Donaldson CAPITAL MANAGEMENT

FALL 2021

RISING DIVIDEND REPORT

Highlights from the Investment Policy Commitee

1 Corrections — a 10% or greater decline in stock prices — are an unpredictable, unavoidable, and necessary part of investing.

2 Stocks remain attractive compared with other investment options. The forward earnings yield for the S&P 500 is 4.85% compared with a 10-year US Treasury yield of 1.5%.

3 US companies are in great shape. Earnings and sales are both expected to exceed their 2019 levels this year with more growth anticipated next year even with the possibility of a corporate tax increase.

4 From 1928-2020, the inflation-adjusted returns for the S&P 500 was higher than US Treasuries on average and in the worst rolling 10-year period. In other words, stocks have historically offered both higher inflation-adjusted returns and less downside if held for long periods of time.

5 A bucketed approach to investing can help you balance the short-term risks of stock volatility with the long-term risks of holding too much cash and fixed income. Buckets #1 and #2 can help hedge against short-term stock price fluctuations; Buckets #3 and #4 provide growth and inflation protection.

Read the IPC letter on page 3

Cornerstone Receives Highest Morningstar Ratings

Throughout our 25+ year history as an investment management company, we've found that client satisfaction can take many different forms. Frequently though, investment strategy and success plays a key role.

We are delighted to share that Morningstar, a leading independent source for unbiased investment research, has recently awarded Donaldson's Rising Dividend Cornerstone strategy its two highest ratings: the Morningstar Overall Rating* of Five Stars and the Morningstar Quantitative Rating of Gold.

The Morningstar Overall Rating is a quantitative review of past performance. This rating provides investors an easy way to assess Cornerstone's performance relative to its peers. Only 10% of the funds analyzed in any asset class receive Five Stars. This coveted recognition places Cornerstone amongst the top performing funds in its peer group.

Morningstar also performs a review called the Morningstar Quantitative Rating, which is a forward-looking assessment based on their analysts' conviction in a strategy's ability to outperform its peer group or benchmark over the long term. Cornerstone again received the highest Morningstar Quantitative Rating of Gold, only awarded to the best overall funds which garner their analysts' highest level of conviction.

Donaldson's Investment Policy Committee has worked diligently over many years to ensure our Rising Dividend Cornerstone strategy is the very best it can be. We utilize internal benchmarks to ensure Cornerstone always meets our high expectations. While our purpose and objective has nothing to do with recognition, you should know your investment team is hard at work and recognized in the industry as a leader in investment strategy and performance.

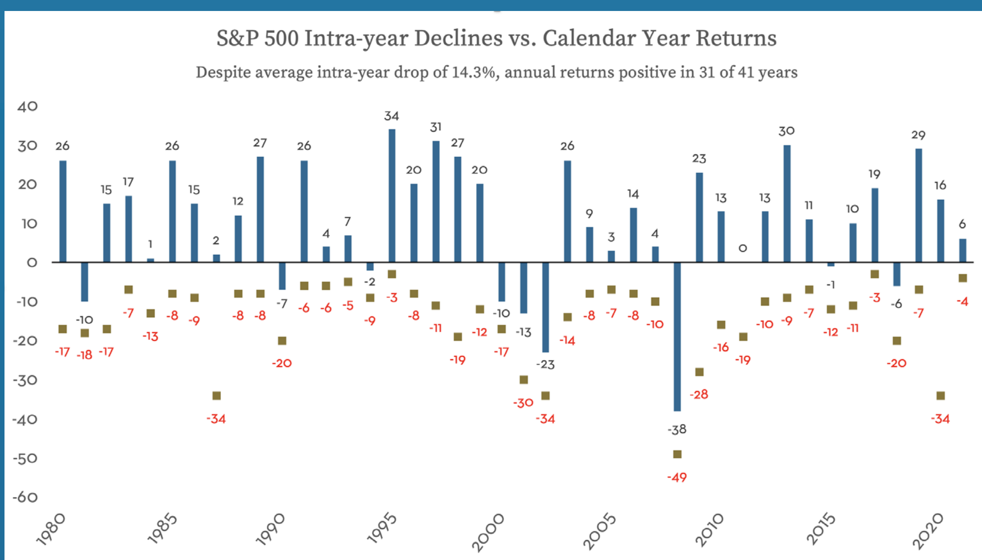
*Morningstar Overall Rating™ out of 611 funds in the Large Value Morningstar category as of 6/30/2021. For disclosure purposes, see page 7.

