the future earnings of an investment and not just its prospective price change.

We strive to minimise costs

- Controlling costs helps investors build wealth by keeping more of what they earn.
- Investment returns are uncertain, but costs are not.

We build portfolios holistically

- To help manage risk and deliver better returns, truly diversified portfolios combine investments with different underlying drivers.
- Portfolios should be more than the sum of their parts.
- True diversification can have a powerful impact on a portfolio's risk-adjusted returns—but simply holding more investments isn't the same as true diversification.

Key Management and Investment Personnel

Morningstar Investment Management is led by the following senior management and investment professionals:

Managing Director, Asia Pacific

- Develops business strategy and oversees its implementation
- Works with senior management to deliver investment outcomes and service to clients
- Chairs the Due Diligence Committee
- Responsible Manager

Chief Investment Officer, Asia Pacific

- Develops Morningstar Investment Management's investment capabilities and thought leadership profile
- Chairs the Asia Pacific Investment Policy Committee
- Responsible Manager

Management of client assets in accordance with investment strategies

The Asia Pacific Investment Policy Committee oversees the delivery of investment management and investment advisory services to clients in the Asia Pacific region. The Committee's primary purpose is to have oversight of all policies, procedures and decision-making required to efficiently execute investment management and investment advisory services and ensuring client assets are managed in accordance with approved investment objectives and guidelines. The Committee is also responsible for resolving any



conflicts of interest arising from investment management activities in accordance with our conflicts of interest policy.

The Committee delegates authority for certain investment management oversight activities to various sub-committees: the Asset Allocation Sub-Committee, the Portfolio Construction Sub-Committee, and the Manager & Security Selection Sub-Committee.

Internal Governance – Client Assets

Morningstar Investment Management's approach to key aspects of internal governance and management of business activities which could impact client assets is set out below.

Error correction policy

All Morningstar Investment Management's Managed Funds are unit priced by our external custodian and administrator (JPMorgan) and have tolerance levels applied against a benchmark movement. Where a tolerance level is exceeded, JPMorgan will provide evidence to support the excess which Morningstar Investment Management considers when performing their unit price review. Any other unit price discrepancies determined by Morningstar Investment Management are raised to JPMorgan for investigation and resolution prior to Morningstar Investment Management releasing unit prices to the market. Unit pricing errors are dealt with in accordance with our Unit Pricing Policy.

In general, performance calculation errors are rare. Unit Pricing errors would be the primary cause of performance calculation errors. If a performance calculation error is identified, performance is recalculated and reports re-released subject to the materiality.

Brokerage and commissions

Brokerage and commissions are a key consideration for the Morningstar Investment Management investment process, and we aim to minimise transaction activity, reducing the transaction costs including brokerage and commissions.

Where Morningstar Investment Management appoints an external manager to manage a portfolio, we apply a long-term conviction-led approach that involves high thresholds for initial due diligence research but once appointed, typical holding periods for managers are in excess of 5 years. A major cost of multi-manager investing is excessive and regular manager switching; and this approach minimises costs associated with high manager turnover. We require underlying managers to account to Morningstar Investment Management for any fees, brokerage and commissions, income or the value of any other benefit (called 'soft dollar receipts') which it or its related party may receive in relation to the investment of the portfolio.



We undertake detailed monitoring of implementation costs including transaction costs such as brokerage, commission and custody settlement in conjunction with our annual Product Disclosure Statement (PDS) updates.

Equitable asset valuation and pricing

Asset valuation and unit pricing for the Morningstar Investment Management Managed Funds is outsourced to JPMorgan.

JPMorgan prices securities in accordance with their Global Fund Services Australia and New Zealand Pricing Policy which documents the baseline pricing practices and controls for fund accounting. All security pricing activities fall under the oversight of JPMorgan's global pricing committee. The instruments covered by their policy are exchange traded assets, fixed income securities and bonds, foreign exchange rates, market indices and OTC instruments.

JPMorgan generates the Net Asset Valuations of all portfolios held within our funds. These valuations are incorporated into the overarching fund valuation and unit priced accordingly against the units issued held by the unit registry. Once JPMorgan strikes unit prices for the Morningstar Investment Management funds, these prices are released to Morningstar Investment Management's Investment Operations team to review. Investment Operations performs a unit pricing tolerance check on a daily basis to ensure that the unit prices are reasonable and have moved in accordance to the contribution of the underlying investments. Once movements are confirmed correct, Morningstar Investment Management releases the unit prices to the market.

Best execution and trade allocation

To implement our investment strategies, we may design portfolios or appoint external managers to manage particular assets. For portfolios constructed internally, we use implementation managers to execute trades.

Capital allocation decisions are implemented across strategies and managers with a focus on achieving the best execution at all times. We strive to deliver the most consistent and efficient implementation of a portfolio. Transaction costs are a key detractor of performance, so a strong focus on portfolio implementation is key to minimising these costs.

Our external managers, including implementation managers, face brokers in the market. In accordance with the agreements we have with these managers, execution and allocation of trades must be done in good faith, on an arm's length basis and in accordance with the managers own Best Execution and Trading Policies.

