

UBS AG UBS [NYSE] | ★★★

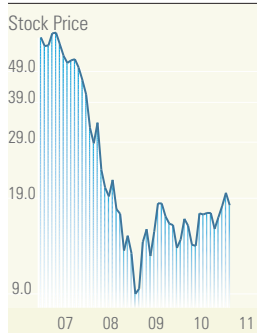
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
18.18 USD	24.00 USD	12.00 USD	48.00 USD	Very High	Wide	B	—	Banks - Global

UBS' Recovery Continuing Slowly

by Erin Davis
Senior Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through April 04, 2011.
Rating updated as of April 04, 2011.

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Feb. 08, 2011

Switzerland's UBS reported net income of CHF 1.161 billion for the fourth quarter, up 42% from the trailing quarter, on stronger revenues. Net profit, on the other hand, was down 22% as the bank benefited from a much smaller tax credit for the quarter, and return on equity was a mediocre 11%. Without the CHF 509 million charge the bank recorded on its own debt, however, return on equity would have been more respectable at around 15%, by our calculations. For the full year, net income was CHF 7.463 billion with a return on equity of 15.9%, in line with our expectations, and we do not anticipate changing our fair value.

Overall, there was little outstanding in UBS' fourth quarter results. Net new assets in wealth management, which we see as a key indicator of the bank's reputational recovery, were near zero, as the bank experienced outflows in Europe balanced by inflows in Asia. The division also absorbed a CHF 152 million provision against litigation in the U.S., where it faces a number of legal issues related to securities marketing and tax evasion allegations. We were pleased, however, to see that gross margin in Wealth Management increased to 0.92% from 0.89% in the trailing quarter as client risk appetite began to increase. Investment banking income was somewhat disappointing, both because of the impact of the own-debt charge and because of well-below-target revenues in both equity and fixed-income trading.

This quarter provided little clarity into the biggest questions facing UBS--how will it balance its business mix and capital requirements while still producing adequate returns for shareholders? UBS increased its Tier 1 capital ratio to 17.7% during the quarter (in part because of the strong Swiss franc) and said that it expects to continue to accumulate capital and forgo dividends at least in the near term. Despite many analyst questions, the bank had few answers about how its investment bank would contend

with competitors facing lower capital requirements, except to say that its business in five years may look very different than today. While we think UBS will largely meet these challenges by choosing less capital-intensive business lines and creative corporate structuring, we're maintaining our very high uncertainty rating. In our minds, the only certainty is that returns in the post-crisis level will not regularly match the height of pre-crisis returns.

Thesis Oct. 29, 2010

UBS' reputation as an adept risk manager and a model of discreet private banking was rocked by massive losses in the subprime crisis in the United States and legal scandals. UBS built its one-bank strategy around the idea that its investment banking clients would turn to its private bank to invest their wealth and vice versa. The bank's massive losses and the allegations of misconduct damaged UBS' private bank--the source of its wide moat--and forced the firm to accept a massive government bailout, seek new leadership, and adopt an aggressive turnaround strategy. With CEO Oswald Gruebel in place since early 2009 and asset outflows easing, we're increasingly confident that UBS is on the right track. However, comparisons with competitors underscore our belief that UBS is still a long way from putting the crisis completely behind it.

In 2004, then-chairman Marcel Ospel led a push to increase UBS' highly profitable fixed-income operations, which led the bank to become a top issuer of U.S. subprime bonds. By mid-2007, these mortgages were defaulting at a much higher rate than anticipated, causing the price of the debt to plummet. By the first quarter of 2008, UBS had taken nearly CHF 32 billion in write-downs--amounting to 65% of its beginning 2007 equity base--and had raised CHF 26 billion in new capital in two separate issues. The investment bank is only now regaining its footing, concentrating on client-driven flows rather than proprietary trading. But having destroyed many of its old businesses, UBS now has to rebuild its staff and client base and is struggling to achieve sufficient scale in

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
UBS AG	USD	68,938	31,000	—	7,285
Goldman Sachs Group, Inc.	USD	82,709	39,161	—	7,713
Deutsche Bank AG	USD	54,997	38,243	—	3,092
Credit Suisse Group	USD	50,290	30,348	—	4,929

Morningstar data as of April 04, 2011.

many of its trading businesses.

