

Morningstar Risk Rankings

Key Benefits

- ▶ The risk ranking is an at-a-glance indication of the risk involved with investing in a particular broad asset class
- ▶ Use Risk Rankings to identify similar types of funds for further investigation
- ▶ RaboPlus Fund Selector Risk Ranking presents the analysis in easy to understand language with five rankings from "Lowest" to "Highest".

Background

Morningstar has constructed these Risk Rankings for funds ranging from 1 to 5, where 1 represents a fund with the least risk and 5 the highest risk. Each fund's risk ranking is based on its Morningstar Category which in turn, reflects the predominant underlying securities that a fund invests in. For this purpose, Morningstar has defined risk by the standard deviation of monthly returns (i.e. how much do returns move around from month to month).

The average returns of funds within a Morningstar Category were calculated using wholesale investment trusts as the representative sample. The standard deviations of returns over 10 years for each Category were then calculated. Adjustments were made when the Category index lacked sufficient history or where Morningstar felt that the standard deviation was insufficient to encapsulate the real-world risk of the Category.

Based on the spread of these standard deviations each Morningstar Category was then ranked from 1 to 5. Morningstar's 1–5 Risk rankings were then assigned appropriate terminology for the RaboPlus Fund Selector.

Risk bands

The table below provides an overview of the 10 year standard deviation bands used by Morningstar to develop their 1–5 Risk rankings for each Morningstar

Category. In turn, the terminology used on the RaboPlus Funds Selector is also displayed. These risk profiles were then subjected to review by Morningstar analysts for reasonableness.

This review process resulted in a limited number of changes where there was either insufficient data to enable a determination or the standard deviation statistic was deemed not to capture all of the risks inherent in a fund. Morningstar will periodically review the Risk ranking, but does not anticipate significant changes at any time.

What it means to you

The risk ranking provides a clear indication of the risk involved with investing in a particular broad asset class.

The risk profile is not a prediction of future returns or the volatility of future returns and these risk bands do not capture fund specific risk issues.

The risk ranking will not identify the varying risks of funds within a particular band, and is not a prediction of future returns or the volatility of future returns.

10-year Standard Deviation	Morningstar Risk Ranking	RaboPlus Fund Selector Risk Ranking
0.00–0.99	1	Lowest
1.00–2.99	2	Low
3.00–6.99	3	Medium
7.00–12.99	4	High
13+	5	Highest