

British Empire Ord BTEM

Morningstar Benchmark MSCI World Value NR USD
Morningstar Category™ Global Large-Cap Value Equity

Morningstar Analyst Rating

Neutral

Analyst Rating Spectrum

Gold Silver Bronze Neutral Negative

Morningstar Rating™

★★★

Last Closing Price GBP	748.00
Last Closing NAV GBP	823.85
Discount/Premium %	-9.75
Latest Published NAV	824.35
Latest Published NAV Date	18/01/2018
Traded Currency	GBX
Yield	1.61
Dividend Frequency	Semi-Annual
Total Assets £ Mil	1,032.3
Net Assets £ Mil	961.1
Market Cap £ Mil	862.3
Net Gearing %	2
Avg Daily Shares Traded Mil (3 month)	0.13
Inception Date	01/01/1889

Morningstar Analyst: David Holder

Executive Summary

People: The team is small but close-knit; John Pennink handed the reins to Joe Bauernfreund in September 2015 and is now a diminishing influence on the investment decision-making process.

Parent: The long-standing investment manager Asset Value Investors Limited has moved to address weaknesses in sales and marketing with a recent arrangement with Goodhart Partners. This should help raise their profile to prospective investors.

Board: The board comprises five nonexecutive directors with extensive experience in financial services and the broader industry including service on investment company boards.

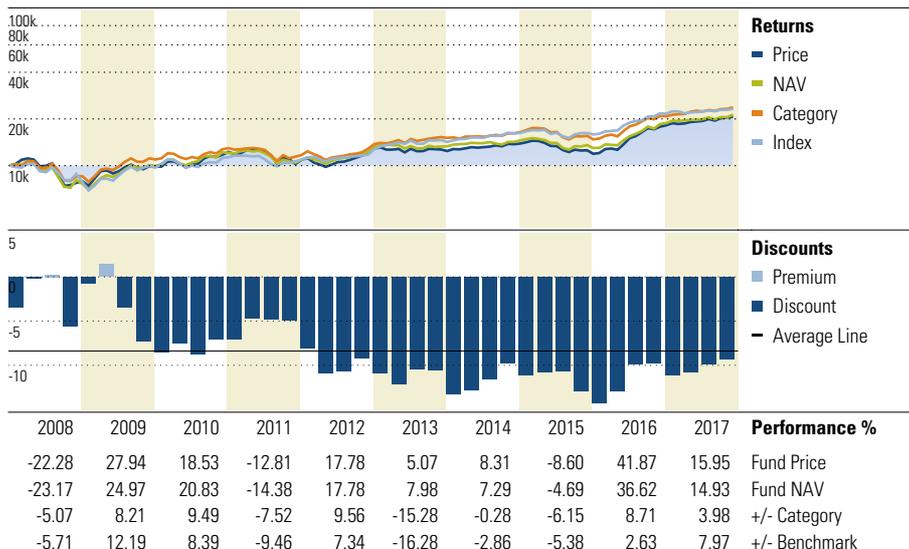
Process: The bottom-up process seeks investments trading below intrinsic value or firms that are misunderstood by other investors. The process has been consistently applied dating back to the trust's origin, from John Walton through Pennink to Bauernfreund.

Performance: British Empire Trust has generated strong long-term returns, but medium-term performance has been disappointing. The style has been out of favour for some time, but performance over Bauernfreund's short tenure shows promise for investors.

Fees: The ongoing charge of 0.87% represents reasonable value for unconstrained and truly active management when compared with the broader universe of global equity funds available to investors.

Role in Portfolio

Given the nature and style of the investment approach returns are likely to significantly deviate from those of broader global equity markets and the peer group. The fund would be a suitable choice to diversify a broader global portfolio.



Morningstar Opinion

19 Jan 2018 | British Empire Trust's objective is to achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value. The trust's shareholders had a disappointing experience in the latter part of the previous manager's tenure. It is encouraging to see the changes made by Joe Bauernfreund since his sole appointment in October 2015, to sharpen and refocus the investment approach, have been bearing fruit.

