# Witan Pacific Ord WPC

Morningstar Benchmark MSCI AC Asia Pacific NR USD
Morningstar Category™ Asia-Pacific incl Japan Equity

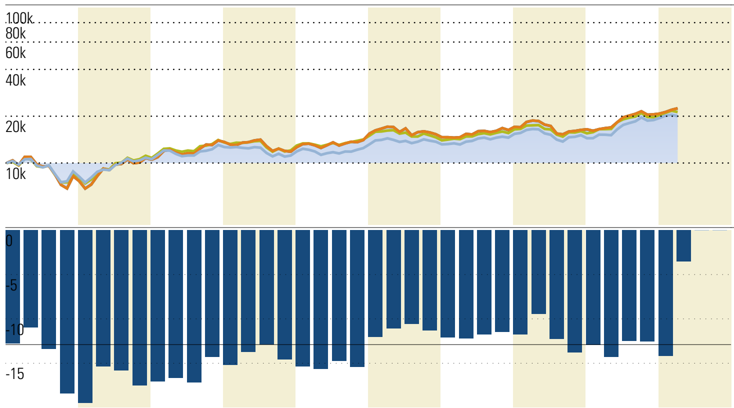
**Morningstar Analyst Rating** Bronze

Analyst Rating Spectrum

Gold | Silver | Bronze | Neutral | Negative

**Morningstar Rating™** ★★★★

| | |
|---|---|
| Last Closing Price GBP | 314.50 |
| Last Closing NAV GBP | 360.27 |
| Discount/Premium % | -13.11 |
| Latest Published NAV | 357.34 |
| Latest Published NAV Date | 25/05/2017 |
| Traded Currency | GBX |
| Yield | 1.49 |
| Dividend Frequency | Semi-Annual |
| Total Assets £ Mil | 229.7 |
| Net Assets £ Mil | 229.7 |
| Market Cap £ Mil | 199.6 |
| Net Gearing % | 0 |
| Avg Daily Shares Traded Mil (3 month) | 0.05 |
| Inception Date | 30/12/1907 |




| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | YTD | Performance % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | -26.72 | 30.88 | 29.74 | -15.29 | 18.82 | 8.97 | 6.50 | 0.11 | 25.95 | 9.45 | Fund Price |
| | -21.95 | 29.66 | 26.31 | -14.33 | 17.58 | 3.18 | 6.56 | 2.86 | 22.76 | 8.12 | Fund NAV |
| | -0.32 | 5.64 | 7.26 | 3.05 | 7.22 | -8.30 | 1.82 | -0.93 | -0.35 | 2.57 | +/- Category |
| | -2.46 | 7.16 | 5.61 | 0.15 | 5.93 | -6.71 | 0.34 | -0.85 | -2.35 | 2.19 | +/- Benchmark |

**Morningstar Analyst:** David Holder

**Executive Summary**

*People:* The board is responsible for manager selection and ongoing monitoring. They are supported by a small but experienced team at WIS comprising of Andrew Bell and James Hart who benefit from the ad-hoc support of external consultants augmenting due diligence.

*Parent:* Witan Pacific is an independent investment trust and is not associated with any individual investment management company. It is run by the board with investment monitoring and other services provided by Witan Investment Services (WIS).

*Board:* As a self-managed trust, the board is of special importance. The board has substantial investment, business, and marketing experience in the region. Susan Platts-Martin will replace Sarah Bates as chairman on conclusion of the AGM in June 2017.

*Process:* This fund follows a multimanager approach and comprises just three underlying managers with complementary investment styles. Whilst focusing on capital growth, the underlying managers' biases tend to generate an above-market dividend yield.

*Performance:* Aberdeen and Matthews Asia have both outperformed since appointment, whilst Gavekal is behind. In aggregate, the fund has outperformed the benchmark since adoption of the multi-manager approach in 2005.

*Fees:* Overall, the fees are marginally on the high side when compared with the category median. Although Aberdeen charges a performance fee, it levies a very low base fee and has a cap on the fees it can levy, which we feel is an appropriate structure.

