

# Brunner Ord BUT

Morningstar Benchmark MSCI World NR USD  
Morningstar Category™ Global Large-Cap Blend Equity**Morningstar Analyst Rating****Bronze**

Analyst Rating Spectrum

Gold Silver Bronze Neutral Negative

**Morningstar Rating™**

★★★

Last Closing Price GBP	680.50
Last Closing NAV GBP	783.42
Discount/Premium %	-13.14
Latest Published NAV	786.26
Latest Published NAV Date	29/03/2017
Traded Currency	GBX
Yield	2.32
Dividend Frequency	Quarterly
Total Assets £ Mil	394.5
Net Assets £ Mil	344.4
Market Cap £ Mil	290.5
Net Gearing %	6
Avg Daily Shares Traded Mil (3 month)	0.02
Inception Date	01/01/1927

**Morningstar Analyst:** David Holder**Executive Summary**

*People:* The fund benefits from an experienced fund manager in Lucy MacDonald as well as a significant investment team at AGI. The substantial resources available to MacDonald include over 80 global sector analysts.

*Parent:* Brunner is managed by Allianz Global Investors. The equity management is based on a strong, fundamentally aligned, global research approach.

*Board:* The board of five bring a range of skills to bear here, with the majority having a background in investment. All are shareholders, which we like to see as it aligns their interests with shareholders.

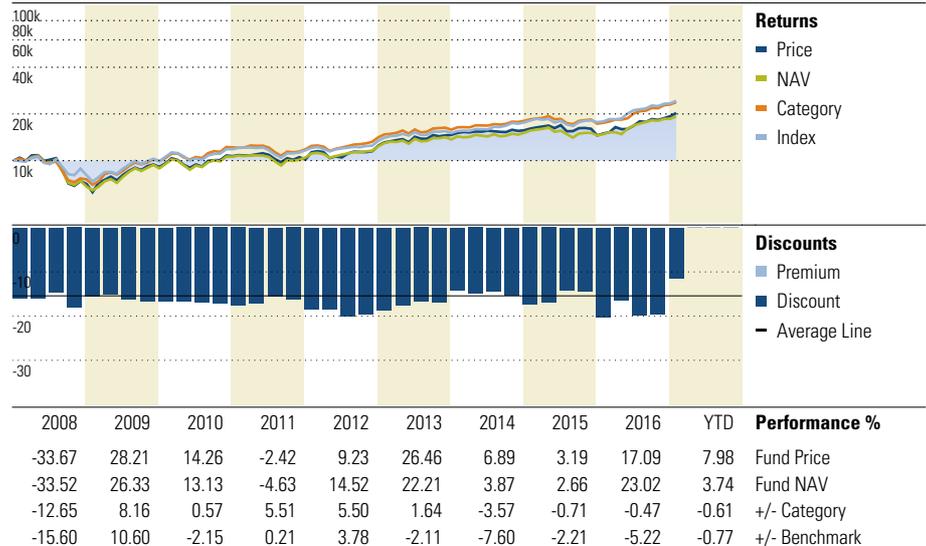
*Process:* MacDonald builds the portfolio from the bottom up, identifying three main pillars central to stock selection: quality, growth prospects, and valuations.

*Performance:* The fund has performed well under MacDonald's tenure. Returns have been relatively consistent and delivered in line with expected levels of volatility.

*Fees:* With a latest ongoing charge of 78 basis points, this fund is competitively priced when compared with peers; the fee structure is clear and transparent and there are no performance fees levied here.

**Role in Portfolio**

Core. This fund is suitable for investors looking for global equity exposure, although they should be aware of its (diminishing) bias to the UK. In addition the requirement to continue to generate income whilst shifting exposure away from the UK is a potentially onerous task and one that puts a degree of pressure on MacDonald when it comes to stock selection.



## Morningstar Opinion

29 Mar 2017 | Under the guidance of the board and the manager, Brunner is evolving gradually from an almost wholly UK investment vehicle holding over 200 stocks, to a more concentrated portfolio of around 80 stocks with far less exposure to the UK than has previously been the case. Indeed, within MacDonald's time, the benchmark has moved from 60% UK/40% overseas to the current 50%-50% weighting, and the board are seeking shareholder approval to amend this to 70% Overseas and 30% UK in March 2017. This is a trend that we have observed in a number of global investment trusts, reflecting the changing nature of the dividend-paying credentials of overseas markets and the greater opportunity set available to managers.

The fund has grown the dividend for the past 45 consecutive years, which puts a requirement on the portfolio to maintain and increase the underlying income in a time when dividends within the oil & gas, basic materials, and pharmaceuticals sectors are coming under pressure. The UK element of the portfolio bears a disproportionate weight in providing the trust's income, which merits ongoing scrutiny, although there are revenue reserves of approximately 17 months, at the current rate, which provides a degree of flexibility for the management.

Lucy MacDonald is an experienced manager and CIO of Allianz Global investors. She is able to

draw upon the significant global analyst resources available in the group, including the firm's regional portfolio management teams, global sector analysts, and the Global Policy Council, which produces macro research. In June 2016 comanager Jeremy Thomas left AGI, so MacDonald has sole responsibility for the trust, which we think is eminently more sensible as it brings enhanced accountability and consistency of investment approach across the portfolio. Since June 2016 MacDonald has worked closely with Matthew Tillett, who assists on UK stock selection. Thus far this dynamic appears to be working well.