The team's strategy is to seek out-of-favour companies whose assets are misunderstood by the market or under-researched and that trade significantly below their intrinsic value, or where AVI can bring pressure to bear to enact change that will help realise shareholder returns. Whilst the value style has been out of favour, AVI has been consistent and resolute in maintaining its investment approach, which we find encouraging.

There are three investment themes employed in the trust: alignment of interest, constructivism, and asset backed. Alignment of interest is expressed through investment in European holding companies or conglomerates investing alongside private family investors. These companies by nature tend to be under-researched, but they can provide access to very high-quality assets that are managed very prudently on a long-term basis. Constructivism is

largely achieved through investment in closed-end funds. As the name would suggest, it involves actively engaging with boards, management, and other shareholders to realise value through buybacks, dividend policy, and changes to strategy. Asset backed involves investing in high-quality assets at a discount to their current net asset value. The trust often invests in Asian or Japanese property in this space.

The team of five is small but close-knit. Joe Bauernfreund, who became CIO and sole manager of British Empire Trust on 30 Sept 2015, has been immersed in the investment culture at AVI for 16 years and has been schooled in the firm's process by AVI's founder John Walton and previous manager John Pennink, who remains as chairman of AVI. Bauernfreund also has experience in real estate investment prior to joining AVI, which is a reoccurring theme within the fund and is thus relevant here.

Bauernfreund's relatively short tenure, has been characterised by a renewed focus and sharpening of the investment approach, which we feel is hugely important. He has reiterated the disciplined and fundamental value approach to investing employed at AVI. Early signs are encouraging, and we will continue to monitor closely the investment approach and performance under his stewardship. For the time being we maintain our Morningstar Analyst Rating of Neutral.

British Empire Ord BTEM

Morningstar Benchmark MSCI World Value NR USD
Morningstar Category™ Global Large-Cap Value Equity

People

Manager	Joe Bauernfreund
Manager Start	01/01/2013
Avg. Manager Tenure	5.0 Years
Other Funds Managed	—

Asset Value Investors was established by John Walton in 1985 to manage the assets of British Empire Trust. In 1999 John Pennink joined AVI; after working closely with Walton he assumed full responsibility for the management of the trust in 2002. Walton left AVI in 2007. Joe Bauernfreund joined AVI in 2002 as an investment analyst and was named as comanager of British Empire in January 2013; at the end of September 2015 he assumed sole responsibility for its management and was appointed CIO of AVI as well as CEO in September 2016. The investment team consists of Bauernfreund, Scott Beveridge, who has been at AVI since 2005, Tom Treanor (2011), Daniel Lee (2015), and Darren Gillen (2016). Pen-

nink is chairman of AVI, but his day to day involvement in the management of the company has ceased. Historically each one of the team has had an area of specialisation, but team members are now becoming more generalist in nature. The approach remains collegiate and one of robust questioning, but clearly Bauernfreund has the final say in the positioning of the trust. We feel he is well placed to bring together the input from the various analysts, as he has been an integral part of the AVI investment process for 14 years and takes a keen interest in the key areas in which AVI invests such as European holding companies, real estate, and closed-ended funds.

Parent

Fund Advisor	Asset Value Investors Limited
Domicile	UK
Subadvisor	Multiple
Website	www.british-empire.co.uk

As AVI has gone through a number of changes in personnel it has sought to rearrange and broaden the ownership structure to better reflect the changing dynamics within the company and to better align existing employee interests. In part to address these issues and in recognition of shortcomings in how AVI communicated its strategies with potential investors, it has partnered with Goodhart Partners, which has a minority position in AVI (completed third quarter 2016). Goodhart Partners was founded in 2009 and has taken small stakes in a number of small boutiques. It is closely involved with the investment consultant community and has the resources and experience

to improve how the AVI investment philosophy is articulated to institutional and other third-party investors. Goodhart also shares the long-term and value investment approach eschewed at AVI. The board was very keen to ensure that AVI thrive and continue to provide high-quality management for investors, and it has been actively involved and supportive in the Goodhart Partners arrangement. The intention is that this will ensure the long-term viability of AVI and increase assets under management. Joe Bauernfreund believes that the strategy followed at AVI has limited capacity and sees GBP 2 billion as a limit.