The core of UBS' franchise--its highly profitable private bank--has suffered collateral damage not only from the implosion of the investment bank, but also from allegations that it illegally helped U.S. clients evade taxes by hiding assets in offshore accounts and its agreement to turn over account information for some 4,450 U.S. clients. We think UBS may finally be stemming the bleeding. Net new asset flows turned positive in late 2010, after being negative for 10 quarters. So far, though, inflows have been very weak.

While UBS may never regain all that it lost during the crisis, we see increasing evidence that it is on the right track. Loan losses have slowed to a trickle from a peak of 2.7% of loans in late 2008. Its capital base is heftier than ever, with core Tier 1 capital rates north of 14%. Net asset flows turned positive, compared to outflows higher than 15% at their worst. And while investment banking income will almost certainly continue to be volatile, the bank seems to have seen the last of the massive write-downs that destroyed its balance sheet--at least until the next crisis.

Valuation, Growth and Profitability

We are increasing our fair value by \$1 to \$24 as we update the exchange rate. We expect that significantly lower loan losses and sharply higher trading income will help UBS swing to a profit in 2010. We see trading income as a key driver of UBS' profitability but note that it is

extremely volatile. We project that return on trading assets will be 3.25% in 2010 and fall to 2.75% by 2013 as spreads narrow and will not reach peak 2006 levels in our forecast horizon. We expect client assets under management to rise slightly in 2010 as market gains offset client outflows and to increase about 5% annually over the medium term. We think asset-management revenue as a percentage of client assets will gradually improve from their dismal 0.56% level seen in 2009 to 0.8% in the medium term. Overall, we think return on equity is likely to approach 19% by 2012. We estimate a fair value of CHF 24 and assume a fixed exchange rate of CHF 1.02 per 1 U.S. dollar as of Oct. 28.

Risk

The Swiss bank rescue, which removed \$39 billion of risky assets from UBS' balance sheet, sharply reduced the risk of further large asset write-downs. UBS' crown jewel, its private bank, appears to have regained its footing, but further blows to its reputation or Swiss banking secrecy could cause massive outflows to resume. Trading and investment banking revenues are key drivers of UBS' profitability and cause results to be volatile. Swiss and international bank regulations will require UBS to hold significantly more capital. Future profitability will depend, in part, on market acceptance of new capital instruments such as contingent convertible bonds.

Bulls Say

- UBS' private bank is among the largest in the world, and investors' memories are short. It should quickly recover from recent stumbles and regain its position as a top banker to the elite.
- Net new asset inflows turned positive in Q3 2010, demonstrating that UBS's private bank has finally turned the corner.
- UBS is well on the road to recovery, having installed a

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new chairman and CEO and a more independent board of directors. Under the new leadership, UBS has not only stemmed losses but also posted returns well above its cost of equity.

- UBS's investment bank is focusing on client-focused activities, which will help keep risk in check.

Bears Say

- Switzerland's recent moves to loosen bank secrecy laws will further damage UBS' asset-management business as it becomes less attractive to international clients.
- UBS has said it is committed to its U.S. wealth movement but is rumored to have tried to sell it in 2008. UBS may never achieve the scale necessary in the U.S. to maximize this business' profitability.
- UBS has had to rebuild its investment bank nearly from scratch and its low market shares make the bank especially vulnerable when volumes are low.
- UBS' reputation was damaged by charges that it marketed risky auction-rate securities as safe investments and put its own interests ahead of those of its customers.

Financial Overview

Financial Health: UBS' core Tier 1 ratio has increased to 14.2% as of the third quarter of 2010. While the bank remains extremely leveraged, we think it will be able to meet the new, higher, Swiss capital regulations. Doing so, however, will mean zero dividends for shareholders for several years.

Company Overview

Profile: UBS is one of Switzerland's two large banks, with CHF 1.3 trillion in total assets and CHF 2.3 trillion in assets under management as of Dec. 31, 2009. It earns about 20% of its profit before tax from Swiss retail and

corporate banking, 30% from wealth management and private banking, and about 50% from investment banking.