Periodic Corrections in the Market

INVESTORS OFTEN WORRY ABOUT THE TIMING OF THE NEXT BIG SELL-OFF. The most common of these price drops are called corrections and are defined as a decline in market prices of 10-20% from a recent peak. While corrections can be uncomfortable, they rarely spell disaster for the investor with a long-term focus. Rather, corrections are a normal, and often healthy feature of rising markets.

In contrast to a bear market, or a decline in market prices of 20% or more, corrections do not typically result from substantial deterioration in the broader economy. Instead, they are most often caused by snap reactions to headline news, adjustments to company valuations, or general investor profit taking. Periodic pullbacks play a vital role in keeping the market in tune with its underlying fundamentals.

To help ease the mind, let's look at the historical data. In the chart below, in 23 of the last 41 years, the S&P 500 has experienced an intra-year decline of at least 10% with an average drop of 14.3%. However, we also see that market returns were positive during 31 of these 41 years. The patient investor has historically been rewarded.



Patience can understandably be difficult in periods where market prices are moving erratically. In such times, it is helpful to remember that companies are more than their prices on the screen. The day-to-day operation of the business functions independently from what someone is willing to pay for the company on a given day.

As an example, imagine owning an apartment building full of good tenants who pay their rent on time. In fact, these tenants are so good you can charge them more each year and they will gladly pay. Now, suppose that a prospective buyer stops by your place each day and offers to purchase the building. Over time, we would expect the price that the buyer proposes to increase with the amount of rent the building generates. Generally, this will be the case, but from time to time the buyer may offer a price that is irrational.

One day, the buyer may offer you $1,000,000 for the building and the next day offer you $900,000. Nothing has changed with the building, and rents are still increasing at the same rate, but for some reason the buyer's perception of the building's value has changed. Perhaps the buyer went home and read an article about rats in apartment buildings or heard from a friend that a similar building has sold for less.

As a patient investor, you understand that if the rent money you collect continues to rise, the price the buyer is willing to pay will eventually recover. You do not accept the buyer's $900,000 offer and you go on with your day.

This is exactly how we view a stock market correction. By owning a portfolio of high-quality companies with consistent and predictable growth in the fundamentals, we can focus on the long-term value they create instead of worrying about the day-to-day offers of the market.

Mrs. Q: Retirement Buckets for Long-Term Success

A Letter from the DCM Investment Policy Committee

Nathan Winklepleck, *Author* | Preston May, Sarah Moore, Kyle Markle, Joe Zabratanski, *Contributing Editors*

WE'VE COMPILED A LIST OF THE MOST COMMON QUESTIONS WE'VE HEARD FROM YOU IN THE LAST QUARTER. WE'RE BRINGING BACK MRS. Q TO DISCUSS TODAY'S MARKET ENVIRONMENT.

Mrs. Q: It's been a great year, but I've heard that the market is due for a pullback. When is the next correction?

It has been 548 days since the last 'correction' – a decline of 10% or more.1 Unfortunately, the stock market isn't like basketball; there are no 'shot clocks' for corrections.

Since 1950, there have been 36 corrections. The shortest period between a correction was 35 days; the longest was 2,553 days. If we're using the calendar as a predictive tool (not a good idea), we should have a pullback at some point between last April and March 20, 2027.

Going a long time without a correction doesn't mean one is imminent; nor does having one suggest there won't be another soon. Predicting short-term market movements is futile. **No one has consistently predicted when the next correction will happen.**

Mrs. Q: So I shouldn't worry about it?

Not at all. Corrections aren't fun, but they serve a good purpose. They remind investors that stocks don't go up daily. If they did, their returns would be like a risk-free bond. Stocks' short-term volatility is what allows us to earn higher returns.

When the next correction comes, remember they have always been temporary. **Stocks have spent about three times as many days in a bull market than a correction or bear market.[2]** History suggests the longer you hold onto stocks, the better you're likely to do.

Mrs. Q: Don't you think the market is overvalued right now? Price-to-earnings (P/E) ratios suggest stocks are expensive.

