

# Moat-Focused Corporate Credit List

15 November 2017

David Sekera, CFA

Managing Director

david.sekera@morningstar.com

## Market Data and Insights

In late October, corporate credit spreads reached their tightest levels since prior the global financial crisis; however, during the past few weeks, the corporate bond market has begun to suffer from a bout of indigestion. Over the past month, through Nov. 14, the average spread of the Morningstar Corporate Bond Index (our proxy for the investment-grade bond market) widened 4 basis points to +105. In the high-yield market, the BankAmerica Merrill Lynch High Yield Master Index widened 24 basis points to +384.

In addition to the pressure from wider credit spreads, a rise in underlying interest rates as prices on Treasury bonds have fallen has had a negative impact on corporate bonds. Interest rates have risen anywhere from 7 to 16 basis points, with the short end of the curve having risen the most, leading to a flattening of the yield curve.

Historically, a flattening yield curve has been a leading indicator of a potentially weakening economy. However, this time around, global central bank actions may be distorting this signal. The Federal Reserve, which is hiking short-term rates, is directly influencing the short end of the curve; whereas the ongoing quantitative easing programs of the European Central Bank and Bank of Japan may influence the long end of the curve. Even though the 10-year U.S. Treasury is only yielding 2.35%, that yield is attractive to global bond investors as the yield on Germany's 10-year bond is only 0.38%, and the yield on Japan's 10-year bond is only barely positive at 0.05%. From an economic perspective, growth in the short term appears to be healthy. Reported GDP was 3.0% in the third quarter and the Federal Reserve Bank of Atlanta's GDPNow model forecast for fourth quarter GDP growth is 3.3%.

This flattening trend may continue to be influenced by global central bank monetary policy. While the Fed held off on raising short-term interest rates at its November meeting, according to CME Group's FedWatch Tool, the market is pricing in a 100% probability of a rate hike in December. Among central bank activity, the ECB

announced that it would not begin to taper its asset purchase program until next year. Even then, the ECB will continue to purchase EUR 30 billion per month until September 2018. Additionally, the ECB noted that it could extend the purchases, if warranted. This places the ECB on the path toward a more normalized monetary policy, yet these purchases will still infuse the eurozone with an additional EUR 270 billion of liquidity.

## Additions/Deletions

We have removed **AT&T** (BBB-, stable) from our moat-focused list after downgrading its corporate credit rating by one notch on its planned acquisition of Time Warner. Our revised rating and outlook are prospective for the completion of the merger and reflect our financial projections for the combined companies. Management at both companies remains confident that the transaction is on track to close in the fourth quarter, though the date remains uncertain pending approval by the U.S. Department of Justice. With the acquisition expected to close in the near term, we decided to withdraw our credit rating on Time Warner and as such have removed Time Warner from the moat-focused list.

## Recent Rating Actions

Morningstar Credit Ratings, LLC affirmed its credit rating for **Ecolab Inc.** (BBB+, stable) and revised the outlook to stable from positive. Ecolab's credit rating is supported by strong competitive positions in its institutional and industrial business segments, its consistent free cash flow profile, and the company's moderate balance sheet leverage. Our revision in outlook is due to our reconsidered view of the company's long-term acquisition aspirations and the potential use of leverage to facilitate any acquisitions.

Morningstar Credit Ratings LLC affirmed the credit rating of **PPG Industries Inc.** at BBB+, as our view of the firm's business quality and financial position remain unchanged; however, we revised our rating outlook to stable from positive based primarily on the firm's capital allocation priorities that make us less likely to upgrade our rating over the next year.

The Moat-Focused Corporate Credit List focuses on firms with an investment grade rating from Morningstar Credit Ratings, LLC (MCR), solid underlying credit metrics, a wide or narrow Economic Moat as determined by Morningstar, Inc., and typically a stable or positive moat trends. The MCR analyst team may exclude those companies in which they determine have a greater than average probability of conducting activities that could weaken the firm's credit risk profile. The issues displayed are not a comprehensive list, but are representative of yield and credit spreads for each issuer consisting of short, medium and long dated bonds when available. Each bond listed has an issue size of greater than \$250 million.

© Morningstar 2017. All Rights Reserved. Morningstar Credit Ratings, LLC is a credit rating agency registered with the Securities and Exchange Commission as a nationally recognized statistical rating organizations ("NRSRO"). Under its NRSRO registration, Morningstar Credit Ratings issues credit ratings on financial institutions (e.g., banks), corporate issuers and asset-backed securities. While Morningstar Credit Ratings issues credit ratings on insurance companies, those ratings are not issued under its NRSRO registration. All Morningstar credit ratings and related analysis contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Morningstar credit ratings and related analysis should not be considered without an understanding and review of our methodologies, disclaimers, disclosures and other important information found at <https://ratingagency.morningstar.com>.

## Morningstar Corporate Bond Index

|     | T-Spread |
|-----|----------|
| AAA | 57       |
| AA  | 64       |
| A   | 82       |
| BBB | 137      |

Data as of 15 November 2017.

Source: Morningstar, Inc.

