



# **Enhancement of Mutual Fund Category Classification Standards**

Morningstar (China) Research Center

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In March 2004, Morningstar introduced the category classification methodology for Chinese mutual funds. Since that time, there have been significant developments in the Chinese financial market as well as an increase in both the quantity and variety of fund products. In order to accurately reflect funds' asset allocations and risk/return profiles and to be in compliance with Chinese market regulations, Morningstar will further refine and enhance the China Category system in the following way:

**1. Replacing the Normal Equity and Aggressive Allocation categories with eight new categories by the investment styles, with the details as follows:**

**Large Growth Equity:** funds invest principally in the equities of large-cap growth companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These funds invest at least 80% of assets in equities.

**Large Blend Equity:** funds invest principally in the equities of large-cap blend companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. The blend style is assigned to funds where neither growth nor value characteristics predominate. These funds invest at least 80% of assets in equities.

**Large Value Equity:** funds that invest principally in the equities of large-cap value companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. Value is defined based on low valuation (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow). These funds invest at least 80% of assets in equities.

**Mid Growth Equity:** funds that invest principally in the equities of mid-cap growth companies listed on Shanghai and Shenzhen stock exchanges. Their holdings typically fall between small caps (the bottom 10% of capitalization of Asia ex-Japan equity market) and large caps (the top 70% of capitalization of Asia ex-Japan equity market). Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These funds invest at least 80% of assets in equities.

**Mid Blend Equity:** funds that invest principally in the equities of mid-cap blend companies listed on Shanghai and Shenzhen stock exchanges. Their holdings typically fall between small caps (the bottom 10% of capitalization of Asia ex-Japan equity market) and large caps (the top 70% of capitalization of Asia ex-Japan equity market). The blend style is assigned to funds where neither growth nor value characteristics predominate. These funds invest at least 80% of assets in equities.

**Aggressive Allocation - Large Growth:** funds that invest principally in the equities of large-cap growth companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets.

**Aggressive Allocation - Large Blend:** funds that invest principally in the equities of large-cap blend companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. The blend style is assigned to funds where neither growth nor value characteristics predominate. These funds mainly invest in stocks, bonds, and money market instruments and do not

belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets.

**Aggressive Allocation - Small/Mid-Cap:** funds that invest principally in the equities of small- and mid-cap companies listed on Shanghai and Shenzhen stock exchanges. Their holdings typically fall in the bottom 30% of the capitalization of the Asia ex-Japan equity market. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets.

**2. The introduction of a Hong Kong Aggressive Allocation category, which is split from the Shanghai-Hong Kong-Shenzhen Aggressive Allocation category:**

**Hong Kong Aggressive Allocation:** funds that invest in a range of asset types in Shanghai, Hong Kong, and Shenzhen markets, and invest at least 80% of non-cash assets in Hong Kong listed equities. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets.

**3. The introduction of a REITs category, with the definition as follows:**

**REITs - Infrastructure:** funds that invest principally in infrastructure asset-backed securities and hold all shares of them. Infrastructure projects mainly include transportation facilities such as roads, railways, ports, and airports; municipal facilities such as water, electricity, and nature gas; other infrastructures such as pollution control and communication networks. These funds invest at least 80% of assets in infrastructure asset-backed securities.

The above changes are scheduled to launch as of **31 October 2021**.

