Morningstar® Market Commentary

2nd Quarter 2007

Morningstar Market Barometer℠

2nd Quarter, 2007 Return %

	Value	Core	Growth
Large Cap	5.42	6.95	6.38
Mid Cap	3.87	6.54	8.57
Small Cap	2.55	5.87	6.62

< –8 –4 0 4 8 >

1-Year Return %

	Value	Core	Growth
Large Cap	23.38	19.99	17.90
Mid Cap	20.97	23.20	19.94
Small Cap	16.68	19.17	16.37

< –20 –10 0 10 20 >

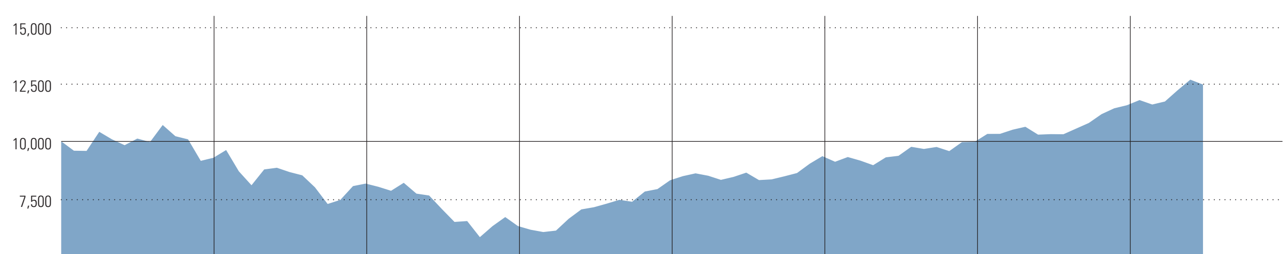
Markets ran through a full gamut of sentiment over the second quarter of 2007. The quarter began with much uncertainty surrounding subprime mortgages and the fate of the U.S. housing market in general. But the markets shrugged those worries aside and surged impressively through mid-quarter as companies reported surprisingly strong earnings, and merger and acquisition activity continued at a brisk pace. June proved a difficult month, however, bringing to the fore once again the fallout from the housing slump, and opening a fresh can of worries due to sharply elevated long-term interest rates. Thus, while the Morningstar US Market Index posted a strong 6.2% rise for the quarter, the period ended with some cracks appearing in the outlook.

The conditions behind the debt market sell-off are especially worth investigation. Consider this: The Morningstar Core Bond Index, our newly launched flagship investment-grade bond index, slipped 0.6% in the quarter, and the Morningstar Long Term Core Bond Index had an even bigger slide of 1.7%. Both declines were the steepest quarterly slides in more than a year. Prominent central banks such as that of China have dropped hints that they might reduce their purchases of U.S. treasuries, which could be a key reason behind the collapse in Treasury bond prices. Also, headline inflation (which accounts for food and fuel prices) has accelerated sharply, which also calls for higher interest rates. Moreover, high-yield bonds, the brightest corner of the bond market for the past several years, have also sold off over the past month. There are signs that investors are finally getting more conservative and demanding, after a stretch of very lax lending conditions.

How far these recent bond market trends will go is likely to be key for equity markets. Higher interest rates could mean more widespread trouble in the housing market, reduced consumer demand, and in turn, lower profits for companies. Also, a more serious loss of investor appetite for high-yield debt could spell the end of the current era of easy liquidity. That would curtail buyout activity, which has been an important buoy for equities. Conditions have indeed been ideal for financial markets for quite some time, leading to fuller valuations across the board for just about every kind of risky asset. A healthy re-pricing of risk could well be what the doctor ordered.

Meanwhile, the recent bout of market turbulence has drawn even sharper attention to some interesting trends we at Morningstar have been commenting on for some time. According to the collective view of our almost 100 stock analysts, the best value is currently to be found among mega-caps, in names like Bank of America, Wal-Mart, Procter & Gamble, and Johnson & Johnson. Another trend that is interestingly poised is the comparison of growth vs. value. Growth stocks have taken a beating at the hands of their value rivals for several years now, but that trend has shown signs of reversal in recent months.

