**Morningstar's Medalist Screens**
Morningstar Manager Research Services

**Introduction**
Clients frequently ask us for lists of funds based on different screening criteria.

In response, we built "Medalist Screens" based on the most common requests for different strategies and goals. To pass a screen, a fund must receive a Gold, Silver or Bronze rating.

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U.S. Equity Screens

Core Equity Funds
These top-rated equity strategies are solid anchors for investors' U.S. exposure. The strategies in this Screen hold the largest U.S. companies, specifically, those that fall in the U.S. large value, large blend and large growth categories. Morningstar defines large-cap equities as the group that accounts for the top 70% of the capitalization of the U.S. market. Larger companies tend to be more stable than smaller companies, and because of that are often considered core equities for investors' portfolios. This Screen displays strategies that hold at least 30 securities.

Mid-Cap Funds
Rather than a fixed number of large cap or mid-cap equities, Morningstar uses a flexible categorization system that isn’t adversely affected by overall movements in the market. Large-cap equities are defined as the group that accounts for the top 70% of the capitalization of each geographic area; mid-cap equities—which the strategies on this list primarily hold—represent the next 20%. Small-cap represent the balance. Sometimes referred to as the market’s sweet spot, mid-cap equities are positioned in a way that gives them the potential to achieve impressive risk-adjusted returns. Mid-cap companies are usually not as dependent on a single product as their smaller-cap peers can be, meaning that mid-caps' revenue and cash flow are often more consistent and the stock price is less volatile. But mid-caps are also not yet hampered by their size, either. Total market indexes hold about 20% in mid-cap equities.

Small-Cap Funds
This Screen identifies strategies that are positioned to identify companies that have relatively small market capitalizations. As a general rule, small-cap strategies have historically provided investors more room for growth but also confer greater risk and volatility than large-cap strategies.

Growth Funds
These strategies primarily own what Morningstar identifies as growth stocks. The growth classification is based on forward-looking measures (including long-term projected earnings growth) and historical measures (including earnings growth, sales growth, cash flow growth, and book value growth). Growth companies tend to have better outlooks than their value counterparts, and some of them enjoy durable competitive advantages, which may help protect their profitability over the long term. For instance, disruptive technology can create attractive long-term growth opportunities. Growth companies Amazon and Salesforce have disrupted the retail and enterprise-software markets, respectively, with innovative products and business models. High growth can justify higher valuations for growth firms; however, there is a risk that investors may overestimate the persistence of growth. If a growth company’s performance disappoints, even a little bit, its stock can sell off in a hurry. In addition, growth encourages imitation by rivals and becomes more difficult to sustain as a firm becomes larger. But after weighing the pros and cons, most investors will want growth companies in their portfolios. To be included, a fund’s portfolio must have at least a ‘Narrow’ Average Economic Moat Rating, which indicates that the companies can sustain their edge for a decade or more. The idea of an economic moat refers to how
likely companies are to keep competitors at bay for an extended period. Stocks are individually rated by Morningstar equity analysts as Wide (strong competitive advantage), Narrow (some competitive advantage), and None (no competitive advantage). Morningstar calculates an average economic moat score for strategies by utilizing the economic moat ratings assigned to each strategy’s underlying stock holdings.

Value Funds
These strategies primarily own what Morningstar identifies as value stocks. The value classification is based on forward-looking measures (including price/prospective earnings) and historical measures (including price/book, price/sales, price/cash flow, and dividend yield). Value stocks tend to have less attractive business prospects—and hence trade at lower valuations—than their faster-growing counterparts. They tend to be less profitable, grow more slowly, and are less likely to enjoy sustainable competitive advantages than growth stocks. Because there can be good reasons for their lower valuations, value stocks are not necessarily bargains. But despite their less-attractive prospects, value stocks have historically generated better returns (relative to their volatility) than growth stocks in nearly every market studied over long time horizons. This may be because investors extrapolate past growth—or lack thereof—to far into the future. This can make value investing—or tilting a portfolio toward value stocks—a rewarding strategy for patient investors. To be included, a fund’s portfolio must have at least a ‘Narrow’ Average Economic Moat Rating, which indicates that the companies can sustain their edge for a decade or more. The idea of an economic moat refers to how likely companies are to keep competitors at bay for an extended period. Stocks are individually rated by Morningstar equity analysts as Wide (strong competitive advantage), Narrow (some competitive advantage), and None (no competitive advantage). Morningstar calculates an average economic moat score for strategies by utilizing the economic moat ratings assigned to each strategy’s underlying stock holdings.