Shows the current spreads for each rating bucket in the Morningstar Corporate Bond Index, with an average maturity of 10 years.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company   | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|---|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Basic Materials</b>  |                                     |                             |            |               |             |      |        |
| <b>Ecolab Inc. ECL</b>  | <b>BBB+</b>                         | <b>Narrow/Positive</b>      | 3.25       | 2023          | 102.64      | 2.68 | 64     |
| Ecolab's global scale and high customer switching costs create a steady stream of revenue and form the basis of its narrow economic moat.                     |                                     |                             | 2.70       | 2026          | 96.12       | 3.20 | 90     |
|   |                                     |                             | 3.70       | 2046          | 94.19       | 4.04 | 127    |
| <b>Monsanto Company MON</b>   | <b>A/UR-</b>                        | <b>Wide/Stable</b>          | 2.20       | 2022          | 97.33       | 2.81 | 81     |
| Monsanto's extensive portfolio of patented traits within the agricultural biotechnology market it created form the basis of our wide economic moat rating.    |                                     |                             | 2.85       | 2025          | 97.98       | 3.16 | 92     |
|   |                                     |                             | 3.95       | 2045          | 95.74       | 4.21 | 147    |
| <b>Potash Corp of Saskatchewan POT</b>  | <b>BBB</b>                          | <b>Narrow/Stable</b>        | 6.50       | 2019          | 105.80      | 2.52 | 90     |
| PotashCorp's low-cost potash mines coupled with high barriers to entry due to staggering greenfield capital costs form the basis of its narrow economic moat. |                                     |                             | 4.00       | 2026          | 104.13      | 3.45 | 116    |
|   |                                     |                             | 5.63       | 2040          | 118.55      | 4.34 | 170    |
| <b>PPG Industries Inc. PPG</b>  | <b>BBB+</b>                         | <b>Narrow/Stable</b>        | 3.60       | 2020          | 103.04      | 2.54 | 74     |
| PPG's switching costs in its specialty coatings businesses form the basis of its narrow moat.   |                                     |                             | 5.50       | 2040          | 119.21      | 4.19 | 155    |
| <b>Praxair PX</b>   | <b>A-</b>                           | <b>Wide/Stable</b>          | 2.25       | 2020          | 100.19      | 2.18 | 40     |
| Praxair is a global leader in the industrial gas industry, and long-term customer contracts with meaningful switching costs bolster its competitive position. |                                     |                             | 3.20       | 2026          | 102.45      | 2.85 | 59     |
|   |                                     |                             | 3.55       | 2042          | 99.05       | 3.61 | 92     |
| <b>Consumer Cyclical</b>  |                                     |                             |            |               |             |      |        |
| <b>Home Depot HD</b>  | <b>A+</b>                           | <b>Wide/Stable</b>          | 2.63       | 2022          | 101.05      | 2.38 | 40     |
| Home Depot's recent upgrade was based on multiyear profitability improvements and strong free cash flow generation.   |                                     |                             | 3.35       | 2025          | 102.93      | 2.92 | 67     |
|   |                                     |                             | 4.25       | 2046          | 106.56      | 3.86 | 111    |
| <b>Lowe's LOW</b>   | <b>A</b>                            | <b>Wide/Stable</b>          | 3.80       | 2021          | 104.91      | 2.42 | 53     |
| Lowe's holds a strong competitive position, generates solid free cash flow, and maintains a moderately leveraged balance sheet.                               |                                     |                             | 3.13       | 2024          | 101.58      | 2.86 | 67     |
|   |                                     |                             | 4.25       | 2044          | 104.45      | 3.98 | 126    |
| <b>TJX Companies TJX</b>  | <b>A</b>                            | <b>Narrow/Stable</b>        | 2.75       | 2021          | 101.62      | 2.25 | 40     |
| TJX holds competitive advantages, generates consistent free cash flow, and maintains modest lease-adjusted leverage.  |                                     |                             | 2.50       | 2023          | 99.68       | 2.56 | 47     |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company  | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|--|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Consumer Defensive</b>  |                                     |                             |            |               |             |      |        |
| <b>Altria Group MO</b>   | <b>A-</b>                           | Wide/Negative               | 2.95       | 2023          | 101.22      | 2.71 | 62     |
| With over 50% share in the U.S. market, Altria can generate the greatest economies of scale in the industry. Its Marlboro brand has an exceptionally loyal following, with 90% of Marlboro smokers purchasing the brand 100% of the time.  |                                     |                             | 2.63       | 2026          | 96.05       | 3.14 | 84     |
|  |                                     |                             | 3.88       | 2046          | 96.13       | 4.10 | 133    |
| <b>Anheuser-Busch InBev BUD</b>  | <b>BBB+</b>                         | Wide/Stable                 | 2.65       | 2021          | 100.73      | 2.41 | 59     |
| AB InBev completed its acquisition of SABMiller. While debt leverage will increase at the combined entity, we expect the company will dedicate free cash flow to repaying debt and quickly reducing leverage. The acquisition will further enhance its economic moat.                    |                                     |                             | 3.65       | 2026          | 102.41      | 3.30 | 104    |
|  |                                     |                             | 4.60       | 2045          | 88.75       | 5.39 | 264    |
| <b>Brown-Forman BFB</b>  | <b>A+</b>                           | Wide/Stable                 | 2.25       | 2023          | 98.31       | 2.60 | 54     |
| The Jack Daniels brand is a powerhouse in the whisky category and provides the firm with a loyal consumer base and pricing power. Geographical diversification has resulted in stable demand and steady cash flow, as even the severe recession hasn't materially disrupted performance. |                                     |                             | 4.50       | 2045          | 110.68      | 3.86 | 113    |
| <b>Campbell Soup CPB</b>   | <b>A-</b>                           | Wide/Negative               | 4.25       | 2021          | 105.57      | 2.54 | 69     |
| With just under 60% of the domestic wet soup market Campbell's brand strength and unrivaled economies of scale, as well as its expansive global distribution network, generate strong and steady operating margins.  |                                     |                             | 3.30       | 2025          | 101.15      | 3.12 | 89     |
|  |                                     |                             | 3.80       | 2042          | 96.35       | 4.03 | 136    |
| <b>Clorox CLX</b>  | <b>A-</b>                           | Wide/Stable                 | 3.80       | 2021          | 104.73      | 2.55 | 62     |
| Considering about 90% of the firm's portfolio consists of number-1 and number-2 brands, the firms' weak CFC is more than offset by the stability of its cash flows.  |                                     |                             | 3.05       | 2022          | 101.87      | 2.61 | 62     |
|  |                                     |                             | 3.50       | 2024          | 103.52      | 2.93 | 72     |
| <b>Coca-Cola KO</b>  | <b>A+</b>                           | Wide/Stable                 | 1.55       | 2021          | 98.16       | 2.06 | 16     |
| Coca-Cola's considerable cash flow generation and strong balance sheet will continue to be supported by the firm's iconic brand image, extensive distribution network, and economies of scale as the world's leading beverage manufacturer.  |                                     |                             | 3.20       | 2023          | 103.67      | 2.53 | 40     |
|  |                                     |                             | 2.90       | 2027          | 99.79       | 2.93 | 60     |