Implementation and external managers' middle offices facilitate the support for trade execution. Managers leverage software providers such as Global Trading Support Services (GTSS), integrated with FX Connect, and proprietary trade management systems which provides seamless connectivity from trade execution to settlement, including direct connectivity via Financial Information eXchange (FIX) from front office to middle



office trade processing as well as via the SWIFT network to a full community of custodian banks for the purposes of settlement notification.

Asset Stewardship

Morningstar's approach to providing effective asset stewardship on behalf of clients lies in its approach to initially assessing and undertaking due diligence on appropriate investments. This is supplemented by ongoing monitoring, engagement and communication which considers both financial and non-financial matters. Our approaches across both internally managed strategies and external managers are summarised below:

Internally managed strategies

A primary focus of our internally managed, direct equity investment process is to identify and monitor how the companies, in which we are invested, manage their capital for the benefit of their shareholders. Our quality and valuation metrics are built upon the actual financial performance of companies in the context of the industries in which they operate. We also monitor and incorporate the propensity and ability of corporate management to return capital directly to shareholders. Another key component of our process is our qualitative assessment of company management through internal and external research analyst reports, company reports, and media reports.

External managers

Our due diligence process for evaluating managers and/or strategies combines quantitative data analysis with a qualitative assessment of a strategy's personnel and resources, investment philosophy and process, and firm stewardship. We acknowledge that truly skillful managers are not a commodity, but rather, a scarce resource. Accordingly, our critical focus in researching managers is to assess and identify key areas where a comparative advantage exists and whether it can be sustained.

In this context we focus on the following:

- **People** – We view people as the most important area and look for investors with stable teams with proven track records, bring a different perspective and have their interests aligned with clients
- **Philosophy and Process** – We look for a strong and well-defined investment philosophy that suits the people, is repeatable, has a long-term fundamental approach, and is underpinned by a robust approach to risk management
- **Firm** – It's also imperative that a firm enables quality people to operate effectively and puts investors first. Most important is that the firm provides alignment between clients and the fund managers, the structure is conducive to investment independence, is appropriately resourced with good culture to retain its key people



Our process is designed to keep abreast of any changes occurring with the direct investments or the managers we invest with. This is done through regular monitoring and frequent contact and engagement with the management and fund managers of the respective companies. Our team continues to evaluate the investment options based on the same process used in the review and selection stage, but we understand that the ongoing due diligence of an investment option presents different challenges. Therefore, Morningstar Investment Management focuses on specific issues or events that could change its opinion of the investment option and challenge its original investment thesis.

The ongoing monitoring process focuses on the following issues:

- Regulatory issues
- Organizational and/or manager changes
- Management team updates
- Style and process consistency
- Portfolio characteristics
- Risk-adjusted performance
- Asset growth

Morningstar Investment Management is constantly developing and evolving our skills and capabilities to ensure our approach to asset stewardship is best practice in Australian and global investment markets. Morningstar continues to invest further in areas of ever increasing relevance to investors including behavioural science and environmental, social, and governance (ESG) research.

Morningstar Investment Management believes that there are links between an organisation's environmental and social impacts, the quality of its corporate governance, and its long-term business success. Further to our investment principles, we believe ESG factors provide additional insights into areas of potential risk and opportunity that may impact the valuation, performance and reputation of the investments we make

Another area of client asset stewardship which is of increasing importance is the approach to proxy voting. Morningstar recognises that voting rights have economic value and that the exercise of such voting rights is a fiduciary duty. We generally require appointed investment managers to manage stock specific governance matters. Morningstar Investment Management believes that its appointed managers are in a better position to manage the proxy voting requirements in respect of their portfolio holdings. For our internally managed strategies we have standing voting instructions in place that ensures alignment with our proxy voting policy.

Our investment manager agreements generally require the appointed fund manager to vote on resolutions put to shareholders in accordance with their proxy voting policy. In some instances, as part of an investment mandate, we will authorise our investment managers or agents to exercise our voting rights in accordance with our proxy voting principles. To supplement these principles Morningstar can choose to



engage with other investors, industry groups and/ or industry associates and bodies to formulate an approach to ensure securing the best client outcomes. In all circumstances, we retain our voting and other rights in relation to Scheme investments and reserve the right to override a manager's ability to exercise such right.

Morningstar Investment Management manages proxy voting in accordance with its Proxy Voting Policy.

To ensure transparency to investors Morningstar Investment Management produces a range of periodic (monthly, quarterly and annual) and ad-hoc reports and presentations consistent with regulatory and compliance requirements and client service level commitments. These form an essential pillar of Morningstar's client and investor engagement. Performance reports and presentations are developed in-house using proprietary and third-party software, leveraging our internal systems and databases. Morningstar Investment Management assigns 'owner' and 'reviewer' responsibilities for each report in accordance with our publication approval process. This ensures that client reports are comprehensively reviewed by the relevant stakeholders at the appropriate stage of production. Finally, reports are communicated to clients via email, website, third party platforms and/or our proprietary adviser portal (Information Library).

Morningstar Investment Management is well-resourced and adept at communicating in a client friendly manner. Our focus is on presenting the potentially difficult world of investing in a way that can be understood and appreciated by the investor, resulting in better investor engagement. In addition, wherever possible, our communication encompasses behavioural finance principles, helping investors to stay the journey and achieve their longer-term investment objectives.