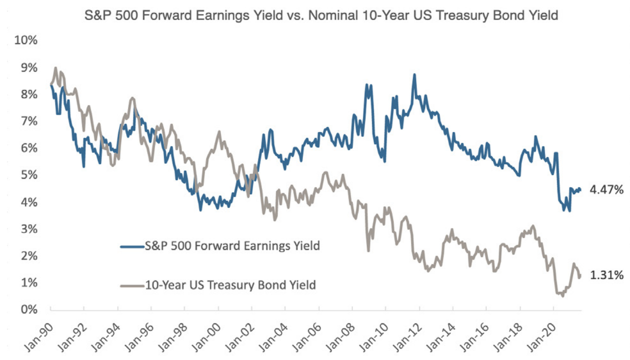
If you're comparing today's P/E ratio to the 'average' P/E from history then, yes, stocks look expensive. However, there's one part of the equation missing. Let me ask you something, Mrs. Q. If you sold your stocks today, what would you do with the money?

Mrs. Q: I'm not sure. My bank account isn't paying any interest and my bonds aren't paying much.

Exactly. That's why the market is trading at a higher price-to-earnings ratio than 'average'. There aren't many places to invest and get a meaningful return. Money has to go somewhere, so it's only natural that stock prices rise in relation to their earnings. **The question is not whether stocks are overvalued relative to history; the question is: are stocks overvalued relative to other options?**

This becomes more obvious if we flip the price-to-earnings ratio upside down to get "earnings yield." The S&P 500's forward earnings yield is 4.85%[3] ; if each company paid out 100% of earnings as dividends, you would earn 4.85% on the S&P 500 each year.

The chart below compares the historical S&P 500 earnings yield to the 10-year US Treasury yield from 1990 to 2021:



The S&P 500's forward earnings yield was around 4% in 1999 compared with 7% for the 10-year US Treasury bond.[4] Would you choose 4% in stocks or 7% in bonds? The bonds would've been relatively more attractive.

Your choice today is 4.85% in stocks or 1.5% in the 10-year US Treasury. **If the earnings yield and US Treasury yield were to converge, the price-to-earnings ratio for the S&P 500 would need to go from 21 to 67.[5]** We're not saying that P/E ratios will or even should get there; the point is that the stock market is still attractive compared with other investment options.

Other assets also look unattractive compared with stocks. The gross annual rent compared with property prices is currently 2.91% before taxes, maintenance, and other costs.[6]

Mrs. Q: If the government increases taxes, won't that reduce earnings?

The current estimate for 2022 earnings is $219 per share. Proposed tax laws would reduce those by about $10 per share[7] – a one-time decrease of 4.5%. Earnings will fall if tax law gets passed,

[1] "Market Briefing: S&P 500 Bull & Bear Markets & Corrections. Yardeni Research, 27 Sept. 2021. [2] Tretina, Kat. "Bear Market And Bull Market: What's The Difference?" Forbes Advisor, 5 Nov. 2020, https://www.forbes.com/advisor/investing/bear-market-vs-bull-market/. [3] Market Briefing: Fed's Stock Valuation Model Monthly/Weekly. Yardeni Research, 21 Sept. 2021. [4] Market Briefing: Fed's Stock Valuation Model Monthly/Weekly. Yardeni Research, 21 Sept. 2021. [5] Forward earnings yield is 4.85%, which represents a P/E Ratio of 100/4.85=20.6. The 10-year US Treasury was 1.52%. If earnings yield were to fall to 1.52%, the P/E would need to go to 100/1.5=66.7. [6] Gross Rental Yield in United States. Global Property Guide, 28 Sept. 2021. https://www.globalpropertyguide.com/North-America/United-States/rent-yields.

but the impact won't be catastrophic. The market is likely already pricing in some of the potential impacts.

Mrs. Q: I don't understand how the government can keep running these large deficits. How are we ever going to pay off our national debt?

We aren't going to. And, we don't have to.

The US government's finances do not work like yours. The US government has a money printer in its basement. You don't have one of those, do you?

Mrs. Q: No, but I wish I did!

Yeah, me too. But that's the difference. If you spend $100,000 per year and only make $50,000 per year, you'll be in trouble. The US government can do whatever it wants because it is sovereign over its own currency. There is no obligation the US government can't meet in the future.

If the government decided to print $1 million per family and send it out each year, it could do that. The real issue is whether the money they are printing has as much value as it once did. If $1 million checks were flying around, the value of each dollar would decrease; said another way, the cost of everything would go up. That's inflation. And inflation is the real enemy.