| <b>Colgate-Palmolive CL</b>  | <b>AA</b>                           | Wide/Stable                 | 2.30       | 2022          | 100.68      | 2.27 | 35     |
| Brand-loyal consumers in the high-margin oral care product category provide strong free cash flow. In addition, size and scale enables it to realize lower costs than smaller peers, resulting in cost advantages.   |                                     |                             | 3.25       | 2024          | 103.12      | 2.71 | 54     |
|  |                                     |                             | 4.00       | 2045          | 104.01      | 3.77 | 102    |
| <b>Costco Wholesale COST</b>   | <b>AA-</b>                          | Wide/Stable                 | 1.75       | 2020          | 99.63       | 1.92 | 20     |
| Costco commands a strong business risk rank, healthy free cash flow, and conservative financial policies.  |                                     |                             | 2.25       | 2022          | 99.42       | 2.39 | 44     |
| <b>Diageo DEO</b>  | <b>A-</b>                           | Wide/Stable                 | 2.88       | 2022          | 101.78      | 2.45 | 47     |
| Diageo benefits from a strong portfolio of premium brands and unparalleled global marketing and distribution capabilities.   |                                     |                             | 2.63       | 2023          | 100.37      | 2.55 | 49     |
|  |                                     |                             | 3.88       | 2043          | 103.03      | 3.69 | 100    |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company   | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|---|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Consumer Defensive, continued</b>  |                                     |                             |            |               |             |      |        |
| <b>Dr Pepper Snapple DPS</b>  | <b>A-</b>                           | <b>Wide/Stable</b>          | 2.70       | 2022          | 99.73       | 2.76 | 71     |
| More than 80% of the company's sales volume comes from brands that are number-one or -two in their respective subcategories, providing a level of cash flow stability that warrants a wide economic moat.                   |                                     |                             | 3.43       | 2027          | 100.14      | 3.41 | 110    |
|   |                                     |                             | 4.50       | 2045          | 105.45      | 4.17 | 142    |
| <b>General Mills GIS</b>  | <b>BBB+</b>                         | <b>Narrow/Negative</b>      | 3.15       | 2021          | 102.45      | 2.48 | 57     |
| General Mills, the second-largest producer of ready-to-eat cereals in the U.S., generates steady returns based on its diversified portfolio of market-leading brands and expansive global network.                          |                                     |                             | 3.20       | 2027          | 100.20      | 3.17 | 87     |
|   |                                     |                             | 4.15       | 2043          | 100.95      | 4.09 | 141    |
| <b>Kellogg K</b>  | <b>BBB</b>                          | <b>Narrow/Negative</b>      | 3.13       | 2022          | 101.63      | 2.74 | 75     |
| Kellogg is the leading domestic producer of breakfast cereals. An approximately 30% market share and steady demand for the firm's products produce strong cash flows.   |                                     |                             | 3.25       | 2026          | 99.27       | 3.35 | 107    |
|   |                                     |                             | 4.50       | 2046          | 103.10      | 4.31 | 155    |
| <b>Kimberly-Clark KMB</b>   | <b>A</b>                            | <b>Narrow/Stable</b>        | 2.40       | 2022          | 99.98       | 2.40 | 45     |
| The firm's portfolio of market-leading, essential offerings of personal-care products and its globally diverse platform generate highly stable operating earnings and solid cash flows.                                     |                                     |                             | 2.75       | 2026          | 98.64       | 2.94 | 66     |
|   |                                     |                             | 3.90       | 2047          | 104.44      | 3.65 | 87     |
| <b>McDonalds Corporation MCD</b>  | <b>A-</b>                           | <b>Wide/Negative</b>        | 2.63       | 2022          | 100.59      | 2.48 | 53     |
| McDonald's wide economic moat stems from structural and intangible competitive advantages, and despite high levels of dividends and share repurchases, maintains a strong balance sheet.                                    |                                     |                             | 3.50       | 2027          | 102.35      | 3.20 | 89     |
|   |                                     |                             | 4.45       | 2047          | 107.27      | 4.02 | 125    |
| <b>PepsiCo Inc. PEP</b>   | <b>A+</b>                           | <b>Wide/Stable</b>          | 3.10       | 2022          | 102.73      | 2.46 | 47     |
| PepsiCo's strong brands, global scale, exceptional diversification delivers substantial operating earnings and cash flows and generates a wide economic moat.   |                                     |                             | 2.38       | 2026          | 95.15       | 3.00 | 70     |
|   |                                     |                             | 4.45       | 2046          | 111.04      | 3.80 | 105    |
| <b>Philip Morris International PM</b>   | <b>A-</b>                           | <b>Wide/Stable</b>          | 2.50       | 2022          | 99.28       | 2.66 | 64     |
| Philip Morris is the world's second-largest tobacco company with a globally appealing brand portfolio, international scale of operations, and addictive products that allow the firm to generate consistent free cash flow. |                                     |                             | 2.75       | 2026          | 97.67       | 3.07 | 80     |
|   |                                     |                             | 4.25       | 2044          | 102.89      | 4.07 | 134    |
| <b>Procter &amp; Gamble PG</b>  | <b>AA</b>                           | <b>Wide/Stable</b>          | 1.85       | 2021          | 99.05       | 2.16 | 33     |
| As the leading consumer product manufacturer in the world, its portfolio of household staples and fortress balance sheet provide a firm foundation to handle any economic climate.  |                                     |                             | 2.45       | 2026          | 96.79       | 2.86 | 56     |
|   |                                     |                             | 5.55       | 2037          | 131.75      | 3.31 | 76     |
| <b>Starbucks Corporation SBUX</b>   | <b>A</b>                            | <b>Wide/Positive</b>        | 2.70       | 2022          | 101.48      | 2.34 | 37     |
| Menu expansion, innovations, and cross-branding back our wide-moat rating and help Starbucks generate solid cash flow.  |                                     |                             | 2.45       | 2026          | 95.86       | 3.00 | 71     |
|   |                                     |                             | 4.30       | 2045          | 109.65      | 3.73 | 100    |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company   | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|---|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Consumer Defensive, continued</b>  |                                     |                             |            |               |             |      |        |
| <b>Sysco</b> SY Y   | <b>A-</b>                           | <b>Narrow/Stable</b>        | 2.60       | 2022          | 100.05      | 2.59 | 60     |
| Leader in the highly fragmented food-distribution market with unparalleled economies of scale allow the firm to expand market share and generate high returns on capital.   |                                     |                             | 3.30       | 2026          | 100.53      | 3.23 | 95     |
|   |                                     |                             | 4.85       | 2045          | 113.18      | 4.05 | 131    |
| <b>Unilever</b> ULVR  | <b>A+</b>                           | <b>Wide/Stable</b>          | 1.38       | 2021          | 96.89       | 2.26 | 37     |
| Unilever is the third-largest packaged food firm in the world and one of the largest global household and personal product firms, with its top 15 brands each generating more than EUR 1 billion in annual revenue. |                                     |                             | 2.00       | 2026          | 92.88       | 2.93 | 64     |
| <b>Wal-Mart</b> WMT   | <b>AA-</b>                          | <b>Wide/Stable</b>          | 4.25       | 2021          | 106.72      | 2.19 | 34     |
