MORNINGSTAR®

News Release

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FOR IMMEDIATE RELEASE

Morningstar, Inc. Enhances Proprietary Investment Style Box™ Methodology

CHICAGO, March 25, 2002—Morningstar, Inc., a leading global investment research firm, today announced that it is making several enhancements to its proprietary investment Style Box™ methodology. The new methodology will better capture the style characteristics of individual stocks and lays the groundwork for investors and advisors to build better portfolios and monitor them more precisely. The changes will begin appearing in Morningstar products by mid year.

Created and introduced in 1992 by Morningstar Managing Director Don Phillips, the Morningstar® Style Box™ was designed to provide an intuitive visual representation of a fund's investment "style." It allowed investors to assess a fund based on its holdings, instead of the fund name or an ambiguous categorization. The original Morningstar® Style Box™ methodology, which classifies a fund by its market capitalization and growth or value orientation, has become the industry standard for categorizing and tracking managed investment portfolios. The nine-square grid uses a vertical axis to distinguish among small-, mid- and large-cap, and the horizontal axis separates value, blend and growth funds.

"Morningstar's original style evaluation methodology was designed primarily for categorizing equity mutual funds. Our new Style Box methodology better measures the characteristics of individual stocks and introduces a building block system that links what are often treated as four separate processe—stock research, fund research, portfolio assembly, and market monitoring. We believe that a shared analytical framework will lead to better portfolio construction and fund usage," Phillips said.

Key Enhancements
• Instead of just two factors (price-to-earnings and price-to-book ratios), the new methodology uses a 10-factor model to determine the style of an individual stock. Separate value and growth "style scores," each based on five factors, will be calculated for each stock. In calculating each score, the methodology places 50 percent weight on the forward-looking measure and 50 percent weight on four historical-based measures. These four measures are equally weighted.

• The five value factors are price-to-projected earnings, price-to-book, price-to-sales, price-to-cash flow, and dividend yield. The growth score will be calculated independent of price, using these five factors: long-term projected earnings growth, historical earnings growth, sales growth, cash flow growth, and book value growth.

• Securities will be classified as value or growth based upon the dominant score. If neither score is dominant, the stock will be classified as "core."

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• The style attributes of stocks within a fund are "rolled up" to determine the fund's overall investment style. Funds continue to be classified as value, growth, or blend.

• For stocks, the central column of the Style Box will represent the core style; for funds, the central column will represent the blend style (a mixture of growth and value stocks or mostly core stocks).

• Currently Morningstar defines the largest 250 stocks in the U.S. market as large cap, the next largest 750 stocks as mid cap, and the remaining stocks as small cap. The new methodology defines large-cap stocks as those that account for the top 70 percent of the capitalization of the Morningstar stock universe; mid-cap stocks represent the next 18 percent; and small-cap stocks represent the balance. The Morningstar stock universe represents approximately 99 percent of the U.S. market for actively traded stocks.

Benefits to Investors
"Morningstar has always stressed the importance of fundamental investment analysis. By looking at 10 factors, the enhanced Morningstar Style Box methodology will provide a richer, more precise portrayal of a stock's style characteristics—one that is more in line with the way portfolio managers look at stocks. More intense analysis at the individual stock level will result in a better measure of the overall characteristics of a portfolio of stocks."

Phillips added, "While the appearance of the Style Box™ remains the same, with the new methodology in place, investors can look forward to more accurate and more stable classifications. In addition, having 10 factors will enable a clearer depiction of the differences between funds that have the same Style Box assignment but different stock selection strategies. For example, one growth manager may focus more on sales growth while another focuses more heavily on cash flow growth. By documenting and scoring both variables, we can show nuances of style that previously escaped investor attention."

Because the new methodology better captures the style characteristics of individual stocks, a modest number of funds will change their Morningstar Style Box assignment. For example:

• The price/earnings and price/book ratios of several Janus portfolios have recently declined. The change, however, does not necessarily reflect an abandonment of growth. By expanding the categorization criteria to include sales and cash flow growth, Morningstar's new methodology will classify funds such as Janus, Janus 20 and Janus Olympus as large growth rather than large blend, which is what price/earnings alone might suggest.

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• While the stocks in Putnam Small Value occasionally look pricey using trailing price/earnings ratios, the fund's value-oriented strategy of buying battered growth stocks becomes more apparent when the categorization criteria widens to include price/sales and price/cash flow. Under the new methodology, the fund moves from small blend to small value.

• Although Vanguard Growth & Income is highly correlated with the overall market, as measured by both performance and sector weightings, its low price/earnings and price/book ratios resulted in a large value classification under the original methodology. Now, because its above average growth characteristics are also recognized, the fund is classified as large blend.

The enhanced Style Box methodology affects domestic equity stocks and funds. It will be used for all Morningstar products, including Morningstar DataLab, the firm's Internet-based investment research platform; Morningstar.com®, the firm's investment information Web site; Principia® Pro software; MorningstarAdvisor.com℠, the firm's Web site for financial advisors; Morningstar Mutual Funds™, the company's flagship publication; Morningstar® FundInvestor™ newsletter; and Morningstar® StockInvestor™ newsletter.

In addition, Morningstar recently announced it is launching a family of 16 stock indexes based on the same 10-factor methodology used for assessing individual securities. Nine of the indexes will be based on the individual squares of the Style Box and will contain the securities within a specific style square. The seven aggregate indexes will be one broad market index as well as three defined by capitalization and three defined by style. The Morningstar Indexes will allow for analytical consistency as investors research stocks, managed products, and the market as a whole.

To develop the new Style Box™ methodology, Morningstar consulted with leading institutional investors and investment advisors. For more details about the methodology, please see the attached fact sheet.

About Morningstar, Inc.
Chicago-based Morningstar, Inc. is a global investment research firm that provides financial data, research, online advice, consulting services, and investment solutions for individuals, financial advisors, institutions, and the media worldwide. Morningstar is a trusted source of investment information and analysis for stocks, mutual funds, exchange-traded funds, closed-end funds, and variable annuities. Morningstar tracks nearly 100,000 securities worldwide.

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