

BlackRock Global Funds - Global Allocation Fund I2 USD

LU0368249560

Morningstar Analyst Rating

22 Apr 2019
09:00, UTC-0500

Morningstar Category

USD Moderate Allocation

Category Index

Cat 50%Barclays US Agg
TR&50%FTSE Wld TR

Total Assets

15,082.30
Mil USD

Current Yield %

2.63

Inception Date

15/09/10

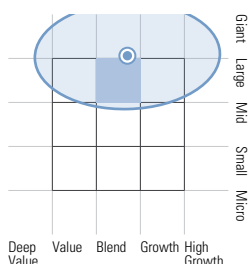
Domicile/Currency

LUX/USD

Morningstar Rating

★★★

Equity Style Map



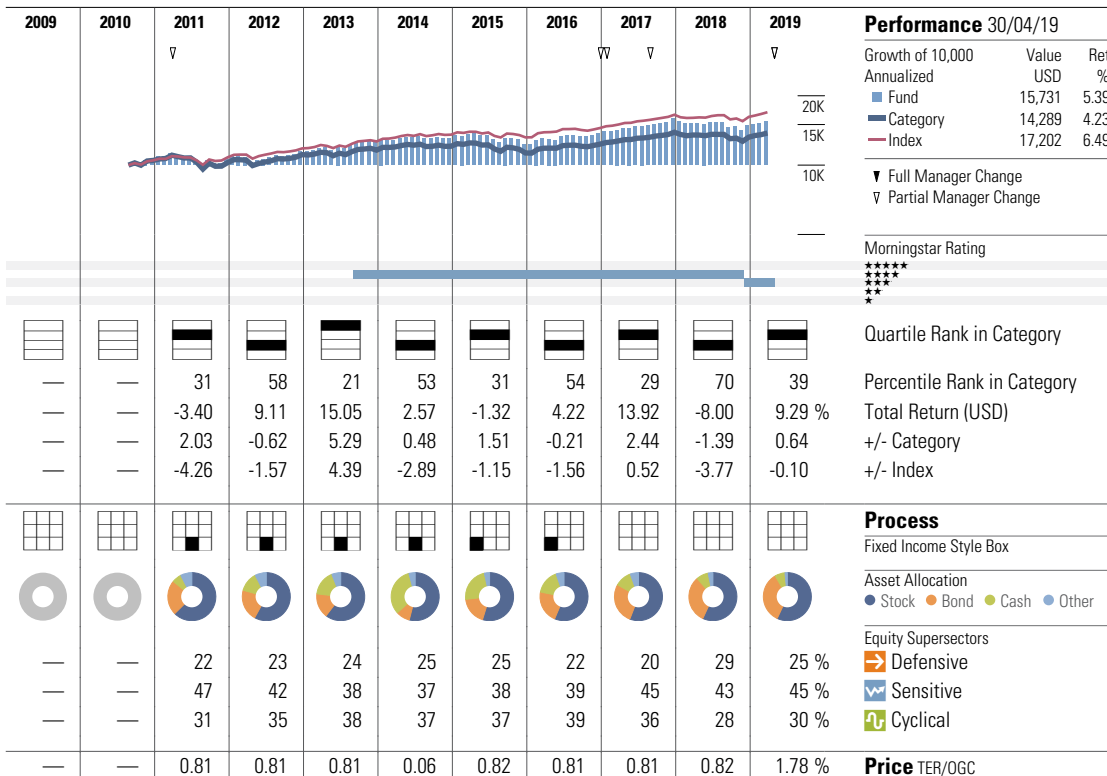
People

Dan Chamby	03/11
David Clayton	01/17
Russ Koesterich	01/17

Total Named Managers 4

Morningstar Pillars

Process p. 2-3	Positive
Performance p. 4	Neutral
People p. 5	Neutral
Parent p. 6	Positive
Price p. 7	Neutral



Analyst View

Barbara Claus, Senior Analyst

Rating downgraded to Bronze.