**Role in Portfolio**

Niche. The focus on the broad Asia Pacific region including Australia, India, China, and Japan has merits for investors seeking a one-stop shop for investment across the region. The underlying managers' styles are stock-specific and unconstrained, which can lead to sector differentials when compared with the benchmark. But we feel this has the potential to serve investors well over the longer term.

## Morningstar Opinion

24 May 2017 | Witan Pacific Trust aims to generate capital and income growth and outperform the MSCI All Countries Asia Pacific Free Index (£). The choice of benchmark includes Japan, Australia, China, and India, which makes for a very inclusive opportunity set but one that does not traditionally tend to be popular with wealth managers or asset allocators. That said, we think there is merit in a vehicle providing a one-stop shop for an investor keen to invest through the region and subcontract stock picking across the region to regional experts.

The board and Witan Investment Services (WIS) blend together strategies managed by Aberdeen, Matthews Asia, and Gavekal. Aberdeen favours quality, sustainable, competitive business models with high returns on assets and capital as well as strong balance sheets. They are valuation-conscious and patient investors who also pay great heed to the quality of management and corporate governance. Matthews Asia is a US-based Asian equity house whose dividend strategy has been in place since 2004. Its track record is quantifiable through the Matthews Asia Funds Asia Dividend SICAV in the UK and through the longer-running US mutual fund. They look for companies with attractive yields as well as firms that are growing their dividends. They like companies with sustainable long-term growth prospects, strong business models, quality management teams, and clear and/or improving dividend policies. By way of contrast, Gavekal is a Hong Kong-based firm set up only in 2008; its approach involves allocating between equities, bonds, and cash to protect capital as well as produce growth. Comanager Alfred Ho was the CIO at Invesco Asia for a number of years, and he ran its GT Asia Enterprise Fund to good effect.

Cumulative performance since the adoption of the current structure in 2005 is good, however given the quite narrow blend of strategies, the fund's fortunes primarily rely on Aberdeen and Matthews Asia. We think it would be favourable if the portfolio holdings were broadened out with the appointment of some more salient diversifiers. Aberdeen has had recent well-publicised investment issues in Asia, which seem to have been addressed under the enhanced scrutiny of Head of Equities Devan Kaloo.

The board and WIS travels to the region periodically to carry out manager due diligence. They also aim to get an improved feel for the economic and corporate outlook first hand and take the opportunity to meet with other mangers while in Asia.

We feel that the investment approach employed here has merit for those investors seeking exposure to the broader Asia-Pacific region. The blending of three high-quality managers should provide for a smoother investor experience, as will the absence of gearing within the trust. Investors can also take comfort from the fact that the board and WIS are providing ongoing due diligence on the underlying managers. Overall, our conviction remains and we retain our Morningstar Analyst Rating of Bronze.

# **Witan Pacific Ord** WPC

Morningstar Benchmark MSCI AC Asia Pacific NR USD
Morningstar Category™ Asia-Pacific incl Japan Equity

## People

| | |
|---|---|
| Manager | Hugh Young |
| Manager Start | 01/05/2005 |
| Manager | Louis-Vincent Gave |
| Manager Start | 01/04/2012 |
| Avg. Manager Tenure | 6.8 Years |

Other Funds Managed

Witan Investment Trust PLC

Andrew Bell was appointed a director and CEO of Witan in February 2010. Previously he worked at Rensburg Sheppards as Head of Research and as a European equity strategist and Co-Head of the Investment Trusts team at BZW and CSFB. Prior to the City, he worked for Shell in Oman. He is a non-executive director of Henderson High Income Trust, Chairman of Gabelli Value Plus+ Trust and was Chairman of the Association of Investment Companies until January 2015. James Hart was appointed as Investment Director of Witan in April 2015. Hart previously worked at Cayenne as a portfolio manager specialising in listed investment companies and as an emerging market specialist and Head of Funds at Bank Julius Baer. Prior to investment management, he worked in institutional sales and as a research analyst at a boutique stockbroker. Whilst Bell had limited experience at running money prior to his role as CEO of Witan, his responsibilities are asset allocation and manager selection. In both aspects, he is assisted by the experienced Hart and the seasoned board (of which he is a member). They also make use of some independent consultants who help with the initial appointment of a new fund manager, as well as the ongoing monitoring of those managers, not just from a performance perspective but also operationally. This adds another layer of due diligence for shareholders, as well as some heft in fee negotiations, both with new and existing third-party managers.

