CPF Investment Scheme

Evaluation Criteria for Prospective Fund Management Companies / Insurance Companies for Inclusion under the CPFIS

The Central Provident Fund Board ("CPFB" or the "Board") has appointed Morningstar Research Pte. Limited ("Morningstar") to assist with due diligence related to the inclusion of Fund Management Companies ("FMCs") / Insurance Companies ("Insurers"), to manage unit trusts and investment-linked insurance products ("ILPs"), under the Central Provident Fund Investment Scheme ("CPFIS").

The information below, provided by Morningstar, is intended to let FMCs / Insurers gain a better understanding of the criteria applied in the evaluation process and the ongoing disclosures required for monitoring purposes.

- Qualitative Evaluation of Providers (FMCs/Insurers) for inclusion under CPFIS
- Qualitative Evaluation of Products for inclusion under CPFIS
- Notifications and Disclosure Requirements for FMCs/Insurers

Qualitative Evaluation of Providers (FMCs/Insurers) for inclusion under CPFIS

Morningstar's provider evaluation is predicated on its parent research approach, which forms an integral part of Morningstar's Analyst Rating methodology. For FMCs/insurers with existing parent ratings from Morningstar, no additional evaluation is required as the parent rating will serve as an important input towards the overall evaluation. If the FMC/insurer does not have a parent rating, Morningstar will initiate research coverage on the FMC/insurer and the resultant parent rating will serve as the input towards the overall evaluation.

In determining the parent ratings for FMCs/insurers, Morningstar analysts will meet with the FMC/insurer's senior management (typically its Chief Executive Officer and/or Chief Investment Officer) and the main areas of focus are outlined in the below section.

Morningstar believes the FMCs/Insurers, or parent organisation, is important in evaluating both active and passive funds. Although other factors may have more immediate impact, they would not be sustainable without backing from the asset-management firm. Further, the asset manager and its management set the tone for key elements of the evaluation, including capacity management, risk management, recruitment and retention of talent, and firmwide policies, such as incentive pay, that drive or impede the alignment of the firms' interests with those of fund investors.

Beyond these operational areas, Morningstar would evaluate firms to see if they have a culture of stewardship and put investors first rather than 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 strategy investors, and treat investors' capital as if it were their own. Morningstar would also evaluate whether FMC/insurers would put their own interests over investors' by offering faddish products in an attempt to gather assets through higher charges and incentive programs. Although relatively few firms fall obviously at one extreme or another, Morningstar would assess FMC/insurers by determining where they fall on the spectrum.

Qualitative Evaluation of Products for inclusion under CPFIS

Morningstar's product evaluation is predicated on the three pillars (People, Process, Parent) that underpin the Morningstar Analyst Rating. Morningstar's research approach seeks to determine whether an active strategy is well positioned to deliver a superior risk adjusted return relative to its Morningstar category benchmark over time. For passive strategies, Morningstar seeks to identify products that are well positioned to outperform its category peers on a risk-adjusted basis over time.

In determining the Morningstar Analyst Ratings (including the three pillars that serve as important components of the overall evaluation criteria), Morningstar analysts will meet with the lead portfolio manager (and supporting team) and the main areas of focus are outlined in the below section.

People Pillar

The overall quality of a product's investment team is a significant key to a product's ability to deliver superior performance relative to its benchmark and/or peers. When evaluating an investment team, Morningstar 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; the expertise and relevance of available resources to the strategy; and how incentive pay influences decision-making and team stability.

The relevant personnel are judged along several axes:

- Experience & ability
- Fit & structure
- Workload
- Communication/information flow
- Temperament
- Alignment of interests with investors
- Key-person risk

- Team stability

Process Pillar

Morningstar analysts are style-agnostic, meaning that, for equity strategies, there is no preference between value, growth or momentum. 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. Morningstar analysts look for strategies with a performance objective and investment process (for both security selection 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. Also taken into consideration is the context in which managers think about risk and how this is expressed when constructing the portfolio. Analysts make extensive use of Morningstar's global database and holdings-based analytical capabilities to evaluate the portfolio, looking for strategies with a process distinctive enough to generate standout results in the future.

More specifically, Morningstar analysts seek to understand:

- The investment philosophy that underpins the strategy;
- 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;
- Expectations for performance in different market environments assuming the process is adhered to;
- Whether or not the process can add value across the cycle versus the relevant benchmark or category on a risk-adjusted basis;
- The suitability of the strategy for different types of investors given the risks expected in the portfolio; and
- Any historical changes in approach or style, and the reasons for those changes.

Overall FMC/insurers and their products will be evaluated based on the following criteria,

1. Morningstar's qualitative assessment (relative to the 3 pillars framework described above)

2. Fees versus peers in the retail universe
3. Performance versus peers in the retail universe

Notifications and Disclosure Requirements for FMCs/Insurers

For Evaluation Purpose*

Item	**Frequency**	**Email**	**Email Subject Line**
DDQ Parent	At the time of application or re-evaluation	CPFIS@morningstar.com	DDQ Parent: <FMC/Insurer name>
DDQ Fund	At the time of application or re-evaluation	CPFIS@morningstar.com	DDQ Fund: <FMC/Insurer name> + <Fund Name>
Quarterly Portfolio holdings for the past five years or since inception, whichever is later	At the time of application	PortfolioAsia@morningstar.com	-

For Monitoring Purpose*

Item	**Frequency**	**Email**	**Email Subject Line**
Significant Events related to changes in: 1) Portfolio manager 2) Investment process (such as fund objective, benchmark, risk limits) 3) Organisation (C-suite changes, merger & acquisitions) 4) Regulatory violations	Within five business days. If there were no changes, FMC/Insurers are required to notify no later than five business days from June-end and December-end, stating “No Significant Event” in the email subject line.	CPFIS@morningstar.com	Event: <FMC/Insurer name>+<Fund Name>
Prospectus changes	Within ten business days	CPFIS@morningstar.com; GlobalDocument@morningstar.com	Prospectus: <FMC/Insurer

			name>+<Fund Name>
Monthly Factsheet	Within one month after quarter end	CPFIS@morningstar.com; GlobalDocument@morningstar.com	Factsheets for <#QYYYY>: <FMC/Insurer name>+<Fund Name>

* Please contact Wanyi.Kong@morningstar.com or Maggie.Xue@morningstar.com for any queries regarding preferred data formats if unfamiliar with Morningstar's reporting protocols.