## Appendix: Morningstar China Category System

### Morningstar Category Classification Standards for Chinese Mutual Funds (Non-QDII)

| Global Asset Class | Morningstar Category                      | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity             | <b>Large Growth Equity</b>                | Funds invest principally in the equities of large-cap growth companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These funds invest at least 80% of assets in equities.                                                                                           |
|                    | <b>Large Blend Equity</b>                 | Funds invest principally in the equities of large-cap blend companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. The blend style is assigned to funds where neither growth nor value characteristics predominate. These funds invest at least 80% of assets in equities.                                                                                                                                                                      |
|                    | <b>Large Value Equity</b>                 | Funds that invest principally in the equities of large-cap value companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. Value is defined based on low valuation (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow). These funds invest at least 80% of assets in equities.                                                                                           |
|                    | <b>Mid Growth Equity</b>                  | Funds that invest principally in the equities of mid-cap growth companies listed on Shanghai and Shenzhen stock exchanges. Their holdings typically fall between small caps (the bottom 10% of capitalization of Asia ex-Japan equity market) and large caps (the top 70% of capitalization of Asia ex-Japan equity market). Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These funds invest at least 80% of assets in equities. |
|                    | <b>Mid Blend Equity</b>                   | Funds that invest principally in the equities of mid-cap blend companies listed on Shanghai and Shenzhen stock exchanges. Their holdings typically fall between small caps (the bottom 10% of capitalization of Asia ex-Japan equity market) and large caps (the top 70% of capitalization of Asia ex-Japan equity market). The blend style is assigned to funds where neither growth nor value characteristics predominate. These funds invest at least 80% of assets in equities.                                                                            |
|                    | <b>Hong Kong Equity</b>                   | Funds invest primarily in companies listed on Hong Kong stock exchange. These funds invest at least 80% of assets in equities and invest at least 80% of the non-cash assets in Hong Kong listed equities.                                                                                                                                                                                                                                                                                                                                                     |
|                    | <b>Shanghai-Hong Kong-Shenzhen Equity</b> | Funds invest principally in companies listed on Shanghai, Hong Kong, and Shenzhen stock exchanges. These funds invest at least 80% of assets in equities.                                                                                                                                                                                                                                                                                                                                                                                                      |

|                   |                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                   | <b>Sector Equity Health</b>                        | Funds focus on the medical and health-care industries. Most invest in a range of companies, buying everything from pharmaceutical and medical-device makers. A few portfolios concentrate on just one industry segment, such as medical devices or biotechnology firms. These funds invest at least 80% of assets in equities and invest at least 50% of equity assets in the sectors defined above.                                                                                                                                                                                                                               |
|                   | <b>Sector Equity Technology and Communications</b> | Funds invest principally in the equities of companies in the hardware, software, telecommunications, and media companies of various kinds. Most concentrate on computer, semiconductor, software, networking, internet-related, cable television, wireless-communications, and communications-equipment firms as well as traditional phone companies. These funds invest at least 80% of assets in equities and invest at least 50% of equity assets in the sectors defined above.                                                                                                                                                 |
|                   | <b>Sector Equity Consumer</b>                      | Funds invest principally in the equities of companies that manufacture or provide consumer goods or services. Most concentrate on manufacturers or distributors of food, beverages, household goods, personal products, textiles & apparel, auto, auto-parts, hotels, restaurants, other leisure facilities, consumer retailing and services. These funds invest at least 80% of assets in equities and invest at least 50% of equity assets in the sectors defined above.                                                                                                                                                         |
|                   | <b>Sector Equity Financial and Real Estate</b>     | Funds invest principally in the equities of financial-services companies and/or real-estate companies. These funds invest at least 80% of assets in equities and invest at least 50% of equity assets in the sectors defined above.                                                                                                                                                                                                                                                                                                                                                                                                |
|                   | <b>Sector Equity Other</b>                         | Funds invest in specific sectors that do not fit into any of Morningstar's existing sector categories and for which not enough funds exist to merit the creation of a separate category. These funds invest at least 80% of assets in equities and invest at least 50% of equity assets in the specific sectors.                                                                                                                                                                                                                                                                                                                   |
| <b>Allocation</b> | <b>Aggressive Allocation - Large Growth</b>        | Funds that invest principally in the equities of large-cap growth companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets. |
|                   | <b>Aggressive Allocation - Large Blend</b>         | Funds that invest principally in the equities of large-cap blend companies listed on Shanghai and Shenzhen stock exchanges. Equities in the top 70% of the capitalization of the Asia ex-Japan equity market are defined as large cap. The blend style is assigned to funds where neither growth nor value characteristics predominate. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets.                                                                            |