## Parent

| | |
|---|---|
| Fund Advisor | Witan Investment Services |
| Domicile | UK |
| Website | www.witanpacific.com |

The entire focus of WIS' business is the management of Witan Investment Trust and acting as the investment advisor to the board of Witan Pacific. It also operates two savings plans, JUMP (for investments in Witan) and Witan Wisdom (for both funds). The firm runs an extremely tight ship in order to minimise costs as these are all borne by the funds. It numbers just seven employees; all administrative functions are outsourced, although the firm does have an in-house compliance consultant and a dedicated marketing director. This results in some key-person risk with regard to the manager, but the fact that the funds are run by third-party managers who have been selected for the long term helps to mitigate this. The company's website is clear and easy to navigate, and Witan Pacific's level of openness and transparency with investors is of a commendable standard. The full portfolio is disclosed on a look-through basis monthly, with a three-month lag. The company has negotiated competitive fees with its underlying managers, and, although Aberdeen is entitled to performance fees, these have been well structured with high-water marks and a cap on the total amount that can be taken.

## Board of Directors

| | |
|---|---|
| Tender Offer | No |
| Buyback Authorization | Yes |

The board currently comprises five non-executive directors, with an average tenure of over six years. Unlike most investment trusts, the board at this fund is proactively involved in the management process. It is advised by Witan Investment Services (WIS) in the management, monitoring and execution of the strategy. Given the self-managed basis, the board here are of especial importance. Sarah Bates has been the chair since 2014, and was originally appointed to the board in January 2004. She will be stepping down from the board at the conclusion of the AGM in June 2017 and will be replaced by Susan Platts-Martin. Platts-Martin spent 26 years at Fidelity and served in a range of senior positions including the development and marketing of their range of Investment Trusts. The board bring extensive investment and corporate experience to bear here, much of which has been gained in the region, which means that they are well placed to make investment decisions. They also make periodic trips to the region, most recently in February 2017, to gauge first hand conditions on the ground. Three of the board sit on other investment trust boards and allof the board members are shareholders, which we like to see as it aligns their interests with that of shareholders. The board meets formally seven times each year and will receive an update from each underlying fund manager twice in a 12-month period.

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## Process: Investment Approach

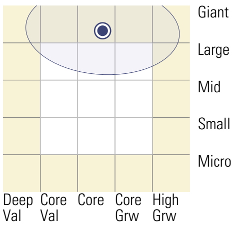
Investment Objective: To provide shareholders with capital and income growth from a diversified portfolio of investments in the Asia Pacific region designed to outperform the MSCI AC Asia Pacific Free Index (''MSCI Index'') in Sterling terms.

| | |
|---|---|
| Max Position Size | 10% (at cost) per Manager |
| Min Position Size | None |
| Expd Turnover | Approx. 30% p/a |
| Sector Constraints | None |
| Regional Constraints | None |
| Hedging Policy | Unhedged |
| Tactical Use of Cash | Yes |

