

Morningstar, Inc.

Morningstar Essentials:
Disclosure Language



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What guidelines must be followed?

All use of the Morningstar Rating™ must be submitted to Morningstar for review. Morningstar bases its review of fund company use in advertising and marketing material on the guidelines contained herein. These guidelines were designed in part to help you fulfill the requirements of FINRA as they relate to the use of specific Morningstar data. The disclosure of these guidelines *in no way replaces* the need for fund companies to send advertisements and marketing materials to Morningstar for review of usage of Morningstar's proprietary data. Morningstar does not require that you obtain written approval prior to your proceeding with publication. However, to ensure that future use follows these guidelines, we may require you to revise your use of the Morningstar material at a later date. Upon notification, you must comply with any requested changes prior to publishing, producing or disseminating any future materials. Morningstar's review guidelines are subject to change at Morningstar's discretion. Any use of Morningstar data must be accompanied by the following language:

© [Insert year] Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

When submitting materials for review, where do I send it and what information do I need to include?

Material can be submitted to your sales director or relationship manager. When submitting a piece to Morningstar for review, include a description of the piece (i.e., state the type of piece and its intended distribution). Please confirm whether the piece is being used for 3rd party advertising or is a marketing piece (e.g., web site, shareholder communication, press release, flyer, brochure, etc.) If known and easy to summarize, please give the name of the newspaper, television station, or magazine and the date the advertisement will start running.

When should I use the Overall Morningstar Rating™ versus the rating for a particular time period?

The Overall Morningstar Rating™ must be the *featured* Morningstar Rating in the materials. The three-, five-, and 10-year ratings may also be illustrated, but the Overall Morningstar Rating must be featured with them. For example, if a

fund has received 5 stars for the three-year period and 3 stars for the five-year period and has an Overall Morningstar Rating™ of 4 stars, the 4-star Overall Morningstar Rating is required to be the featured Morningstar Rating. In this instance, if the fund company chooses to show the 3- and 5-year ratings, then the 10-year and Overall ratings must also be shown. “Cherry-picking” time periods when using the Morningstar Rating is not accepted. In other words, the rule for featuring the Morningstar Rating is “*Overall or All.*” In addition, when illustrating the Morningstar Rating, the respective time period for the rating (i.e., 3-Year, 5-Year, 10-Year or Overall) and the number of funds in the rating category for each illustrated time period must be in immediate proximity to the applicable rating.

What are the disclosures that should accompany the use of the Morningstar Rating™?

The following disclaimer is required when using the Morningstar Rating:

© [Insert year] Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

FINRA member firms should use the following paragraph with any use of the Morningstar Rating to satisfy FINRA disclosure requirements. In the event that FINRA or other regulatory agency requires revisions to the following disclaimer, you may make such changes as deemed appropriate:

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

If the number of funds in the rating category is not included in immediate proximity to the rating, the following language should be included:

[Insert name of fund] was rated against the following numbers of [insert name of category] funds over the following time periods: [insert number of funds in category during prior 3-year period] funds in the last three years, [insert number of funds in category during the prior 5-year period] funds in the last five years, and [insert number of funds in category during the prior 10-year period] funds in the last ten years. Past performance is no guarantee of future results.

In addition, in the event that Licensee has multi-class funds, the following language should also be included:

Morningstar Rating is for the ____ share class only; other classes may have different performance characteristics.

What is the proper way to refer to the Morningstar Rating™?

The phrase “Morningstar Rating” should always be designated with the proper trademark identifier (e.g., Morningstar Rating™, Overall Morningstar Rating™, or 3-Year Morningstar Rating™) in all headings and titles, and at its first appearance on each page within the body text of a document. Subsequent appearances do not require use of the trademark identifier.

When depicting the number of stars in a particular Morningstar Rating, express the number of stars A) using plain, solid, two-dimensional, undecorated stars (e.g., “★★★★★ Overall Morningstar Rating™”) or B) in an alphanumeric depiction (e.g., “5-Star Overall Morningstar Rating™”).

When depicting the Morningstar Rating for your fund, if possible, please place the depiction of the number of stars in front of the time period followed by the phrase “Morningstar Rating™”: [number of stars] [time period] [Morningstar Rating™]. The following examples are correct:

“5-Star Overall Morningstar Rating™”

“★★★★★ 3-Year Morningstar Rating™”.