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Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

Gold Silver Bronze Neutral Negative

The Morningstar Analyst Rating for Funds is a forward-looking analysis of a fund. Morningstar has identified five key areas crucial to predicting the future success of a fund: People, Parent, Process, Performance, and Price. The pillars are used in determining the Morningstar Analyst Rating for a fund. Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). Neutral represents funds in which our analysts don't have a strong positive or negative conviction over the long term (defined as a full market cycle or at least five years) and Negative represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance over the long term (defined as a full market cycle or at least five years). Past performance of a security may or may not be sustained in future and is no indication of future performance. For detailed information about the Morningstar Analyst Rating for Funds, please visit <http://global.morningstar.com/managerdisclosures>

22 Apr, 2019 | BGF Global Allocation still benefits from an established process, but changes at the strategy's helm reduce its appeal. Its Morningstar Analyst Rating has been reduced to Bronze from Silver.

In April 2019, BlackRock named its CIO for global fixed income, Rick Rieder, lead of the global allocation investment team and comanager on the strategy alongside Dan Chamby, Russ Koesterich, and David Clayton. It also announced that Chamby, the longest-tenured manager here after the strategy's co-founder Dennis Stattman retired in 2017, would retire by March 2020, while Kent Hogshire, who had been on a leave of absence since July 2018, was leaving the firm. Rieder and the firm's fixed-income team are well regarded, but these announcements continue a series of changes that have taken place at the strategy's helm in recent years as Koesterich, Clayton, and Hogshire were named comanagers only in January 2017. As a result, its People Pillar rating has been downgraded to Neutral from Positive.

As always when there is a change in leadership, there is some uncertainty as to how the management team will coalesce and execute the strategy. Yet its original, absolute-return-oriented investment philosophy should not change.

The process had already been fine-tuned in recent years to give more weight to the team's higher-conviction ideas, for instance, and it should continue to evolve under its new leader. That said, the high level of diversification and valuation awareness that have characterized the strategy for 30 years should stay intact. Rieder and his team have long executed a risk-focused and disciplined approach on their global fixed-income strategies. They draw upon an exhaustive research- and data-driven process to identify macro investment regimes and relative value opportunities across the full spectrum of fixed-income instruments, which should complement well the skill set of the global allocation team.

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Bronze

22 Apr 2019
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Process: Approach

Morningstar Category

USD Moderate Allocation

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Cat 50%Barclays US
Agg TR&50%FTSE Wld
TR

Naturally prudent.

Process Pillar

Positive

22 Apr, 2019 | The process has been fine-tuned in recent years and should continue to evolve under its new leader, but the absolute return mind set and valuation awareness that have characterized the strategy for three decades remain. It retains a Positive Process Pillar rating.

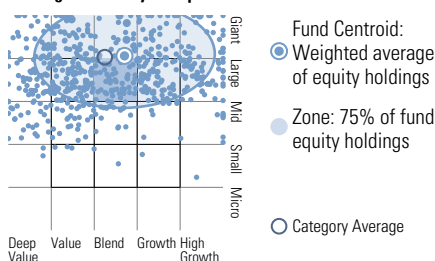
This flexible asset-allocation strategy

aims to deliver equity-market-like returns with less risk while trying to avoid permanent capital loss. Valuations drive security selection and portfolio positioning with top-down and bottom-up analyses informing each other. Rick Rieder and the fixed-income team have long executed a risk-focused and disciplined approach on their fixed-income strategies, drawing upon an exhaustive research- and data-driven process to identify macro investment regimes and relative value opportunities that will complement the strategy's skill set.

The portfolio is diversified across more than 700 holdings, a mix of stocks, bonds, hybrid securities, and exchange-traded funds. Management has, however, taken steps to reduce the portfolio's long tail to give higher-conviction bets more impact on performance. This unconstrained approach leads to sector, region, currency, and asset-class deviations relative to its composite benchmark, which consists of 36% S&P 500, 24% FTSE World ex U.S., 24% ICE BofA/ML Current 5-Year U.S. Treasury, and 16% FTSE Non-USD World Government Bond indexes.

