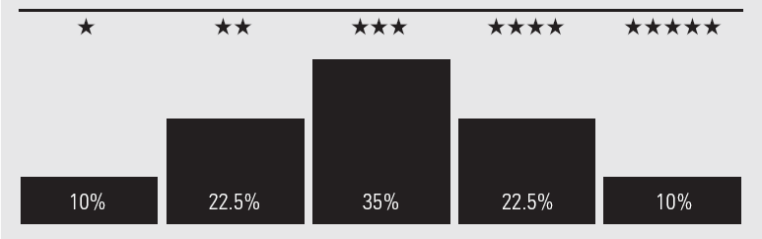
MORNINGSTAR®

Fractional Weights in the Morningstar Rating

Morningstar Methodology Paper
September 30, 2009

Fractional Weights

The Morningstar Rating measures how mutual funds rank against their category peers on risk-adjusted return over the three-, five-, and 10-year time periods. The rating uses a scale of one to five stars, which are distributed according to an approximate bell curve.



The bell curve is based on the number of distinct portfolios in a Morningstar Category for the time period being measured. Morningstar draws these breakpoints based on distinct portfolios instead of distinct share classes, so that a fund with many share classes will not have a disproportionate impact on the ratings.

Because different share classes have different expenses and loads, each share class is rated separately. Morningstar counts each portfolio once while rating each individual share class separately by assigning fractional weights to each share class in a fund for the time period in question. For example, if four share classes of a fund have three years of data available, each share class will get a weight of 0.25 for the three-year rating. The following illustrates a variety of examples.

Name	Fractional Weight 3 Yr
AIM European Growth A	0.20
AIM European Growth A Load Waived	0.20
AIM European Growth B	0.20
AIM European Growth C	0.20
AIM European Growth R	0.20
AIM European Small Company A	0.25
AIM European Small Company A LW	0.25
AIM European Small Company B	0.25
AIM European Small Company C	0.25
California Investment Euro Gr & Inc	1

Name	Fractional Weight 3 Yr
Domini European Social Equity A	0.50
Domini European Social Equity A LW	0.50
Eastern European Equity	0.50
Eastern European Equity Load Waived	0.50
Fidelity Advisor Europe Cap Apprec A	0.167
Fidelity Advisor Europe Cap Apprec A LW	0.167
Fidelity Advisor Europe Cap Apprec B	0.167
Fidelity Advisor Europe Cap Apprec C	0.167
Fidelity Advisor Europe Cap Apprec I	0.167
Fidelity Advisor Europe Cap Apprec T	0.167

© 2009 Morningstar, Inc. All rights reserved. The information in this document is the property of Morningstar, Inc. Reproduction or transcription by any means, in whole or part, without the prior written consent of Morningstar, Inc., is prohibited.

After all the weights have been assigned to the share classes in a category, Morningstar ranks the population on Morningstar Risk-Adjusted Return for the time period in question. Then, we determine the cumulative weight of each share class and the ones above it. The rating breakpoints are based on this cumulative weight.

For example, if there are 31 distinct portfolios in a category for the three-year time period, the equivalent of about 3.1 distinct portfolios (10%) will receive five stars. In cases where no fund falls exactly on the breakpoint, the last fund for the higher rating group is the fund just shy of the breakpoint. In the example below, all funds at or under the 3.1 breakpoint receive five stars. In this example, seven share classes with fractional weights make up the equivalent of three distinct portfolios and receive five stars.

Name	Morningstar Risk-Adjusted Return 3 Yr	Fractional Weight 3 Yr	Cumulative Weight	Morningstar Rating 3 Yr
U.S. Global Investors Eastern Europe	40.15	1.00	1.00	5
AIM European Small Company A LW	38.67	0.25	1.25	5
AIM European Small Company C	37.77	0.25	1.50	5
AIM European Small Company B	37.22	0.25	1.75	5
AIM European Small Company A	36.08	0.25	2.00	5
Third Millennium Russia Load Waived	33.07	0.50	2.50	5
Eastern European Equity Load Waived	32.67	0.50	3.00	5
ING Russia A Load Waived	31.47	0.50	3.50	4
Third Millennium Russia	30.47	0.50	4.00	4
Eastern European Equity	30.08	0.50	4.50	4
DFA Continental Small Company	30.00	0.50	5.00	4
ING Russia A	28.90	0.50	5.50	4

This exercise is repeated for the five- and 10-year periods, using fractional weights based on the number of share classes with data available for those periods.

This technique allows Morningstar to rate each share class separately, while ensuring that any single portfolio does not crowd out others at a given rating level on the bell curve. In addition, Morningstar ensures that share classes that share the same Morningstar Risk Adjusted Return receive the same star rating. For more details refer to the Morningstar Ranking Methodologies document.

© 2009 Morningstar, Inc. All rights reserved. The information in this document is the property of Morningstar, Inc. Reproduction or transcription by any means, in whole or part, without the prior written consent of Morningstar, Inc., is prohibited.