| Despite a recent downgrade Wal-Mart is the largest retailer in the world, generating substantial free cash flow with moderate credit metrics.   |                                     |                             | 3.30       | 2024          | 103.65      | 2.66 | 50     |
|   |                                     |                             | 4.30       | 2044          | 113.10      | 3.52 | 82     |
| <b>Energy</b>   |                                     |                             |            |               |             |      |        |
| <b>ExxonMobil</b> XOM   | <b>AA+</b>                          | <b>Narrow/Stable</b>        | 1.91       | 2020          | 99.84       | 1.98 | 26     |
| With arguably the strongest balance sheet in the energy sector, ExxonMobil should generate sufficient cash flow from operations to satisfy its capital plans regardless of commodity price volatility.              |                                     |                             | 2.71       | 2025          | 100.38      | 2.65 | 42     |
|   |                                     |                             | 3.57       | 2045          | 98.57       | 3.65 | 91     |
| <b>Halliburton</b> HAL  | <b>BBB+</b>                         | <b>Narrow/Negative</b>      | 3.25       | 2021          | 102.42      | 2.57 | 68     |
| Halliburton is one of the world's largest providers of products and services to the upstream oil and gas industry, throughout the lifecycle of a reservoir.   |                                     |                             | 3.50       | 2023          | 103.11      | 2.88 | 79     |
|   |                                     |                             | 4.75       | 2043          | 107.27      | 4.28 | 159    |
| <b>Schlumberger Ltd.</b> SLB  | <b>A+</b>                           | <b>Narrow/Stable</b>        | 2.40       | 2022          | 99.46       | 2.52 | 51     |
| Schlumberger is extremely well-positioned based on its financial strength, broad geographical and product diversification, substantial R&D investments, and technology acquisition strategy.                        |                                     |                             | 3.65       | 2023          | 105.09      | 2.70 | 58     |
| <b>Financial Institutions</b>   |                                     |                             |            |               |             |      |        |
| <b>American Express</b> AXP   | <b>A-</b>                           | <b>Wide/Stable</b>          | 2.65       | 2022          | 99.55       | 2.75 | 70     |
| With a global payments network and a focus on premium clients, Amex should benefit from the growth in electronics payments around the world.  |                                     |                             | 3.63       | 2024          | 102.46      | 3.23 | 100    |
|   |                                     |                             | 4.05       | 2042          | 102.36      | 3.90 | 122    |
| <b>BlackRock</b> BLK  | <b>AA-</b>                          | <b>Wide/Positive</b>        | 3.20       | 2027          | 100.97      | 3.08 | 76     |
| BlackRock benefits from its substantial scale, its diverse and well balanced sources of earnings, and a conservative balance sheet.   |                                     |                             | 3.50       | 2024          | 104.23      | 2.77 | 60     |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company  | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|--|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Financial Institutions, continued</b>   |                                     |                             |            |               |             |      |        |
| <b>Northern Trust NTRS</b>   | <b>A+</b>                           | Wide/Stable                 | 2.38       | 2022          | 100.03      | 2.37 | 36     |
| A pristine balance sheet and attractive custody and asset management businesses position Northern Trust to grow market share in foreign markets.   |                                     |                             | 3.95       | 2025          | 105.80      | 3.12 | 86     |
| <b>U.S. Bancorp USB</b>  | <b>A+</b>                           | Wide/Stable                 | 2.63       | 2022          | 100.96      | 2.38 | 44     |
| A collection of conservative management and wide-moat businesses brings the earnings power of this bank into enviable ranges.  |                                     |                             | 2.38       | 2026          | 94.75       | 3.07 | 78     |
| <b>Wells Fargo WFC</b>   | <b>A</b>                            | Wide/Stable                 | 2.50       | 2021          | 99.96       | 2.51 | 68     |
| Despite recent challenges stemming from its sales practices, we believe Wells Fargo's sound fundamentals remain intact. Wells' consistently strong results benefit from a strong nationwide retail franchise, allowing the company build capital quickly and add to its already conservative capital position. |                                     |                             | 3.00       | 2026          | 97.53       | 3.34 | 106    |
| <b>Healthcare</b>  |                                     |                             |            |               |             |      |        |
| <b>AmerisourceBergen Corp. ABC</b>   | <b>A</b>                            | Wide/Stable                 | 3.50       | 2021          | 102.97      | 2.66 | 77     |
| As a top-tier drug distributor in the U.S., AmerisourceBergen operates with sustainable competitive advantages and significant ties to Walgreens.  |                                     |                             | 3.25       | 2025          | 100.43      | 3.18 | 95     |
|  |                                     |                             | 4.25       | 2045          | 98.09       | 4.37 | 163    |
| <b>Amgen AMGN</b>  | <b>A</b>                            | Wide/Stable                 | 1.85       | 2021          | 97.59       | 2.53 | 63     |
| While Amgen's recent research productivity may offset branded and biosimilar competition to its aging pharmaceutical portfolio, heavy shareholder-friendly actions limit improvement to its credit profile.  |                                     |                             | 2.60       | 2026          | 94.88       | 3.28 | 98     |
|  |                                     |                             | 4.56       | 2048          | 106.74      | 4.17 | 137    |
| <b>Baxter International Inc. BAX</b>   | <b>A-</b>                           | Narrow/Stable               | 1.70       | 2021          | 97.35       | 2.45 | 55     |
| Baxter deleveraged after exiting its Baxalta stake, but its net leverage target of 2.0 times suggests leverage will rise from recent net neutral levels.   |                                     |                             | 2.60       | 2026          | 95.54       | 3.19 | 89     |
|  |                                     |                             | 3.50       | 2046          | 90.42       | 4.07 | 130    |
| <b>Bayer BAYRY</b>   | <b>A-/UR-</b>                       | Narrow/Stable               | 2.38       | 2019          | 100.26      | 2.23 | 56     |
| Bayer's proposed purchase of wide-moat Monsanto could create a downgrade catalyst despite potentially positive implications from a competitive-advantage perspective.  |                                     |                             | 3.38       | 2024          | 101.86      | 3.07 | 86     |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company   | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|---|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Healthcare, continued</b>  |                                     |                             |            |               |             |      |        |
| <b>Bristol-Myers Squibb BMY</b>   | <b>AA-</b>                          | <b>Wide/Stable</b>          | 2.00       | 2022          | 98.65       | 2.31 | 30     |
| Bristol's Opdivo faltered in a recent clinical trial for first-line lung cancer treatment, but we still believe it will remain an important immuno-oncology therapy.                                |                                     |                             | 3.25       | 2027          | 101.93      | 3.01 | 69     |
|   |                                     |                             | 4.50       | 2044          | 113.52      | 3.68 | 98     |
| <b>Cardinal Health Inc. CAH</b>   | <b>A-</b>                           | <b>Wide/Stable</b>          | 2.62       | 2022          | 98.41       | 2.99 | 100    |
| Cardinal continues to expand into medical technology manufacturing and distribution, and its latest leverage-increasing acquisition in that sector caused our August downgrade.                     |                                     |                             | 3.41       | 2027          | 97.60       | 3.71 | 138    |
