# Morningstar® Stewardship Rating for Stocks

**Investor Benefits**

- Morningstar analysts' focus on sustainable competitive advantages and creditworthiness puts them in a unique position to assess capital allocation decisions and stewardship of shareholder capital.
- The Morningstar Stewardship Rating for stocks is applicable globally.
- Morningstar is a leading provider of independent equity research.
- Morningstar has a team of 120 equity and credit analysts covering more than 1,800 companies globally, including 700 corporate issuer credit ratings.

## Background

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," or "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

## Research Methodology

Morningstar analysts evaluate management teams based on the following factors:

### Investment strategy and valuation

Do investments and acquisitions support the company's competitive advantages and core businesses? What is the cost of acquisitions and major investments?

### Financial leverage

Is the company's debt load appropriate given its cyclicality, capital intensity, and growth trajectory?

### Dividend and share buyback policies

Has the company struck the right balance between internal investment opportunities and returning cash to shareholders?

### Execution

Does the company avoid accidents and problems? Does the company manage its operations well?

### Compensation

Is a material amount of value being directed to managers at the expense of owners?

### Related party transactions

Do related party transactions indicate a material redirection of value to managers and their friends and family at the expense of a company's owners?

### Accounting practices

Does the company engage in deceitful accounting practices?

### Management backgrounds

Do the company's managers have the right backgrounds for their positions?

### Health, safety, and the environment

Has a company's HSE track record had a demonstrated impact on operational performance or shareholder value?

### Ownership structure

Has the ownership structure impacted capital allocation decisions?

### Stakeholder focus

Has a stakeholder focus led to actions for or against the interest of shareholders?

**Morningstar Stewardship Rating for Stocks**

### Exemplary

Investments support competitive advantages and occur at a favorable cost. Optimized financial leverage. Ideal dividend and share buyback policies. Praiseworthy execution. Lack of egregious compensation. No concerning related party transactions. No deceitful accounting practices. Appropriate management backgrounds. No concerning HSE practices. Ownership structure and stakeholder focus hasn't hurt shareholders.

### Standard

Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

### Poor

Value-destructive investments and acquisitions that don't support the core business. Inappropriate financial leverage and dividend and share buyback policies. Troubling execution. Egregious compensation. Concerning related party transactions. Deceitful accounting practices. Inappropriate management backgrounds. Concerning HSE practices. Ownership structure or stakeholder focus that hurts shareholder value.

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