Morningstar US Market Index (Growth of $10,000)



	2000	2001	2002	2003	2004	2005	2006	2007-06
Total Returns %	–7.02	–11.88	–22.16	30.73	12.35	6.52	8.10	6.19
Price/Earnings	31.78	30.73	24.97	26.74	23.72	22.05	21.22	21.94
Price/Book	7.54	5.39	4.13	4.49	4.22	4.17	3.93	4.41
Dividend Yield %	1.12	1.29	1.74	1.45	1.49	1.61	1.64	1.50
Earnings Growth (5-yr)	18.15	15.22	13.19	12.76	12.55	12.80	12.72	12.85

Surveying the Sectors

Our Super Sector Indexes provide convenient and digestible summaries of market performance, and reflect important investing themes. For example, the Manufacturing Super Sector's continued strength is due to a vibrant global economy (despite signs of weakness in the U.S.), which has sustained demand for industrial and engineering goods.

Morningstar Sectors: 2nd Quarter 2007 Return %

	Quarter	1 Year	3 Year
Information	8.76	27.03	9.62
Software	6.44	28.37	9.29
Hardware	12.37	26.35	7.28
Media	3.12	18.40	6.65
Telecommunication	7.80	37.06	20.58
Service	3.15	14.88	11.01
Healthcare	4.58	17.28	7.43
Consumer Services	1.59	13.26	9.32
Business Services	8.90	17.29	17.34
Financial Services	1.40	13.53	12.37
Manufacturing	8.89	25.02	18.91
Consumer Goods	4.57	22.70	9.93
Industrial Materials	10.09	24.81	15.90
Energy	14.93	26.97	31.84
Utilities	–0.60	25.60	22.69

Manufacturing Super Sector +8.89%

Energy stocks surged again this quarter, cementing that sector's place at the top of our sector indexes, and powering the Morningstar Manufacturing Super Sector Index to a first place finish as well. Energy stocks benefited from strong demand, reluctance by major oil-producing countries to raise output, and unforeseen refinery outages. McDermott International Inc., a builder of offshore drilling platforms and other energy-related equipment, was the biggest gainer, surging a whopping 70% during the quarter. Western Refining Inc. rose 48%, benefiting from both tight gasoline supplies and a favorable court ruling in a case related to the company's recent merger with another refiner. Engineering and construction goods and oil and gas services were among the biggest gainers at the industry level. Those industries have benefited especially well as energy exploration continues to expand amidst tight supply-and-demand conditions, and global spending on infrastructure projects also remains strong. By contrast, homebuilders were near the very bottom, as the prospect of an extended housing slump continues to dog the industry—and indeed the broader economy.

In a dramatic reversal of fortune, utility stocks, champions in the first quarter, came in dead last among all sectors in the second quarter. Many of the regulated utilities are regarded as substitutes for bonds, so the sector collapsed as yields on treasury securities spiked.

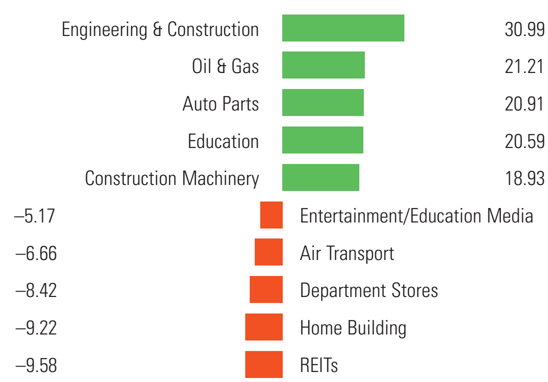
Information Super Sector +8.76%

The Morningstar Information Super Sector came in a very close second, relying especially on the strength of hardware stocks this quarter. Software and telecom stocks also did relatively well. Hardware stocks had a remarkably strong quarter, with the sector finishing second only to energy. Excitement surrounding new product launches, reasonable valuations due to an extended period of underperformance, and merger activity have all contributed to this sector's revival in recent months. Cree Inc., a small manufacturer of semiconductor parts, topped this sector with a 57% gain as it announced a breakthrough technology. Some of the sector's heavyweights also did rather well. For example, Dell Inc., much unloved earlier this year, rallied 23% in the quarter after reporting impressive first-quarter earnings, suggesting the company can resume profitable growth.