|   |                                     |                             | 4.37       | 2047          | 98.63       | 4.45 | 166    |
| <b>Eli Lilly LLY</b>  | <b>AA</b>                           | <b>Wide/Stable</b>          | 2.35       | 2022          | 100.15      | 2.31 | 33     |
| Eli Lilly's diversified human and animal medicine portfolios and industry-leading research commitment give us confidence that high-single-digit growth can be sustained in the long term.           |                                     |                             | 2.75       | 2025          | 99.81       | 2.78 | 53     |
|   |                                     |                             | 3.95       | 2047          | 104.63      | 3.69 | 91     |
| <b>Express Scripts Holding Co. ESRX</b>   | <b>A-</b>                           | <b>Wide/Stable</b>          | 3.30       | 2021          | 102.46      | 2.49 | 67     |
| Although Express Scripts' top client did not renew its contract that expires in late 2019, management recently expressed commitment to its 2 times leverage target.                                 |                                     |                             | 3.40       | 2027          | 97.29       | 3.75 | 143    |
|   |                                     |                             | 4.80       | 2046          | 101.97      | 4.67 | 192    |
| <b>GlaxoSmithKline GSK</b>  | <b>A</b>                            | <b>Wide/Stable</b>          | 2.80       | 2023          | 101.30      | 2.54 | 46     |
| Stubbornly high leverage versus most of GlaxoSmithKline's peers pressures the current rating, although some offset stems from its recovering pharmaceuticals business and cost-savings initiatives. |                                     |                             | 4.20       | 2043          | 108.19      | 3.70 | 101    |
| <b>Johnson &amp; Johnson JNJ</b>  | <b>AAA</b>                          | <b>Wide/Stable</b>          | 2.25       | 2022          | 100.14      | 2.21 | 27     |
| A broad set of recession-resistant health-care businesses with strong competitive advantages and cash flow help J&J maintain a conservative balance sheet.  |                                     |                             | 2.45       | 2026          | 97.22       | 2.83 | 55     |
|   |                                     |                             | 3.75       | 2047          | 103.50      | 3.55 | 78     |
| <b>Medtronic PLC MDT</b>  | <b>A+</b>                           | <b>Wide/Stable</b>          | 3.15       | 2022          | 102.61      | 2.51 | 55     |
| In our medical technology coverage, Medtronic operates with the widest moat and most diverse business.  |                                     |                             | 3.35       | 2027          | 101.83      | 3.12 | 81     |
|   |                                     |                             | 4.63       | 2045          | 111.91      | 3.91 | 117    |
| <b>Merck MRK</b>  | <b>AA</b>                           | <b>Wide/Stable</b>          | 2.40       | 2022          | 99.75       | 2.45 | 43     |
| Merck may see slow but steady sales growth as its remaining patent cliff ebbs and newly launched pharmaceuticals gain momentum, notably the oncologic Keytruda.                                     |                                     |                             | 2.75       | 2025          | 99.23       | 2.87 | 63     |
|   |                                     |                             | 3.70       | 2045          | 100.88      | 3.65 | 92     |
| <b>Novartis NOVN</b>  | <b>AA</b>                           | <b>Wide/Stable</b>          | 2.40       | 2022          | 100.05      | 2.39 | 40     |
| Corporate portfolio reshaping and new pharmaceutical launches over the past few years position Novartis for healthy growth in 2018 and beyond.  |                                     |                             | 3.10       | 2027          | 100.96      | 2.98 | 67     |
|   |                                     |                             | 4.00       | 2045          | 105.99      | 3.65 | 91     |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company   | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|---|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Healthcare, continued</b>  |                                     |                             |            |               |             |      |        |
| <b>Pfizer PFE</b>   | <b>AA-</b>                          | <b>Wide/Stable</b>          | 1.95       | 2021          | 99.16       | 2.20 | 33     |
| Pfizer seems content to maintain its current corporate structure, but a history of pursuing large acquisitions could have negative consequences for creditors, if a deal is ever consummated.                       |                                     |                             | 2.75       | 2026          | 98.25       | 2.98 | 70     |
|   |                                     |                             | 4.40       | 2044          | 110.40      | 3.78 | 106    |
| <b>Roche Holdings RHHBY</b>   | <b>AA-</b>                          | <b>Wide/Stable</b>          | 1.75       | 2022          | 97.45       | 2.39 | 45     |
| Roche's launch of five new medicines since 2015 gives us confidence that it can overcome nearing biogeneric competition to its best-selling cancer drugs, Rituxan, Avastin, and Herceptin.                          |                                     |                             | 2.38       | 2027          | 94.38       | 3.08 | 77     |
|   |                                     |                             | 4.00       | 2044          | 105.55      | 3.67 | 95     |
| <b>Sanofi SNY</b>   | <b>AA-</b>                          | <b>Wide/Stable</b>          | 4.00       | 2021          | 105.72      | 2.23 | 38     |
| Sanofi's diverse operations in human pharmaceuticals, vaccines, and consumer healthcare will help it withstand biosimilar competition to its bestseller Lantus, reinforcing our view of its competitive advantages. |                                     |                             |            |               |             |      |        |
| <b>Stryker Corp. SYK</b>  | <b>A+</b>                           | <b>Wide/Stable</b>          | 2.63       | 2021          | 100.61      | 2.43 | 60     |
| Stryker operates with sustainable advantages in orthopedics, medical equipment, and neurovascular products.   |                                     |                             | 3.50       | 2026          | 103.10      | 3.06 | 80     |
|   |                                     |                             | 4.63       | 2046          | 108.76      | 4.09 | 134    |
| <b>Zimmer Biomet Holdings Inc. ZBH</b>  | <b>BBB+</b>                         | <b>Wide/Stable</b>          | 3.15       | 2022          | 100.91      | 2.92 | 97     |
| Supply chain troubles may continue to delay Zimmer's deleveraging, but we still think the firm operates with substantial competitive advantages in orthopedics.   |                                     |                             | 3.55       | 2025          | 100.28      | 3.51 | 128    |
|   |                                     |                             | 4.45       | 2045          | 98.58       | 4.54 | 179    |
| <b>Industrials</b>  |                                     |                             |            |               |             |      |        |
| <b>3M Company MMM</b>   | <b>AA-</b>                          | <b>Wide/Stable</b>          | 1.63       | 2021          | 98.19       | 2.12 | 22     |
| 3M benefits from a strong brand name and cost advantage that have helped it garner a wide economic moat   |                                     |                             | 2.25       | 2026          | 95.43       | 2.84 | 54     |
|   |                                     |                             | 3.13       | 2046          | 91.82       | 3.58 | 81     |
| <b>ABB, Ltd. ABB</b>  | <b>A</b>                            | <b>Wide/Stable</b>          | 2.88       | 2022          | 101.56      | 2.50 | 52     |
| ABB combines a strong balance sheet with a leadership position in the electrical equipment industry to consistently deliver attractive returns on capital.  |                                     |                             | 4.38       | 2042          | 106.77      | 3.94 | 127    |
| <b>Airbus Group SE AIR</b>  | <b>A-</b>                           | <b>Narrow/Stable</b>        | 2.70       | 2023          | 100.46      | 2.61 | 53     |
| A strong balance sheet featuring a net cash position complements Airbus' competitive strength in the duopolistic commercial aerospace market.   |                                     |                             | 3.15       | 2027          | 100.37      | 3.10 | 79     |