Management: UBS' executive suite has had a revolving door. Chairman Kaspar Villiger was elected in April 2009 and is UBS' third chairman in just over a year. CEO Oswald Gruebel, former CEO of Credit Suisse, was appointed in February 2009 and is the third CEO since 2007. In July 2008, UBS announced that it would replace 4 of the 12 members of its board of directors and dismantle its powerful chairman's office, distributing its responsibilities more broadly across the board. Until Gruebel's appointment, we had been disheartened by the plodding pace of change at UBS. However, Gruebel has made several bold moves designed to shore up the bank's operations and strategy, which demonstrate that he is not overly tied to the bank's past visions of grandeur. Moreover, we're impressed by Gruebel's achievements while at Credit Suisse. Although we're not convinced that UBS can ever fully repair the damage done by the financial crisis and the firm's excessive risk taking, we have more confidence in the current management team than in the last one.

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Oct. 26, 2010

UBS Posts Disappointing 3Q

UBS reported net income of CHF 1,664 million for the third quarter, about half of which was related to a tax credit. Profits excluding this and a CHF 387 million loss on own credit were about CHF 1,000, and its return on equity was underwhelming at around 9%. Reported income was down 17% from the trailing quarter but up compared to the loss taken in the year-ago quarter. Overall, the results were somewhat below our expectations, but our long-term

projections remain largely unchanged. We may adjust our fair slightly as we incorporate the current exchange rate and leverage ratios.

As a whole, we think UBS' results show that it is turning itself around, but that it is still far from firing on all cylinders. The firm's trading revenue was the most disappointing, with revenue coming in at only CHF 868 million, compared with CHF 3,450 million in the trailing

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Analyst Notes (continued)

quarter. Some of this was due to the CHF 387 million loss on own debt and to generally slow market conditions, but we worry that UBS seems to have been hurt more deeply by low client activity than some of its competitors. We think the success of the firm's shift to a more client-driven trading strategy will depend on its ability to gain market share, as its current share doesn't seem to provide sufficient scale in a slow market.

For the first time since the financial crisis, UBS reported positive net new money inflows at its investment bank, although flows were merely a trickle (0.22% of assets

under management on an annualized basis). While this is good news, it isn't a strong enough result to convince us that the net outflows are gone for good. Moreover, gross margin slipped to 88 basis points, from 95 in the trailing quarter, keeping the division's overall results disappointing.

UBS' capital base continued to strengthen, with core capital increasing 120 basis points to 14.2% as the bank redeemed \$1.5 billion of hybrid securities. Still, UBS has a way to go to meet the coming capital standards, and we expect dividends to remain at zero for the next year or two.

Oct. 07, 2010

Our Take on Switzerland's Proposed Capital Standards

In a report to banking regulators, a Swiss government appointed expert group this week recommended that Credit Suisse and UBS be required to hold significantly more capital than would be required under the proposed Basel III rules. The proposed Swiss rules, which must be approved by parliament, would require the two banks to hold 10% of risk-weighted assets (RWAs) as common equity (compared to 7% under Basel III). In addition, they would need another 9% either as common equity, or as debt that would convert to equity in the event that certain minimum capital standards were breached. Specifically, the convertible debt, called CoCos, would convert in two tranches if equity Tier 1 capital were to fall below 5% or 7% of RWAs. We expected that these two Swiss banks would need to increase their capital levels, and we don't currently anticipate that this change will have an impact on our fair values.

Exactly how the new rules, assuming they are enacted, will affect the banks remains up in the air. Both banks have estimated that the Basel III standards for calculating RWAs will approximately double their RWAs from today's levels,

all else equal, to about CHF 400 billion, which effectively doubles the new capital requirement. The two are likely to take actions to mitigate this increase; UBS has said that it expects RWAs to fall to about CHF 300 billion as it takes actions such as moving settlement and clearing activities from its balance sheet to central clearing parties. Moreover, many services will have to be either repriced or eliminated as the new capital standards make them uneconomical. However, we also think the banks new capital levels, which should be among the highest in the world, will give them a competitive advantage when it comes to attracting investment and private banking clients that particularly value stability and security. In any event, we feel confident that the banks' forecasts as to how they will reach the new capital requirements are manageable--and in fact conservative--compared to our estimates. They do, however, mean that investors should expect little in the way of dividends from UBS or large dividend increases from Credit Suisse for some time.