Investors should be aware that the fund has structural gearing in the form of two fixed-term debentures of GBP 18.4 million that matures in 2018 (11.125%) and GBP 30.8 million (9.251%) redeeming in 2023. These have been a hindrance to performance and the redemption in due course will be a material fillip for investors. In addition, Aviva holds some 18% of the trust and have been exiting the closed ended space over the past 12 months, so there is likely to be share price weakness whilst this overhang in the market persists.

The combination of manager experience, substantial global analytical resources, and competitive fees give cause for confidence and conviction that the fund is well placed to provide long-term growth in capital and income. The fund retains its Morningstar Analyst Rating of Bronze.

**Brunner Ord BUT**Morningstar Benchmark MSCI World NR USD  
Morningstar Category™ Global Large-Cap Blend Equity**People**

Manager	Lucy MacDonald
Manager Start	30/06/2005
Avg. Manager Tenure	11.8 Years
Other Funds Managed	—

The fund is managed by Lucy MacDonald with assistance from Matthew Tillett in picking stocks within the UK. MacDonald is CIO of the Global Equities team, which comprises six portfolio managers with average industry experience of over 16 years. MacDonald joined RCM (acquired by AGI) in 2001 from Baring Asset Management, having spent 16 years at that firm. She has been at the helm of this fund since June 2005 and co-manager with Jeremy Thomas from July 2010 to June 2016 (when he left the company). MacDonald is now wholly responsible for all aspects of the management of the fund.

Tillett joined Allianz Global Investors in 2006 as part of the Global Graduate Program. He is currently the lead portfolio manager for the UK Unconstrained strategy. Previously he worked in the

Research Department as a pan-European media analyst, before moving to portfolio management as part of the UK Equity Team in 2009.

MacDonald can draw on Allianz's regional portfolio management teams; 83 global sector analysts with an average of 15 years' experience, and each analyst carries out around 100 company meetings per year; and the Global Policy Council for its macro research. The fund benefits from having career analysts, which AGI views as a career track in itself rather than a stepping stone to portfolio management. This should help to retain experienced staff, which in our view leads to a better depth of research. Finally, the fund can commission the Grassroots Research team to carry out customised research.

**Parent**

Fund Advisor	Allianz Global Investors GmbH
Domicile	UK
Website	<a href="http://www.brunner.co.uk/Navigate.aspx/Brunner/1/Home/Home">www.brunner.co.uk/Navigate.aspx/Brunner/1/Home/Home</a>

Allianz Global Investors' equities group has more than 80 analysts worldwide based in offices specialised by sector. To support fundamental analysis, AGI uses the Grassroots Research unit to conduct independent market research. A fund manager's time is divided into 75% for portfolio management and 25% for other research. Stock analysts who manage sector funds devote 25% of their time to portfolio management and the other 75% to equity research. The fund manager and analysts are paid a base salary and an annual incentive, and participate in a long-term incentive program. Seventy percent of an employee's yearly incentive is based on rolling three-year performance. Equity analysts' calls are measured on the

StarMine platform. The other 30% of the yearly incentive depends on qualitative goals. The long-term incentive program can represent up to 30% of the salary of a senior portfolio manager or analyst. Here, company growth and operating earnings are crucial. Communication with investors is good and detailed. AGI's open-end fee structure is somewhat above average. Furthermore, for funds with performance-based pay, we feel it is more appropriate to use a lower fee structure. Performance fees should be set up so that not only the asset manager profits; introducing high-water marks or compensating for relative underperformance before the performance fee kicks in would help.

**Board of Directors**

Tender Offer	No
Buyback Authorization	Yes

The board, which numbers five and formally meets seven times a year, has an average tenure of over seven years. Legal and accountancy backgrounds are represented, but there is predominantly a strong investment focus and less corporate/industry experience.

Carolán Dobson, who was appointed to the board in December 2013, replaced Keith Percy as chairman in March 2016. She is also chairman of Aberdeen Smaller Companies High Income trust and JP Morgan European Smaller Companies as well as holding non-executive positions with three other investment companies. She is a trustee of the National Employment Savings Trust and chairs the investment committee. The most recent appointment to the board is James Sharp (January 2014) who was previously a director at Schroders and is connected to the Brunner family

through marriage.

The board retains the input of Vivian Bazalgette, who was appointed in January 2004 and who was previously the CIO of Prudential and M&G as well as holding senior positions at Gartmore and Mercury Asset Management.

Peter Maynard, who joined the board in October 2010, was group legal director and company secretary at Prudential Plc. Previously he worked at HSBC in various roles including a director of HSBC Investment Bank and deputy group legal adviser. More recently he has been the head of Group Governance and Regulatory Compliance at Old Mutual plc. All of the board members are shareholders, which we like to see as it aligns their interests with general shareholders.

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## Process: Investment Approach

Investment Objective: To provide shareholders with growth in capital value and dividend by investing in a portfolio of global and UK equities.

Hedging Policy

Tactical Use of Cash No

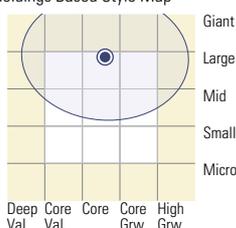
Lucy MacDonald builds a portfolio of between 80 and 60 stocks from the bottom up. Where once the respective UK and overseas portfolios were managed almost entirely separately by two fund managers, with the appointment of MacDonald as sole fund manager in June 2016 the portfolio is constructed as a single entity, which is a material improvement in our opinion.