|   |                                     |                             | 3.95       | 2047          | 103.85      | 3.73 | 96     |
| <b>BAE Systems BA.</b>  | <b>BBB+</b>                         | <b>Narrow/Stable</b>        | 4.75       | 2021          | 107.27      | 2.77 | 86     |
| As the largest defense contractor in the United Kingdom, BAE benefits from the idea of national champions in crucial areas like naval vessels and submarines. A conservative financial profile supports this.       |                                     |                             | 3.80       | 2024          | 104.45      | 3.08 | 86     |
|   |                                     |                             | 4.75       | 2044          | 110.52      | 4.10 | 137    |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company   | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|---|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Industrials, continued</b>   |                                     |                             |            |               |             |      |        |
| <b>Boeing BA</b>  | <b>A</b>                            | Wide/Stable                 | 2.50       | 2025          | 98.29       | 2.76 | 52     |
| The technical knowledge required to design, assemble, and certify a commercial aircraft creates substantial barriers to entry supporting its wide moat.   |                                     |                             | 3.30       | 2035          | 97.29       | 3.51 | 100    |
|   |                                     |                             | 3.50       | 2045          | 96.07       | 3.73 | 99     |
| <b>Caterpillar CAT</b>  | <b>A-</b>                           | Wide/Stable                 | 3.40       | 2024          | 104.41      | 2.63 | 47     |
| Caterpillar enjoys a wide-moat position as the world's largest manufacturer of heavy equipment. It has a very substantial dealer network that allows it to dominate the U.S. market and provide competitive advantages that support its Business Risk rating. |                                     |                             | 4.30       | 2044          | 111.91      | 3.59 | 88     |
| <b>CSX Corp. CSX</b>  | <b>BBB+</b>                         | Wide/Stable                 | 2.60       | 2026          | 95.21       | 3.22 | 92     |
| CSX's network of rights-of-way and installed track form a nearly impenetrable barrier to entry, supporting its economic moat. Consistently strong free cash flow helps support the balance sheet.   |                                     |                             | 3.80       | 2046          | 96.72       | 3.99 | 122    |
| <b>Deere &amp; Co. DE</b>   | <b>A</b>                            | Wide/Stable                 | 2.60       | 2022          | 100.59      | 2.46 | 50     |
| Deere dominates the North American agricultural equipment market, with a share near 50%. This leadership position, combined with its high-quality products and strong dealer network support its narrow economic moat.  |                                     |                             | 3.90       | 2042          | 105.69      | 3.55 | 88     |
| <b>Dover Corp. DOV</b>  | <b>A-</b>                           | Narrow/Stable               | 3.15       | 2025          | 101.81      | 2.89 | 63     |
| High-value-added engineered products give Dover number 1 or number 2 positions and a scale advantage in the markets they serve, supporting its moat.  |                                     |                             | 5.38       | 2041          | 120.99      | 3.98 | 134    |
| <b>FedEx Corp. FDX</b>  | <b>BBB</b>                          | Narrow/Positive             | 2.30       | 2020          | 100.43      | 2.10 | 39     |
| FedEx is one of only two titans in U.S. domestic and international parcel shipping. Its global network of shipping assets creates a formidable barrier to entry, supporting our narrow economic moat.   |                                     |                             | 3.30       | 2027          | 99.88       | 3.31 | 100    |
|   |                                     |                             | 4.40       | 2047          | 102.91      | 4.22 | 146    |
| <b>General Dynamics GD</b>  | <b>A+</b>                           | Wide/Stable                 | 2.25       | 2022          | 99.22       | 2.42 | 37     |
| General Dynamics, which typically carries minimal net debt, makes products such as warships and submarines that are likely to be strategic products for the U.S. Department of Defense for years to come.   |                                     |                             | 2.13       | 2026          | 93.61       | 2.96 | 67     |
|   |                                     |                             | 3.60       | 2042          | 100.06      | 3.60 | 92     |
| <b>Honeywell HON</b>  | <b>A</b>                            | Wide/Stable                 | 1.85       | 2021          | 98.33       | 2.30 | 38     |
| Honeywell has a favorable business risk, derived from its wide-moat status that is a result of its competitive advantages in the aerospace and building automation businesses.  |                                     |                             | 2.50       | 2026          | 95.63       | 3.06 | 76     |
|   |                                     |                             | 5.38       | 2041          | 127.24      | 3.63 | 99     |
| <b>Lockheed Martin LMT</b>  | <b>A-</b>                           | Wide/Positive               | 2.90       | 2025          | 100.10      | 2.88 | 66     |
| Lockheed, with its impressive free cash flow and modest debt load, is the premier defense contractor in the U.S. and its strategic importance to U.S. national security supports our wide moat rating.  |                                     |                             | 3.60       | 2035          | 98.70       | 3.70 | 119    |
|   |                                     |                             | 3.80       | 2045          | 97.46       | 3.95 | 122    |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company  | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|--|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Industrials, continued</b>  |                                     |                             |            |               |             |      |        |
| <b>Northrop Grumman NOC</b>  | <b>A-</b>                           | <b>Narrow/Positive</b>      | 3.50       | 2021          | 103.57      | 2.38 | 54     |
| Northrop Grumman's deep product knowledge in areas such as aerospace and electronics, and decades of serving the Department of Defense, create barriers to entry. A strong balance sheet including modest net debt supports this.                                      |                                     |                             | 3.25       | 2023          | 102.52      | 2.77 | 66     |
|  |                                     |                             | 3.85       | 2045          | 99.39       | 3.89 | 115    |
| <b>Norfolk Southern NSC</b>  | <b>BBB+</b>                         | <b>Wide/Stable</b>          | 2.90       | 2026          | 98.41       | 3.11 | 82     |
| Norfolk's defensive freight mix and reputation support its moat and lead to strong free cash generation.   |                                     |                             | 4.65       | 2046          | 112.67      | 3.90 | 115    |
| <b>Raytheon RTN</b>  | <b>A</b>                            | <b>Narrow/Stable</b>        | 2.50       | 2022          | 100.19      | 2.46 | 43     |
| Raytheon's engineering strength and product knowledge, developed over 50 years serving the Department of Defense, creates high barriers to entry and switching costs. Modest net leverage supports a strong financial position.  |                                     |                             | 3.15       | 2024          | 102.38      | 2.77 | 55     |
|  |                                     |                             | 4.20       | 2044          | 109.71      | 3.63 | 91     |
| <b>Rockwell Collins COL</b>  | <b>BBB</b>                          | <b>Narrow/Stable</b>        | 3.20       | 2024          | 101.26      | 2.97 | 82     |
| Rockwell's products are critical to aircraft performance and are on platforms for an average of 25 years, leading to high switching costs.   |                                     |                             | 3.50       | 2027          | 101.99      | 3.25 | 94     |
|  |                                     |                             | 4.35       | 2047          | 105.69      | 4.02 | 124    |
| <b>Union Pacific UNP</b>   | <b>A</b>                            | <b>Wide/Stable</b>          | 2.25       | 2020          | 100.68      | 1.97 | 23     |
| Union Pacific is the largest North American railroad with a route network that would be very difficult to replicate. The firm's stable free cash flow supports its modest leverage.  |                                     |                             | 3.00       | 2027          | 100.24      | 2.97 | 66     |