Service Super Sector +3.15%

The Morningstar Service Super Sector finished last, due to significant weakness in its component sectors—consumer and financial services. Business services stocks did better than average, however, in an encouraging sign that investment by corporations, long subdued, is reviving. Financial services stocks were victims of the recent turmoil in debt markets, as investors fretted about these companies' exposure to rising interest rates and to what some consider to be dangerous levels of leverage in the financial system. Real estate investments trusts (REITs) also did very poorly, being an interest rate-sensitive industry.

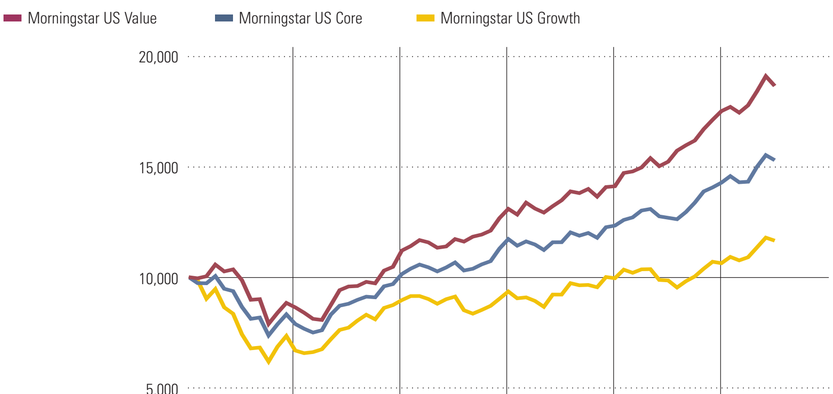
Top and Bottom Five Industries: 2nd Quarter 2007 Return %



Style and Market Cap Indexes

Two long-running trends are facing some impressive challenges thus far in 2007. Large-cap stocks, which have played third fiddle to their mid- and small-cap peers since almost the start of this decade, put up a stronger front in the second quarter. The Morningstar Large Cap and Morningstar Mid Cap Indexes finished the quarter in a virtual tie, ahead of the Morningstar Small Cap Index. This is especially impressive considering that smaller companies continued to enjoy a "buyout premium," as private equity groups and larger rivals remained on the prowl for possible takeover targets. Even more impressive is the strength that growth stocks have shown. At the end of second-quarter 2007, the Morningstar US Growth Index showed a trailing seven-year annualized loss of 7%, while the Morningstar US Value Index boasts a positive 11%. This is a vast gap indeed, and the length of the trend is without precedent. After a strong second quarter, however, the Morningstar US Growth Index has cemented its year-to-date lead, perhaps indicating the long-due reversal is underway.

Morningstar Style Indexes: Growth of $10,000



	2002	2003	2004	2005	2006	2007-06
Morningstar US Value						
Total Returns	–13.68	29.75	16.85	7.82	24.10	6.50
Price/Earnings	20.53	18.58	16.79	14.98	13.26	15.27
Price/Book	2.17	2.83	2.57	2.53	2.13	2.67
Dividend Yield %	3.40	2.69	2.68	2.89	2.81	2.55
Earnings Growth (5-yr)	9.08	8.48	8.77	8.00	14.101	8.80
Morningstar US Core						
Total Returns	–21.18	28.63	15.62	5.19	15.76	7.12
Price/Earnings	21.46	23.75	21.90	20.92	18.09	21.99
Price/Book	4.24	4.64	4.33	3.95	2.98	4.32
Dividend Yield %	1.59	1.27	1.30	1.43	1.68	1.51
Earnings Growth (5-yr)	12.46	12.11	11.89	12.13	20.40	11.81
Morningstar US Growth						
Total Returns	–33.20	34.12	4.37	6.41	6.83	9.59
Price/Earnings	32.89	38.45	33.50	30.62	24.20	28.89
Price/Book	5.61	5.93	5.96	6.04	4.04	6.22
Dividend Yield %	0.50	0.43	0.40	0.53	1.04	0.47
Earnings Growth (5-yr)	17.52	17.26	17.74	18.17	28.84	17.95

Morningstar US Value Index +4.9%

Value stocks caught both the best and worst corners of the market during the quarter, and conceded a sizable lead to growth stocks in the net. Major oil major companies Exxon Mobil Corp., Chevron Corp., and ConocoPhillips were the top three positive contributors, each scoring healthy double-digit gains. Energy was indeed the best-performing sector in the second quarter. The value index took some punches in the financial services and utility sectors, however. Xcel Energy Inc., which sank 16%, and Duke Energy Corp., which dropped 9%, were among the prominent offenders as investors fled utility stocks in the face of rising Treasury bond yields. Bank of America Corp. and Wachovia Corp. were among the significant detractors in the financials sector. Concerns regarding interest rates and the housing downturn have cast a pall on financial stocks, but it's worth noting that Morningstar stock analysts continue to find attractive values in the area, especially among mega-cap banks such as Bank of America.