We also have some doubts about the practicality of the proposals, which depend on investor acceptance of CoCos, a yet unproven financial product. CoCos, in our eyes, have

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Analyst Notes (continued)

no natural market, as bond investors will not welcome the prospect of holding equity if they convert, and equity investors will miss the upside associated with equity ownership. If this, in effect, means that the banks will have to hold 19% of RWAs as common equity, it will almost certainly negatively impact the banks' profitability and our fair values. It is hoped, however, that the introduction of these two large issuers will open up the market for CoCos and that their higher yields will attract investors (Lloyds' CoCos are yielding around 9%).

We doubt that other countries, such as the U.S., the U.K. or

Germany, will impose similar standards on their too-big-to-fail banks. One reason is that the two banks have a disproportionate importance in Switzerland's economy, with their combined balance sheets amounting to about five times the country's GDP. But perhaps more importantly, the attractiveness of headquartering in Switzerland and taking advantage of Swiss banking secrecy protections makes it difficult for the banks to credibly threaten to relocate to more lenient jurisdictions--an advantage other countries do not enjoy.

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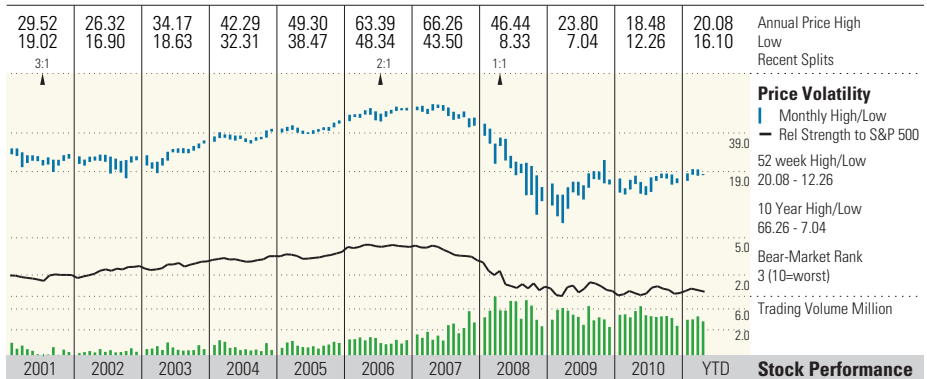
UBS AG UBS

Sales CHF Mil 31,000 **Mkt Cap USD Mil** 68,938 **Industry** Banks - Global **Sector** Financial Services

UBS is one of Switzerland's two large banks, with CHF 1.3 trillion in total assets and CHF 2.3 trillion in assets under management as of Dec. 31, 2009. It earns about 20% of its profit before tax from Swiss retail and corporate banking, 30% from wealth management and private banking, and about 50% from investment banking.

Morningstar Rating ★★ ★ **Last Price** 18.18 **Fair Value** 24.00 **Uncertainty** Very High **Economic Moat™** Wide **Stewardship Grade** B
per share prices in USD

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Growth Rates Compound Annual					
Grade: F	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	31.2	-7.6	-8.8	-1.3	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	-15.3	-4.3	
Dividends %	—	—	—	—	
Book Value/Share %	6.0	-12.7	-11.4	-3.5	
Stock Total Return %	8.8	-18.6	-17.6	0.1	
+/- Industry	17.0	-14.2	-15.9	-3.8	
+/- Market	-4.3	-17.7	-18.0	-0.6	

Profitability Analysis				
Grade: F	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	17.2	-7.0	-3.2	22.5
Return on Assets %	0.6	0.0	-0.1	8.5
Revenue/Employee CHF K	479.8	391.8	—	936.8
Compensation Exp/Rev	0.5	0.6	—	—
Operating Margin %	—	—	—	14.7
Net Margin %	23.5	-8.4	-5.2	10.0
Free Cash Flow/Rev %	5.4	—	—	0.1