Equity Style 30/04/2019

Holdings-Based Style Map



Equity Style Box Factors

Market Cap	Fund	3-Yr Avg	Category
Giant/Large	88.6	85.1	84.1
Mid	10.4	12.3	14.4
Small/Micro	1.0	2.7	1.5
Avg Market Cap Bil USD	58.5	47.2	62.3
Value Measures	Fund	3-Yr Avg	Category
Price/Prospect. Earnings	16.3	16.5	14.9
Price/Book	1.9	1.8	1.8
Price/Sales	1.6	1.5	1.6
Price/Cash Flow	9.8	7.9	8.5
Dividend Yield	2.7	2.4	3.3
Growth Measures	Fund	3-Yr Avg	Category
Long-Term Earnings %	9.7	10.1	9.2
Historical Earnings %	7.5	3.0	5.7
Sales %	4.6	1.9	4.4
Cash Flow %	3.5	2.9	7.4
Book-Value %	6.0	4.8	5.2

Fixed Income Style 30/06/16

Fixed Income Style Box

	History	Style	Bonds %
2019			34.6
2018			31.7
2017			27.4
2016			21.7
2015			18.4

Ltd Mod Ext Credit Quality High Mid Low
 Interest Rate Sensitivity
 Bonds % is based on portfolio data.

Selected Fixed Income Style Box Factors

	Fund	3-Yr Avg	Category
Average Credit Quality	—	BB	BB
Avg Effective Duration	—	2.1	3.9

Equity Region Exposure 30/04/2019

Market Type Equity %	Fund	3-Yr Avg	Category
Developed	94.4	95.7	91.9
Emerging	5.6	4.3	8.1
Top 5 Countries Equity %	Fund	3-Yr Avg	Category
United States	54.6	3.0	51.5
Japan	12.1	0.0	5.1
United Kingdom	4.8	0.3	8.3
France	4.7	0.2	4.9
Canada	2.9	0.8	2.3

Income 30/04/19

	Fund	3-Yr Avg	Category
Current Yield	—	—	3.0
12-Month Yield	0.0	—	—
Average Coupon	—	—	—

Average Coupon surveyed 30/04/19

Asset Allocation 30/04/19

Current Allocation



3-Year Average

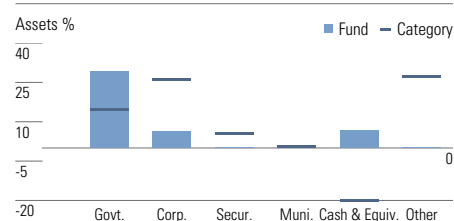


Net Assets %	Fund	3-Yr Avg	Category
Equity	56.9	56.3	42.2
Fixed Income	34.6	28.7	41.5
Cash	6.8	10.3	8.2
Other	1.6	4.7	8.1

Sectors 30/04/2019

Top 5 Equity Sectors	Fund	3-Yr Avg	Category
Technology	15.5	16.0	14.3
Healthcare	13.1	13.1	10.7
Financial Services	11.1	13.9	19.2
Industrials	10.8	10.3	10.7
Energy	10.2	8.1	6.1

Fixed Income Super Sectors



Top 5 Fixed Income Sectors	Fund	3-Yr Avg	Category
Treasury	28.3	—	9.2
Cash	6.8	—	-15.4
Corporate Financial Services	2.1	—	6.7
Inflation Protected	0.9	—	1.1
Corporate Unspecified	0.9	—	1.7

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Process: Portfolio

Morningstar Category

USD Moderate Allocation

Category Index

Cat 50%Barclays US
Agg TR&50%FTSE Wld
TR

Increasingly defensive.

Process Pillar

Positive

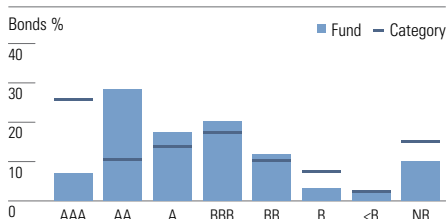
22 Apr, 2019 | As of Jan. 31, 2019, equity exposure stood at 57% compared with 43% for its typical USD moderate allocation peer. However, relative to the strategy's custom benchmark this was a 3-percentage-point underweighting. The team adopted a more-defensive posture in the second half of 2018 by reducing its exposure to techno-

logy stocks and adding to consumer defensive and communication services names. For instance, tech stocks peaked at 11.5% of the equity portfolio in July 2018; they stood at 8.2% in January 2019. Consumer defensive stocks composed 3% in April 2018 versus 5.9% in January 2019. Within communication services stocks, which were close to 5% in January 2019 (1 percentage point higher than a year ago), the team was positive on cable companies and added to Charter Communications during the second half of 2018. It also maintained an overweighting in the less-defens-

