Morningstar's Seven Investment Principles

Morningstar's investment philosophy is underpinned by a set of seven investment principles that guide every investment decision that we make. These principles are ingrained in our culture and capture the latest research in behavioural finance to deliver a rational and sustainable approach to investing for our clients. We are delighted to share them with you and explain why they matter below.

We put investors first.

We believe firms that put investors first win in the long term because their investors win.

Why it's important: Firms that allow conflicts of interest to hijack their actions do not have investors' best interests in mind. Their actions could have detrimental effects on clients' portfolios.

What we do: We know that generating long-term benefit for clients will ultimately lead to long-term benefit for Morningstar as well. We also align our portfolio managers' incentives with the long-term performance (after fees) that investors experience.

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.

Why it's important: Herding is commonplace in investing, often leading to volatile booms and busts. Meeting your investment goals may often mean acting independently from the crowd.

What we do: We're mindful of our emotions and test our assumptions to help determine whether they are simply consensus views or instead driven by objective estimation of intrinsic value. Taking outcomes for granted or falling prey to dangerous biases can derail even the best-intentioned investment team.

We invest for the long term.

A patient, long-term view helps us stay the course during the market's ups and downs and take advantage of opportunities when they arise.

Why it's important: Investors often overemphasise the importance of recent events, rushing into hot stocks near the peak and fleeing from market downturns just as the outlook for returns improves.

What we do: We avoid arbitrary trading activity and measure holding periods in years rather than months. This keeps costs down and focuses our minds on valuation rather than market noise.

We're valuation-driven investors.

We anchor on an investment's underlying intrinsic value, rather than fleeting news, sentiment or momentum. Much of the market's daily volatility is meaningless noise.

Why it's important: Most human minds are hard-wired to find patterns even when there are none. Our experience and that of investors we respect have demonstrated that in the long-run the underlying value of a company relative to the price paid drives performance and preserves capital.

What we do: When markets are falling and pessimism is high, herd behaviour or decision paralysis can be very detrimental. Instead we try to be disciplined investors that invest at lower prices based on valuation (when many market participants are selling) to generate higher returns.

We take a fundamental approach.

Powerful research is behind each decision we take, and we invest significant time and resources to truly understand what we own and why we own it.

Why it's important: Researchers find that investors base decisions on dangerous shortcuts; from the spelling of fund managers' names, to whether friends have mentioned the company before. Investors use these tenuous characteristics to judge whether an investment is worthy and then often selectively seek out data that confirms those potentially biased conclusions.

What we do: We structure our analysis around the fundamental characteristics of each company, including its cash flow, balance sheet, and potential for a sustainable competitive advantage. Our research, screening, and portfolio construction processes keep our focus on facts that really matter.

We strive to minimise costs.

Controlling costs helps investors build wealth by letting them keep more of what they earn.

Why it's important: Investors face a barrage of information, and human minds tend to focus on just one or two narrow characteristics, sometimes ignoring fees. While returns are volatile and uncertain, fees aren't.

What we do: Total fees to the investor are a key consideration in our portfolio construction process – be it management fees, taxes or transaction costs. Whilst not always the lowest cost provider, we aim to be the best value for money asset manager and are committed to charging clients fair and reasonable fees for our services while delivering on our investment principles.

We build portfolios holistically.

To help manage risk and deliver better returns, truly diversified portfolios combine investments with different underlying drivers, improving stability and total returns over time.

Why it's important: Human minds are drawn to compelling stories, like new and popular companies, strategies, and managers. These stories seem to help tune out overwhelming details, but can also leave investors over-exposed to narrow unsustainable themes.

What we do: We embrace diversification that's driven by both historical and forward-looking fundamental analysis. Careful selection of a range of investments that aim to minimise collective portfolio risk helps to generate stability of capital while pursuing return objectives.

The evidence that supports our philosophy is based on a combination of well documented academic research, as well as, internal capital markets, equity, and manager research. We have literally hundreds of internal investment professionals with experience providing investment research and advice, and managing client investments over many years. This resourcing allows us to develop a sustainable culture based on our investment principles, and portfolios based primarily on our internal capabilities.