Financial Position		
Grade: D	12-09 CHF Mil	12-10 CHF Mil
Loans (Gross)	—	283193
Less: Allowances	—	1166
Net Loans	296811	282027
Securities	235419	335669
Trading Assets	224675	245483
Intangibles	10649	10538
Other	529218	539487
Total Assets	1296772	1413204
Deposits	—	—
Short-Term Debt	63038	44512
Long-Term Debt	127064	247856
Other	1066996	1070605
Total Liabilities	1257098	1362973
Preferred Stock	—	—
Total Equity	39674	50231

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	8.5	—	12.4	16.8
Forward P/E	8.1	—	—	13.6
Price/Free Cash Flow	37.2	—	—	18.5
Dividend Yield %	—	—	1.2	1.7
Price/Book	1.4	1.9	0.9	2.3
Price/Sales	2.0	2.3	1.4	1.4
PEG Ratio	1.1	—	—	1.8

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
-7.6	-1.1	44.3	25.2	15.5	29.4	-20.7	-68.9	8.5	6.2	10.4	Total Return %
5.4	22.3	17.9	16.2	12.5	15.8	-24.2	-30.4	-14.9	-6.6	4.4	+/- Market
-25.1	19.5	-9.7	8.0	4.5	4.6	-8.5	-27.7	-44.1	13.4	4.2	+/- Industry
0.6	2.8	2.1	1.6	1.7	2.1	4.0	—	—	—	0.0	Dividend Yield %
62023	55777	80435	85796	97370	118774	88110	41051	54604	62453	68938	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
4764	6756	9149	9536	7741	5196	4452	5673	5963	6010	6010	Net Interest Inc CHF Mil
17517	15236	16210	23264	33366	33070	29448	21962	16639	24991	24991	Fee Income
—	—	—	—	—	—	—	—	—	—	—	Oper Income CHF Mil
2946	2265	4750	6504	11398	9767	-3657	-19056	-2531	7285	7285	Net Income CHF Mil
1.11	0.88	1.98	2.86	5.17	4.73	-1.90	-6.95	-0.69	1.90	1.90	Earnings Per Share CHF
0.15	0.63	0.74	0.68	0.79	1.24	1.84	0.00	0.00	0.00	0.00	Dividends CHF
2658	2588	2391	2275	2206	2063	1921	2771	3662	3838	3838	Shares Mil
10.59	12.18	12.08	14.98	16.48	20.71	16.39	10.66	11.27	13.25	13.30	Book Value Per Share CHF
756365	855248	1117809	1520191	1568056	1966337	2005096	1879482	1296772	1413204	1413204	Assets CHF Mil
26270	28233	28587	30651	33735	40767	31397	30593	39674	50231	50231	Total Equity CHF Mil
3773	5195	7497	6909	3616	5548	8216	-16307	-10349	1670	1670	Free Cash Flow

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
0.4	0.3	0.5	0.5	0.7	0.6	-0.2	-1.0	-0.2	0.6	0.6	Return on Assets %
11.2	8.6	17.1	23.0	35.5	26.1	-10.3	-60.8	-7.4	17.2	17.2	Return on Equity %
13.2	10.3	18.7	19.8	27.7	25.5	-10.8	-69.0	-11.2	23.5	23.5	Net Margin %
0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.01	0.01	0.02	0.02	Asset Turnover
28.8	30.3	39.1	49.6	46.5	48.2	63.9	61.4	32.7	28.1	28.1	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	12-10	Financial Health
136720	153254	171384	203641	205473	256423	536394	496951	296811	282027	282027	Net Loans CHF Mil
94278	153936	96971	103253	122316	57894	230875	174584	127064	247856	247856	Long-Term Debt CHF Mil
—	—	—	—	—	—	96284	93873	—	—	—	Deposits CHF Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
22.1	24.3	15.8	13.5	14.0	13.2	—	—	—	7.8	8.5	Price/Earnings
—	—	—	—	—	—	—	—	—	0.4	0.5	P/E vs. Market
2.9	2.5	3.0	2.7	2.7	3.3	2.5	1.4	2.4	1.8	2.0	Price/Sales
2.4	2.0	2.8	2.8	2.9	2.9	2.8	1.3	1.4	1.2	1.4	Price/Book