In May 2005, the board appointed Witan Investment Services to replace some of the service that the outgoing manager, F&C, had provided. WIS became the investment advisor and Witan Pacific became a self-managed, multimanager investment trust. Initially, the assets were managed jointly by Aberdeen and Nomura in equal portions, then in April 2012, following a period of consultation, the board appointed two new managers in Matthews and Gavekal. The objective here is to smooth investor returns through the employment of managers with contrasting styles to give more consistency in returns to investors over a market cycle. Aberdeen is well known for its high-quality, valuation-conscious style, and, indeed, its process originates from its Asia-based team, led by Hugh Young. Matthews is a US-based Asian equity manager who uses a strategy akin to that seen at its Asia Dividend fund, which generates a yield in excess of the regional market's index. They look for companies with attractive yields as well as firms that are growing their dividends. Gavekal is accessed through the Gavekal Asian Opportunities fund, which is a long-only stock-picking fund with a top-down overlay that aims to protect capital by allocating between equities, bonds, and cash. WIS is responsible for monitoring these managers and conducting ongoing due diligence, but broadly the aim is to rebalance infrequently, not least because it incurs costs.

## Process: Portfolio Positioning

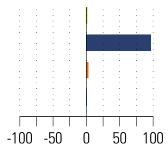
Morningstar Holdings Based Style Map




In March 2014, the allocations to Aberdeen and Matthews Asia were rebalanced to 45% with 10% to Gavekal. At the end of January 2017, these weightings were 43.4%, 46.4%, and 10.2%, respectively, due to performance differentials. All three fund managers are benchmark-agnostic and build their portfolios in an unconstrained manner, which can lead to the fund looking out of step with its peers and benchmark. The most notable country positioning continues to be the underweighting to Japan across the various underlying mandates. The benchmark weighting is 38%, and the fund had 29% allocated here in January 2017. Other relatively large country positions include Australia, which has a 10-percentage-point underweighting to the benchmark. At the sector level, the fund is underrepresented in Technology, whilst there is a corresponding overweighting to consumer defensives, which, given the large allocation to Aberdeen and Matthews Asia, is to be expected. The fund sits in the large-cap core segment of the Morningstar Style Box.

| World Regions | Assets % |
|---|---|
| **Greater Europe** | **5.60** |
| United Kingdom | 5.60 |
| Europe-Developed | 0.00 |
| Europe-Emerging | 0.00 |
| Africa/Middle East | 0.00 |
| **Americas** | **1.92** |
| North America | 1.92 |
| Latin America | 0.00 |
| **Greater Asia** | **92.48** |
| Japan | 29.25 |
| Australasia | 1.95 |
| Asia-Developed | 31.64 |
| Asia-Emerging | 29.64 |
| Not Classified | 0.00 |

Asset Allocation




| % Assets | Long | Short | Net |
|---|---|---|---|
| Cash | 1.5 | 0.8 | 0.7 |
| Equity | 96.3 | 0.0 | 96.3 |
| Bond | 2.6 | 0.0 | 2.6 |
| Other | 0.4 | 0.0 | 0.4 |

| Top 10 Holdings 31/01/2017 | % Assets |
|---|---|
| GaveKal Asian Opportunities UCITS B | 10.54 |
| Aberdeen Global Indian Equity Instl | 3.47 |
| Samsung Electronics Co Ltd Particip | 2.93 |
| Taiwan Semiconductor Manufacturing | 2.50 |
| HSBC Holdings PLC | 2.10 |
| Seven & i Holdings Co Ltd | 2.09 |
| Japan Tobacco Inc | 2.04 |
| AIA Group Ltd | 2.03 |
| Minth Group Ltd | 1.86 |
| United Overseas Bank Ltd | 1.70 |

| Sector Weightings | % Equity |
|---|---|
| **Cyclical** | **46.5** |
| Basic Materials | 8.5 |
| Consumer Cyclical | 13.8 |
| Financial Services | 20.6 |
| Real Estate | 3.6 |
| **Sensitive** | **34.8** |
| Communication Services | 7.3 |
| Energy | 0.8 |
| Industrials | 13.3 |
| Technology | 13.3 |
| **Defensive** | **18.7** |
| Consumer Defensive | 13.9 |
| Healthcare | 3.2 |
| Utilities | 1.6 |