The process starts with the analysts screening their respective universes and awarding rankings to their stocks. The manager then uses this analysis to undertake her own review, in which she looks at quality, prospects for growth, and valuation. Target companies will have demonstrated their ability to consistently sustain a high return

on capital and generate and grow their cash, which the manager sees as an indication of their long-term competitive advantage. Quality characteristics include businesses with well-known brand names, proprietary technology, patent protection, and monopoly positions. In addition, the company must have an attractive valuation relative to its peers. A decision to sell can be triggered by the company achieving its price target, a change in the investment case, or finding a better opportunity elsewhere. The portfolio is not benchmark-constrained, but MacDonald aims to keep relative stock and sector overweightings to a maximum of three percentage points and five percentage points respectively, for risk-management purposes.

## Process: Portfolio Positioning

Morningstar Holdings Based Style Map



The principal differences at the regional level when compared with category peers is that the UK weighting is 33% compared with 10%. This weighting has been steadily diminishing (2002: 60%). This fund is always likely to have a UK bias but there is scope for the current allocation to further reduce. The US exposure is a further differentiator in that the fund's weighting is 33%, which compares with the peer group category average of 55%. By way of reference the MSCI World index has a 63% allocation to US equities.

These are material differences which can drive returns, not least given the resulting currency positions. Sector positioning is a factor of stock selection. Currently the fund is underweight in the consumer cyclicals and consumer defensive sectors when compared with peers, but some 6% more weighted in industrials through names such as Accenture and Balfour Beatty. Metrics such as price/earnings and price/book stand at modest discounts to peers, but overall this fund sits within the Core space.

World Regions	Assets %
<b>Greater Europe</b>	<b>55.29</b>
United Kingdom	33.54
Europe-Developed	21.75
Europe-Emerging	0.00
Africa/Middle East	0.00
<b>Americas</b>	<b>35.25</b>
North America	33.54
Latin America	1.71
<b>Greater Asia</b>	<b>9.46</b>
Japan	2.74
Australasia	1.67
Asia-Developed	2.82
Asia-Emerging	2.23
Not Classified	0.00

Asset Allocation	% Assets	Long	Short	Net
Cash	8.8	0.4	8.4	
Equity	89.1	0.0	89.1	
Bond	0.0	0.0	0.0	
Other	2.6	0.1	2.5	

Top 10 Holdings 28/02/2017	% Assets
Microsoft Corp	3.13
Royal Dutch Shell PLC B	2.72
UnitedHealth Group Inc	2.34
AbbVie Inc	2.14
BP PLC	2.04
Munchener Ruckversicherungs-Gesells	1.93
HSBC Holdings PLC	1.83
Roche Holding AG Dividend Right Cer	1.81
Nielsen Holdings PLC	1.81
Walgreens Boots Alliance Inc	1.75

Sector Weightings	% Equity
<b>Cyclical</b>	<b>35.6</b>
Basic Materials	6.2
Consumer Cyclical	7.8
Financial Services	19.0
Real Estate	2.6
<b>Sensitive</b>	<b>41.7</b>
Communication Services	3.6
Energy	7.9
Industrials	16.4
Technology	13.8
<b>Defensive</b>	<b>22.7</b>
Consumer Defensive	6.7
Healthcare	13.1
Utilities	2.9

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## NAV Performance Analysis

Data as of 28-02-2017

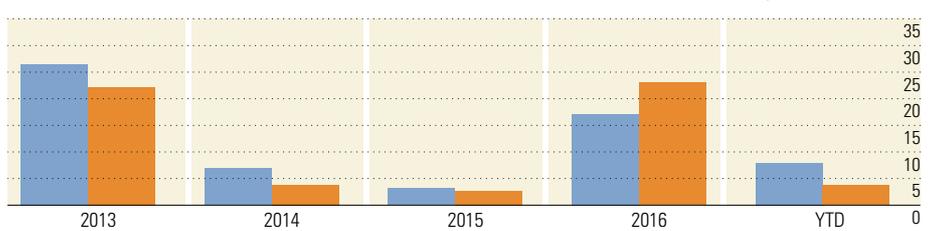
Trailing Returns Price	Total Rtn %	+/- Bmark
3 month	10.86	2.65
6 Month	13.15	-0.29
1 Year	35.69	-0.11
3 Year Ann.	10.35	-5.82
5 Year Ann.	12.36	-2.66

Trailing Returns NAV	Total Rtn %	+/- Bmark	+/- Cat	%Rnk In Cat
3 month	6.27	-1.93	-1.30	75
6 Month	11.65	-1.78	0.58	50
1 Year	31.03	-4.77	0.02	58
3 Year Ann.	10.54	-5.63	-2.24	76
5 Year Ann.	12.94	-2.08	1.07	58

Over Lucy MacDonald's tenure (July 2005), the fund has returned an annualised 9.4%, which is 1.7% per year ahead of its Morningstar Category. Five-year cumulative performance is ahead of peers by 1.3% per year and 12-month returns to the end of February 2017 are in line. 2013 was a particularly strong year with returns of 27% compared with 20.1% for the peer group. Good stock selection in the financials, industrials, and basic materials sectors were accretive as was UK and

US stock selection more generally. In 2014 the trend was reversed, with the fund returning 2.3% compared with the peer group return of 7.3%. Investment in consumer stocks such as Mothercare, Adidas, and Tesco held back relative performance. Over the past 12 months stock selection in healthcare (UnitedHealth), consumer goods (Adidas), and industrials (Covestro) were accretive to performance.