Mrs. Q: What do you think about inflation?

We talked about inflation in our last quarterly letter; our view remains largely unchanged. Inflation is likely to be higher over the next 5–10 years, but we don't expect longer-term inflation over 3%.

The biggest inflationary pressure is government spending; however, that is being offset by disinflationary pressures from technology. The next decade will see even more as technology enables us to make more with fewer resources, which keeps prices down.

Mrs. Q: I've also heard about 'stagflation' – the combination of both inflation and recession. What are the odds of a recession over the next year?

Barring an unforeseen 'black swan' event like we had in 2020, a recession is unlikely within the next 6–12 months. Most of the economic data we follow has been strong. The last four recessions have occurred when 10-Year Treasury Notes yielded less than 3-month Treasuries. **The yield curve is currently positive at 1.3%, suggesting a healthy U.S. economy.** [8]

Mrs. Q: Would rising interest rates hurt stocks?

Stocks would likely correct if rates went up sharply; if the rise was gradual, stocks could still do well. Rising rates could pose a risk in the short term, but earnings and dividends tend to double every 10 years or so.[9] Even if price-to-earnings ratios declined by 50%, growing fundamentals would offset that over time.

Bond prices also tend to decline with rising rates; if a bond has a duration of 10, a 2% increase in interest rates would lead to a 20% decline in price. Unlike stocks, however, bonds have fixed interest payments; there is no growth to offset an increase in rates.

Mrs. Q: How does the Fed stopping their quantitative easing program impact this?

In March 2020, the US Federal Reserve cut short-term interest rates to zero to support the US economy. The Fed also started buying Treasuries and mortgage-backed securities to provide more stimulus. With the economy now surging and unemployment lower, the Fed is likely to start reducing its bond-buying. (Also known as 'tapering'.)

Mrs. Q: If the Fed stops buying, that means bond prices will go down and interest rates will go up, right?

If the Fed stops buying Treasury bonds, there would be less demand so bond prices should fall and yields go up.

In practice, that may not happen. The Fed announced it would reduce its bond purchases in December 2013; the thought was that should lead to higher rates. 10-year US Treasury yields actually fell during the Fed's tapering period.[10]

Regardless of what happens, it's important to remember that you're not investing in the Federal Reserve's monetary policy. You're investing in companies. Over the long term, how those companies do matters far more than Fed policy.

Mrs. Q: Speaking of companies, how are they doing?

With some exceptions, companies are in better financial shape than they were before the pandemic began. S&P 500 earnings and sales are expected to hit new record highs in 2022.[11]

Larger companies have done particularly well. **Times of stress can be beneficial for the most dominant company in each industry.** It gives them an even wider economic moat moving forward, which is why we focus on these kinds of businesses.

Consider a local coffee shop trying to compete with Starbucks (SBUX). Starbucks' massive scale allows them to invest in robust technology. Local shops cannot compete with that. This gives Starbucks an advantage, particularly in a rising-wage environment. Starbucks and other dominant companies can lean on technology to create more sales with fewer employees. Upward pressure on wages will hurt Starbucks, but not as much as it will hurt their competitors.

Mrs. Q: I've heard that I should allocate my age (65) in bonds. My stock allocation is higher than that; isn't that too risky?

How long do you think your retirement is going to be?

Mrs. Q: Well, I'm 65 so I'd think another 25 years or so.

Which is the greater risk for you: seeing your account drop over the next 12 months or not meeting your financial goals over the next 25 years?

[7] Strategas Research Partners: Policy Outlook September 16, 2021: "Bridging the Gap Between Moderates and Progressives: Cut the Duration of Spending." [8] 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity. FRED, 2021 Sept. 28. [9] "In 1960, S&P 500 earnings per share were $3.10. In 2020, they were $138.12. That's a compound growth rate of 6.5%. Data source: New York University. https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/spearn.htm [10] From the Fed's tapering announcement in December 2013 through tapering completion in October 2014, the 10-year US Treasury rate fell from just under 3% to below 2.5%. Data source: FRED. [11] Market Briefing: S&P 500/400/600 Weekly Fundamentals. Yardeni Research, 28 Sept. 2021.

Mrs. Q: Meeting my 25-year goals would definitely be more important.

Exactly. So if your financial goals go out decades, why does the majority of the investment industry obsess over the next 12 months?