Board of Directors

Tender Offer	No
Buyback Authorization	Yes

The board comprises five nonexecutive directors whose average tenure is a little under five years. Long-standing chairman Strone Macpherson stepped down at the AGM in December 2017 and was replaced by Susan Noble. Noble (appointed March 2012) has extensive investment experience, having been a director at Newton, Robert Fleming, and Goldman Sachs. More recently she has served on the board at Alliance Trust Investments. The two most recent appointments were Anja Balfour in January 2018 and Calum Thomson in April 2017. Balfour brings extensive investment trust board experience and 20 years Japanese and international equity investment management experience from her time with Baillie Gifford and AXA Framlington. Thompson is equally

experienced in listed company board directorships, as well as 21 years as audit partner within the asset management sector. Steven Bates is the senior NED, having joined the board in June 2006. He brings long-standing experience in investment management, specifically in emerging markets. Nigel Rich (appointed in March 2012) has a banking background with HSBC and Jardine Matheson. More recently he has served on the board of Segro and Slough Estates, relevant given the fund's focus on real estate at times. Four directors sit on the boards of other listed investment companies, and all bar the two newest appointments are shareholders here. We like to see directors as shareholders as we believe it aligns interests with those of their shareholders.

British Empire Ord BTEM

Morningstar Benchmark MSCI World Value NR USD
 Morningstar Category™ Global Large-Cap Value Equity

Process: Investment Approach

Investment Objective: To generate capital growth through a focused portfolio of investments, particularly in companies whose shares stand at a discount to estimated underlying NAV.

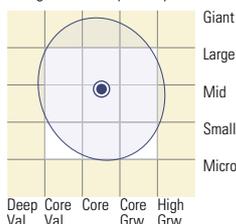
Hedging Policy
Tactical Use of Cash No

The investment process is long term, fundamental, and contrarian. The focus is upon seeking out assets that are out of favour or misunderstood by investors and that therefore trade significantly below their intrinsic value. The team looks for catalysts that will expose the unrealised value in its holdings such as M&A, liquidation, buybacks, manager changes, and special dividends. The managers are patient investors and focus on good businesses with strong balance sheets and robust cash flows that pay dividends, which helps to compensate them as they wait for value to be realised by the wider market. As at November-end 2017 there were 29 holdings (including the Japan special situations basket) with around 25 of these considered core. The residual is in

closed-end trusts, which are being wound up and returning capital to investors. The top 10 holdings account for more than 55% of the overall portfolio. This is a concentrated portfolio, but these holdings themselves will often have many underlying investments, so there is more diversification than may be immediately obvious. Under Joe Bauernfreund the remit will continue to exclude direct investment in the US. AVI considers this market to be too efficient for deep-value investors to be able to add value, and minority shareholders' rights are often overlooked. We applaud AVI for its consistency and in recognising its limitations, but this approach can lead to divergent returns especially against its peer group.

Process: Portfolio Positioning

Morningstar Holdings Based Style Map



As at November 2017 the weighted average discount to NAV across the portfolio was in the region of 25% (September 2016: 32%). The portfolio has 28 positions compared with 33 in October 2016 (not including the 19 stocks in the Japan Special Situations portfolio). During his tenure, Joe Bauernfreund has restructured the fund in line with his preference for a high-conviction best ideas portfolio. Given its core focus on European holding companies, it is of little surprise to see look-through geographic exposure to the region is

30.2% (November 2017). Despite the avoidance of US-listed holdings, indirect exposure to the US is 20.6%, suggesting there is more geographic diversification in the portfolio than immediately obvious. At the sector level, exposure is spread predominantly through the consumer discretionary, industrials, and real estate sectors. The opportunities identified by AVI tend to be across market caps, and in aggregate the fund is significantly more mid-cap-orientated than the peer group and benchmark.