Calendar Total Returns



## Discount / Premium

Data as of 30-03-2017

Discount / Premium %	6 Mo	1Yr	3Yr
High	-13.82	-13.06	-10.75
Average	-18.62	-18.40	-16.49
Low	-22.15	-22.89	-22.89
Z-Statistic	1.77	1.54	0.49

The board does not enforce a strict discount control mechanism, but it can and does buy back shares for cancellation with the aim of generating modest enhancements to net asset value and reducing the volatility of the discount. The board are cognisant that the benefit of buying back shares must be weighed against the effects on liquidity, so the board have not tended to be ultra-active in buying back shares here. The trust's dis-

count to NAV (March 2017) is 14% (the five-year average is around 16%), which is considerably wider than the peer group average of 5%, reflecting a combination of lack of significantly large buybacks, investor ambivalence regarding the debt structure and the overhang of shares held by Aviva. Since 2007 the fund has bought back (for cancellation) 5.5 million shares or some 13% of the 42.6 million shares currently outstanding.

## Risk & Return

Data as of 28-02-2017

Morningstar Rating	Return	Risk	Rating
3 Year	<i>Below Avg</i>	<i>Avg</i>	★★
5 Year	<i>Avg</i>	<i>Above Avg</i>	★★★★
10 Year	<i>Avg</i>	<i>Above Avg</i>	★★★★
Overall	<i>Avg</i>	<i>Above Avg</i>	★★★★

The fund is modestly more volatile than its Morningstar Category average peers as demonstrated through its 10-, five-, and three-year standard deviation (a statistical measure of risk). The Morningstar Return rating is Above Average overall whilst the Morningstar Risk Rating overall is also Above Average, indicating that risk has been used effectively here. The trust also has tended

to exhibit higher beta or sensitivity to market movements than peers. Although it has structural gearing, the added risk this brings has been managed through holding government bonds and cash, which have been used to dampen overall gearing. The redemption of these debentures will be a notable positive for the trust.

Volatility Ratios	3 Yr NAV	5 Yr NAV	Risk vs Index	3 Year	5 Year
Standard Deviation	10.93	10.93	Alpha NAV	-5.46	-3.91
Mean	0.88	0.97	Beta NAV	1.10	1.11
Sharpe Ratio	0.00	0.48	R-Squared NAV	88.24	91.27
Sortino Ratio	-0.02	0.68	Treynor Ratio NAV	-0.17	5.72

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**Fees**

Management Fee %	0.45
Ongoing Charge ex Perf Fee %	0.79

Allianz Global Investors are eligible for an annual management fee of 0.45% of net assets, with 70% being charged to capital and 30% being charged to revenue. There is no performance fee

in place, and we feel that with ongoing charges for fiscal 2016 of 0.78% (2015: 0.75%), investors overall are paying a competitive fee here.

**Gearing**

Total Assets £ Mil	394.5
Net Assets £ Mil	344.4

Gearing in this fund is achieved through two fixed-term debentures of GBP 18.4 million that matures in 2018 (11.125%) and GBP 30.8 million (9.251%) redeeming in 2023. The manager uses cash or government bonds to offset the headline rate of gearing. Currently the fund's gross gearing is 114%, with the net position 105%. (March 2017). MacDonald isn't taking a tactical view with the gearing; rather, she uses it to build positions in the highest-conviction stocks. As the

number of stocks has decreased in the portfolio, so they have increased their conviction in their top ideas and this has seen gearing tick up a little. These long-standing debt instruments are clearly a drag on performance and the market value of the debentures is currently higher than their nominal value; they aren't actively traded, but as they near redemption there will be a positive impact on the fund's NAV, as the market value of the debt reduces.

**Dividends**

Dividend History	2014	2015	2016
Dividend	15.00	15.30	15.80
Special Dividend	0.00	0.00	0.00
<b>Total</b>	<b>15.00</b>	<b>15.30</b>	<b>15.80</b>

The fund aims to provide growth of both capital and income, so the dividends are an important feature here. The board has a policy of paying a progressive dividend each year, and it has stayed true to this; in fact, it has paid an increased dividend every year for the past 45 years, which is an impressive feat. Until 2014, dividends were paid in two tranches; in mid-2012 the board decided to equalise the half-year and year-end payments more closely over time; the half-year pay-

ment in Aug 2012 began this process. Further, in 2014 the board has moved to paying a dividend on a quarterly basis. For fiscal 2016 dividends per share of 15.8p (2015: 15.3p) were paid on revenue per share of 16.4p (2015: 14.1p). Subsequent to the payment of the final dividend, revenue reserves will equate to 23.3p or approximately 17 months at the current rate. The trust yields 2.35% (March 2017).

# Global Closed-End Fund Report

## Disclosure Statement

The Global Closed-End Fund Report is supplemental sales literature, and therefore should be preceded or accompanied by the fund's current prospectus, or equivalent, and this disclosure statement. Please read the fund information carefully. In all cases, this disclosure statement should accompany the Global Closed-End Fund Report. Morningstar is not itself a FINRA-member firm. All data presented is based on the most recent information available to Morningstar.