There is no way to avoid all financial risks; **if you want to avoid risk in the short term, you may take on bigger risks in the long term.** For example, keeping all of your money in cash would be the safest option in the short term, but the riskiest in the long term. Meanwhile, investing every dime you have in stocks may be the best option in the long term, but overly risky in the short term. We have to find the balance between these risks.

Too many people focus only on the short-term risks of investing in stocks. They look at years like 2008 and decide stocks are 'too risky.'

Unfortunately, this thinking ignores the risks of being too conservative. Investors with 20+ year time horizons focus too much on the next 12 months. They end up driving 30 mph in a 70 mph zone. Their low-risk-over-one-year portfolios erode as inflation eats away at their purchasing power over decades.

We don't want you to drive too fast, but we also don't want you to drive too slow and end up missing your long-term financial goals. **Investing your age (65%) in bonds would be safer in the short term, but riskier in the long term.**

Mrs. Q: If not my age in bonds, how much should I own?

Let's think of your portfolio in terms of buckets; each bucket has its own specific purpose. Bucket #1 is an emergency fund. We would suggest keeping one year of spending in cash or cash equivalents.

Mrs. Q: But my cash isn't earning anything; why wouldn't I invest in something else?

The purpose of this bucket is not to earn interest; the point is to have money available in a pinch. Anything could happen in the market over a 12-month period; you don't want to be forced to sell long-term stock holdings to cover a short-term need. Bucket #1 provides some insulation against life's inevitable surprises.

Mrs. Q: What about Bucket #2?

Bucket #2 is money that you will need at some point within the next 2 to 11 years. In your case, that would be $30,000 yearly spending x 10 or $300,000 in today's dollars.

This is a short enough time period that an all-stock allocation is inappropriate but long enough that we still need to generate a decent return. To do that, we introduce some bonds to the equation; they don't offer as high of returns as stocks, but they offer a source of cash in case of a prolonged market downturn. A blend of 50% stocks and 50% Baa-rated corporate bonds has produced positive real returns in around 90% of rolling 5 and 10-year periods since 1928.[12]

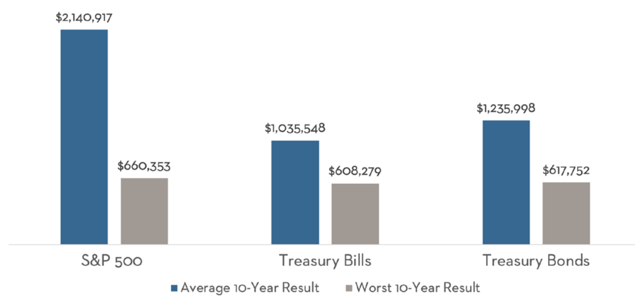
Mrs. Q: Bucket #1 and #2 would be about 11 years' worth of spending for me or $330,000. What would happen to the rest?

The rest would go into Bucket #3, which are the funds you don't need for at least 10+ years. The goal with Bucket #3 is for responsible growth. You need a pile of money to grow above and beyond inflation to provide for your spending when you're 80, 85, 90 years old.

[12] DCM's calculations. Data source: "Historical Returns on Stocks, Bonds and Bills: 1928-2020." New York University. [13] DCM's calculations. Data source: "Historical Returns on Stocks, Bonds and Bills: 1928-2020." New York University. [14] Average monthly return in S&P 1500 down markets was -3.9% for the S&P 1500 and -2.47% for the S&P High Yield Dividend Aristocrats Index. Source: "A Case for Dividend Growth Strategies." S&P Global, June 2021.

Stocks have historically provided much better protection against inflation than bonds. The table below shows what would happen if you invested $1 million in three different asset classes and held them for a decade:

$1 Million Invested for 10 Years (1928-2020) Adj. for Inflation



The average 10-year period saw stocks grow far more ($1 million to $2.14 million) than both Treasury bills ($1.04 million) and Treasury bonds ($1.24 million). **Even in the worst rolling 10-year period, the inflation-adjusted result for stocks was higher than both Treasury bills and Treasury bonds.**[13]

Most investors allocate too much of Bucket #3 to bonds thinking they are a safer investment. History suggests that's not the case over long enough time horizons.