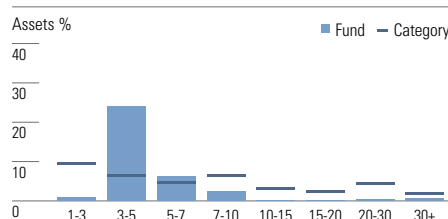
ive energy sector as it considered valuations very attractive, but still favored lower-beta plays there, building a 1% position in Exxon during the second half of last year.

The team has been increasingly defensive within the bond portfolio, too, adding to its U.S. Treasury exposure throughout the year. Average credit quality is BBB, higher than the typical peer's BB. Overall, portfolio activity has continued trending higher.

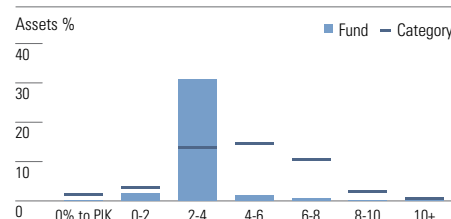
Credit Quality Surveyed 30/09/15



Bond Maturity 30/04/19



Coupon Range 30/04/19



Portfolio Holdings 31/01/19

Previous Portfolio Date	Equity Holdings	Bond Holdings	Other Holdings	Assets in Top 10 Holdings	Turnover Ratio (Reported)
31/12/18	653	97	82	26%	—

Top 10 Equity Holdings	Country	Assets % 31/01/19	Assets % 31/12/18	First Bought	Days Trading	Economic Moat	Sector	1-Yr Ret %
⊖ Alphabet Inc Class C	USA	1.52	1.50	10/15	<1	Wide	Technology	16.82
⊖ Johnson & Johnson	USA	1.14	1.29	04/15	<1	Wide	Healthcare	14.48
⊖ Apple Inc	USA	1.12	1.45	04/10	<1	Narrow	Technology	23.19
⊖ Comcast Corp Class A	USA	1.11	1.13	08/15	<1	Wide	Communication Serv.	41.16
⊕ Exxon Mobil Corp	USA	1.00	0.92	07/17	<1	Narrow	Energy	7.47
⊖ Anthem Inc	USA	1.00	0.99	04/12	<1	Narrow	Healthcare	12.75
⊖ Amazon.com Inc	USA	0.92	0.95	11/15	<1	Wide	Consumer Cyclical	23.01
⊖ Williams Companies Inc	USA	0.92	0.80	03/15	<1	Narrow	Energy	15.55
⊖ Microsoft Corp	USA	0.90	1.44	05/03	<1	Wide	Technology	41.04
⊖ Nestle SA	CHE	0.90	0.89	08/05	<1	Wide	Consumer Defensive	26.83

Change since previous portfolio: ⊕ Increase ⊖ Decrease ✱ New

Top 5 Fixed Income Holdings

	Country	Currency	Assets %	Super Sector	Primary Sector	Secondary Sector
United States Treasury Notes 2.88%	USA	USD	6.66	Government	Government	Treasury
United States Treasury Notes 2.88%	USA	USD	6.22	Government	Government	Treasury
United States Treasury Notes 3%	USA	USD	3.17	Government	Government	Treasury
United States Treasury Notes 2.88%	USA	USD	2.18	Government	Government	Treasury
United States Treasury Notes 0.62%	USA	USD	1.58	Government	Government	Inflation Protected

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Bronze
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Performance

Morningstar Category

USD Moderate Allocation

Category Index

Cat 50%Barclays US
Agg TR&50%FTSE Wld
TR

Reset to Neutral.

Performance Pillar

● Neutral

22 Apr, 2019 | The strategy's long-term performance record holds less relevance given the changes at its helm and the retirement of its longest-tenured comanager next year. Its Performance rating is reset to Neutral from Positive.