A key feature of closed-end funds is that they generally do not continuously offer their shares for sale. They sell a fixed number of shares initially, after which the shares typically trade on a secondary market. Closed-end funds may trade at, above, or below their net asset value. If a closed-end fund's shares trade at a price above their net asset value, they are said to be trading at a premium. Conversely, if they are trading at a price below their net asset value, they are said to be trading at a "discount."

### Performance

The performance data given represents past performance and should not be considered indicative of future results. Principal value and investment return will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original investment. Fund portfolio statistics change over time. The fund is not FDIC-insured, may lose value, and is not guaranteed by a bank or other financial institution.

Total Return reflects performance without adjusting for the effects of taxation or brokerage commission, but is adjusted to reflect all actual ongoing fund expenses and assumes reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performance quoted.

Morningstar % Rank within Morningstar Category does not account for a fund's sales charge (if applicable) or brokerage commission. Rankings will not be provided for periods less than one year.

### Morningstar Analyst Rating

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the manager research analysts of Morningstar. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Analysts use this five pillar evaluation to determine how they believe funds are likely to perform over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflect an Analyst's conviction in a fund's prospects for outperformance. Analyst Ratings are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <http://corporate1.morningstar.com/AnalystRating/>.

**The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.**

### Morningstar Rating for Funds

The Morningstar Rating for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a mutual fund

is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. If the managed product has been in its current category over the entire evaluation period, the weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. If the managed product's investment style and category have changed in the past, Morningstar modifies the weights for the Overall Morningstar Rating to reflect the average degree of similarity between the current category and the fund's historical categories. Slightly more weight is placed on the time periods when the fund was in the current category.

### Morningstar Category

This is a proprietary Morningstar data point. While the investment objective stated in a fund's prospectus may or may not reflect how the fund actually invests, the Morningstar category is assigned based on the underlying securities in each portfolio. Morningstar categories help investors and investment professionals make meaningful comparisons between funds. The categories make it easier to build well-diversified portfolios, assess potential risk, and identify top-performing funds. We place funds in a given category based on their portfolio statistics and compositions over the past three years. If the fund is new and has no portfolio history, we estimate where it will fall before giving it a more permanent category assignment. When necessary, we may change a category assignment based on recent changes to the portfolio.

### Last Closing Price

The most recent price available for the fund.

### Last Actual NAV

While most closed-end funds report their net asset value daily, some do not. This is the last reported net asset value and it is calculated by dividing the total net assets of the fund by the total number of shares.

### NAV Date

While most closed-end funds report their net asset value daily, some do not. This is the date of the last reported net asset value.

### Discount %

The average premium or discount of the market price to the NAV (Net Asset Value), expressed as a percentage of the NAV.

### Total Distribution Rate % (NAV)

Closed-end funds have distribution rates, not yields or dividend rates. The distribution can be comprised of dividends, interest income, realized capital gains, and return of capital. The Total Distribution Rate (NAV) is the total amount of the most recent distribution compared with NAV. For funds without a level or managed distribution policy, we calculate a 12-month trailing rate beginning a year after inception.

### Total Assets \$ Mil

Closed-end funds can use leverage. Total assets represents the net asset value of the common shares, plus any leverage from debt, preferred shares, and non-'1940 Act leverage.

### Net Assets \$ Mil

The assets of the fund attributable to common shareholders.

### Market Capitalization \$ Mil

The total equity market value of the company, expressed in millions of dollars. It equals shares outstanding times the stock price.

### 1940 Act Leverage %

Closed-end funds are largely regulated by the Investment Company Act of 1940. Under the '40 Act, closed-end funds are explicitly permitted issue preferred shares and debt instruments (such as bonds). This 1940 Act leverage

ratio is the amount of preferred shares plus debt, expressed as a percentage of the fund's net assets.

### Non-1940 Act Leverage %

In addition to preferred shares and debt, some closed-end funds utilize modern financial instruments to achieve leverage. This is known as "Non-1940 Act Leverage." Such leverage can take the form of tender option bonds and mortgage rolls, to name only two. This ratio is the amount of non-1940 Act leverage expressed as a percentage of the fund's net assets.

### Average Daily Shares Traded Mil

The average daily trading volume of common shares over a given period. This is expressed in number of shares.

### Distribution-Income

The amount of the distribution attributed by the fund to net investment income, such as interest and dividends.

### Distribution-S/T Cap Gain

The amount of the distribution attributed by the fund to realized short-term capital gains.

### Distribution-L/T Cap Gain

The amount of the distribution attributed by the fund to realized long-term capital gains.

### Distribution-Return Cap

Return of capital is, in most instances, your own money being returned to you. Return of Capital can be destructive, meaning it is literally your own initial investment being return, or constructive, meaning that it is arising from unrealized capital gains. For closed-end funds investing primarily in Master Limited Partnerships, the return of capital is pass-through capital, and is neither destructive nor constructive.

### Manager Name

The name of the individual or individuals who are employed by the advisor or subadvisor who are directly responsible for managing the fund's portfolio, as taken directly from the fund's prospectus. Other terms that may appear in this column include the following: Multiple Managers - This term appears when more than two people are involved in the fund management, and they manage independently. Where this term is used, quite often the fund has divided net assets in set amounts among the individual managers. In most cases, multiple managers are employed at different subadvisors or investment firms. Management Team - This is used when there are more than two people involved in fund management, and they manage together, or when the fund strongly promotes its team-managed aspect. Et al - When this term appears just after a manager name, it indicates that while other people are involved in fund management, the person listed acts as the leader or is recognized by the fund as being the principal management player.