|                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Aggressive Allocation - Small/Mid-Cap</b>           | Funds that invest principally in the equities of small- and mid-cap companies listed on Shanghai and Shenzhen stock exchanges. Their holdings typically fall in the bottom 30% of the capitalization of the Asia ex-Japan equity market. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets.                                                                                                                                                                             |
| <b>Moderate Allocation</b>                             | Funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of less than 70% of net assets, and fixed-income investments are less than 50%.                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Conservative Allocation</b>                         | Funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where fixed-income investments consist of more than 50% of net assets.                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Flexible Allocation</b>                             | Funds mainly invest in stocks, bonds, and money market instruments and have the flexibility to change the exposure to a single asset class to a large extent.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Sector Allocation Consumer</b>                      | Funds invest principally in the equities of companies that manufacture or provide consumer goods or services. Most concentrate on manufactures or distributors of food, beverages, household goods, personal products, textiles & apparel, auto, auto-parts, hotels, restaurants, other leisure facilities, consumer retailing and services. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets and at least 50% of equity assets in the sectors defined above.          |
| <b>Sector Allocation Health</b>                        | Funds focus on the medical and health-care industries. Most invest in a range of companies, buying everything from pharmaceutical and medical-device makers. A few portfolios concentrate on just one industry segment, such as medical devices or biotechnology firms. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets and at least 50% of equity assets in the sectors defined above.                                                                               |
| <b>Sector Allocation Technology and Communications</b> | Funds invest principally in the equities of companies in the hardware, software, telecommunications, and media companies of various kinds. Most concentrate on computer, semiconductor, software, networking, internet-related, cable television, wireless-communications, and communications-equipment firms as well as traditional phone companies. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets and at least 50% of equity assets in the sectors defined above. |

|                     |                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                     | <b>Shanghai-Hong Kong-Shenzhen Aggressive Allocation</b>   | Funds invest in a range of asset types in Shanghai, Hong Kong, and Shenzhen markets. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to equity fund, bond fund or Hong Kong Aggressive Allocation categories, where equity-type investments consist of more than 70% of net assets.                                                                                                                        |
|                     | <b>Shanghai-Hong Kong-Shenzhen Conservative Allocation</b> | Funds invest in a range of asset types in Shanghai, Hong Kong, and Shenzhen markets. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where fixed-income investments consist of more than 50% of net assets.                                                                                                                                                 |
|                     | <b>Shanghai-Hong Kong-Shenzhen Flexible Allocation</b>     | Funds invest in a range of asset types in Shanghai, Hong Kong, and Shenzhen markets. These funds mainly invest in stocks, bonds, money market instruments and have the flexibility to change the exposure to a single asset class to a large extent.                                                                                                                                                                                                  |
|                     | <b>Hong Kong Aggressive Allocation</b>                     | Funds that invest in a range of asset types in Shanghai, Hong Kong, and Shenzhen markets, and invest at least 80% of non-cash assets in Hong Kong listed equities. These funds mainly invest in stocks, bonds, and money market instruments and do not belong to either equity fund or bond fund categories, where equity-type investments consist of more than 70% of net assets.                                                                    |
|                     | <b>REITs - Infrastructure</b>                              | Funds that invest principally in infrastructure asset-backed securities and hold all shares of them. Infrastructure projects mainly include transportation facilities such as roads, railways, ports, and airports; municipal facilities such as water, electricity, and nature gas; other infrastructures such as pollution control and communication networks. These funds invest at least 80% of assets in infrastructure asset-backed securities. |
|                     | <b>Target-Date</b>                                         | Funds that provide diversified exposure to stocks, bonds, and cash for those investors who have a specific date in mind for retirement. These portfolios aim to provide investors with an optimal level of return and risk, based solely on the target date. Management adjusts the allocation among asset classes to more-conservative mixes as the target date approaches, following a preset glide path.                                           |
| <b>Convertibles</b> | <b>Convertible Bond</b>                                    | Funds mainly invest in convertible bonds (including warrant bonds), with no more than 20% of assets investing in stocks and options etc.                                                                                                                                                                                                                                                                                                              |
| <b>Fixed Income</b> | <b>Aggressive Bond</b>                                     | Funds mainly invest in bonds; fixed-income investments comprise at least 80% of assets, pure-stock investments are no more than 20% of net assets, and equity-type investments are no less than 10%.                                                                                                                                                                                                                                                  |
|                     | <b>Normal Bond</b>                                         | Funds mainly invest in bonds and do not meet the criteria of Short-Term Bond Funds; fixed-income investments comprise at least 80% of assets, equity-type investments are less than 10% of net assets, and do not belong to short-term bond category.                                                                                                                                                                                                 |
|                     | <b>Pure Bond</b>                                           | Funds invest no less than 80% of their assets into bonds, without investing in equities, convertible bonds (except pure bonds' parts of warrant bonds) or non-standardized bonds.                                                                                                                                                                                                                                                                     |
|                     | <b>Government and Policy Bank Bond</b>                     | Funds invest no less than 80% of their assets into bonds, without investing in equities, convertible bonds (except pure bonds' parts of warrant bonds) or non-standardized bonds, and invest principally in government bonds and policy bank bonds.                                                                                                                                                                                                   |