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## NAV Performance Analysis

Data as of 30-04-2017

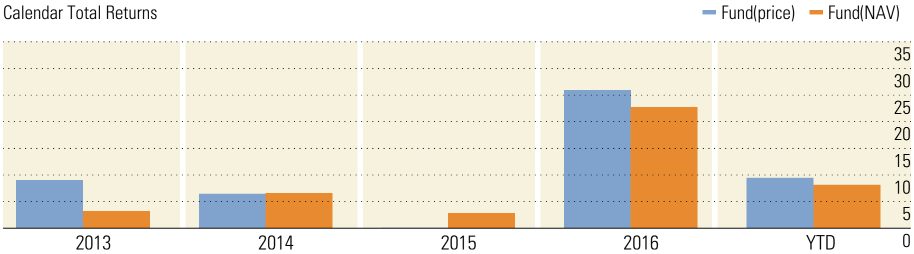
| Trailing Returns Price | Total Rtn % | +/- Bmark |
|---|---|---|
| 3 month | 8.30 | 5.54 |
| 6 Month | 4.65 | 2.67 |
| 1 Year | 34.26 | 2.70 |
| 3 Year Ann. | 15.40 | 0.40 |
| 5 Year Ann. | 11.61 | 0.59 |

| Trailing Returns NAV | Total Rtn % | +/- Bmark | +/- Cat | %Rnk In Cat |
|---|---|---|---|---|
| 3 month | 4.92 | 2.15 | 2.48 | 15 |
| 6 Month | 1.88 | -0.10 | 0.66 | 45 |
| 1 Year | 28.59 | -2.97 | -1.11 | 55 |
| 3 Year Ann. | 14.13 | -0.87 | 0.27 | 48 |
| 5 Year Ann. | 9.85 | -1.17 | -0.30 | 56 |

Aberdeen's performance was much improved through fiscal-year 2017, returning 39.2% versus 35.3% for the benchmark. Since their appointment in May 2005 to January 2017, they are some 2.1% ahead of the benchmark on an annualised basis. Matthews Asia's Asian Dividend strategy returned 28.4% for fiscal-year 2017 and has outperformed the benchmark by an annualised 2% since their appointment in April 2012.

Lastly, Gavekal, which tends to have a prominent top-down approach, returned 22.3% and an annualised 8.6% since appointment in April 2012, which is an annualised underperformance of 2.9% compared with the benchmark. Since adoption of the current structure in 2005, the fund's net asset value returns are 195% versus 183% for the benchmark.

Calendar Total Returns




## Discount / Premium

Data as of 29-05-2017

| Discount / Premium % | 6 Mo | 1Yr | 3Yr |
|---|---|---|---|
| High | -9.71 | -9.71 | -6.63 |
| Average | -13.14 | -13.37 | -12.55 |
| Low | -16.03 | -17.59 | -17.59 |
| Z-Statistic | 0.34 | 0.49 | -0.06 |

The fund's 10-year average discount is around 15% (May 2017), although it has ranged from mid-single digits to near 20% over this period. The board has bought back shares where the discount has been substantial and anomalous. Through fiscal-year 2017, the company repurchased 713,979 shares into Treasury, and, in total, it retains some 2.4 million shares in Treasury or around 3.7% of the current outstanding shares in issue. The board is aware of the discount but has been pragmatic in deciding to look through periods of discount volatility driven by adverse investor sentiment towards the wider sector. Arguably, the trust suffers from being the only UK-listed investment trust of its type (Asia Pacific inc Japan) with professional investor demand for these strategies less certain than that for purer Asia ex Japan strategies. The current discount is 12% (May 2017).