### Fixed-Income Portfolio Statistics

The referenced data elements below are a weighted average of the long fixed income holdings in the portfolio.

Duration is a time measure of a bond's interest rate sensitivity. Average effective duration is a weighted average of the duration of the underlying fixed income securities within the portfolio.

Average weighted coupon is generated from the fund's portfolio by weighting the coupon of each bond by its relative size in the portfolio. Coupons are fixed percentages paid out on a fixed-income security on an annual basis.

Maturity is the date a loan, bond or debenture comes due and is to be paid off. The Maturity Range shows the breakdown of the maturities in a fixed-income portfolio. It reveals the percentage of fixed-income securities that fall within each maturity range.

Coupon Range is a breakdown of each portfolio's bond coupons, or rates of interest payments. These ranges differ according to Morningstar Category

and, due to changing interest rates, are subject to alteration over time. Whatever the breakdown may be, the first number is always exclusive and the second number is always inclusive. A range of 8% to 10%, for example, would exclude bonds that have a weighted coupon rate of exactly 8% but would include bonds with a weighted coupon rate of 10%.

Credit quality breakdowns are shown for corporate-bond holdings and depict the quality of bonds in the underlying portfolio. The report shows the percentage of fixed-income securities that fall within each credit quality rating as assigned by an NRSRO. Bonds not rated by an NRSRO are included in the not rated (NR) category.

### Asset Allocation

The weighting of the portfolio in various asset classes, including "Other" is shown in the table. "Other" includes security types that are not neatly classified in the other asset classes, such as convertible bonds and preferred stocks. In the table, allocation to the classes is shown for long positions, short positions, and net (long positions net of short) positions. These statistics summarize what the managers are buying and how they are positioning the portfolio. When short positions are captured in these portfolio statistics, investors get a more robust description of the funds' exposure and risk. Most managed product portfolios hold fairly conventional securities, such as long positions in stocks and bonds. Other portfolios use other investment strategies or securities, such as short positions or derivatives, to reduce transaction costs, enhance returns, or reduce risk. Some of these securities and strategies behave like conventional securities, while others have unique return and risk characteristics.

Most portfolios take long positions in securities. Long positions involve buying the security outright and then selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. In this type of transaction, the investor borrows the security from another investor, sells it and receives cash, and then is obligated to buy it back at some point in the future. If the price falls after the short sale, the investor will have sold high and can now buy low to close the short position and lock in a profit. However, if the price of the security increases after the short sale, the investor will experience losses by buying it at a higher price than the sale price.

The strategy of selling securities short is prevalent in specialized portfolios, such as long-short, market-neutral, bear-market, and hedge funds. Most conventional portfolios do not typically short securities, although they may reserve the right to do so under special circumstances. Funds may also short derivatives, and this is sometimes more efficient than shorting individual securities. Short positions produce negative exposure to the security that is being shorted. This means that when the security rises in value, the short position will fall in value and vice versa. Morningstar's portfolio statistics will capture this negative exposure. For example, if a fund has many short stock positions, the percent of assets in stocks in the asset allocation breakdown may be negative. Funds must provide their broker with cash collateral for the short position, so funds that short often have a large cash position, sometimes even exceeding 100% cash. Note that all other portfolio statistics presented in this report are based on the long holdings of the fund only.

### Super Sector: US Government

This Super Sector includes all conventional debt issued by the US government, including US Treasury inflation-protected instruments. It may also include debt obligations issued by government agencies as well as interest-rate swaps and Treasury futures that are generally considered to have a risk profile commensurate with government bonds but may not have explicit government backing. Bonds issued by government sponsored enterprises such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation can be found in this Primary Sector.

### Super Sector: Credit

This Super Sector includes US Corporate (bank loans, convertible bonds, conventional debt securities issued by corporations and preferred stock), Asset-Backed securities (which are based on the expected cash flows from debts such as auto loans, credit card receivables, and computer leases among others), Convertible securities (which give their owners the opportunity to

convert each security to a certain number of shares of common stock at a certain price), Municipal (taxable and tax exempt debt obligations issued under the auspices of states, cities, counties, provinces, and other nonfederal government entities), and Corporate Inflation-Protected securities.

### Super Sector: Mortgage

This Super Sector includes all types of mortgage-backed securities and covered bonds. Rolling into this sector are items such as mortgage pass-thrus, mortgage CMOs, and mortgage ARMs. These securities are guaranteed by Ginnie Mae, an agency of the U.S. government, or by U.S.-government-sponsored enterprises such as Fannie Mae or Freddie Mac.

### Super Sector: Foreign

This Super Sector includes all conventional debt issued by non-US governments, bonds issued by a Central Bank or Treasury, and bonds issued by local governments, cantons, regions, and provinces. It also includes bank loans, convertible bonds, conventional debt securities issued by non-US corporations.

### Total Return

Total Return (also called "Non Load-Adjusted Return" in some reports) reflects performance without adjusting for sales charges or the effects of taxation, but it is adjusted to reflect all actual ongoing security expenses and assumes reinvestment of dividends and capital gains. It is the return an investor would have experienced if the security was held throughout the period. If adjusted for sales charges and the effects of taxation, the performance quoted would be significantly reduced.