|                     |                                      |                                                                                                                                                                                                                                                                                                                        |
|---------------------|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                     | <b>Corporate Bond</b>                | Funds invest no less than 80% of their assets into bonds, without investing in equities, convertible bonds (except pure bonds' parts of warrant bonds) or non-standardized bonds, and invest principally in corporate bonds, which tend to have more credit risk than government bonds or policy bank bonds.           |
|                     | <b>Short-Term Bond</b>               | Funds mainly invest in bonds and can hold only fixed-income assets with duration of no more than 3 years.                                                                                                                                                                                                              |
| <b>Money Market</b> | <b>Money Market</b>                  | Funds mainly invest in money market instruments, including short-term bonds, central bank notes, repurchase agreements, interbank deposits, certificates of deposit, commercial bills, etc.                                                                                                                            |
| <b>Alternative</b>  | <b>Market Neutral</b>                | Funds mainly invest in equities, meanwhile matching short positions within each area against long positions to reduce systematic equity market risk. The absolute value of their beta exposures is typically less than 0.3 relative to CSI300 Index.                                                                   |
| <b>Commodities</b>  | <b>Commodities - Precious Metals</b> | Funds invest in one or more precious metals, including gold, silver, platinum, and palladium. They may gain this exposure through investing in derivative financial instruments linked to the relevant commodities price, or via direct investment in the physical metals, which is then stored on behalf of the fund. |
|                     | <b>Commodities - Other</b>           | Funds invest in derivative financial instruments or other issues that give them exposure to commodities not captured in one of the other Morningstar Commodity categories.                                                                                                                                             |
| <b>Others</b>       | <b>Others</b>                        | Funds not belonging to any of the above categories or, due to their specific strategies, not suitable to be measured on risk/return characteristics with products in any of the above categories.                                                                                                                      |

