Morningstar Medalist Rating™ for Semiliquid Funds Methodology

Morningstar
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Contents

Morningstar Research

Overview

Morningstar has conducted research on active and passive investment strategies and their associated vehicles since 1986. From November 2011, this research has been expressed globally through the Morningstar Medalist Rating for funds (previously known as the Morningstar Analyst Rating), which Morningstar's manager research analysts assign to strategies and vehicles that they qualitatively analyze.

The Morningstar Medalist Rating for Semiliquid Funds

This rating methodology applies to semiliquid funds rated by Morningstar Manager Research analysts. Examples of semiliquid funds include interval funds, tender-offer funds, nontraded business-development companies, and nontraded real estate investment trusts in the United States. Semiliquid funds outside of the US include certain European long-term investment funds, United Kingdom long-term asset funds, and certain Australia-domiciled managed investment schemes.

A note on terminology: The use of the term "semiliquid" in this methodology reflects that these vehicles' intermittent liquidity is more restrictive than the daily liquidity offered by mutual funds and exchange-traded funds, for example, but less restrictive than private capital strategies that lock up assets for more significant stretches of time. The language around these structures is somewhat fluid and context-dependent. One may see the terms "evergreen," "perpetual capital," and "semiliquid" used interchangeably when discussing any funds that allow investors to buy in at periodic intervals, have some provision for intermittent liquidity, and/or have no predetermined end. Such terms may thus apply to heavily regulated structures such as interval funds, tender-offer funds, and ELTIFs, but also to comparatively lightly regulated private capital funds that are formed as limited partnerships and that can operate indefinitely, often referred to as "evergreen LPs." This ratings methodology document does not apply to limited-partnership private capital funds.

The Morningstar Medalist Rating for semiliquid funds seeks to:

- Identify strategies Morningstar believes should be able to outperform a relevant public market equivalent index or broad private index, as well as outperform relevant peer groups;
- Call out strategies that Morningstar expects to underperform relevant peer groups;
- Work alongside Morningstar's coverage and analyses to help investors and selectors understand the suitability of strategies for an intended purpose and give clear expectations for the likely behavior of strategies in different market environments;

- Place a strategy and its vehicles in comparative and historical context in terms of criteria such as expenses, manager tenure, investment style, and asset size; and
- Monitor strategies for changes that could materially affect the suitability and investment opinion.

Independent Research

Morningstar is committed to the principle of independence. With the exception of our coverage in Australia and New Zealand (see the below section titled “Australia and New Zealand”), Morningstar does not charge asset managers to rate their strategies and associated vehicles and does not permit asset managers to commission ratings from us. Morningstar commercializes its manager research by including ratings and reports in various products and services and through licensing its intellectual property.

Morningstar produces this analysis for the benefit of investors, advisors, and institutions, not asset managers. Morningstar separates its researchers from any commercial relationships the company may have with asset managers in order to avoid any real or perceived conflicts of interest. Morningstar’s assessment aims to provide in-depth, accurate, and useful analysis that will help members select strategies that will outperform, avoid those that will underperform, and build more-cohesive portfolios. This analysis is independent and objective, conveying Morningstar’s genuine opinion of a strategy and associated vehicles, including negative views when warranted.

Australia and New Zealand

While Morningstar has a global ratings model, Australia and New Zealand differ in the following aspects. From March 31, 2026, Medalist Ratings based on any algorithmically generated fundamental pillars (People, Process, and Parent) were withdrawn from Australia. The below details are applicable to analyst-assigned ratings in Australia and New Zealand, but not elsewhere:

- If an investment is domiciled in Australia, and it is required under Australian law to have a Target Market Determination, a rating will only be generated if Morningstar has been provided with that TMD.
- For the purpose of Parent Pillar assignment, the Advisor CompanyID is used in place of Firm Name ID to determine the relevant Branding Name ID.