The format “XYZ Fund received a 4-Star Morningstar Rating™ for the 3-Year period” is also acceptable.

Can the Morningstar Rating™ be used to depict an endorsement of a particular fund or be depicted as a “Ranking?”

Any reference to the Morningstar Rating™ must use the term “Rating” as opposed to “Ranking.” The Morningstar Rating is not to be confused with a “Ranking.”

Language cannot be used that depicts the Morningstar Rating as *an endorsement of the referenced fund*. For example:

Incorrect usage:

“The XYZ Fund was awarded Morningstar’s highest rating – 5 stars!”

“XYZ Fund earned 5 stars!”

The Morningstar Rating is based on an *objective, mathematical calculation* and is not to be construed as an endorsement of any fund(s). An acceptable phrasing would be:

Correct usage:

“XYZ Fund received a 5-Star Overall Morningstar Rating™!”

How often must the presentation of the Morningstar Rating™ be updated?

The *date* of the Morningstar Rating™ must be the *most recent for which data are available* (most recent quarter or month-end) and must be *clearly labeled* in the advertisement, as well as in *close proximity* to the actual rating. This date is also known as the “*as of*” date.

How should multi-class funds be treated?

Materials that focus on multi-class funds should not leave any doubt as to which class received a particular Morningstar Rating™. There are some instances where two classes of a fund each have a different Morningstar Rating (due to the way fees and expenses affect returns). A clear mention of the specific class, or the additional statement in the disclosure language above, must be included.

Can the Morningstar Rating™ be used to imply predictive value or a forecast of future performance?

The referenced fund’s Morningstar Rating™ *should not imply a predictive value*. The Morningstar Rating is an evaluation of *past performance only*. This is why the phrase, “Past performance is no guarantee of future results,” is mandatory in the disclosure or somewhere else in the body text of the

advertisement, provided the reference is prominent and clearly applies to the advertisement as a whole.

Can the Morningstar Rating™ be used in conjunction with other data provider's analysis or data?

Yes, however each data provider must be clearly labeled. The Morningstar Rating™ may not be displayed in connection with, or in close proximity to any information or data furnished by any of Morningstar's direct competitors in a manner in which attribution is unclear, including the following entities:

- × Financial Engines Advisors, LLC
- × Lipper, a Thomson Reuters company
- × Standard and Poor's, a division of The McGraw-Hill Companies, Inc.
- × Value Line, Inc.

If my fund has less than ten years of history, should I use the 3-Year, 5-Year or Overall Morningstar Rating™?

If your fund has only been in existence for three years, its Three-Year Morningstar Rating™ is also its Overall Morningstar Rating. If a fund has only been in existence for five years, its Overall Morningstar Rating is based on a weighted average of the performance figures associated with its three- and five-year Morningstar Rating metrics. In either case, you may refer to the rating as the Overall Morningstar Rating in your advertisement, but should also disclose that the rating is based only on three or five years. The Overall Morningstar Rating must always be the featured rating.

What other disclosure language is available?

Morningstar Rating: Based on Extended Performance

For use on displays with fund share classes whose ratings are based on returns prior to the inception of that particular share class.

Some of Morningstar's proprietary calculations, including the Morningstar Rating™, are not customarily calculated based on adjusted historical returns. However, for new share classes/channels, Morningstar may calculate an extended performance Morningstar Rating. The extended performance is calculated by adjusting the historical total returns of the oldest share class of a fund to reflect the fee structure of the younger share class/channel, attaching this data to the younger share class' performance record, and then compounding the adjusted plus actual monthly returns into the extended performance Morningstar Risk-Adjusted Return for the three-, five-, and 10-year time periods. The Morningstar Risk-Adjusted Returns are used to determine the extended performance Morningstar Rating. The extended performance Morningstar Rating for this fund does not affect the retail fund

data published by Morningstar, as the bell curve distribution on which the ratings are based includes only funds with actual returns. The Overall Morningstar Rating for multi-share funds is based on actual performance only or extended performance only. Once the share class turns three years old, the Overall Morningstar Rating will be based on actual ratings only. The Overall Morningstar Rating for multi-share variable annuities is based on a weighted average of any ratings that are available.

