

The Morningstar Category™ Classifications for 529 Investment Options

(for 529 portfolios available for sale in the United States)

Morningstar Methodology Paper
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Introduction

The Morningstar Category™ classifications for 529 investment options were introduced in 2010 to help investors make meaningful comparisons among 529 options.

The Morningstar Category classifications for 529 investment options breaks portfolios into peer groups based on their holdings and asset allocation. Morningstar regularly reviews the category structure and the portfolios within each category to ensure that the system meets the needs of investors.

Morningstar assigns categories to all types of portfolios, such as mutual funds, variable annuities, and separate accounts, as well as 529 options. Portfolios are placed in a given category based on their average holdings statistics over the past three years. Additional data, such as correlations to category benchmarks, may also be considered. For 529 age-based options, Morningstar may also take into account the 529 options' glide path data. Morningstar's editorial team also reviews and approves all category assignments. If the portfolio is new and has no history, Morningstar estimates where it will fall before giving it a more permanent category assignment. When necessary, Morningstar may change a category assignment based on recent changes to the portfolio.

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Static

Large Value

Large-value 529 portfolios invest primarily in big U.S. companies that are less expensive or are growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Category Index: Morningstar Large Value TR USD

Large Blend

Large-blend 529 portfolios are representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. The blend style is assigned to portfolios in which neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries.

Category Index: Morningstar Large Core TR USD

Large Growth

Large-growth 529 portfolios invest in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth (highest growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Category Index: Morningstar Large Growth TR USD

Mid-Cap

Mid-cap 529 portfolios invest in either medium-sized companies or a mix of small-, mid-, and large-cap stocks. The U.S. mid-cap range for market capitalization typically falls between $1 billion and $8 billion and represents 20% of the total capitalization of the U.S. equity market.

Category Index: Morningstar Mid-Cap TR USD

Small Cap

Small-cap 529 portfolios invest in small U.S. companies. The U.S. small-cap market represents the bottom 10% of the capitalization of the U.S. equity market.

Category Index: Morningstar Small Cap TR USD

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Conservative Allocation

Conservative-allocation 529 portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios hold smaller positions in stocks than moderate- or aggressive-allocation portfolios. These portfolios typically have 20% to 50% of assets in equities and 50% to 80% in fixed income and cash.

Category Index: Morningstar Conservative Target Risk

Moderate Allocation

Moderate-allocation 529 portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios hold smaller positions in stocks than aggressive-allocation portfolios. These portfolios typically have 50% to 70% of assets in equities and 30% to 50% in fixed income and cash.

Category Index: Morningstar Moderate Target Risk

Aggressive Allocation

Aggressive-allocation 529 portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios hold larger positions in stocks than conservative- or moderate-allocation portfolios. These portfolios typically have 70% to 90% of assets in equities and 10% to 30% in fixed income and cash.

Category Index: Morningstar Aggressive Target Risk

Non U.S. Equity

Non-U.S. equity 529 portfolios do not have any geographical limitations. It is common for these portfolios to invest the majority of assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets.

Category Index: Morningstar Global GR USD

U.S. Government

U.S. government 529 portfolios have at least 90% of their bond holdings in bonds backed by the U.S. government or by government-linked agencies.

Category Index: Morningstar U.S. Govt TR

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Short-Term Bond

Short-term bond 529 portfolios invest primarily in corporate and other investment-grade fixed-income issues. The majority of these funds invest primarily in the U.S. but may have some non-U.S. bond exposure. Durations on these funds will typically fall between one to 3.5 years.

Category Index: Morningstar Short-Term Core TR

Intermediate-Term Bond

Intermediate-term bond 529 portfolios invest primarily in corporate and other investment-grade fixed-income issues. The majority of these funds invest primarily in the U.S. but may have some non-U.S. bond exposure. Durations on these funds will typically fall between 3.5 to six years.

Category Index: Morningstar Intermediate Core TR

Money Market

Money market 529 portfolios invest in short-term money market securities and/or short-term municipal money market securities. These funds provide current income and aim to preserve capital.

Category Index: USTREAS T-Bill Auction Ave 3 Mon

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Age-Based

Age-based 529 plan options invest contributions based on the current age of the child. Age-based portfolio allocations adjust over time from a more aggressive portfolio while the child is young to a more conservative allocation as the child approaches college age.

0-6 Low Equity

Age 0-6 low-equity portfolios are more conservative than medium-equity portfolios over the course of the investment. Low-equity portfolios have approximately 0%-60% in equities.

Category Index: Morningstar Moderately Cons Target Risk

0-6 Medium Equity

Age 0-6 medium-equity portfolios are more conservative than high-equity portfolios over the course of the investment. Medium-equity portfolios have an approximate range of greater than 60% but less than 90% in equities.

Category Index: Morningstar Moderately Aggr Target Risk

0-6 High Equity

Age 0-6 high-equity portfolios are more aggressive than low- or medium-equity portfolios over the course of the investment. High-equity portfolios have approximately 90%-100% in equities.

Category Index: Morningstar Aggressive Target Risk

7-12 Low Equity

Age 7-12 low-equity portfolios are more conservative than medium-equity portfolios over the course of the investment. Low-equity portfolios have approximately 0%-40% in equities.

Category Index: Morningstar Moderately Cons Target Risk

7-12 Medium Equity

Age 7-12 medium-equity portfolios are more conservative than high-equity portfolios over the course of the investment. Medium-equity portfolios have an approximate range of greater than 40% but less than 70% in equities.

Category Index: Morningstar Moderately Aggr Target Risk

7-12 High Equity

Age 7-12 high-equity portfolios are more aggressive than low- or medium-equity portfolios over the course of the investment. High-equity portfolios have approximately 70%-100% in equities.

Category Index: Morningstar Aggressive Target Risk

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Age-Based (continued)

13-18 Low Equity

Age 13-18 low-equity portfolios are more conservative than medium-equity portfolios over the course of the investment. Low-equity portfolios have approximately 0%-20% in equities.

Category Index: Morningstar Moderately Cons Target Risk

13-18 Medium Equity

Age 13-18 medium-equity portfolios are more conservative than high-equity portfolios over the course of the investment. Medium-equity portfolios have an approximate range of greater than 20% but less then 50% in equities.

Category Index: Morningstar Moderately Aggr Target Risk

13-18 High Equity

Age 13-18 high-equity portfolios are more aggressive than low- or medium-equity portfolios over the course of the investment. High-equity portfolios have approximately 50%-100% in equities.

Category Index: Morningstar Aggressive Target Risk

19+ Low Equity

Age 19+ low-equity portfolios are more conservative than medium-equity portfolios over the course of the investment. Low-equity portfolios generally have a 0% allocation to equities.

Category Index: Morningstar Conservative Target Risk

19+ Medium Equity

Age 19+ medium-equity portfolios are more conservative than high-equity portfolios over the course of the investment. Medium-equity portfolios have an approximate range of greater than 0% but less than 30% in equities.

Category Index: Morningstar Moderate Target Risk

19+ High Equity

Age 19+ high-equity portfolios are more aggressive than low- or medium-equity portfolios over the course of the investment. High-equity portfolios have approximately 30%-100% in equities.

Category Index: Morningstar Aggressive Target Risk

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