Moat-Focused Corporate Credit List

16 October 2017

David Sekera, CFA
Managing Director
david.sekera@morningstar.com

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.

Market Data and Insights

After having hit their peak in February 2016 when oil prices bottomed out, corporate credit spreads have been on a nearly uninterrupted tightening trend. Over the past four weeks, as of Oct. 13, the average spread of the Morningstar Corporate Bond Index (our proxy for the investment-grade bond market) tightened 10 basis points to +101. At this level, the investment-grade index is 46 basis points tighter than the median level and 65 basis points tighter than the average spread level since January 2000. As an indication of how tight corporate credit spreads have become compared with their historical averages, since the beginning of 2000, the average spread of the Morningstar Corporate Bond Index has registered below the current level only 20% of the time.

The tightest level the Morningstar Corporate Bond Index has ever registered was 21 basis points tighter at +80 basis points in February 2007. While this data point might suggest there is still more room for the index to run, the average rating of the index is lower now than it was back then. The average rating of the index is currently A-; whereas, in February 2007, the average rating was single A. Considering the spread differential in the market between A and A- bonds is currently 11 basis points, on a rating-adjusted basis it appears that there is much less room for credit spreads to tighten before they return to their historically tightest levels.

Additions and Deletions

We have removed **Becton, Dickinson and Co.** (BBB, stable) after downgrading its rating on the planned acquisition of C.R. Bard (not rated). To fund this transaction, pro forma gross leverage is rising to about 4.7 times, and management aims to deleverage to less than 3 times within three years. With its acquisition track record, including the CareFusion merger in early 2015 that pushed leverage up to the mid-4s before declining to the low-3s in early 2017, we recognize that Becton's leverage goal of less than 3 times may be more of a floor than a target that it is likely to sustain over a long period. Given these aggressive capital allocation activities, we no longer view Becton as appropriate for the moat-focused list.

Recent Rating Actions

Morningstar Credit Ratings, LLC upgraded its credit rating for **US Bancorp** (AA-, stable) one notch and assigned a stable outlook. Under our recently revised bank credit rating methodology, which compares a large group of systemically important banks from developed countries, US Bancorp scores higher on our Solvency Score and Stress Test rating pillars than under our previous criteria. Diverse revenue sources and profitability measures that consistently rank at the top of the peer set support higher scores on the pillars.

Toward the end of September, we placed our credit rating for **Northrop Grumman Corp.** (A-/UR-) under review with negative implications. This action was in response to Northrop's announcement to acquire Orbital ATK Inc. The transaction is expected to close in the first half of 2018, and we expect to conclude our review in advance of the closing date. We estimate that pro forma debt/EBITDA could rise to about 3.5 times from slightly below 2 times currently. Our Solvency Score is likely to be pressured by the added leverage, including lower interest coverage. Our rating could be affirmed if Northrop lays out a plan to aggressively pay down debt and restore credit metrics to existing levels in the next few years. We could lower our rating if debt reduction plans are modest and leverage is sustained above 2 times over the next several years.

Among other actions, Morningstar Credit Ratings, LLC, affirmed its BBB+ credit rating on **Norfolk Southern Corp.** The BBB+ issuer rating reflects Norfolk Southern's favorable Business Risk offset by its substantial reinvestment needs and shareholder-friendly policies. We moved our outlook to stable from negative. Norfolk Southern has improved profitability meaningfully so far in 2017, and we believe this improvement removes the likelihood of an imminent downgrade from our current rating.

Following the recent adoption of our revised Bank Methodology, Morningstar Credit Ratings, LLC affirmed **Wells Fargo**'s A credit rating and revised its outlook on the company to stable from negative. The stable outlook results from the company's financial performance in the year following the account-opening scandal in the community bank segment, which has been consistent with an A rating. We no longer consider our previous downside concerns, which included substantial revenue and profit decreases and damage to the company's brand and reputation.