### Morningstar % Rank in Category

Morningstar Rank is the total return percentile rank within each Morningstar category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. Historical percentile ranks are based on a snapshot of the funds as they were at the time of the calculation.

### Discount

The amount by which a preferred stock or bond sells below its par value.

### Premium

The amount by which a bond or preferred stock may sell above its face value. In new issues of stock, it is the amount by which the trading price of the shares exceeds the offering price. Regarding bonds, it is the amount by which a bond sells above its face value. For example, a bond that has a face value of \$1000 would sell at a \$200 premium when it costs \$1,200 (see discount).

### Z-Statistic

The z-statistic is used to measure a fund's discount/premium relative to its average discount/premium.  $Z = (\text{Current Discount} - \text{Average Discount}) / \text{Standard Deviation of the Discount}$ . A negative z-score indicates the current discount is lower than the average, and vice versa. The magnitude suggests whether the z-statistic is significant: for instance, a z-statistic of +2 or greater would be expected to occur less than 2.25% of the time.

### Risk and Return Profile

The risk measures below are calculated for funds with at least a three-year history.

The Morningstar Rating for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a mutual fund is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. If the managed product has been in its current category over the entire

evaluation period, the weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. If the managed product's investment style and category have changed in the past, Morningstar modifies the weights for the Overall Morningstar Rating to reflect the average degree of similarity between the current category and the fund's historical categories. Slightly more weight is placed on the time periods when the fund was in the current category.

The Morningstar Return rates a managed product's performance relative to other managed products in its Morningstar category. It is an assessment of a product's excess return over a risk-free rate (the return of the 90-day Treasury Bill), after adjusting for all applicable loads and sales charges, in comparison with the products in its Morningstar category. In each Morningstar category, the top 10% of products earn a High Morningstar Return (High), the next 22.5% Above Average (+Avg), the middle 35% Average (Avg), the next 22.5% Below Average (-Ave), and the bottom 10% Low (Low). Morningstar Return is measured for up to three time periods (three, five, and 10 years). These separate measures are then weighted and averaged to produce an overall measure for the product. Products with less than three years of performance history are not rated.

Morningstar Risk evaluates a managed product's downside volatility relative to that of other products in its Morningstar category. It is an assessment of the variations in monthly returns, with an emphasis on downside variations, in comparison with the products in its Morningstar category. In each Morningstar category, the 10% of products with the lowest measured risk are described as Low Risk (Low), the next 22.5% Below Average (-Avg), the middle 35% Average (Avg), the next 22.5% Above Average (+Avg), and the top 10% High (High). Morningstar Risk is measured for up to three time periods (three, five, and 10 years). These separate measures are then weighted and averaged to produce an overall measure for the product. Products with less than three years of performance history are not rated.

### Risk Measures

The risk measures below are calculated for funds with at least a three-year history.

Standard deviation is a statistical measure of the volatility of the fund's returns.

Mean represents the annualized geometric return for the period shown.

The Sharpe Ratio uses standard deviation and excess return to determine reward per unit of risk.

The Sortino ratio, a variation of the Sharpe ratio, differentiates harmful volatility from volatility in general by using a value for downside deviation.

Similar to the Sharpe Ratio, the Treynor Ratio is a measurement of efficiency utilizing the relationship between annualized risk-adjusted return and risk. Unlike Sharpe Ratio, the Treynor Ratio utilizes "market" risk (beta) instead of total risk (standard deviation). Good performance efficiency is measured by a high ratio.

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. Alpha is often seen as a measure of the value added or subtracted by a portfolio manager.

Beta is a measure of a fund's sensitivity to market movements. A portfolio with a beta greater than 1 is more volatile than the market, and a portfolio with a beta less than 1 is less volatile than the market.

R-squared reflects the percentage of a fund's movements that is explained by

movements in its benchmark index, showing the degree of correlation between the fund and the benchmark. This figure is also helpful in assessing how likely it is that alpha and beta are statistically significant.

### Total Expense Ratio %

The expense ratio is the annual fee that all funds or ETFs charge their shareholders. It expresses the percentage of assets deducted each fiscal year for fund expenses, including 12b-1 fees, management fees, administrative fees, operating costs, and all other asset-based costs incurred by the fund.

Portfolio transaction fees, or brokerage costs, as well as initial or deferred sales charges are not included in the expense ratio. The expense ratio, which is deducted from the fund's average net assets, is accrued on a daily basis.

If the fund's assets are small, its expense ratio can be quite high because the fund must meet its expenses from a restricted asset base. Conversely, as the net assets of the fund grow, the expense percentage should ideally diminish as expenses are spread across the wider base. Funds may also opt to waive all or a portion of the expenses that make up their overall expense ratio.

### Total Expense Ratio Adjusted %

By regulation, closed-end funds utilizing debt for leverage must report their interest expense as part of their total expense ratio. This happens even if the leverage is profitable. Funds utilizing preferred shares or non-1940 Act leverage are not required to do so.

### Investment Risks

**International/Emerging Market Equities:** Investing in international securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

**Sector Strategies:** Portfolios that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

**Non-Diversified Strategies:** Portfolios that invest a significant percentage of assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

**Small Cap Equities:** Portfolios that invest in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller company stocks have experienced a greater degree of market volatility than the overall market average.