|  |                                     |                             | 4.00       | 2047          | 104.53      | 3.74 | 97     |
| <b>United Parcel Service UPS</b>   | <b>A+</b>                           | <b>Wide/Stable</b>          | 3.13       | 2021          | 103.03      | 2.13 | 31     |
| UPS is the largest freight transportation firm on the planet. It benefits from its domestic duopoly with Federal Express and generates a healthy amount of free cash flow relative to its debt.  |                                     |                             | 2.40       | 2026          | 95.69       | 2.95 | 64     |
|  |                                     |                             | 3.40       | 2046          | 94.69       | 3.70 | 92     |
| <b>United Technologies UTX</b>   | <b>A</b>                            | <b>Wide/Stable</b>          | 1.95       | 2021          | 98.08       | 2.46 | 54     |
| United Technologies owns a portfolio of pioneer firms such as Otis elevators and Carrier air conditioners. The firm's disciplined approach to utilizing strong free cash flow keeps financial risk low.  |                                     |                             | 2.65       | 2026          | 96.74       | 3.07 | 77     |
|  |                                     |                             | 3.75       | 2046          | 96.86       | 3.93 | 116    |
| <b>Technology, Media &amp; Telecommunications (Technology)</b>   |                                     |                             |            |               |             |      |        |
| <b>Adobe Systems ADBE</b>  | <b>A+</b>                           | <b>Wide/Stable</b>          | 3.25       | 2025          | 102.28      | 2.89 | 66     |
| A well-established brand, a suite of popular products (e.g., Photoshop and Illustrator) and a loyal core customer base combine to create a sustainable moat that should enable the firm to continue to generate steady cash flow and easily manage a modest debt load. |                                     |                             |            |               |             |      |        |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company  | Morningstar Corporate Credit Rating | Economic Moat™/ Moat Trend* | Coupon (%) | Maturity Date | Price (USD) | YTM  | Spread |
|--|-------------------------------------|-----------------------------|------------|---------------|-------------|------|--------|
| <b>Technology, Media &amp; Telecommunications (Technology), continued</b>  |                                     |                             |            |               |             |      |        |
| <b>Analog Devices</b> ADI  | <b>A</b>                            | Wide/Stable                 | 3.50       | 2026          | 100.81      | 3.39 | 110    |
| The addition of Linear's high-margin product portfolio should complement Analog Devices' leading market share in signal conversion circuitry.  |                                     |                             |            |               |             |      |        |
| <b>Apple</b> AAPL  | <b>AA-</b>                          | Narrow/Positive             | 2.85       | 2024          | 100.25      | 2.81 | 64     |
| Apple's large installed base of customers and brand recognition provide an offset to concentration in consumer-driven products.  |                                     |                             |            |               |             |      |        |
|  |                                     |                             | 3.35       | 2027          | 101.87      | 3.11 | 81     |
|  |                                     |                             | 4.25       | 2047          | 105.83      | 3.91 | 114    |
| <b>Cisco Systems</b> CSCO  | <b>AA</b>                           | Narrow/Stable               | 3.00       | 2022          | 102.37      | 2.45 | 46     |
| Despite operating in a highly competitive and disruptive environment, Cisco has been able to consistently leverage its large installed base to maintain strong market share in its core product areas. Although Cisco has been highly acquisitive, management continues to maintain a disciplined capital allocation strategy. |                                     |                             |            |               |             |      |        |
|  |                                     |                             | 2.95       | 2026          | 100.12      | 2.93 | 66     |
|  |                                     |                             | 5.50       | 2040          | 127.08      | 3.70 | 108    |
| <b>Alphabet</b> GOOGL  | <b>AA</b>                           | Wide/Stable                 | 3.63       | 2021          | 105.09      | 2.11 | 25     |
| Dominance of the Internet search market provides Alphabet with a strong platform to drive growth through investment in new areas while also generating ample and sustainable cash flow.  |                                     |                             |            |               |             |      |        |
|  |                                     |                             | 2.00       | 2026          | 93.36       | 2.86 | 57     |
| <b>Intel</b> INTC  | <b>AA-</b>                          | Wide/Negative               | 3.10       | 2022          | 102.78      | 2.47 | 46     |
| As one of the founders of the modern tech age, Intel has built a massive scale advantage in semiconductor design and manufacturing, a position the firm should be able to exploit to maintain its moat and offset the long-term deleterious impact of competition and shifts in technology.                                    |                                     |                             |            |               |             |      |        |
|  |                                     |                             | 3.15       | 2027          | 100.76      | 3.06 | 74     |
|  |                                     |                             | 4.10       | 2046          | 104.51      | 3.84 | 108    |
| <b>Intl. Business Machines</b> IBM   | <b>A+</b>                           | Narrow/Negative             | 2.50       | 2022          | 100.49      | 2.38 | 43     |
| Despite a challenging competitive landscape, IBM continues to generate solid free cash flow. Management also follows a consistent and disciplined capital allocation strategy.   |                                     |                             |            |               |             |      |        |
|  |                                     |                             | 3.30       | 2027          | 101.30      | 3.14 | 82     |
|  |                                     |                             | 4.70       | 2046          | 112.91      | 3.94 | 118    |
| <b>Maxim Integrated Products</b> MXIM  | <b>A</b>                            | Wide/Stable                 | 3.45       | 2027          | 100.64      | 3.37 | 105    |
| Maxim maintains a strong core position across a range of end-markets in the high-performance analog semiconductor segment. This has helped the company maintain its performance despite a push into more commoditized and highly competitive logic markets.  |                                     |                             |            |               |             |      |        |
| <b>Microsoft</b> MSFT  | <b>AA+</b>                          | Wide/Stable                 | 2.38       | 2022          | 100.07      | 2.36 | 42     |
| From its enormous installed base of consumer and enterprise customers, Microsoft remains positioned to generate significant recurring revenue and stable margins, which contribute to solid cash flow.   |                                     |                             |            |               |             |      |        |
|  |                                     |                             | 3.30       | 2027          | 102.34      | 3.00 | 70     |
|  |                                     |                             | 4.25       | 2047          | 108.35      | 3.77 | 100    |
| <b>Oracle</b> ORCL   | <b>AA-</b>                          | Wide/Negative               | 2.80       | 2021          | 101.53      | 2.36 | 48     |
| Oracle's dominance of the database market and solid execution of its growth-through-acquisition strategy have enabled it to build a highly profitable business and solid credit profile.   |                                     |                             |            |               |             |      |        |
|  |                                     |                             | 2.65       | 2026          | 96.70       | 3.09 | 80     |
|  |                                     |                             | 4.00       | 2046          | 100.73      | 3.96 | 120    |