Performance has been solid and looks strong relative to the USD moderate allocation

Morningstar Category, especially over the long term. Over the past three and five years to the end of March 2019, the fund is slightly ahead of its category, but over 10 years it ranks in the 26th percentile. In general, the fund has gained ground during more-volatile market conditions and draw-downs, serving investors well, in absolute and risk-adjusted terms over the long-term. Its Sharpe ratios over five- and 10-year trailing periods are ahead of peers and just 5 basis points lower than the category average over three years.

Relative to its custom index and the category index, the strategy has lagged on a total return and risk-adjusted basis over typical trailing periods of 10 years and less. Although there have been stock-picking mistakes along the road, the strategy's value-leaning investment philosophy and an underweighting in U.S. stocks have been headwinds as growth stocks have outperformed value stocks and the U.S. market has outperformed its foreign counterparts.

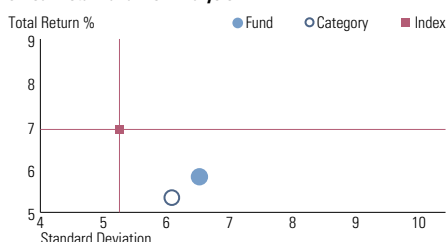
egory index, the strategy has lagged on a total return and risk-adjusted basis over typical trailing periods of 10 years and less. Although there have been stock-picking mistakes along the road, the strategy's value-leaning investment philosophy and an underweighting in U.S. stocks have been headwinds as growth stocks have outperformed value stocks and the U.S. market has outperformed its foreign counterparts.

Morningstar Rating and Risk 30/04/19

Period	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	Avg	Avg	★★★
5 Years	Avg	Avg	★★★
10 Years	—	—	—
Overall Rating	★★★		

Risk Analysis 30/04/19

3-Year Return and Risk Analysis



3-Year Risk Measures

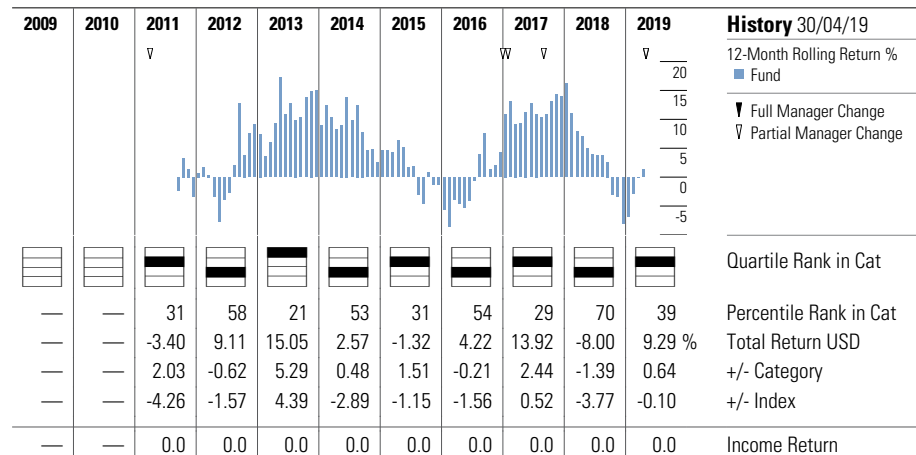
	Fund	Category	Index
Standard Deviation	6.52	6.08	5.25
Sharpe Ratio	0.69	0.66	1.04
R-Squared	90.82	75.75	—
Beta	1.19	1.00	—
Alpha	-1.98	-1.46	—

Maximum Drawdown

	Fund	Category	Index
Max Drawdown (%)	-12.94	-12.95	-8.30
Peak Date	05/11	05/11	05/11
Valley Date	09/11	09/11	09/11
Max Drawdown (Months)	5	5	5

Upside/Downside

	Fund	Category	Index
Upside Capture Ratio	99.7	88.9	—
Downside Capture Ratio	124.1	107.7	—