Also, while Morningstar does typically not charge asset managers to include their strategies and associated vehicles in the Morningstar Medalist Rating coverage universe, consistent with local practice in Australia, Morningstar will, starting from June 2026, offer Issuer Initiated Ratings in Australia and New Zealand, where Morningstar will receive a fee from a fund manager or financial product issuer for the preparation of a Morningstar Medalist Rating on their financial product(s) domiciled in Australia or New Zealand. Morningstar Manager Research retains sole discretion to determine whether analyst-driven coverage can be initiated. This determination is primarily based on the disclosure and provision of sufficient information about the asset manager and the relevant strategy, as well as access to portfolio managers and the investment team.

For a period of time until further notice, Morningstar also intends to continue its coverage of Australia- and New Zealand-domiciled vehicles without charging the relevant fund managers or financial product issuers for the preparation of an associated Morningstar Medalist Rating on their financial product(s).

Morningstar will clearly identify each Issuer Initiated Rating and will provide disclosure relating to the party that has paid the associated fee. Fees for an Issuer Initiated Rating are not linked to the rating outcome, and the paying entity has no influence over the analytical process or rating outcome.

For both types of coverage, Morningstar conducts its analysis in a transparent manner and maintains the integrity and objectivity of its ratings through governance and conflict-management frameworks. Morningstar's researchers are operationally separated via information barriers from Morningstar's commercial and sales activities to avoid any actual, potential, or perceived conflicts of interest.

How Morningstar Makes Coverage Decisions

In making coverage decisions, Morningstar seeks to ensure that users of its research have access to analysis on a broad spectrum of vehicles that are important to them and meet their needs for portfolio construction. Hence, Morningstar doesn't determine coverage strictly based on quantitative screens of investment returns, net assets, or performance history. Moreover, analyst teams have ample discretion in determining their coverage universe, focusing on investment merit, investor interest, and client demand.

Although these criteria can tilt coverage toward vehicles that are larger in terms of assets under management, analysts will cover newer and/or smaller vehicles if they have merit. In addition, Morningstar frequently canvases its analyst team, internal consulting units, and external users of Morningstar's research to identify offerings that might merit coverage. Regional coverage committees internal to the manager research team must approve all coverage decisions.

Forward-Looking Analysis

The Morningstar Medalist Rating for semiliquid funds is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles. Vehicles can include but are not limited to interval funds, tender-offer funds, nontraded BDCs, and nontraded REITs in the United States, certain ELTIFs in Europe, LTAFs in the United Kingdom, and certain Australia-domiciled managed investment schemes. The Medalist Rating for Semiliquid Funds does not express a view on a given asset class or peer group; rather, it seeks to evaluate each strategy and associated vehicle within the context of an appropriate benchmark and peer group.

Morningstar assigns Morningstar Medalist Ratings for semiliquid funds at the vehicle level to accurately capture the impact of fee differences on expected outcomes, including different share classes of the same fund. This means that share classes of the same fund that charge different amounts may receive different Morningstar Medalist Ratings. Morningstar's research and academic studies have repeatedly shown that a vehicle's ability to outperform erodes as fees become higher.

Morningstar expresses the Morningstar Medalist Rating for semiliquid funds on a five-tier scale running from **Gold** to **Negative**. For semiliquid funds, Morningstar assigns **Gold**, **Silver**, and **Bronze** ratings to vehicles expected to add value over the long term when compared with a relevant public market equivalent or broad private index, the Morningstar Category Index, and median peer. Morningstar Medalist Ratings for semiliquid funds should be interpreted as follows:

Rating	Outcome expectation
Gold Morningstar's top recommendations, where our analysts have their highest level of conviction that these investments can add value.	Expected to deliver positive excess returns versus a broad private or public market equivalent index for the relevant asset class, their Morningstar Category index, and their median peer.
Silver Just below Gold but analysts still have a very high level of conviction that these investments can add value.	Expected to deliver positive excess returns versus a broad private or public market equivalent index for the relevant asset class, their Morningstar Category index, and their median peer.
Bronze Our analysts believe these investments can add value.	Expected to deliver positive excess returns versus a broad private or public market equivalent index for the relevant asset class.
Neutral Not expected to add and may subtract value within their Morningstar Category.	Expected to deliver zero or negative excess returns versus a broad private or public market equivalent index for the relevant asset class.
Negative Expected to subtract value and may have serious flaws in one or more pillars.	Expected to deliver negative excess returns versus a broad private or public market equivalent index for the relevant asset class.
Under Review Denotes a change at a rated investment that requires further review to determine its impact on the rating.	N/A