Morningstar Corporate Bond Index

	T-Spread
AAA	51
AA	61
A	79
BBB	131

Data as of 16 October 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.

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Company	Morningstar Corporate Credit Rating	Economic Moat™/ Moat Trend*	Coupon (%)	Maturity Date	Price (USD)	YTM	Spread
Basic Materials							
Ecolab Inc. ECL	BBB+	Narrow/Positive	3.25	2023	103.73	2.46	52
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	97.12	3.07	82
			3.70	2046	95.52	3.96	116
Monsanto Company MON	A/UR-	Wide/Stable	2.20	2022	98.00	2.65	75
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	98.38	3.09	93
			3.95	2045	96.61	4.16	140
Potash Corp of Saskatchewan POT	BBB	Narrow/Stable	6.50	2019	106.31	2.39	92
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	104.75	3.38	113
			5.63	2040	118.80	4.33	169
PPG Industries Inc. PPG	BBB+	Narrow/Stable	3.60	2020	103.57	2.39	72
PPG's switching costs in its specialty coatings businesses form the basis of its narrow moat.			5.50	2040	119.62	4.17	153
Praxair PX	A-	Wide/Stable	2.25	2020	101.17	1.84	19
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	103.02	2.78	58
			3.55	2042	99.41	3.59	89
Consumer Cyclical							
Home Depot HD	A+	Wide/Stable	2.63	2022	102.00	2.16	29
Home Depot's recent upgrade was based on multiyear profitability improvements and strong free cash flow generation.			3.35	2025	103.97	2.77	60
			4.25	2046	108.47	3.76	99
Lowe's LOW	A	Wide/Stable	3.80	2021	105.66	2.25	47
Lowe's holds a strong competitive position, generates solid free cash flow, and maintains a moderately leveraged balance sheet.			3.13	2024	102.51	2.71	61
			4.25	2044	105.94	3.89	116
TJX Companies TJX	A	Narrow/Stable	2.75	2021	102.33	2.06	33
TJX holds competitive advantages, generates consistent free cash flow, and maintains modest lease-adjusted leverage.			2.50	2023	100.30	2.44	47

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Consumer Defensive							
Altria Group MO	A-	Wide/Negative	2.95	2023	102.06	2.55	56
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	97.02	3.01	77
			3.88	2046	98.10	3.99	119
Anheuser-Busch InBev BUD	BBB+	Wide/Stable	2.65	2021	101.74	2.09	40
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	103.93	3.09	90
			4.60	2045	89.81	5.30	254
Brown-Forman BF.B	A+	Wide/Stable	2.25	2023	98.74	2.51	55
The Jack Daniels brand is a powerhouse in the whisky category and provides the firm with a loyal consumer base and pricing power. Geograhical diversification has resulted in stable demand and steady cash flow, as even the severe recession hasn't materially disrupted performance.			4.50	2045	110.02	3.90	115
Campbell Soup CPB	A-	Wide/Negative	4.25	2021	106.38	2.34	61
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	101.60	3.05	90
			3.80	2042	96.24	4.04	135
Clorox CLX	A-	Wide/Stable	3.80	2021	105.01	2.50	69
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	102.71	2.43	54
			3.50	2024	104.18	2.83	70
Coca-Cola KO	A+	Wide/Stable	1.55	2021	98.65	1.91	13
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	104.90	2.32	28
			2.90	2027	100.60	2.83	55
Colgate-Palmolive CL	AA	Wide/Stable	2.30	2022	101.70	2.01	20
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	103.75	2.61	53
			4.00	2045	104.36	3.75	98
Costco Wholesale COST	AA-	Wide/Stable	1.75	2020	99.90	1.80	23
Costco commands a strong business risk rank, healthy free cash flow, and conservative financial policies.			2.25	2022	100.25	2.19	34
Diageo DEO	A-	Wide/Stable	2.88	2022	102.73	2.24	37
Diageo benefits from a strong portfolio of premium brands and unparalleled global marketing and distribution capabilities.			2.63	2023	101.40	2.34	38
			3.88	2043	102.41	3.73	103