World Regions	Assets %
Greater Europe	46.34
United Kingdom	0.03
Europe-Developed	41.19
Europe-Emerging	5.13
Africa/Middle East	0.00
Americas	8.34
North America	5.35
Latin America	2.99
Greater Asia	45.32
Japan	26.32
Australasia	0.00
Asia-Developed	13.64
Asia-Emerging	5.36
Not Classified	0.00

Asset Allocation	% Assets	Long	Short	Net
Cash	13.2	0.2	13.1	
Equity	66.4	0.0	66.4	
Bond	1.8	7.9	-6.0	
Other	27.2	0.6	26.6	

Top 10 Holdings 30/06/2017	% Assets
Wendel Ord	6.45
Pargesa Holding SA	5.80
Jardine Strategic Holdings Ltd	5.48
Riverstone Energy Ord	5.36
Tetragon Financial Ord	5.03
Symphony International Holding Ord	4.80
Adler Real Estate AG	4.76
JPEL Private Equity Ord	4.72
Investor AB A	4.67
NB Private Equity Partners Ord	4.25

Sector Weightings	% Equity
Cyclical	66.1
Basic Materials	1.1
Consumer Cyclical	20.1
Financial Services	30.1
Real Estate	14.8
Sensitive	32.4
Communication Services	0.0
Energy	0.6
Industrials	26.4
Technology	5.4
Defensive	1.5
Consumer Defensive	1.2
Healthcare	0.2
Utilities	0.0

British Empire Ord BTEM

Morningstar Benchmark MSCI World Value NR USD
Morningstar Category™ Global Large-Cap Value Equity

NAV Performance Analysis

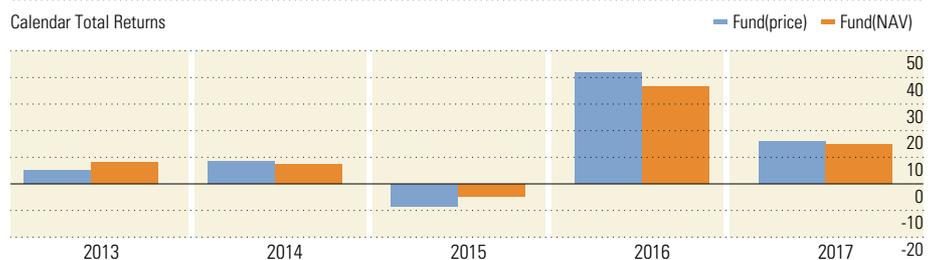
Data as of 31-12-2017

Trailing Returns Price	Total	+/-
	Rtn %	Bmark
3 month	5.94	2.23
6 Month	7.25	2.34
1 Year	15.95	8.99
3 Year Ann.	14.56	1.55
5 Year Ann.	11.34	-3.24

Trailing Returns NAV	Total	+/-	+/-	%Rnk
	Rtn %	Bmark	Cat	In Cat
3 month	5.35	1.64	1.44	35
6 Month	6.58	1.67	1.08	47
1 Year	14.60	7.64	3.66	33
3 Year Ann.	14.10	1.10	1.57	35
5 Year Ann.	10.96	-3.62	-2.34	79

Performance during Joe Bauernfreund's sole tenure beginning in October 2015 has been encouraging, but it's too early to draw meaningful conclusions. During this period (to the end of December 2017) the fund has returned an annualised 24.6%, which is comfortably ahead of peers (19.9%) and the fund's index (MSCI ACWI ex US Index: 21.6%). During the past 12 months the fund's 14.6% return is ahead of peers' (10.3%) but lags the index a little. Value investing's return to favour in 2016 was reversed in 2017, so

the funds' performance in these market conditions is especially pleasing. The portfolio's investments in special situations and deep-value opportunities where value is unlocked by corporate actions or change in market sentiment means returns can be sporadic in this area. The key is patience and thorough due diligence. Such an example is AP Alternative Assets, which was held from 2012 to 2017 and was one of the key drivers of returns in the past 12 months.