Methodology

In more than two decades of manager research, Morningstar's global analyst team has identified three key areas that evidence suggests are crucial to predicting the future gross performance of strategies and their associated vehicles: Process, People, and Parent. These three pillars form the spine of Morningstar's research approach, with analysis coalescing around an evaluation of the strategy's underlying investment process, the management team, and the parent firm. In this way, the analysis considers not just each pillar in isolation but also the interaction among them, which is crucial to understanding a vehicle's overall merit.

Medalist Ratings for semiliquid funds seek to identify funds that can deliver excess returns over the relevant benchmark and outperform relevant peer groups, on a net-of-fee basis.

Score Pillars

Based on their qualitative research, Morningstar analysts assign scores to the Process, People, and Parent Pillars ranging from negative 2 to positive 2. Those scores correspond to the pillar ratings of Low, Below Average, Average, Above Average, and High, respectively.

Derive the Rating

The pillar scores are used in conjunction with set pillar weights to derive an overall score for each offering, which is then adjusted for fees. As compared with the Morningstar Medalist Rating methodology, Morningstar analysts have determined that a higher weight on the Parent Pillar is required for semiliquid funds, given the importance of the overall organization in deal sourcing, valuation of securities, and governance. Likewise, the higher weight on the Process Pillar reflects the added complexities and risks inherent to portfolios with intermittent liquidity that potentially hold private assets. The three pillars are therefore weighted as follows:

Process: 50%
People: 25%
Parent: 25%

The equation to derive a semiliquid fund's prefee score is:

(0.50 * Process Score)
+ (0.25 * People Score)
+ (0.25 * Parent Score)
= Prefee score

Morningstar then adjusts the prefee score to incorporate the impact of fees by grouping the investments into relevant fee-comparison groups by broad asset class and ranking by order of fees. To rank semiliquid funds that charge performance fees, Morningstar calculates an effective fee that assumes a specified rate of return for the relevant asset class. This allows for all semiliquid funds in a fee-comparison group to be ranked regardless of whether they charge a performance fee or not. For each fee-comparison group, funds in the cheapest third will have 0.25 added to their scores, funds in the middle third will have no adjustment to their scores, and funds in the costliest third will have 0.50 deducted from their scores. Fees are assessed and ranked at the share class level, and individual share classes of a given fund can therefore be assigned different ratings if their fees differ.

Investments' fee-adjusted scores are then used to drive their ratings as outlined below. The ranges below may be overridden if circumstances warrant, subject to approval by the ratings committee. See Appendix A for the complete matrix of pillar score values, fee ranks, and associated rating outcomes.

Gold
Fee-adjusted score is 2 or higher, and no pillars are rated Below Average or Low.

Silver
Fee-adjusted score is below 2, but at least 1.5, and no pillars are rated Below Average or Low.

Bronze
Fee-adjusted score is below 1.5, but at least 1, and no pillars are rated Below Average or Low.

Neutral
Fee-adjusted score is below 1, but at least 0.

Negative
Fee-adjusted score is lower than 0.

Performance and Price
Morningstar evaluates a vehicle's performance as part of its overall assessment. However, performance is not a distinct pillar. Rather, Morningstar considers performance within the context of the other pillar assessments it conducts, notably Process and People. This ensures that performance doesn't play an outsize role in the overall assessment, while tying performance analysis to factors that Morningstar's research has found are better predictors of future outcomes, like the prudence and repeatability of a vehicle's investment approach; the depth, breadth, and continuity of the management team implementing the strategy; and the investment culture, resources, and capabilities of the parent organization.

