

Lipper Leaders

Building a Fund Portfolio

About Lipper Leaders

The Lipper Ratings are derived from highly sophisticated formulae that analyze funds against a set of clearly defined metrics. Funds are compared to similar funds, and only those that truly stand out are awarded Lipper Leader status. Each fund is ranked against its peers based on the metric used. Lipper Ratings provide an instant measure of a fund's success against five key metrics:

- Consistent Return
- Total Return
- Preservation
- Expense
- Tax Efficiency

Funds are ranked against their Lipper peer group classifications each month for 3-, 5-, 10-year, and overall periods. These ratings are based on an equal-weighted average of percentile ranks of the five Lipper Leaders metrics.

For each metric:

- the top 20% of funds receive a rating of '5' and are named Lipper Leaders.
- the next 20% of funds receive a rating of '4'
- the middle 20% of funds receive a rating of '3'
- the next 20% of funds receive a rating of '2'
- the lowest 20% of funds receive a rating of '1'

Lipper Leaders provide context and perspective for making informed investment decisions but do not predict future performance.



Building a portfolio of funds using Lipper Leaders

Building a portfolio that best meets an investor's goals requires reliable fund evaluation tools. The Lipper Leader Rating System is a toolkit designed to help build that portfolio one fund at a time.

Lipper Leader ratings can help you effectively identify funds that meet the particular goals of an investor. You can begin with a single Lipper Leader metric. We recommend the 'Consistent Return' metric as the best place to start. This metric identifies funds that provide year-to-year consistency relative to other funds in their peer group. As you become more familiar with the Lipper Ratings, you can use additional metrics alone or in combination to build individualized portfolios that suit an individual investor's particular goals.

We suggest the following process for identifying funds and building a complete fund portfolio. Since the goals for each fund may be somewhat different, we recommend repeating the process for each fund.

Choose the asset class

In considering specific goals, advisors generally help investors to determine whether the priority is current income or long-term growth. This priority often focuses attention on funds within a particular asset class: equity, mixed-equity, or fixed-income funds.

Choose the fund category

A well-diversified portfolio usually will include funds from several different fund classifications. For example, investors are often advised to include funds that own large-company stocks, smaller-company stocks, international stocks, and bonds. A particular portfolio might tilt toward growth funds that search for fast-growing companies or value funds that seek out undervalued stocks, or it may contain both types. A portfolio designed to preserve capital might contain a higher percentage of corporate bond funds, Treasury or government bond funds, international bond funds, or some combination.

Choose Lipper Leader metrics

The Lipper Leader system allows advisors and investors to benchmark funds along five metrics rather than a single, historical performance-based measure.

Lipper Leader	Measures	Useful to
Total Return	Performance in isolation	Investors who seek performance in isolation, regardless of risk.
Consistent Return	Risk-adjusted performance/Consistency of returns	Investors who seek performance with relatively low volatility of returns.
Preservation	Losses	Investors concerned with potential losses to their investments.
Expense	Total expense ratio	Investors concerned with the performance drag that higher expense ratios create.
Tax Efficiency	Amount of fund's return that is retained after tax effects on distributions	Investors in taxable accounts who want to minimize the tax burden on their investments.

Each Lipper Leader metric should be examined in relation to an investor's goals to determine its importance when selecting funds for an investment portfolio.

Lipper Leader	More Important	Less Important
Total Return	Investor places a high premium on past performance	Investor believes that past performance has little bearing on the future
Consistent Return	Investor places emphasis on day-to-day consistency and relative results	Investor prefers to avoid backward-looking tools
Preservation	Investor needs the money from this fund in just a few years or they are risk-averse.	Investor is risk-tolerant or investing for a goal that's decades away
Expense	Investor believes that low-expense funds have a better chance of success	Investors feels that investors get what they pay for
Tax Efficiency	Investor is in a high tax bracket and investing in a taxable account.	Investor is investing in a 401(k) / IRA or is in a low tax bracket

Once the fund category has been selected and the Lipper Leader metrics to emphasize are chosen, then a list of suitable funds can be identified. It's important to remember Lipper Leaders is a tool designed to assist in the fund identification and selection process. Therefore, the detailed performance of each fund on the list should be reviewed to refine the list further if necessary. Advisors should place the Lipper Leader metrics in context as well as help investors to identify and prioritize their investment goals. Advisors and investors can choose an appropriate fund from that list, keeping in mind manager tenure, sales loads, other fees, and logistical factors such as minimum initial investment.

For additional information about Lipper Leaders, please visit: www.lipperleaders.com

Lipper Disclaimer

Lipper Ratings for Total Return reflect fund historic total return performance relative to peers. Lipper Ratings for Consistent Return reflect fund historical risk-adjusted returns relative to peers. Lipper Ratings for Preservation are relative, rather than absolute. Lipper Ratings for Expense reflect fund expense minimization relative to peers. Lipper Ratings for Tax Efficiency (U.S. Only) reflect fund historical ability to postpone taxable distributions. Lipper Ratings DO NOT take into account the effects of sales charges. Overall Ratings are based on an equal-weighted average of percentile ranks for each measure over 3-, 5-, and 10-year periods (if applicable).

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