

Fact Sheet: The Morningstar Rating™ for Load-Waived A Shares

Investor Benefits

- ▶ Better captures the investor experience for investors who do not pay the front load on mutual funds.
- ▶ Encourages investors to determine if they are eligible for load breakpoints.
- ▶ Helps investors evaluate and compare different share classes and funds.

Morningstar is introducing ratings for load-waived versions of the class A shares of mutual funds. These ratings and other load-waived statistics better reflect the investor experience for those individuals who do not pay the fund's front-end sales load, such as retirement-plan participants. The load-waived rating supplements the Morningstar Rating™ for the original A share class, where all load-adjusted measures reflect the maximum front load.

Background

The Morningstar Rating for funds, often called the "star rating," debuted in 1985 and reflects each fund's risk-adjusted return compared to a peer group. The rating is designed to truly capture the investor experience, and therefore Morningstar has always adjusted for loads, redemption fees, 12b-1 fees, and expenses. In recent years, more investors have qualified for a waived front load, and so Morningstar created this rating to illustrate that distinct investor experience.

Most mutual-fund companies offer multiple share classes of funds for different types of investors. The industry convention is to label these share classes with letters and to structure them with different fees. Typically, A shares have front-end sales loads and lower ongoing expense ratios (compared to other share classes of the same fund).

Sometimes investors do not have to pay the front load. For example, the A share class is often used in defined-contribution retirement plans, such as 401(k)s, and fund companies generally waive the front load for plan participants. Fund companies also reduce or waive the front load for individual investors who commit to invest above a certain amount.

What It Means for Investors

The Morningstar Rating and returns for load-waived A-shares are relevant to current investors who do not have to pay a front load. The data also serves investors contemplating a new purchase, because they have more information available to make their investment decisions. In some cases, investors might bypass an otherwise respectable fund if they only consider load-adjusted metrics.

More investors are purchasing A shares without paying the full load. The Investment Company Institute reports in its 2005 Mutual Fund Fact Book that, "The front-end loads that shareholders actually paid have fallen even more, from 70 percent of the maximum load in 1980 to only 25 percent of the maximum in 2003." They cite retirement-plan investing as a significant reason for this trend toward lower loads. If fewer investors are paying the load, more investors need load-waived statistics to illustrate their investment experience.

Additional Details

Morningstar introduced ratings for load-waived A shares in December 2005 (using data through November 30). Load-waived A shares are displayed and treated like a separate share class, and most data is the same between the original A share and the load-waived share. The statistics that are different include load-adjusted measures, such as the Morningstar Rating, rating-related scores and returns, tax-adjusted returns, and any percentile ranks based on these measures.

To be eligible for load-waived ratings and returns, the fund must be an A share class, must have a front load and must be domiciled in the United States. Morningstar does not calculate load-waived ratings for B or C share classes because fund companies rarely waive the loads on these funds.

Load-Waived Illustration	Name	Ticker	Share Class	Max Front Load	Morningstar Rating Overall	Morningstar Rating 3 Yr	Morningstar Rating 5 Yr	Morningstar Rating 10 Yr
	Delaware Small Cap Value A	DEV LX	A	5.75	★★★	★★★	★★★★	★★★
Delaware Small Cap Value A LW	DEV LX.lw	LW	0.00	★★★★	★★★★	★★★★★	★★★	

Morningstar differentiates load-waived A shares by modifying the name, ticker, and share class fields as shown above. Performance measures that are load-adjusted, such as the Morningstar Rating, are recalculated without the effects of the front load.