

# Morningstar Category Changes – October 31, 2024

## Frequently Asked Questions

### **What is the rationale behind updating Secondary/Category Indexes and Morningstar Indexes.**

Morningstar is updating Category and Morningstar indexes as we aim to use Morningstar intellectual property wherever appropriate and possible. The new category benchmarks are well aligned with the category peer groups and have live histories of at least 10 years, which are some of the key requirements for any index change in the US category schema.

These changes will not cause any Morningstar Category fund classification changes.

### **Why is Morningstar introducing a new Defined Outcome Category?**

We are splitting the former Options Trading category into two categories. Some of the Options Trading constituents will move to a new category, called Defined Outcome, and the remaining funds will stay in their existing category, which we are renaming Equity Hedged. Defined Outcome funds deliver investors a predefined range of outcomes over a set period. This range is determined by equity market performance and the options contracts that underlie each fund. The proliferation of these funds has been relatively recent, and because they frequently use options, they were previously placed in the Options Trading category. However, their risk/return profiles are distinct from the rest of the Options Trading category. By grouping these funds separately, investors will be able to more easily discern between these two types of options strategies.

### **What's Changing for the Options Trading Category?**

The Options Trading Category is being renamed Equity Hedged and is moving from the Alternatives broad category group to the Equity broad category group, falling in the nontraditional equity family. These strategies typically provide hedged equity exposure using options and, at times, other derivative instruments. In contrast to the new Defined Outcome category, strategies in this category have open-ended investment horizons, can incorporate a more variable degree of hedging and deliver more variable outcomes. The category's new name reflects the purpose that the derivative instruments play in the funds' investment strategies.

### **Is Morningstar making any changes to its category definitions?**

Yes, Morningstar is also updating definitions for the below listed retail categories. Funds classifications in these categories will not be impacted as a result of this change. The Category Classification document will be updated 30 days before the category changes are released to reflect the updates.

- **Long-Short Equity**
- **Macro Trading**
- **Real Estate**

### **When will the changes take place?**

All changes detailed in this document will take place on October 31, 2024 and will be reflected in Morningstar systems by the fifth business day of November.