Morningstar US Core Index +6.8%

Core stocks benefited from strong showings by technology stalwarts such as Intel Corp. and International Business Machines Corp. Intel rose 25% as investors rewarded the chipmaker's valiant efforts to win back market share it has lost to some prominent rivals in recent years. IBM also posted impressive results, with improved profitability in its software business and forays into attractive growth areas such as network storage. Besides technology, large, multinational industrial conglomerates also had a strong quarter owing to a thriving global economy. Examples include General Electric Co. and Honeywell International Inc., which both contributed handsomely to the Morningstar US Core Index.

Morningstar US Growth Index +6.9%

At last! Growth stocks appear to have turned the corner in 2007 after years of lagging behind value rivals, as they posted strong results in the second quarter. Indeed, the two investing styles have their cycles, so just from a mean-reversion standpoint it is reasonable to expect that investors would take notice again of companies with robust growth prospects. Amazon.com Inc., which posted an explosive 72% gain in the quarter, is a prime example. Amazon pioneered Internet retailing, and has been making the most of the channel's massive growth potential by strengthening its core media products business and by lowering costs. Apple Inc., which surged 31% in the quarter, is another example. The market currently has high expectations of Apple delivering more hit consumer-electronics products—such as the much-anticipated iPhone. The Morningstar US Growth Index could be strewn with more such gems after years of relative neglect by investors following the burst of the technology bubble in 2000.

Morningstar Large Cap Index +6.3%

Large technology and heavy industrial companies prospered during the quarter, allowing large-cap stocks in general to beat small-caps—not a frequent occurrence at all in this decade. Large non-financial multinationals like GE, Intel, and IBM have seen a handsome growth in their earnings, coming primarily from foreign subsidiaries. Investors have taken notice of these established corporations and their stable cash flows thus far in 2007. This trend could well continue, as many large-cap stocks, especially in areas like banking, healthcare, and consumer retail, remain largely ignored.

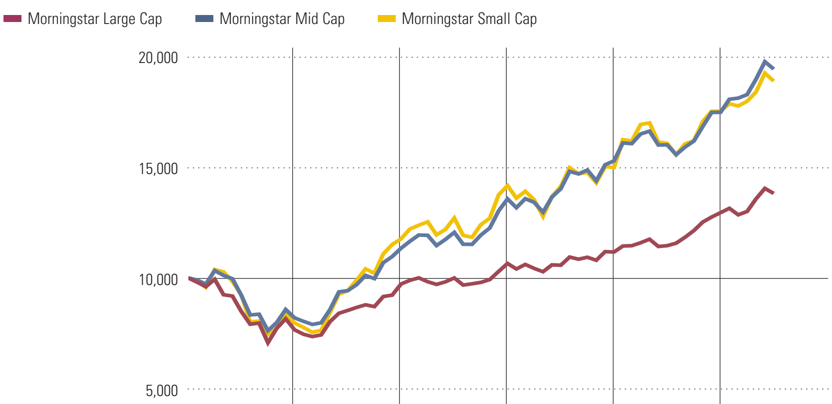
Morningstar Mid Cap Index +6.3%

Mid-cap stocks got the advantage of being in the sweet spot of some favorable industrial trends, and generally benefited from booming merger and acquisition activity as well. Energy exploration services provider McDermott International Inc. soared 70% in the quarter, as oil and gas services companies enjoyed very favorable conditions. McDermott announced a new gas pipeline project in the Middle East, for example. Foster Wheeler Ltd., which has an internationally widespread engineering and construction business, rallied an even more impressive 83% in the quarter. Foster Wheeler has scored very strong gains in profitability as a robust global economy has spurred spending on big infrastructure projects. MasterCard Inc. was another star second-quarter performer with a 56% gain, as an anti-competitive practices-related legal victory allowed investors to give the stock credit for the company's enviable brand in a globally expanding credit card business.