\*Source: Morningstar, Inc. Morningstar, Inc. is not an NRSRO, and does not issue NRSRO credit ratings.

## Moat-Focused Corporate Credit List

## Representative Issues (Data as of 15 November 2017)

Price, YTM, and Spread are provided by Interactive Data Corporation

| Company | Morningstar Corporate<br>Credit Rating | Economic Moat™/<br>Moat Trend* | Coupon<br>(%) | Maturity<br>Date | Price<br>(USD) | YTM | Spread |
|---------|--|--------------------------------|---------------|------------------|----------------|-----|--------|
|---------|--|--------------------------------|---------------|------------------|----------------|-----|--------|

## Technology, Media &amp; Telecommunications (Technology), continued

|  |            |             |      |      |       |      |    |
|--|------------|-------------|------|------|-------|------|----|
| <b>Texas Instruments</b> TXN   | <b>AA-</b> | Wide/Stable | 1.85 | 2022 | 97.91 | 2.34 | 36 |
| Focus on high-margin analog and embedded chips as well as the company's skills in identifying opportunities to acquire attractively priced acquisition opportunities is likely to help company continue to maintain steady cash flow generation over the next several years. |            |             | 2.75 | 2021 | 98.42 | 2.56 | 48 |
|  |            |             | 2.63 | 2024 | 99.28 | 2.75 | 57 |

## Technology, Media &amp; Telecommunications (Media)

|  |           |             |      |      |        |      |     |
|--|-----------|-------------|------|------|--------|------|-----|
| <b>Walt Disney Company</b> DIS   | <b>A+</b> | Wide/Stable | 1.80 | 2020 | 99.37  | 2.06 | 31  |
| Strong brands that post robust growth help Disney generate plenty of free cash flow and management maintains a conservative balance sheet. |           |             | 2.95 | 2027 | 98.73  | 3.10 | 78  |
|  |           |             | 4.13 | 2044 | 104.82 | 3.83 | 111 |

## Technology, Media &amp; Telecommunications (Telecommunications)

|   |            |               |      |      |        |      |     |
|---|------------|---------------|------|------|--------|------|-----|
| <b>Comcast</b> CMCSA  | <b>A-</b>  | Wide/Stable   | 2.35 | 2027 | 92.96  | 3.24 | 93  |
| Comcast's core business is one of the strongest in the telecom-services market and we view the firm as very well positioned to compete against new modes of video content delivery.   |            |               | 4.60 | 2046 | 100.06 | 4.23 | 301 |
| <b>Verizon</b> VZ   | <b>BBB</b> | Narrow/Stable | 2.45 | 2022 | 98.58  | 2.76 | 72  |
| Notwithstanding Verizon's side bets in digital media and advertising, we expect management to continue to prioritize strategic acquisitions, including adding fiber capacity and additional wireless spectrum as it looks to roll out 5G technology over the next decade. |            |               | 4.13 | 2027 | 103.29 | 3.70 | 139 |
|   |            |               | 4.13 | 2046 | 89.17  | 4.83 | 206 |



22 West Washington Street  
Chicago, IL 60602 USA

#### TERMS OF USE

© Copyright 2017 Morningstar Credit Ratings, LLC ("MCR"). All rights reserved. MCR, its affiliates and/or their third-party licensors (collectively, "the "MCR Parties") have exclusive proprietary rights in the data and other information contained herein (collectively, the "Content"). The Content is obtained from sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error, the MCR Parties do not guarantee the accuracy, adequacy, completeness or availability of the Content and are not responsible for any errors or omissions in it or for the results obtained from its use. THE MCR PARTIES DISCLAIM ALL EXPRESS AND IMPLIED WARRANTIES WITH RESPECT TO THE CONTENT, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall the MCR Parties have any liability to any person in connection with the Content or its use for any direct, indirect, punitive, special or other forms of consequential damages (including, without limitation, loss of profits or goodwill) even if advised of the possibility of such damages. The Content shall be used for internal purposes only and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of the Content in any form is strictly prohibited except with the prior written permission of MCR. Any person who accesses or uses this report is deemed to acknowledge and agree that: (i) misuse or misappropriation of the Content may cause serious damage to MCR for which money damages may not constitute a sufficient remedy; (ii) MCR shall have the right to obtain an injunction or other equitable relief for any such misuse/misappropriation, without notice or the need to post bond; and (iii) these remedies are in addition to any other available remedies. Any person in receipt of this report is deemed to acknowledge and agree that the report and all of its Content are further subject to the general terms of use on MCR's website at <https://ratingagency.morningstar.com>. The recipient of this report agrees that the qualifications, procedures, methodology and caveats found at <https://ratingagency.morningstar.com> are integral to understanding the Content, including, but not limited to, any financial analysis. The Content should not be considered without an understanding and review of the preceding factors. Any financial analysis, observations, and/or other commentary included as part of the Content are, and must be construed, solely as statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make investment decisions. If you wish to inquire about reprinting, translating, or using this report or any of its Content other than as provided herein, please contact: Sales & Customer Service Phone: +1 800 299-1665 Fax: +1 267 960-6060 Email: [ratingagency@morningstar.com](mailto:ratingagency@morningstar.com) URL: <https://ratingagency.morningstar.com>