International Equity Screens

Emerging Markets Equity Funds
These portfolios invest at least 70% of total assets in equities and invest at least 50% of stock assets in emerging markets (such as China, India, Russia, Turkey, and Brazil). Morningstar classifies countries as developed or emerging based on per capita gross national income, as defined by the World Bank. The World Bank classifies countries as low income, middle income, upper middle income, and high income. With very few exceptions, the countries with high income are considered developed markets. The typical emerging-markets strategy has a standard deviation that’s five percentage points higher than that of the average foreign large-blend strategy.

Foreign Equity Funds
These strategies are solid anchors for investors’ overseas exposure. These strategies seek capital appreciation by investing in the stocks of big international companies, which are generally considered core overseas investments. Large-cap foreign equities have market capitalizations greater than $5 billion and come in three flavors: Value, Growth, and Blend. Value is defined based on low price/book and
price/cash-flow ratios relative to the MSCI EAFE Index. Growth is defined based on high price/book and price/cash-flow ratios relative to the MSCI EAFE Index. The blend style is assigned to strategies where neither growth nor value characteristics predominate. These strategies typically will have less than 20% of assets invested in U.S. equities.

Fixed Income Screens

Core Bond Funds
These high-quality, intermediate-term core bond strategies, which blend government bonds, mortgage-backed securities, and high-quality corporate debt, and have an average duration of greater than or equal to 3.5 years but less than or equal to 6 years, provide diversification benefits for an equity-heavy portfolio. They will likely withstand bond-market shocks from interest-rate increases or credit-quality scares.

Foreign Bond Funds
These strategies are in Morningstar's World Bond and Emerging Markets Bond categories. World bond strategies invest at least 40% of bonds in foreign markets. Emerging markets bond strategies invest at least 65% of assets in the government and/or corporate bonds of developing countries. World bond and emerging markets bond strategies are often considered niche investment categories, but they've been getting mainstream attention in recent years. These categories encompass disparate strategies, ranging from fully hedged developed-markets-centric strategies to more exotic options featuring emerging-markets local-currency and corporate-bond exposure.

High-Yield Bond Funds
These strategies have at least 65% of assets in bonds rated below BBB. Among the appealing aspects of high-yield bonds is that, as their name implies, they offer higher yields than higher-quality bonds. In addition, high-yield bonds tend to trade more with broad credit markets, or the economic outlook, or a particular company's outlook than they do with Treasuries, making them less sensitive to interest-rate increases. But high-yield bonds also have their fair share of drawbacks, including a fairly high correlation with equities. These bonds have a higher risk of default due to issuers' heavy debt burdens or business risk.

Allocation Screens

Balanced Funds
These strategies seek to provide both capital appreciation and income by investing in three major areas: equities, fixed income, and cash. Conservative allocation strategies typically have 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash. Moderate allocation strategies typically have 50% to 70% of assets in equities and the remainder in fixed income and cash. And conservative allocation strategies typically have 70% to 90% of assets in equities and the remainder in fixed income and cash. Sometimes referred to as allocation strategies, they are the workhorses in many investors'
portfolios. Such strategies are typically rebalanced back to a target stock/bond mix so investors don't need to get their hands dirty making allocation changes. And because the equity portion of the portfolio often thrives when the bond piece is struggling, and vice versa, the strategies' returns often chart a steady course. That makes them easy to own: Morningstar's various allocation categories often have among the most impressive investor returns of any type of strategy.

**Target-Date Funds**

These strategies, which are labeled as Lifecycle strategies in Morningstar’s database, hold a mix of equities and fixed income. Strategies whose target retirement year is far in the future will hold mostly equities for long-term growth potential, but will gradually shift to hold more fixed income as the target year approaches. Strategies close to their target year will hold more fixed income for stability, as it is assumed the investor will begin withdrawing money soon. These strategies adjust their allocations automatically for investors along a glidepath, so they can be a good choice for hands-off investors who want a diversified fund they don't have to babysit.

**Objective Screens**

**Concentrated Funds**

The strategies in this Screen hold 40 or fewer securities in their portfolios, suggesting that management is focusing on its best ideas. There's a lot to be said for diversification, and not all of it is positive. A well-diversified portfolio can blunt losses or lessen the impact of a failure in any one position, but on the flip side, it can also water down a portfolio’s winners. Although such concentrated strategies might not make good core holdings for many investors because of their frequently above-average volatility, they can still serve as strong supporting players. They typically do not mirror the broader market, allowing talented managers to outperform by overweighting equities or sectors that they have conviction.