**Mid Cap Equities:** Portfolios that invest in companies with market capitalization below \$10 billion involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

**High-Yield Bonds:** Portfolios that invest in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default.

**Tax-Free Municipal Bonds:** The investor should note that the income from tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.

**Bonds:** Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio declines. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates.

**HOLDRs:** The investor should note that these are narrow industry-focused products that, if the industry is hit by hard times, will lack diversification and possible loss of investment would be likely. These securities can trade at a discount to market price, ownership is of a fractional share interest, the

underlying investments may not be representative of the particular industry, the HOLDR might be delisted from the AMEX if the number of underlying companies drops below nine, and the investor may experience trading halts.

**Hedge Funds:** The investor should note that hedge fund investing involves specialized risks that are dependent upon the type of strategies undertaken by the manager. This can include distressed or event-driven strategies, long/short strategies, using arbitrage (exploiting price inefficiencies), international investing, and use of leverage, options and/or derivatives. Although the goal of hedge fund managers may be to reduce volatility and produce positive absolute return under a variety of market conditions, hedge funds may involve a high degree of risk and are suitable only for investors of substantial financial means who could bear the entire loss of their investment.

**Bank Loan/Senior Debt:** Bank loans and senior loans are impacted by the risks associated with fixed income in general, including interest rate risk and default risk. They are often non-investment grade; therefore, the risk of default is high. These securities are also relatively illiquid. Managed products that invest in bank loans/senior debt are often highly leveraged, producing a high risk of return volatility.

**Exchange Traded Notes (ETNs):** ETNs are unsecured debt obligations. Any repayment of notes is subject to the issuer's ability to repay its obligations. ETNs do not typically pay interest.

**Leveraged ETFs:** Leveraged investments are designed to meet multiples of the return performance of the index they track and seek to meet their fund objectives on a daily basis (or other time period stated within the prospectus objective). The leverage/gearing ratio is the amount of excess return that a leveraged investment is designed to achieve in comparison to its index performance (i.e. 200%, 300%, -200%, or -300% or 2X, 3X, -2X, -3X). Compounding has the ability to affect the performance of the fund to be either greater or less than the index performance multiplied by the multiple stated within the funds objective over a stated time period.

**Short Positions:** When a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker may demand more collateral and a manager might have to close out a short position at an inopportune time to limit further losses.

**Long-Short:** Due to the strategies used by long-short funds, which may include but are not limited to leverage, short selling, short-term trading, and investing in derivatives, these funds may have greater risk, volatility, and expenses than those focusing on traditional investment strategies.

**Liquidity Risk:** Closed-end fund, ETF, and HOLDR trading may be halted due to market conditions, impacting an investor's ability to sell a fund.

**Market Price Risk:** The market price of ETFs, HOLDRs, and closed-end funds traded on the secondary market is subject to the forces of supply and demand and thus independent of the NAV. This can result in the market price trading at a premium or discount to the NAV, which will affect an investor's value.

**Target-Date Funds:** Target-date funds typically invest in other mutual funds and are designed for investors who are planning to retire during the target date year. The fund's target date is the approximate date when investors expect to begin withdrawing their money. A target-date fund's investment objective/strategy typically becomes more conservative over time, primarily by reducing its allocation to equity mutual funds and increasing its allocations in fixed-income mutual funds. An investor's principal value in a target-date fund is not guaranteed at any time, including at the fund's target date.

**High double- and triple-digit returns:** High double- and triple-digit returns were the result of extremely favorable market conditions, which may not continue to be the case. High returns for short time periods must not be a major factor when making investment decisions.

## **Benchmark Disclosure**

### **Barclays US Agg Bond TR USD**

This index is composed of the BarCap Government/Credit Index, the Mortgage- Backed Securities Index, and the Asset-Backed Securities Index. The returns we publish for the index are total returns, which includes the daily reinvestment of dividends. The constituents displayed for this index are from the following proxy: iShares Core Total US Bond Market ETF.

### **Barclays US Universal TR USD**

BarCap U.S. Universal Bond Index: The U.S. Universal Index mirrors the increasingly popular "Core Plus" choice set used by many U.S.-dollar investors. It is the union of the U.S. Aggregate Index, the U.S. High Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, the non-ERISA portion of the CMBS Index, and the CMBS High Yield Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index.

### **BofAML US HY Master II TR USD**

The US High Yield Master II Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market. "Yankee" bonds are included in the Index provided the issuer is domiciled in a country having an investment grade foreign currency long-term debt rating. 144a issues are not included in the index until they are exchanged for registered securities. Qualifying bonds must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of USD 100 million.

### **MSCI EAFE NR USD**

Certain information included herein is derived by Morningstar in part from MSCI's Index Constituents (the "Index Data"). However, MSCI has not reviewed any information contained herein and does not endorse or express any opinion such information or analysis. MSCI does not make any express or implied warranties, representations or guarantees concerning the Index Data or any information or data derived therefrom, and in no event will MSCI have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) relating to any use of this information.

### **S&P 500 TR**

A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the stock market. TR (Total Return) indexes include daily reinvestment of dividends. The constituents displayed for this index are from the following proxy: iShares Core S&P 500 ETF.

### **USTREAS T-Bill Auction Ave 3 Mon**

Three-month T-bills are government-backed, short-term investments considered to be risk-free and as good as cash because the maturity is only three months. Morningstar collects yields on the T-bill on a weekly basis from the Wall Street Journal.