Returns 30/04/19

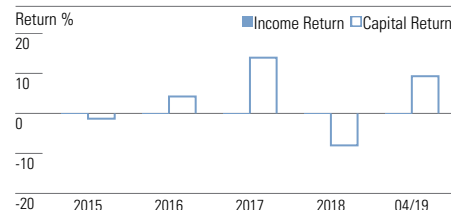
Trailing Returns

	Total Ret %	Investor Ret %	Rank in Cat	Cat Ret %	Index Ret %
1 Year	1.33	0.16	63	1.96	5.77
3 Years	5.82	6.19	38	5.34	6.91
5 Years	3.76	2.88	39	3.33	5.21
10 Years	—	—	—	5.90	7.96
Tenure 03/11	4.37	—	—	3.37	5.86
Inception 09/10	5.39	—	—	4.23	6.49

Rolling-Returns Summary

18%	36-Month Rolling Periods
82	68 Observations, 5 Years
0	The shading and percentages correspond to how often the fund returns landed in each category quartile.
0	

Income and Capital Returns



Year	Income Ret %	Income % Rank in Cat	Capital Ret %	Capital % Rank in Cat
2015	0.00	28	-1.32	27
2016	0.00	34	4.22	39
2017	0.00	34	13.92	27
2018	0.00	22	-8.00	61
04/19	0.00	22	9.29	35

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People

Morningstar Category
USD Moderate Allocation

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TR

Multiple changes.

People Pillar

● Neutral

22 Apr, 2019 | Multiple changes at the strategy's helm in recent years support a downgrade of its People rating to Neutral. In April 2019, BlackRock named its CIO for global fixed income, Rick Rieder, lead of the global allocation investment team and comanager on the strategy alongside Dan Chamby, Russ Koesterich, and David Clayton.

The firm also announced that Chamby, the longest-tenured manager here after Dennis Stattman retired in August 2017, would retire by March 2020, while Kent Hogshire, who had been on a leave of absence since July 2018, was leaving the firm. Rieder is a well-regarded manager and heads a strong fixed-income team. He runs several Silver-rated fixed-income strategies, including the U.S. domiciled BlackRock Strategic Income Opportunities, but these announcements continue a series of changes at the strategy's helm in recent years; Koesterich, Clayton, and

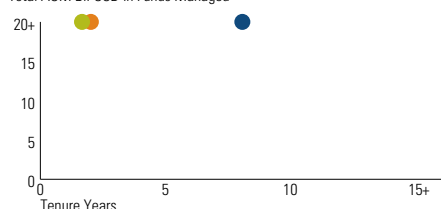
Hogshire were named comanagers only in January 2017.

Rieder retains his other responsibilities, and there is no plan to merge the fixed-income group and the global asset-allocation team. The latter includes a squad of eight senior investors with more than two decades of average experience and a team of 13 credit and equity analysts. However, there has been more turnover than usual in both groups lately: One senior investor left in March 2019, and five analysts left in 2018, while four were added.

Management Team

Experience and Asset Load

Total AUM Bil USD in Funds Managed



Number of Managers

4

Longest Tenure

8.17 Years

Manager Retention Rate

5-Year
—%

Average Manager Tenure

3.23 Years

Advisor

BlackRock Investment Management, LLC

Subadvisor

—

● Dan Chamby 03/11 to Present

Years on Managed Funds

34

Years on Fund

8

Fund AUM

59,305.35 Mil USD

Current Funds Managed

27

Largest Funds Managed

	Tenure Dates	Role	Fund Size Bil USD	Investment Mil USD	Tenure Ret %	Index Ret %
BlackRock Global Allocation Fund	12/03 to Present	1 of 4	27.90	>1	6.78	6.74
BGF Global Allocation Fund	03/11 to Present	1 of 4	15.08	—	3.38	5.86
BlackRock Global Allocation V.I. Fund	12/03 to Present	1 of 4	8.45	None	6.85	6.74
JNL/BlackRock Global Allocation Fd	10/10 to Present	1 of 4	3.63	None	5.05	7.24
Trans BlackRock Glb Allc VP	05/09 to Present	1 of 4	1.65	None	6.88	9.04