**ESG Funds**

These strategies have a Morningstar Sustainability Rating of High or Above Average, and many are identified as socially conscious investments. The Socially Conscious label describes if a fund has sustainability as part of its mandate – how committed the fund/manager has been to investing sustainably.

**Fantastic Funds**

Russel Kinnel's "Fantastic Funds" Screen was designed by the leader of our Manager Research Ratings Committee. It identifies strategies with low fees, high manager investment, a Morningstar Risk rating below High, a Medalist Analyst Rating, a positive Parent Rating, and performance better than the category average.

**Go-Anywhere Funds**

The managers of these strategies have the ability to scour the world for opportunities. Some are opportunistic and aggressive, while others emphasize preserving capital and delivering positive absolute
returns in a variety of market environments. World allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: equities, fixed income, and cash. While these portfolios do explore the whole world, most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in fixed income, less than 70% of assets in equities, and at least 40% of assets in non-U.S. equities or fixed income.

**Liquid Alts Funds**
This Screen displays the best strategies in the following Morningstar Categories: Bear Market, Multicurrency, Single Currency, Long-Short Credit, Long-Short Equity, Market Neutral, Multialternative, Managed Futures, Option Writing, Volatility, and Trading categories for Leveraged Commodities, Inverse Commodities, Leveraged Debt, Inverse Debt, Leveraged Equity, Inverse Equity, and Miscellaneous.

**Real Estate Funds**
This Screen identifies the top U.S. and global real estate strategies that invest primarily in real estate investment trusts of various types. REITs are companies that develop and manage real estate properties. There are several different types of REITs, including apartment, factory-outlet, health-care, hotel, industrial, mortgage, office, and shopping center REITs. Some portfolios in this category also invest in real estate operating companies.

**Strategic Beta Funds**
Strategic beta—often called smart beta in the industry—strategies aim to enhance returns or minimize risk relative to a traditional market-cap-weighted benchmark. Some try to address well-known drawbacks of standard benchmarks, such as the overweighting of debt-laden issuers in market-cap-weighted fixed-income benchmarks. They capitalize on many of the same factors (e.g., size, value, quality, momentum) that active managers emphasize. Strategic beta strategies represent a middle ground on the active-to-passive spectrum—they deviate from a traditional, strictly passive market portfolio, but do so in a rules-based, transparent, and (sometimes) low-cost manner.

**Tax-Managed Funds**
This Screen identifies a list of strategies that haven’t surrendered much of their gains to taxes. Managers of tax-managed strategies do make a proactive effort to limit taxes when making investment decisions. Tax-friendly strategies may include underweighting dividend-paying stocks, harvesting capital losses to offset gains elsewhere in the portfolio, and delaying the sale of securities with embedded capital gains. As a result, tax-wary investors may find more peace of mind holding strategies that expressly seek to dampen taxes as part of their mandates.
Morningstar’s Mission

Our mission is to empower investor success. Everything we do at Morningstar is in the service of the investor. The investing ecosystem is complex and navigating it with confidence requires a trusted, independent voice. Our perspective—built every day by more than 5,000 employees across the globe—is delivered to institutions, advisors, and individuals with a single-minded purpose: to empower every investor with the conviction that he or she can make better-informed decisions and realize success on his or her own terms.

Our independence and our history of innovation make us a trusted resource for investors. While other companies may offer research, ratings, data, or software products, we are one of the few companies that can deliver all of these with the best interest of the investor in mind. We believe putting investors first, paired with the way we use information design and technology to communicate complex financial information, sets us apart from our peers in the financial services industry.

Investors First — Morningstar always conducts its research with the end investor in mind.

An Independent View — Morningstar does not charge fund companies to be rated, nor do fund companies commission research or ratings.

Investor Recognition — According to a Wall Street Journal survey, Morningstar ranked highest among the four leading mutual fund information providers in name recognition and in perceptions of data accuracy and completeness. Because investors know and trust Morningstar, they feel more confident in making informed investment decisions when they’re armed with Morningstar information.
About Morningstar Manager Research
Morningstar provides independent, fundamental analysis on managed investment strategies. Analyst views are expressed in the form of Analyst Ratings, which are derived through research of five key pillars—Process, Performance, Parent, People, and Price. A global research group issues detailed analyst reports on strategies that span vehicle, asset class, and geography.

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