

Morningstar Collected Benchmark Updates

Frequently Asked Questions

What is Morningstar's response to the SEC Rule: [Tailored Shareholder Reports for Mutual Funds and Exchange-Traded Funds](#); Fee Information in Investment Company Advertisements ("The Rule")?

- **Refine** the current benchmark offering to match the intent and transparency of the data set for compliance and performance measurement.
- **Innovate** benchmark offerings to meet new client and investor use cases.
- **Consistently** collect benchmark data for all funds by eliminating any custom collection rules and aligning to singular interpretations of benchmark data.

What changes is Morningstar making in response to The Rule?

Morningstar will launch two new benchmark data point fields so that the benchmark data we collect can match regulatory requirements, provide investors clarity, and allow for deeper analysis of how portfolios measure performance against their objective benchmarks. For the current benchmark fields, we are restating that a fund may include, in addition to the required broad-based securities market index (primary benchmark), information for one or more additional indexes (secondary benchmark).

- The **Primary Prospectus Benchmark** will correspond to the leading broad-based index collected from the fund prospectus performance table graph.
- The **Secondary Prospectus Benchmark** will correspond to the benchmark listed in the prospectus immediately after the first/broad-based index in the prospectus performance table or if available in the Prospectus Fund Objective.
- The **Tertiary Prospectus Benchmark** will correspond to either the third benchmark in the prospectus performance graph or within the Prospectus Fund Objective.
- The **Focus Prospectus Benchmark (Time Series)** will be selected from the three benchmarks collected as the benchmark that most closely aligns with the fund strategies.

How does Morningstar collect benchmark information today?

Funds are required to have a line graph comparing their performance with that of an appropriate broad-based securities market index. Many also include additional, more narrowly focused indexes that may be more representative of their strategies. In addition, a registrant may compare its performance with an additional broad-based index or non-securities index, such as the Consumer Price Index, provided that the comparison is not misleading.

Guided by this regulation, Morningstar collects benchmarks from fund prospectus documents primarily in the order they appear under the performance line graph. These appear as two distinct data points:

- The **Primary Prospectus Benchmark** is the leading broad-based index collected from the fund prospectus performance table graph.
- The **Secondary Prospectus Benchmark** is a narrow-based index that reflects the market sectors a portfolio invests in, if available.

Are there any exceptions to the benchmark-collection order as stated above?

Yes, in reviewing our current benchmark offering and collection processes, due to the limitations of having just two benchmark fields, there are exceptions to the process as described above. In the future, we are using the SEC's determination as outlined in "The Rule" as to what is not an appropriate broad-based market index to reset our benchmark data point definitions and collection processes and to enhance our benchmark information to be more comprehensive and flexible.

Is Morningstar making any changes to the definitions of Primary and Secondary Prospectus Benchmark?

No, Morningstar is not updating definitions for the Primary and Secondary Benchmarks. But, as described above, we are bringing the benchmark collection for all funds in line with the original intent of what the data points represent and how users of the data would typically interpret them. For example, for index funds, we have historically collected just one benchmark from the prospectus—that index being the benchmark that the fund tracks. In the future, we will collect index funds' benchmarks in the order that they appear in the prospectus. Our new Focus Prospectus Benchmark will be the benchmark that underpins index funds

regardless of whether they appear as the first broad benchmark in the prospectus or not.

When will all the new Tertiary and Focus Benchmarks be released?

We will provide clients with specific details of the applicable availability of these new benchmark data points within our Morningstar products that contain benchmark data in future communications so they can align their processes and workflows for these changes.

Which benchmark should I look for when analyzing passive index funds, and other funds that have used the Primary Prospectus Benchmark as the performance-tracking index?

The Focus Prospectus Benchmark.

Will Morningstar category indexes or the indexes in FINRA-reviewed reports be impacted by these changes?

No, the indexes used on the FINRA-reviewed reports will remain the same. Please note, if clients are creating or consuming custom reports that they file with FINRA, it is the client's responsibility to ensure appropriate data is used in line with the report's intended audience and filing type. Some custom reports may require the use of a broad market benchmark.

What countries will be impacted by these changes?

The United States.

Which Morningstar products that publish benchmark data will be impacted by these changes?

All our Morningstar products that contain benchmark data will have updates due to this change. We will notify their clients of the applicable updates made to the respective product in future communications.