
Morningstar Fee Level—Insurance Funds

Methodology

Morningstar Research
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Introduction

The Morningstar Fee Level for Insurance funds was developed to help investors compare an investment vehicle's relative level of fees with those of similar investment vehicles. This methodology applies to all US-domiciled insurance funds.

Category Groupings

1. Insurance Fund Aggressive Allocation

Allocation – 70%-85% Equity + Allocation – Over 85% Equity

2. Insurance Fund Alternative

Long-Short Equity + Managed Futures + Market Neutral + Multialternative + Multicurrency + Single Currency + Volatility + Nontraditional Bond

3. Insurance Fund Bear Market

4. Insurance Fund Commodities

Commodities Agriculture + Commodities Broad Basket + Commodities Energy + Commodities Industrial Metals + Commodities Miscellaneous + Commodities Precious Metals

5. Insurance Fund Conservative Allocation

Allocation—15%-30 Equity

6. Insurance Fund Corporate Bond

7. Insurance Fund Emerging Markets Bond

Emerging-Markets Bond + Emerging-Markets Local-Currency Bond

8. Insurance Fund Emerging Markets Stock

China Region + Diversified Emerging Mkts + India Equity + Latin America Stock + Pacific /Asia ex-Japan Stk

9. Insurance Fund Foreign Developed Large Cap

Diversified Pacific/Asia + Europe Stock + Foreign Large Blend + Foreign Large Growth + Foreign Large Value + Japan Stock + Miscellaneous Region

10. Insurance Fund Foreign Small/Mid Cap
Foreign Small/Mid-Value + Foreign Small/Mid-Blend + Foreign Small/Mid-Growth

11. Insurance Fund Government
Long Government + Intermediate Government + Short Government

12. Insurance Fund High-Yield
High Yield Bond + High Yield Muni + Bank Loan

13. Insurance Fund Inflation Protected

14. Insurance Fund Intermediate-Term Bond

15. Insurance Fund Large Cap
Large Value + Large Blend + Large Growth

16. Insurance Fund Long-Term Bond + Preferred Stock
Long-Term Bond + Preferred Stock

17. Insurance Fund Mid Cap
Mid-Value + Mid-Blend + Mid-Growth

18. Insurance Fund Moderate Allocation + Convertibles
Moderate Allocation + Convertibles

19. Insurance Fund Multisector Bond

20. Insurance Fund Municipal Intermediate
Municipal California Intermediate + Municipal National Intermediate + Municipal New York Intermediate + Municipal Single State Intermediate

21. Insurance Fund Municipal Long
Municipal California Long + Municipal National Long + Municipal New York Long + Municipal Single State Long

22. Insurance Fund Municipal Other
Municipal Massachusetts + Municipal Minnesota + Municipal New Jersey + Municipal Ohio + Municipal Pennsylvania

23. Insurance Fund Municipal Short
Municipal National Short + Municipal Single State Short

24. Insurance Fund Short-Term Bond

25. Insurance Fund Small Cap

Small Value + Small Blend + Small Growth

26. Insurance Fund Specialty

Communications + Consumer Cyclical + Consumer Defensive + Equity Energy + Energy Limited Partnership + Equity Precious Metals + Financials + Global Real Estate + Health + Industrials + Infrastructure + Miscellaneous Sector + Natural Resources + Real Estate + Technology + Utilities

27. Insurance Fund Tactical Allocation

28. Insurance Fund Target Retirement

Retirement Income + Target Retirement 2000–2010 + Target Retirement 2011–2015 + Target Retirement 2016–2020 + Target Retirement 2020–2025 + Target Retirement 2026–2030 + Target Retirement 2031–2035 + Target Retirement 2036–2040 + Target Retirement 2041–2045 + Target Retirement 2046–2050 + Target Retirement 2051+

29. Insurance Fund Trading

Trading-Inverse Commodities + Trading-Inverse Debt + Trading-Inverse Equity + Trading-Leveraged Commodities + Trading-Leveraged Debt + Trading-Leveraged Equity + Trading-Miscellaneous

30. Insurance Fund Ultrashort Bond

31. Insurance Fund World Allocation

32. Insurance Fund World Bond

33. Insurance Fund World Stock

Ranking

Within each comparison group, a fund share class' most recent annual report net expense ratio will be ranked against its peers. If a fund share class is part of a fund of funds, the most recent prospectus net expense ratio will be used instead of the annual report net expense ratio. Both the prospectus net expense ratio and annual report net expense ratio should be annualized. If they are not annualized, they should be discarded in favor of an older ratio that is annualized. Each share class is assigned a quintile score (1 to 5) and a corresponding Fee Grade/Label (High, +Avg [Above Average], Avg [Average], -Avg [Below Average], Low).

Morningstar uses the following formula to determine the percentile rank of an expense ratio in a series. Percentile ranks range from 1 (best) to 100 (worse) with all intermediate values spread evenly over that range.

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

$$\text{PctRank} = i \text{ for } i = 1$$

$$\text{FLOOR}[99*(i-1)/(n-1)+1] \quad \text{for } i > 1$$

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.