## Risk & Return

Data as of 30-04-2017

| Morningstar Rating | Return | Risk | Rating |
|---|---|---|---|
| 3 Year | *Avg* | *Below Avg* | ★★★★ |
| 5 Year | *Avg* | *Below Avg* | ★★★ |
| 10 Year | *Above Avg* | *Avg* | ★★★★ |
| Overall | *Above Avg* | *Avg* | ★★★★ |

The fund is highly diversified, through around 170 names diluting stock-specific concentration risk. The extra layer of due diligence from Witan, in addition to the board, ensures that the monitoring process is exceptionally robust. The fund's standard deviation (a statistical measure of risk) tends to be marginally higher than peers' or the benchmark's; however, the fund's risk-adjusted returns, as illustrated through its Sharpe ratio, are ahead of peers and in line with the benchmark, suggesting that risk has generally been used to good effect here. The fund's beta, or sensitivity to market movements, tends to be less than peers, and, consequently, the fund does not historically capture all of the market upside but does protect in weaker markets. In late 2016, the board authorised selective investment into the China A-shares market.

| Volatility Ratios | 3 Yr NAV | 5 Yr NAV |
|---|---|---|
| Standard Deviation | 12.68 | 11.99 |
| Mean | 1.19 | 0.87 |
| Sharpe Ratio | 0.38 | 0.44 |
| Sortino Ratio | 0.53 | 0.61 |

| Risk vs Index | 3 Year | 5 Year |
|---|---|---|
| Alpha NAV | -0.18 | -0.11 |
| Beta NAV | 0.92 | 0.89 |
| R-Squared NAV | 94.28 | 91.34 |
| Treynor Ratio NAV | 5.22 | 5.98 |

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## Fees

| | |
|---|---|
| Management Fee % | 0.20 |
| Ongoing Charge ex Perf Fee % | 0.88 |

The board aims to keep ongoing charges at less than 1% for this fund. For FY 2017 they were marginally higher at 1.03% (2016:1.05%) inclusive of performance fees. Of the underlying managers, Aberdeen can take a performance fee, but the base management fee is low to compensate and the total fees are capped. Aberdeen also invest into 0% AMC share classes of their India and China "A" shares fund, which incur additional, but very modest administration fees not accounted for in the 1.03% fund OGC. GaveKal is accessed via their Asian Opportunities fund, which is charged at 1.5%, with a 0.75% fee rebated back to the fund. Overall, the fees investors pay here are modestly higher when compared to the peer group. We are heartened to note the ongoing commitment by the Board to reduce the fees paid here by investors, but to date progress has been slow

## Gearing

| | |
|---|---|
| Total Assets £ Mil | 229.7 |
| Net Assets £ Mil | 229.7 |

In March 2014, the board repaid the gearing facility so that the company qualified as a registered UK Alternative Investment Fund Manager, given its assets are under GBP 400 million. This keeps costs down, as the alternative would have been to engage various other parties and their services, but it also means that gearing is not permissible. The portfolios managed by Aberdeen and Matthews Asia are segregated portfolios and whilst they can hold cash they cannot use derivatives to enhance or decrease market exposure or hedge currency. The Gavekal Asian Opportunities fund is a UCITS vehicle and therefore can engage in the use of derivatives to formulate positions, protect capital, or enhance exposure. This fund, however, only accounts for 10.2% (January 2017) of total assets. The decision to retain AIFM status is regularly reviewed by the board to ensure that it is fit for purpose.

## Dividends

| Dividend History | 2015 | 2016 | YTD |
|---|---|---|---|
| Dividend | 4.55 | 4.65 | 4.70 |
| Special Dividend | 0.00 | 0.00 | 0.00 |
| **Total** | **4.55** | **4.65** | **4.70** |

The trust is managed primarily for growth, predominantly through capital return. Nonetheless, since 2012, the board has aimed to generate a sustainable dividend that sees annual growth in real terms, in normal markets. As at fiscal-year 2017, the company had increased the dividend for 13 consecutive years. For fiscal-year 2017, revenue per share was 4.41p (2016:4.31) and dividends per share of 4.75% (2016:4.65) were declared. Thus, the board has been dipping into revenue reserves, although there are still over three years' worth of income at the current levels in reserve. The fund pays dividends twice a year and currently yields 1.54% (May 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 nad 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 Cateogry**
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 = (Current Discount - Average Discount) / 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 taxfree 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.