Morningstar Fee Level for 529 Investment Options
Methodology

Introduction

The Morningstar Fee Level—529 for mutual funds was developed to help investors compare a 529 Plan's relative level of fees with those of similar 529 Plans. The methodology applies to all 529 Plans in Morningstar's database.

Methodology

Fund share classes are first grouped together according to the following category groupings:

1. Static Large Value + Static Large Blend + Static Large Growth
2. Static Mid-Cap
3. Static Small Cap
4. Static Conservative Allocation

    Static- Allocation 15% to 30% Equity + Static Allocation –30% to 50% Equity
5. Static Moderate Allocation
6. Static Aggressive Allocation

    Static Allocation – 70% to 85% Equity + Static Allocation—85%+ Equity
7. Static Non U.S. Stock
8. Static U.S. Government
9. Static Short-Term Bond
10. Static Intermediate-Term Bond
11. Static Money Market
12. Age 0-6 Low Equity + Age 0-6 Medium Equity + Age 0-6 High Equity
13. Age 7-12 Low Equity + Age 7-12 Medium Equity + Age 7-12 High Equity
14. Age 13-18 Low Equity + Age 13-18 Medium Equity + Age 13-18 High Equity
15. Age 19+ Low Equity + Age 19+ Medium Equity + Age 19+ High Equity

Distribution Class Criteria

Comparison groups would further be determined by the following criteria. This allows for an "apples to apples" comparison of fund share classes with similar distribution channels and expense structures.

The calculation is only for US 529 plans.

Data Points Required (Most Recent):
Sales Channel
Front Load
Deferred Load
Distribution Fee

Advisor-sold Front Load: Sales channel equal to Advisor or Direct and Advisor;
Front load greater than 0%.

Advisor-sold Deferred Load: Sales channel equal to Advisor or Direct and Advisor;
Front load equal to 0%; deferred load greater than 0%.

Advisor-sold Level Load: Sales channel equal to Advisor or Direct and Advisor;
Front load equal to 0%; deferred load equal to 0%; Distribution Fee greater than 0.25%.

Advisor-sold No Load: Sales channel equal to Advisor or Direct and Advisor;
Front load equal to 0%; Deferred load equal to 0%; Distribution Fee less than or equal to 0.25%.

Direct-sold: Sales channel equal to Direct.

Example distribution class comparison groups include:

1. Static Small Cap-Advisor-sold Front Load
2. Static Small Cap-Advisor-sold Deferred Load
3. Static Small Cap-Advisor-sold Level Load
4. Static Small Cap-Advisor-sold No Load
5. Static Small Cap-Direct-sold
6. Static U.S. Government-Advisor-sold Front Load
7. Static U.S. Government-Advisor-sold Deferred Load
8. Static U.S. Government -Advisor-sold Level Load
9. Static U.S. Government-Advisor-sold No Load
10. Static U.S. Government-Direct-sold

15 category groups * 5 distributions classes = 75 ranking groups

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Ranking

Within each Comparison group, a fund share classes' total expense ratio would then be ranked against its peers, using 5 quintiles. Each share class would be assigned a quintile score (1 to 5) and corresponding Fee Grade/Label (High, +Avg (Above Average), Avg (Average), -Avg (Below Average), Low). It will be the product's responsibility to convert the percentile rank to a quintile rank and corresponding word label.

The total expense ratio needs to first be calculated by adding together the following six fees which are available in the XOI:

1. Administrative Fee: FundShareClass/Operation/Prospectus/AdministrativeFee
2. Distribution Fee: FundShareClass/Operation/Prospectus/DistributionFee/FeeSchedule/Value
3. Program Management Fee: FundShareClass/Operation/Prospectus/ActualManagementFee
4. Trustee Fee: FundShareClass/Operation/Prospectus/TrusteeFee
5. Other Asset-Based Fee: FundShareClass/Operation/Prospectus/OtherFee/Value
6. Underlying Fund Fees: FundShareClass/Operation/Prospectus/AcquiredExpenseRatio

Use the following formula to determine the percentile rank of an expense ratio in a series. This is our current percentile ranking methodology. With this method, percentile ranks always range from 1 (best) to 100 (worst) with all intermediate values spread evenly over that range.

All observations are ranked in the desired order (usually descending). Percentile ranks are assigned as follows:

PctRank   = i for i = 1

$\qquad$ FLOOR[99*(i-1)/(n-1)+1]   for i > 1

Where:

n	=	Total number of observations
i	=	Absolute rank of each observation
Floor	=	A function that rounds down to the next integer (e.g., 89.83 rounds down to 89)

Morningstar does not require a minimum number of items in order to percentile rank a set of data. For example, if there are only three fund share classes in a distribution class for a comparison group, we will percentile rank those three (1, 50, and 100).

Exhibit 1 Percentile Ranks Are Then Mapped Into Quintiles

Range	Quintile	Word Label
0 < Percentile Rank <= 20	1	Low
20 < Percentile Rank <= 40	2	Below Average or +Avg
40 < Percentile Rank <= 60	3	Average or Avg
60 < Percentile Rank <= 80	4	Above Average or -Avg
80 < Percentile Rank <= 100	5	High

Source: Morningstar, Inc.

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