Morningstar Small Cap Index +5.1%

The multiyear rally in small-cap stocks is beginning to show signs of fatigue, despite the tailwind of strong acquisition activity. For example, online advertising services provider aQuantive Inc. jumped a spectacular 129% (the largest gain among all stocks in our indexes this quarter) after Microsoft bought the company at a hefty premium. Microsoft made the acquisition in an effort to build a digital media platform comparable to those of key rivals. However, some painful stock tumbles took their toll on the Morningstar Small Cap Index, as some of the most vulnerable players in currently troubled sectors are smaller companies. W Holding Co. Inc. slumped 47% after the lender reported a large, bad loan in its asset-backed portfolio. Homebuilder Hovnanian Enterprises Inc. lost 34% amidst serious questions about the company's future. Hovnanian is struggling with an inventory glut of unsold homes and depreciated land.

Morningstar Cap Indexes: Growth of $10,000



	2002	2003	2004	2005	2006	2007–06
Morningstar Large Cap						
Total Returns	–23.47	27.04	9.54	4.87	15.91	6.71
Price/Earnings	25.14	26.93	23.22	21.37	16.89	20.86
Price/Book	4.56	4.76	4.39	4.28	2.92	4.44
Dividend Yield %	1.80	1.54	1.62	1.77	2.03	1.68
Earnings Growth (5-yr)	12.81	12.46	12.35	12.36	19.40	12.30
Morningstar Mid Cap						
Total Returns	–18.06	38.38	19.66	12.70	14.32	11.19
Price/Earnings	25.97	25.89	24.60	23.90	18.27	24.88
Price/Book	3.19	3.86	3.89	4.00	2.63	4.45
Dividend Yield %	1.59	1.27	1.23	1.23	1.88	1.07
Earnings Growth (5-yr)	13.94	12.57	13.03	13.62	18.13	13.93
Morningstar Small Cap						
Total Returns	–20.36	47.70	20.44	5.76	17.05	7.72
Price/Earnings	22.96	27.04	26.43	24.44	18.35	25.83
Price/Book	2.72	3.58	3.79	3.54	2.34	4.00
Dividend Yield %	1.56	1.09	0.97	1.15	2.45	1.03
Earnings Growth (5-yr)	14.96	14.86	14.60	15.22	13.67	15.60

Active vs. Passive, 2nd Qtr 2007

	Value	Core	Growth
Large Cap	72.36 5.42	32.60 6.95	60.50 6.38
Mid Cap	87.18 3.87	51.61 6.54	38.89 8.57
Small Cap	87.02 2.55	50.52 5.87	61.87 6.62

○ Percent of actively managed mutual funds outperforming their respective benchmark. Includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history. As of June 30, 2007 there were 2,558 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

● Index Returns (%), 2nd Quarter, 2007

Fund Categories vs. the Benchmarks

Active managers did exceptionally well against their relevant style-based Morningstar Indexes this quarter. The average return of active funds exceeded that of the relevant Morningstar Index in seven out of nine style benchmarks, a rare statistic indeed. It still held true that active managers tended to fare better in styles that underperformed in the overall market, however. This is usually the case, as benchmarks are tougher to beat when they perform strongly. For example, active managers had the most success in large-value, mid-value, and small-value styles, which were the three worst-performing style indexes this quarter. On the other hand, the two categories in which active managers failed, on average, to beat the corresponding Morningstar Indexes were mid-growth and large-core—the two top-performing styles.

There are systematic causes behind this phenomenon. For example, in the value categories many active managers have leaned toward growth stocks lately as attractive valuations have become rarer due to the multiyear rally in their categories. Such managers benefited this quarter as growth stocks pulled ahead.