● David Clayton 01/17 to Present

Years on Managed Funds

25

Years on Fund

2

Fund AUM

59,294.73 Mil USD

Current Funds Managed

14

Largest Funds Managed

	Tenure Dates	Role	Fund Size Bil USD	Investment Mil USD	Tenure Ret %	Index Ret %
BlackRock Global Allocation Fund	01/17 to Present	1 of 4	27.90	>1	6.13	8.52
BGF Global Allocation Fund	01/17 to Present	1 of 4	15.08	—	5.00	7.69
BlackRock Global Allocation V.I. Fund	01/17 to Present	1 of 4	8.45	None	6.33	8.52
JNL/BlackRock Global Allocation Fd	01/17 to Present	1 of 4	3.63	None	6.44	8.52
Trans BlackRock Glb Allc VP	01/17 to Present	1 of 4	1.65	None	6.05	8.52

● Russ Koesterich 01/17 to Present

Years on Managed Funds

24

Years on Fund

2

Fund AUM

59,294.73 Mil USD

Current Funds Managed

23

Largest Funds Managed

	Tenure Dates	Role	Fund Size Bil USD	Investment Mil USD	Tenure Ret %	Index Ret %
BlackRock Global Allocation Fund	01/17 to Present	1 of 4	27.90	>1	6.13	8.52
BGF Global Allocation Fund	01/17 to Present	1 of 4	15.08	—	5.00	7.69
BlackRock Global Allocation V.I. Fund	01/17 to Present	1 of 4	8.45	None	6.33	8.52
JNL/BlackRock Global Allocation Fd	01/17 to Present	1 of 4	3.63	None	6.44	8.52
Trans BlackRock Glb Allc VP	01/17 to Present	1 of 4	1.65	None	6.05	8.52

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Parent

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USD Moderate Allocation

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TR

Acting in enlightened self-interest.

Parent Pillar

Positive

01 Nov, 2018 | BlackRock's successful balancing act retains a positive Parent rating.

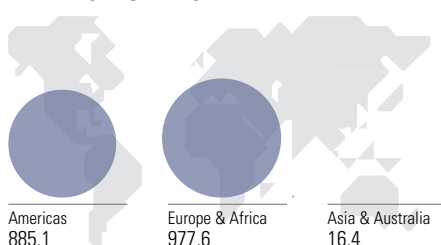
The \$6.3 trillion colossus' institutional and retail clients span the globe, and its publicly traded shares have beaten virtually all industry peers and most fellow S&P 500 denizens since the company's 1999 IPO. Both its clients and pub-

lic shareholders have high expectations, but BlackRock has shown it understands it must be a capable fiduciary to keep delivering enviable long-term stock returns. Its investment fees continue to fall and managers invest more in their strategies. The firm invests heavily in technology and people and makes versions of its institutional risk and portfolio analysis tools available to advisors. Its iShares unit's efforts to defend its leading exchange-traded fund market position has helped drive asset-management costs down. The firm has expanded into alternatives and private equity.

Biggest is not always best, though. BlackRock has turned around its fixed-income platform since the global financial crisis, but its active equity lineup has sputtered and been through two major restructurings in six years. Its manager retention and tenure rates for U.S. mutual funds are lower than most other top 20 fund families. While it has shown more fund launch discipline, it has its share of niche vehicles, such as the iShares Robotics and Artificial Intelligence ETF.

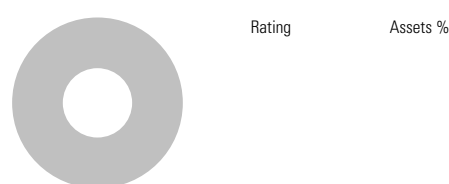
Still, BlackRock has used its size and operational savvy to clients' benefit.

Assets By Region, By Domicile Bil USD

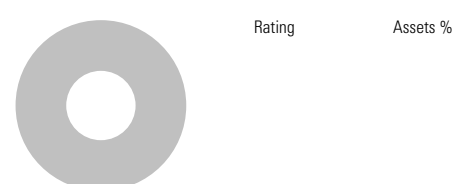


Fund Family Details Europe (*)

Morningstar Analyst Rating Breakdown

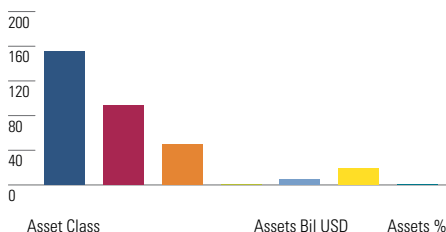


Morningstar Rating Breakdown



Asset Class Breakdown Europe (ex Money Mkt)

Assets Bil USD



Fund Family Details Europe

Top Performing Funds	Category Name	Fund Size Mil USD	Return % 3-Year	Rank in Cat 3-Year
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Largest Funds	Category Name	Fund Size Mil USD	Return % 3-Year	Rank in Cat 3-Year
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Recent Fund Launches	Category Name	Fund Size Mil USD	Return % Inception	Inception Date
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(*) All data is based on Branding name and refers to funds domiciled in Europe.