Likewise, Morningstar takes fees into account when assigning ratings to vehicles as above and therefore does not maintain a separate price pillar. Fees are also considered within the context of the Parent Pillar as a reflection of how well the parent serves fundholders.

Pillar Evaluation

This section explains how Morningstar analysts evaluate the Process, People, and Parent Pillars in assigning ratings to the semiliquid funds they cover.

Process

Morningstar analysts are style-agnostic, meaning that, for equity strategies, they do not prefer value to growth or momentum, venture capital to buyout funds, or vice versa. For fixed-income strategies, both high-quality and credit-sensitive styles are viable. For multi-asset strategies, a wide range of approaches to asset allocation can succeed. Analysts look for strategies with a performance objective and investment process (for both security selection, manager selection, risk management, and portfolio construction) that is sensible, clearly defined, and repeatable. It must also be implemented effectively. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective. Analysts seek to understand the context in which managers think about risk and how this is expressed when constructing the portfolio. Morningstar analysts make extensive use of Morningstar's global database and holdings-based analytical capabilities to evaluate the portfolio. Analysts look for strategies with a process distinctive enough to generate standout results in the future.

More specifically, analysts seek to understand, as applicable:

- The key "edge" of the process as executed by the manager;
- Elements that are systematic and repeatable, if any;
- The fit of the process with the resources backing the strategy and with the size of the asset base tied to the strategy (including all vehicles across all domiciles);
- Whether the process has been consistently applied, as demonstrated by the composition of the portfolio over time;
- The risks entailed in the process, from a portfolio-bias point of view and from an ability-to-execute point of view;
- The managers' approach to risk management;
- Analysts' expectations for performance in different market environments assuming the process is adhered to;
- Whether there is reason to believe the process can add value across the cycle versus the relevant benchmark or category;
- The suitability of the strategy for different types of investors given the risks one would expect to see in its portfolio;
- Idea generation and deal sourcing;
- The alignment of the vehicle's liquidity provisions with the liquidity of portfolio holdings;
- Effectiveness of liquidity management in the context of periodic redemptions;
- The source and reliability of valuation methodologies for nontraded assets; and
- The process and timeline for achieving exits.

People

The overall quality of a strategy's investment team is a significant key to a strategy's ability to deliver superior performance relative to its benchmark and/or peers. Evaluating an investment team requires that analysts assess, among other things, the individuals who make the key decisions on the portfolio; if there is more than one person in charge, how conflicts are resolved; resources that directly support the managers' work on the strategy; other resources that are not part of the team, including external partners and managers, their skills and experience, and the extent to which resources from these parties contribute to the particular strategy; the expertise and relevance of available resources to the strategy; and how incentive pay influences decision-making and team stability.

The relevant personnel, including supporting functions such as internal deal-sourcing teams and partnerships and valuation committees, are judged along several axes:

- Experience and ability;
- Fit and structure;
- Workload;
- Communication and information flow;
- Temperament;
- Alignment of interests;
- Key-person risk; and
- Team stability.

Parent

Morningstar believes the parent organization is important in evaluating funds, whether they offer active, passive, semiliquid, or private funds. Although other factors may have a more immediate impact on fund returns, they would not be durable without backing from the parent. Further, the asset manager and its management set the tone for key elements of Morningstar's evaluation, including recruitment and retention of talent, risk management, capacity management, and firmwide policies, such as incentive pay, which drive or impede the alignment of the parent interests with those of fund investors.

Beyond these areas, Morningstar analysts prefer parents that have a culture of stewardship and put clients first to those that are too heavily weighted to salesmanship. The former tend to operate within their circle of competence, do a good job of aligning manager interests with those of investors in their funds, charge reasonable fees, communicate well with investors, and treat client capital as if it were their own. Parents oriented to putting their own interests too much to the fore might be characterized by their view of investors as sales opportunities—they tend to offer faddish products in an attempt to gather assets, charge higher fees, and have incentive programs that do a poor job of aligning managers' interests with those of investors. Although relatively few parents fall obviously to either extreme, determining where an asset manager falls on the spectrum is a key to the parent research approach.