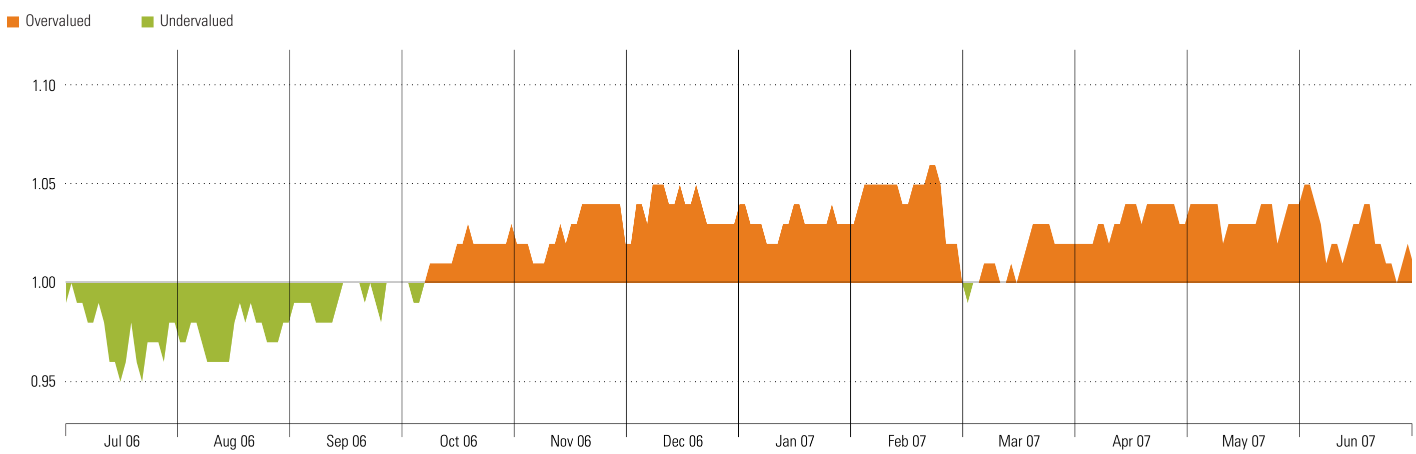
Conclusion

Markets have rallied for almost five years now, so it is reasonable to question if the good times can keep on rolling. Purely from a valuations standpoint, the case for equities does not appear bad. The Morningstar US Market Index as well as its large-cap, mid-cap, and small-cap slices are currently trading at cheaper price-to-earnings multiples than they did in mid-2002, for example. While markets have rallied, profits have also risen to record proportions, causing valuation multiples to be stable. Economic conditions also remain largely benign, and liquidity plentiful.

Those very circumstances contain the seeds of their own possible unraveling, however. The lack of obvious sources of economic distress and easy credit almost always will cause investors to be lax in their assessment and pricing of risk, and it has done so in the past. For example, despite the dramatic rise in subprime mortgage defaults since towards the end of 2006, risky assets such as high-yield bonds and small-cap stocks didn't suffer much until very recently. Due to the growth of financial derivatives, there are now increasingly complex links between various investing groups in the market, and it is difficult to forecast the impact of a further worsening of conditions in the subprime or the U.S. housing market in general. The dramatic rise in leverage only makes it harder to paint a worst-case scenario that would fully account for all the risks in the financial system.

Considering these uncertainties, the recent shakeup in bond markets is probably a good thing because it indicates investors are demanding a greater margin of safety for taking on interest rate and default risk. The corresponding move in the equity market would be a move away from speculative small-cap names and toward proven stalwarts, which seems to be underway.

Market Valuation



52-Week High	52-Week Low	All-Time High	All-Time Low	2nd Quarter Close
1.06 (02-23-07)	0.95 (07-21-06)	1.14 (12-01-04)	0.78 (10-09-02)	1.01 (06-29-07)

Market Valuation Chart

The graph shows the ratio of price to fair value for the median stock in the universe of stocks covered by Morningstar over time. A ratio above 1.00 indicates that the stock's price is higher than Morningstar's estimate of its fair value; a ratio below 1.00 indicates that the stock's price is lower than our estimate of its fair value. The further the price/fair value ratio rises above 1.00, the more the median stock is overvalued. The further it moves below 1.00, the more the median stock is undervalued.