Quarterly Results						
Revenue CHF Mil	Mar 10	Jun 10	Sep 10	Dec 10		
Most Recent Period	5039.8	5303.1	6286.4	7449.1		
Prior Year Period	4872.9	5559.4	8900.6	-11977.5		
Rev Growth %	Mar 10	Jun 10	Sep 10	Dec 10		
Most Recent Period	3.4	-4.6	-29.4	—		
Prior Year Period	-38.8	-26.6	50.0	—		
Earnings Per Share CHF	Mar 10	Jun 10	Sep 10	Dec 10		
Most Recent Period	0.56	0.48	0.41	0.44		
Prior Year Period	-0.50	-0.35	-0.14	0.33		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev CHF Mil	P/E	ROE%
UBS AG	68938	31000	8.5	17.2
Goldman Sachs Group	82709	39161	12.1	11.0
Deutsche Bank AG	54997	38243	14.4	5.4

Major Fund Holders		% of shares
Fidelity Diversified International		0.51
Fidelity Equity-Income		0.15
Hartford Capital Appreciation HLS IA		0.14

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- ▶ Economic Moat™ Rating
- ▶ Discounted Cash Flow
- ▶ Discount Rate
- ▶ Fair Value
- ▶ Uncertainty
- ▶ Margin of Safety
- ▶ Consider Buying/Consider Selling
- ▶ Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based

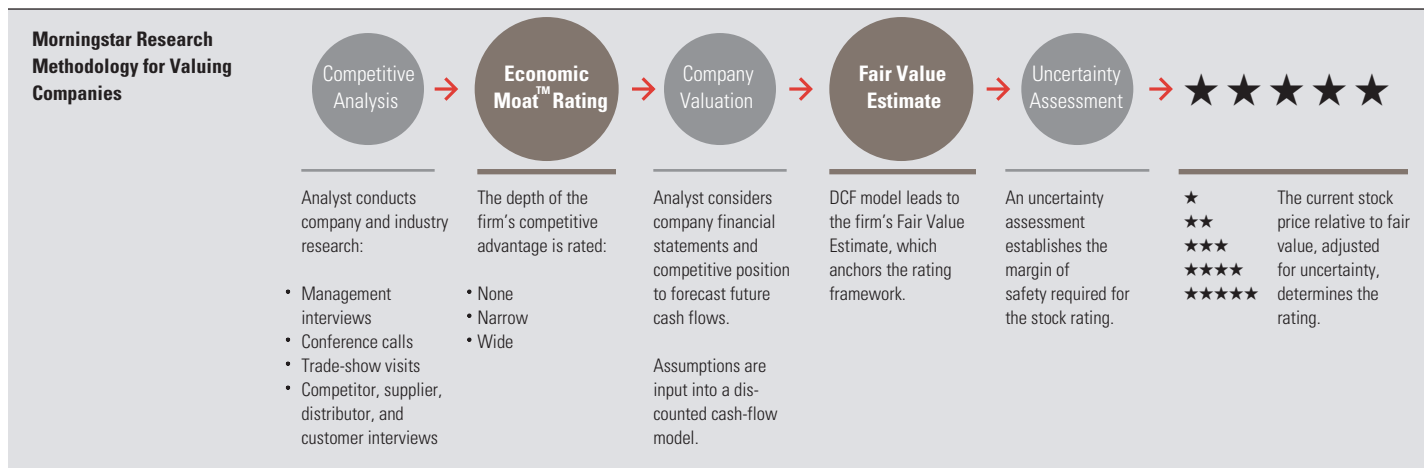
just on movement in the share price. If we think a stock's fair value is \$50, and the shares decline to \$40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at \$40 than they were at \$50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such



Morningstar's Approach to Rating Stocks (continued)

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High,

Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth. The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."