Key areas of Parent Pillar evaluation include:

- Organizational structure;
- Investment/corporate culture;
- Recruitment and retention of talent;
- Risk management;
- Capacity management;
- Organizational and business strategy;
- Quality of product lineup;
- Alignment of interests with investors;
- Regulatory compliance;
- Experience and capabilities in illiquid assets;
- Deal-sourcing capabilities;
- Governance of processes relating to deal allocation, valuation, and exits;
- Ability to attract and manage partnerships with specialist firms as relevant; and
- Transparency with investors.

Appendix A: Rating Guideline Grid

Pillar Ratings		Fee Tercile Relative to Fee-Comparison Group		
People/Parent[1]	Process	Cheapest	Middle	Costliest
High/High	High	Gold	Gold	Silver
High/Above Average	High	Gold	Silver	Bronze
Both Above Average	High	Silver	Silver	Bronze
Above Average/Average	High	Silver	Bronze	Neutral
Both Average	High	Bronze	Bronze	Neutral
Average/Below Average	High	Bronze	Neutral	Neutral
Both Below Average	High	Neutral	Neutral	Neutral
Below Average/Low	High	Neutral	Neutral	Negative
Both Low	High	Neutral	Neutral	Negative
High/High	Above Average	Silver	Silver	Bronze
High/Above Average	Above Average	Silver	Bronze	Neutral
Both Above Average	Above Average	Bronze	Bronze	Neutral
Above Average/Average	Above Average	Bronze	Neutral	Neutral
Both Average	Above Average	Neutral	Neutral	Neutral
Average/Below Average	Above Average	Neutral	Neutral	Negative
Both Below Average	Above Average	Neutral	Neutral	Negative
Below Average/Low	Above Average	Neutral	Negative	Negative
Both Low	Above Average	Negative	Negative	Negative
High/High	Average	Bronze	Bronze	Neutral
High/Above Average	Average	Bronze	Neutral	Neutral
Both Above Average	Average	Neutral	Neutral	Neutral
Above Average/Average	Average	Neutral	Neutral	Negative
Both Average	Average	Neutral	Neutral	Negative
Average/Below Average	Average	Neutral	Negative	Negative
Both Below Average	Average	Negative	Negative	Negative
Below Average/Low	Average	Negative	Negative	Negative
Both Low	Average	Negative	Negative	Negative

1 The People and Parent Pillars are equal-weighted in Morningstar's semiliquid fund rating system. As such, the order of pillar ratings in any given row in the first column is not material.

Appendix A: Rating Guideline Grid, Continued

Pillar Ratings		Fee Tercile Relative to Fee-Comparison Group		
People/Parent*	Process	Cheapest	Middle	Costliest
High/High	Below Average	Neutral	Neutral	Neutral
High/Above Average	Below Average	Neutral	Neutral	Negative
Both Above Average	Below Average	Neutral	Neutral	Negative
Above Average/Average	Below Average	Neutral	Negative	Negative
Both Average	Below Average	Negative	Negative	Negative
Average/Below Average	Below Average	Negative	Negative	Negative
Both Below Average	Below Average	Negative	Negative	Negative
Below Average/Low	Below Average	Negative	Negative	Negative
Both Low	Below Average	Negative	Negative	Negative
High/High	Low	Neutral	Neutral	Negative
High/Above Average	Low	Neutral	Negative	Negative
Both Above Average	Low	Negative	Negative	Negative
Above Average/Average	Low	Negative	Negative	Negative
Both Average	Low	Negative	Negative	Negative
Average/Below Average	Low	Negative	Negative	Negative
Both Below Average	Low	Negative	Negative	Negative
Below Average/Low	Low	Negative	Negative	Negative
Both Low	Low	Negative	Negative	Negative

Appendix B: Contributors and Version History

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Adjusted Neutral rating threshold to include scores of 0 in the Neutral rating band; adjusted Rating Guideline Grid in Appendix A to reflect the threshold change. Added information on Australia and New Zealand ratings.

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