In your case, Bucket #3 is invested in high-quality, dividend-paying stocks. These companies tend to be larger, higher-quality, and industry-leading. Higher-quality dividend stocks have historically outperformed in down markets.[14]

Mrs. Q: That's $30,000 in cash, $150,000 in bonds, and the rest in dividend stocks. Is there a 4th bucket?

For some people, yes. This 4th bucket could represent excess money that you will never need for yourself. This is your legacy account; you are investing for the next generation.

Mrs. Q: Do you have something for the 4th bucket?

We have something we're working on. Let's set up a separate meeting to talk about it.

Mrs. Q: Thank you for answering my questions; I'm looking forward to another year.

You're welcome, Mrs. Q. If you ever have questions, please call or email me; I'm always glad to talk about anything on your mind. We'll see you again soon.

Retirement Plan Services Plans Improve Client Experience

In October of 2020, Charles Schwab announced its acquisition of TD Ameritrade. When all is said and done, the combined company will be one of the largest custodians in the industry. While there are many unanswered questions about how the acquisition will unfold, we are excitedly anticipating enhancements for our retirement plan services clients. But practically, we also recognize this introduces big changes and an opportunity to evaluate how the combined platform serves our clients' needs.

DCM RETIREMENT PLAN *Services*
Powered by: Pensionmark

On the heels of this announcement, the Retirement Plan Services (RPS) team engaged in a comprehensive review of its business model, service structure, and provider platforms. We are excited to share some of the improvements you can expect in 2021.

1. Portability & Independence. Through the Broadridge Matrix Trust company, we are launching our own Collective Investment Fund (CIF) for both Cornerstone & Preservation of Capital. The CIF provides a mechanism to enable our strategies with portability, giving DCM independence and autonomy from any custodial platform.

2. Participant Experience. We are excited to announce our partnership with Pensionmark. Ongoing, Pensionmark will assist DCM with our participant experience, improving our resources in Financial Wellness, educational seminars, and financial planning. Ultimately, Pensionmark will help DCM elevate our service to give our participants the best experience in the industry.

3. Enhanced Third-Party Administration. DCM has chosen to primarily partner with Newport Group for recordkeeping and Third-Party Administration. Newport Group is independent and equally committed to serving 401(k) clients at the highest level of service.

We are eager to offer this enhanced service offering for our 401(k) and retirement plan clients starting in late 2021.
It's not every day you meet someone new who impacts your life. At Donaldson, we've grown accustomed to that feeling this year.

Healthy Things Grow

AS OF SEPTEMBER, we have welcomed ten new professionals who have joined Donaldson and changed us forever for the better.

As Director of Human Resources, it is my job to ensure we are hiring great people. We have reviewed hundreds of resumes and applications this year and held countless interviews looking for the best people to serve you. Our new employees are hard at work in every part of DCM, from client services and finance to trading, financial planning, and investment advisory. Each new person has brought unique contributions, innovation, education, and a fresh perspective.

Who are these people? Some are from other industries, some are recent graduates, and others are veterans in the financial space. While they come from different backgrounds and possess distinct talents, a common thread is their focus on serving client needs before anything else. Our Servants Heart value sums it up perfectly: We've built our firm with servant hearts and servant leadership. With gratitude, humility, thoughtfulness, respect, and compassion, we put others' interests before our own to be part of something bigger than ourselves.

While this may seem like a lot of change and fast, our growth is intentional and measured. The investment in new employees and services this year is positioning Donaldson to continue to serve you and your families for generations.

It's been an exciting year of growth at Donaldson. We've all adopted a mindset shared by one of our brightest Senior Investment Advisors Brandon Roop, who often tells us, "Healthy things grow, growing things change, and change is good."

Make no mistake, Donaldson is growing, and that growth is because of you and for you.

2021 Year-End Checklist

The hustle and bustle of year-end is enough without extra financial stress. To plan ahead, we have prepared a financial checklist with important deadlines and conversations to consider with your Advisor.

☐ **Contributions to your employer-sponsored retirement plans (401(k), 403(b), etc.)**

- The maximum employee contribution for 2021 is $19,500, plus an additional $6,500 'catch-up' for employees age 50 and older.
- Contributions must be made through payroll withholding by December 31st. To make an adjustment to your withholding amount contact your 401(k) plan administrator.