While the inclusion of pre-inception data, in the form of extended performance, can provide valuable insight into the probable long-term behavior of newer share classes of a fund, investors should be aware that an adjusted historical return can only provide an approximation of that behavior. For example, the fee structures of a retail share class will vary from that of an institutional share class, as retail shares tend to have higher operating expenses and sales charges. These adjusted historical returns are not actual returns. The underlying investments in the share classes used to calculate the pre-performance string will likely vary from the underlying investments held in the fund after inception. Calculation methodologies utilized by Morningstar may differ from those applied by other entities, including the fund itself.

The Morningstar Rating disclosure must accompany the above paragraphs.

Morningstar Rating: Separate Accounts

The Morningstar Rating™ for funds, or "star rating", is calculated for separate accounts with at least a three-year history. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Notes

Fees for separate accounts can vary widely and are negotiated between the asset manager, the separate account program sponsor or advisor, and the investor. Morningstar has chosen to present gross-of-fees performance (before fees have been taken out) to compare separate accounts. Net-of-fees calculations often deduct the highest theoretical fees that an investor may pay.

Morningstar will not calculate ratings for categories or time periods that contain fewer than five separate accounts. Each investor in the same separate account can experience slightly different total returns, because investors have different account preferences and restrictions. Therefore, to ensure that ratings are fairly assigned, Morningstar will calculate ratings for only those firms that report performance for “composites” of similarly managed portfolios according to the guidelines of the CFA Institute’s Global Investment Performance Standards (GIPS®).

Separate accounts that do not have ratings can be divided into two groups: those that do not qualify to be rated and those that did not participate. A separate account will not get a Morningstar Rating if: It is less than three years old, the firm is not GIPS-compliant, or the category contains fewer than five separate accounts that are eligible for a rating.

Morningstar Style Box™

The Morningstar Style Box™ reveals a fund’s investment strategy.

For equity funds the vertical axis shows the market capitalization of the long stocks owned and the horizontal axis shows investment style (value, blend, or growth). A darkened square in the style box indicates the weighted average style of the portfolio.

For fixed-income funds, the vertical axis shows the credit quality of the long bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond’s effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information Morningstar accepts credit ratings reported by fund companies that have been issued by all Nationally Recognized Statistical Rating Organizations (NRSROs). For a list of all NRSROs, please visit <https://www.sec.gov/ocr>. Additionally, Morningstar accepts foreign credit ratings from widely recognized or registered rating agencies. If two rating organizations/agencies have rated a security, fund companies are to report the lower rating; if three or more organizations/agencies have rated a security, fund companies are to report the median rating, and in cases where there are more than two organization/agency ratings and a median rating does not exist, fund companies are to use the lower of the two middle ratings. PLEASE NOTE:

Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the fund. An NRSRO or rating agency ratings can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

For municipal bond funds, Morningstar also obtains from fund companies the average effective duration. In these cases static breakpoints are utilized. These breakpoints are as follows: (i) Limited: 4.5 years or less; (ii) Moderate: more than 4.5 years but less than 7 years; and (iii) Extensive: more than 7 years. In addition, for non-US taxable and non-US domiciled fixed income funds static duration breakpoints are used: (i) Limited: less than or equal to 3.5 years; (ii) Moderate: greater than 3.5 and less than equal to 6 years; (iii) Extensive: greater than 6 years.

Interest-rate sensitivity for non-U.S. domiciled funds (excluding funds in convertible categories) may be measured with modified duration when effective duration is not available.

Morningstar Ownership Zone™

The Morningstar Ownership Zone™ provides detail about a portfolio's equity investment style by showing the range of stock sizes and styles. A portfolio's Ownership Zone is derived by plotting each stock in the fund's portfolio within the proprietary Morningstar Style Box™. The shaded area represents the center 75% of the fund's assets, and it provides an intuitive visual representation of the area of the market in which the fund invests. A "centroid" plot in the middle

of the Ownership Zone represents the weighted average of all the fund's holdings. A fund that is concentrated will have a small ownership zone relative to the area of the style box, and broadly diversified fund will have an ownership zone that stretches across many sizes and style. Over a period of time, the shape and location of a fund's ownership zone may vary.

Morningstar Analyst Rating™

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark, or in the case of exchange-traded funds and index mutual funds, a relevant peer group, over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weight of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's conviction in a fund's prospects for outperformance. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to global.morningstar.com/managerdisclosures/.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause Analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

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