Trailing Returns %

Index	Quarter	6-Month	1-Year	3-Year	5-Year	10-Year
Morningstar US Market	6.19	7.66	20.56	12.80	11.81	7.47
Large Cap	6.26	6.71	20.58	11.40	10.24	6.25
Mid Cap	6.32	11.19	21.41	17.27	16.09	10.54
Small Cap	5.07	7.72	17.49	14.16	15.39	10.00
US Value	4.93	6.50	22.52	16.76	13.58	10.19
US Core	6.80	7.12	20.54	12.77	12.05	8.30
US Growth	6.88	9.59	18.28	8.51	9.46	3.06
Large Value	5.42	6.28	23.38	16.54	12.55	9.22
Large Core	6.95	6.00	19.99	11.53	10.72	7.03
Large Growth	6.38	8.06	17.90	5.52	6.99	1.45
Mid Value	3.87	8.21	20.97	17.88	16.20	12.76
Mid Core	6.54	11.18	23.20	16.25	15.58	11.22
Mid Growth	8.57	14.24	19.94	17.55	16.17	7.03
Small Value	2.55	3.89	16.68	14.76	15.69	12.68
Small Core	5.87	8.40	19.17	16.57	16.62	13.36
Small Growth	6.62	10.72	16.37	10.86	13.73	4.41

Morningstar Market Barometer 2nd Quarter Return %

		Value	Core	Growth
	US Market 6.19	4.93	6.80	6.88
Large Cap	6.26	5.42	6.95	6.38
Mid Cap	6.31	3.87	6.54	8.57
Small Cap	5.07	2.55	5.87	6.62

< –8.00 –4.00 0.00 4.00 8.00 >

Morningstar Market Barometer Trailing 4 Quarters Return %

3rd Quarter 2006

2.71	–1.91	–4.56
–0.14	–3.93	–4.65
–3.60	–3.51	–7.99

4th Quarter 2006

7.47	6.55	3.34
2.65	2.34	–1.78
3.08	1.17	–1.94

1st Quarter 2007

0.82	–0.90	1.58
4.19	4.35	5.22
1.31	2.40	3.85

2nd Quarter 2007

5.42	6.95	6.38
3.87	6.54	8.57
2.55	5.87	6.62

Biggest Positive Influence on Morningstar US Market Index

	Style	Contribution %	QTR	1-Year	3-Year
Exxon Mobil Corp.		0.33	11.66	39.14	26.09
General Electric Co.		0.22	9.04	19.64	8.68
Intel Corp.		0.18	24.69	27.55	–3.39
Apple Inc.		0.16	31.35	113.10	95.87
Chevron Corp.		0.16	14.72	39.83	25.29
Schlumberger Ltd.		0.12	23.19	31.61	40.21
Intl Business Mach. Corp.		0.11	12.09	38.95	7.29
ConocoPhillips		0.11	15.49	22.57	30.12
AT&T Inc.		0.10	6.20	55.14	25.58
Google Inc. Cl A		0.10	14.24	24.81	NA

Biggest Negative Influence on Morningstar US Market Index

	Style	Contribution %	QTR	1-Year	3-Year
Bank of America Corp.		–0.05	–3.12	6.11	9.44
Wachovia Corp.		–0.04	–5.95	–1.31	8.86
Yahoo! Inc.		–0.04	–13.30	–17.79	–9.34
Procter & Gamble Co.		–0.03	–2.59	12.35	6.08
Simon Property Group Inc.		–0.03	–15.72	15.82	26.59
Starbucks Corp.		–0.03	–16.33	–30.51	6.47
Genentech Inc.		–0.02	–7.87	–7.51	10.43
Abbott Laboratories		–0.02	–3.49	25.84	12.29
U.S. Bancorp		–0.02	–4.65	11.52	10.68
Network Appliance Inc.		–0.02	–20.07	–17.31	10.69

Biggest influence on quarter performance is calculated by multiplying the stock returns for the quarter by their respective weight in the index as of the start of the quarter.

News Briefs: Morningstar Launches Family of Fixed-Income Indexes; Marks 10-Year Data Availability for Style Indexes

Morningstar introduced its family of fixed-income indexes in June, with coverage of government, corporate, and mortgage bonds. Key index data are now available on Morningstar's Indexes Web site. The Morningstar Bond Indexes serve as tools for portfolio benchmarking and performance measurement, and can be licensed by institutions for the creation of investment vehicles. Also, Morningstar's Style Index family completed 10 years of available back history. A research paper titled "Purity of Purpose," which looks at the purity of style for Morningstar Indexes versus other major style indexes, can be accessed on the Morningstar Indexes Web site (http://indexes.morningstar.com/)