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Bronze

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Price

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TR

Average fees.

Price Pillar

● Neutral

22 Apr, 2019 | With ongoing charges of 1.03% for the clean share class D2, pricing is in line with other clean share classes within the fund's Morningstar Category.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TER/OGC	Expense History
—	—	0.81	0.81	0.81	0.06	0.82	0.81	0.81	0.82	1.78	TER/OGC
—	—	13.3	12.9	18.2	22.8	22.6	18.0	18.9	15.0	15.1	Net Assets Bil USD
—	—	-0.5	-1.4	3.2	5.7	0.7	-5.1	-1.7	-2.2	-1.1	Net Flows Bil USD

Expense Breakdown

Ongoing charge

Ongoing charge 11/02/19 1.78

Selected Components

Max Management Fee 0.75
Performance Fee —

Fee Level

Fee Level

Avg

Peer Group

USD Moderate Allocation
Retail Broad

Fee Level Breakpoints

2.99	High	>2.15
	Above Average	1.79-2.15
	Average	1.60-1.79
	Below Average	1.15-1.60
	Low	<1.15
0.40	◀ Fund	1.78
	◀ Peer Median	1.71

Share Class Information

Share Class	Identifier	Morningstar Category	TER/OGC	Max Mgmt Fee	Performance Fee	Maximum Initial Charge	Minimum Initial Inv	Assets Bil USD
BGF Global Allocation I2 USD	LU0368249560	USD Moderate Allocation	0.82	0.75	—	0.00	10,000,000	0.70
BGF Global Allocation A2	LU0072462426	USD Moderate Allocation	1.78	1.50	—	5.00	5,000	5.98
BGF Global Allocation X2 USD	LU0328507826	USD Moderate Allocation	0.07	—	—	0.00	10,000,000	1.53
BGF Global Allocation X4 USD	LU0953392981	USD Moderate Allocation	0.07	—	—	0.00	10,000,000	1.00
BGF Global Allocation A2 EUR Hedged	LU0212925753	EUR Moderate Allocation - Global	1.78	1.50	—	5.00	—	0.92
BGF Global Allocation D2 USD	LU0329592538	USD Moderate Allocation	1.03	0.75	—	5.00	100,000	0.88

Morningstar Global Fund Report

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Morningstar Analyst Rating

	2017	2018	2019
 Gold			
 Silver			
 Bronze			
Neutral			
Negative			
Under Review			
Not Ratable			

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The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

People

The overall quality of a fund's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a fund's investment team requires that analysts assess several relevant items including how key decisions are made.

Parent

We believe the parent organization is of utmost importance in evaluating funds. The fund's management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

Process

We look for funds with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a fund is delivering to our expectations.

Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a fund is penalised for high fees or rewarded for low fees can vary with region. In Europe, for example, funds are penalised if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

Morningstar Analyst Ratings

Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

Gold

Represents funds that our analyst has the highest-conviction in for that given investment mandate. By giving a fund a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). To earn a Gold rating, a fund must distinguish itself across the five pillars that are the basis for our analysis.

Silver

Represents funds our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these funds will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Bronze

Represents funds that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these funds to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over a full market cycle (or at least five years).

Neutral

Represents funds in which our analysts don't have a strong positive or negative conviction. In our judgment, these funds are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

Negative

Represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these funds are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar may also use two other designations in place of a rating:

Under Review

This designation means that a change that occurred with the fund or at the fund company requires further review to determine the impact on the rating.

Not Ratable

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Equity-Related Data Points

The Report lists the fund's top ten holdings as of the dated noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat as of the date noted.

Economic Moat

The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

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