### Morningstar Category Classification Standards for Chinese QDII Funds

| <b>Global Asset Class</b> | <b>Morningstar Category</b>              | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Equity</b>             | <b>QDII Asia-Pacific ex-Japan Equity</b> | Asia-Pacific ex-Japan Equity funds cover a wide geographic range. Most of these funds focus on nations or districts such as Hong Kong, Singapore, Taiwan, Korea, Australia, New Zealand, etc. These funds invest at least 80% of total assets in equities, equity funds, REITs, etc., and invest at least 75% of equity assets in Pacific countries over the long term, while allowing for a small allocation to Japan equities.                     |
|                           | <b>QDII Greater China Equity</b>         | Greater China Equity funds invest in companies from mainland China, Hong Kong, and Taiwan. To a lesser extent, these funds may also invest in companies that derive significant revenues from or have substantial business ties to these three markets. At least 80% of total assets are invested in equities, equity funds, REITs, etc., over the long term and at least 75% of equity assets are invested in the range of companies defined above. |
|                           | <b>QDII Emerging Markets Equity</b>      | Emerging Markets Equity funds tend to divide their assets among several emerging markets in Asia, Latin America, Europe, the Middle East, and/or Africa. These funds invest at least 80% of their total assets in equities, and at least 75% of equity assets are invested in emerging-markets equities over the long term.                                                                                                                          |



|                     |                                         |                                                                                                                                                                                                                                                                  |
|---------------------|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                     | <b>QDII Global Equity</b>               | Global Equity funds invest at least 80% of total assets in equities. These funds invest primarily in the equities of companies from around the globe.                                                                                                            |
|                     | <b>QDII Sector Equity</b>               | Sector Equity funds have meaningful sector concentrations. These funds invest at least 80% of total assets in equity-type securities, and at least 50% of equity assets are invested in equities in a specific sector over the long term.                        |
|                     | <b>QDII US Equity</b>                   | US Equity funds invest primarily in the equities of US companies across various capitalizations and styles. These funds invest at least 80% of their total assets in equities, and at least 75% of equity assets are invested in US equities over the long term. |
| <b>Allocation</b>   | <b>QDII Global Allocation</b>           | Allocation funds' mandates allow them to invest in a range of asset types, such as equities, bonds, cash, etc.                                                                                                                                                   |
|                     | <b>QDII Emerging Markets Allocation</b> | Global Emerging Market Allocation funds have a mandate to invest in a range of asset types in emerging markets.                                                                                                                                                  |
|                     | <b>QDII Asia Allocation</b>             | Asia Allocation funds have a mandate to invest in a range of asset types in Asia-Pacific markets.                                                                                                                                                                |
|                     | <b>QDII Greater China Allocation</b>    | Greater China Allocation funds have a mandate to invest in a range of asset types from mainland China, Hong Kong, and Taiwan.                                                                                                                                    |
| <b>Fixed Income</b> | <b>QDII Global Bond</b>                 | Global Bond funds invest in a diversified portfolio of bonds denominated in a diverse range of currencies.                                                                                                                                                       |
| <b>Commodities</b>  | <b>QDII Commodities</b>                 | Commodities funds primarily invest in commodities-related products, such as ETFs, mutual funds, and other authorized, relevant derivatives.                                                                                                                      |
| <b>Others</b>       | <b>QDII Others</b>                      | Funds not belonging to any of the above categories or, due to their specific strategies, not suitable to be measured on risk/return characteristics with products in any of the above categories.                                                                |

**Notes:** Fixed-Income Investment = Cash + Bond; Convertible Bond = 50% Stock + 50% Bond; the above category classification standards are applicable to both open-ended and close-ended funds

Morningstar fund category classification is based on both quantitative and qualitative analysis.

Quantitative analysis is based on funds' portfolio holdings. If a new fund is in the process of initially constructing its portfolio, Morningstar will temporarily categorize the fund according to its investment scope and allocation specified in the prospectus.

Morningstar analyzes funds' holdings (including cash, stocks, bonds, and other assets) based on their actual portfolio holdings. Funds are classified into a given category based on their average holdings' statistics over the past three years, excluding the initial-construction period.

The above criteria will not determine the fund's ultimate category. Morningstar will combine these quantitative inputs with qualitative analysis to determine the final category classification.

For example, when a fund falls into a certain category based on its portfolio holdings, and this classification conflicts with the fund's prospectus and Morningstar category classification standards, further analysis is undertaken to determine the source of the conflict before the final category is determined. Another example: Morningstar will fully consider the potential risks of funds that use a leveraged strategy.