Discount / Premium

Data as of 19-01-2018

Discount / Premium %	6 Mo	1Yr	3Yr
High	-8.03	-8.03	-7.37
Average	-9.97	-10.49	-11.20
Low	-11.66	-12.51	-15.56
Z-Statistic	-1.24	-0.29	0.30

There is no formal discount control mechanism in place here, and during the past 10 years to January 2018 the fund has traded from a premium to NAV of 7%, all the way to a discount of 15%. In the past five years the company has bought back some 42 million shares (30.4 million treasury shares were cancelled in December 2016). As at the end of December 2017, there were 14.1 million shares in treasury, which account for some

12% of the issued share capital. Overall, investors are buying this book of assets for a discount of around 35% factoring in the discount of the underlying assets and the current discount of the investment trust to stated NAV. The trust trades at a discount of around 10% (January 2018), a little tighter than its recent average, possibly reflecting greater investor demand for shares in the light of a return to outperformance.

Risk & Return

Data as of 31-12-2017

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

The fund's unconstrained and niche investment focus means investors should expect that its performance will diverge significantly from those of its peers and broader indexes. This is reflected in its regional and sector exposures. The fund is vulnerable to relative outperformance by the US market, given its lack of exposure there, and also to weak European and Asian markets, where the bulk of assets reside. The fund's standard devi-

ation (a statistical measure of risk) tends to be a little higher than the peer group and index, but the fund's Sharpe ratio is broadly in line with the index, reflecting that risk has generally been used to reasonable effect. Given the idiosyncratic approach to investment here, is it not surprising that tracking error has varied between 3 and 4 percentage points more than the peer group.

Volatility Ratios	3 Yr NAV	5 Yr NAV	Risk vs Index	3 Year	5 Year
Standard Deviation	11.76	10.80	Alpha NAV	0.95	-2.41
Mean	1.18	0.97	Beta NAV	1.07	0.99
Sharpe Ratio	0.68	0.64	R-Squared NAV	79.75	75.49
Sortino Ratio	1.08	1.01	Treynor Ratio NAV	8.44	7.67

British Empire Ord BTEM

Morningstar Benchmark MSCI World Value NR USD
Morningstar Category™ Global Large-Cap Value Equity

Fees

Management Fee %	0.70
Ongoing Charge ex Perf Fee %	0.86

In October 2013 the board simplified the fee arrangements. Asset Value Investors is entitled to receive an annual management fee of 0.7% of net assets (up from 0.6%), taken on a monthly basis. Previously, it was also entitled to a per-

formance fee, but this element has now been scrapped. The fund's ongoing charges for fiscal 2017 were 0.87% (2016: 0.9%), which is in line with the global large-value Morningstar Category average.

Gearing

Total Assets £ Mil	1,032.3
Net Assets £ Mil	961.1

Gearing in the fund has historically taken the form of a GBP 15 million debenture (8.125%) that matures in 2023. In January 2016 the board arranged additional gearing (for the first time since 1996) in the form of two 20-year loan notes of GBP 30 million and EUR 30 million at an all-in rate of 3.79%. In October 2017 the board arranged an additional facility of EUR 20 million to be redeemed in November 2037 at 2.93%. These facilities give Joe Bauernfreund additional flexibility to take advantage of opportunities; given the large European asset base, denominating some of

the debt in euros makes sense. Prior to the addition of the newer borrowing facility in January 2016 the fund tended to not make material use of gearing, with the debenture offset with cash and bonds. Subsequent to January 2016 we have seen net gearing rise to trend between 5% and 10%. As much of the portfolio is underpinned with good quality assets and decent dividends, we think a relatively modest element of gearing here does not look unreasonable. As at January 2018, net gearing stood at 6%.

Dividends

Dividend History	2015	2016	2017
Dividend	11.70	11.70	12.00
Special Dividend	0.00	2.80	0.00
Total	11.70	14.50	12.00

The primary aim of the fund is to produce capital growth, and there is no formal income target. That said, the board has managed to maintain, if not increase, the level of dividend payouts in all financial years since 1985, which is an impress-

ive feat. For fiscal 2017 dividends per share of 12p per share (2016: 14.5p) on revenue per share of 10.44p (2016: 14.32p, ordinary and special). The fund currently yields 1.66% (January 2018).

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.

HOLDERS: 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 HOLDER 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 HOLDER 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, HOLDERS, 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.