☐ **Required Minimum Distributions (RMD)**

- RMDs for those age 72 and older are again required in 2021 from qualified retirement accounts.
- RMDs must be taken by December 31st or there is a 50% penalty on the amount of the RMD not taken.
- If you give to charity, talk with your Advisor about making a qualified charitable distribution (QCD) to satisfy your 2021 RMD.

☐ **Tax Loss / Gain Harvesting**

- Ask your advisor if it makes sense to sell a position at loss to reduce tax liability or offset gains that were made earlier in the year. Losses in an investment portfolio can also be used to offset capital gains outside of your investment portfolio, like the sale of investment property or business.
- It also may be the right time for you to realize gains in a portfolio. If you have a large loss carryforward, you may want to consider using that loss to offset gains.

☐ **529 College Savings Contributions**

- Additions of up to $15,000 per person ($30,000 for married filing jointly) can be made in 2021 and fall under the annual gift exclusion rule.
- Contributions must be processed by December 31st. Contribution made in the last two weeks of December may be counted in the following year for tax purposes due to processing delays.
- State tax credits and deductions vary. Work with your advisor to find out if you qualify for additional tax benefits.

☐ **Charitable Giving**

- Cash gifts must be deposited by the receiving charity by December 31st. Stock gifts must allow for extra processing time. Plan on processing your gift by December 18 to allow time to register the stock in the charity's name.
- Consider establishing a Donor Advised Fund (DAF) to take advantage of tax benefits today and give later at a time of your choosing.

Russell 1000 Index The Russell 1000 Index, a subset of the Russell 3000 Index, represents the 1000 top companies by market capitalization in the United States.

The "Gross" returns presented are gross of fees. The results do not reflect the deduction of investment, with a given rate of 10% compounded over a 10-year period would result in a net of fee return of 9.5%. Management fees are described in the Firm's Form ADV Part 2A. Investing involves the risk of loss, and investors should be prepared to bear potential losses. Past performance is not indicative of future results.

Donaldson Capital Management and Morningstar are not affiliated entities.

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The Morningstar Rating™ for funds, or "star rating", is calculated for 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 excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. 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 managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. 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.

Fees for separate accounts can vary widely and are negotiated between the asset manager, the separate account program sponsor or advisor, and the investor. Morningstar has chosen to present gross-of-fees performance (before fees have been taken out) to compare separate accounts. Net-of-fees calculations often deduct the highest theoretical fees that an investor may pay.

Morningstar will not calculate ratings for categories or time periods that contain fewer than five separate accounts. Each investor in the same separate account can experience slightly different total returns because investors have different account preferences and restrictions. Therefore, to ensure that ratings are fairly assigned, Morningstar will calculate ratings for only those firms that report performance for "composites" of similarly managed portfolios according to the guidelines of the CFA Institute's Global Investment Performance Standards (GIPS®).

Separate accounts that do not have ratings can be divided into two groups: those that do not qualify to be rated and those that did not participate. A separate account will not get a Morningstar Rating if: It is less than three years old, the firm is not GIPS-compliant, or the category contains fewer than five separate accounts that are eligible for a rating. Morningstar's quantitative fund ratings consist of: (i) Morningstar Quantitative Rating (overall score), (ii) Quantitative Parent pillar, (iii) Quantitative People pillar, and (iv) Quantitative Process pillar (collectively the "Quantitative Fund Ratings"). The Quantitative Fund Ratings are calculated monthly and derived from the analyst-driven ratings of a fund's peers as determined by statistical algorithms. Morningstar, Inc. calculates Quantitative Fund Ratings for funds when an analyst rating does not exist as part of its qualitative coverage.

Intended to be comparable to Morningstar's Analyst Ratings for open-end funds and ETFs, which is the summary expression of Morningstar's forward-looking analysis of a fund, the Morningstar Analyst Rating is based on the analyst's conviction in the fund's ability to outperform its peer group and/or relevant benchmark on a risk-adjusted basis over a full market cycle of at least 5 years. Ratings are assigned on a five-tier scale with three positive ratings of Gold, Silver, and Bronze, a Neutral rating, and a Negative rating. Morningstar calculates the Morningstar Quantitative Rating using a statistical model derived from the Morningstar Analyst Rating our fund analysts assign to open-end funds and ETFs. Please go to https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx for information about Morningstar Analyst Rating Morningstar's fund analysts assign to funds.

Morningstar Quantitative Ratings have not been made available to the issuer of the security prior to publication.

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