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Consumer Defensive, continued							
Dr Pepper Snapple DPS	A-	Wide/Stable	2.70	2022	100.51	2.59	68
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	101.11	3.29	102
			4.50	2045	107.01	4.07	131
General Mills GIS	BBB+	Narrow/Negative	3.15	2021	102.96	2.35	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	100.31	3.16	91
			4.15	2043	100.14	4.14	145
Kellogg K	BBB	Narrow/Negative	3.13	2022	102.68	2.50	62
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	100.94	3.12	90
			4.50	2046	105.48	4.17	139
Kimberly-Clark KMB	A	Narrow/Stable	2.40	2022	100.66	2.24	39
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	99.40	2.83	62
			3.90	2047	104.61	3.64	84
McDonalds Corporation MCD	A-	Wide/Negative	2.63	2022	101.28	2.31	47
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	103.36	3.07	82
			4.45	2047	107.79	3.99	120
PepsiCo Inc. PEP	A+	Wide/Stable	3.10	2022	103.91	2.20	32
PepsiCo's strong brands, global scale, exceptional diversification delivers substaintial operating earnings and cash flows and generates a wide economic moat.			2.38	2026	96.11	2.87	62
			4.45	2046	111.59	3.78	100
Philip Morris International PM	A-	Wide/Stable	2.50	2022	100.49	2.39	48
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	98.60	2.94	73
			4.25	2044	105.00	3.95	120
Procter & Gamble PG	AA	Wide/Stable	1.85	2021	99.62	1.97	27
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	97.64	2.75	50
			5.55	2037	133.10	3.24	69
Starbucks Corporation SBUX	A	Wide/Positive	2.70	2022	101.83	2.27	40
Menu expansion, innovations, and cross-branding back our wide-moat rating and help Starbucks generate solid cash flow.			2.45	2026	96.55	2.90	67
			4.30	2045	109.52	3.74	99

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Consumer Defensive, continued							
Sysco SYY	A-	Narrow/Stable	2.60	2022	100.28	2.54	65
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	100.82	3.19	97
			4.85	2045	112.10	4.11	135
Unilever ULVR	A+	Wide/Stable	1.38	2021	97.60	2.04	27
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	93.40	2.86	62
Wal-Mart WMT	AA-	Wide/Stable	4.25	2021	107.62	1.98	25
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	104.83	2.46	40
			4.30	2044	113.86	3.49	77
Energy							
ExxonMobil XOM	AA+	Narrow/Stable	1.91	2020	100.28	1.79	22
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	100.98	2.56	41
			3.57	2045	99.95	3.57	81
Halliburton HAL	BBB+	Narrow/Stable	3.25	2021	103.08	2.40	63
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	104.04	2.71	72
			4.75	2043	106.95	4.30	160
Schlumberger Ltd. SLB	A+	Narrow/Stable	2.40	2022	100.00	2.40	49
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	105.96	2.55	53
Financial Institutions							
American Express AXP	A-	Wide/Stable	2.65	2022	100.82	2.48	53
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	103.68	3.04	90
			4.05	2042	103.79	3.81	112
BlackRock BLK	AA-	Wide/Positive	3.20	2027	101.96	2.96	69
BlackRock benefits from its substantial scale, its diverse and well balanced sources of earnings, and a conservative balance sheet.			3.50	2024	104.92	2.66	58

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Financial Institutions, continued							
Northern Trust NTRS	**A+**	Wide/Stable	2.38	2022	100.53	2.26	35
A pristine balance sheet and attractive custody and asset management businesses position Northern Trust to grow market share in foreign markets.			3.95	2025	106.29	3.06	87
U.S. Bancorp USB	**A+**	Wide/Stable	2.63	2022	101.50	2.25	42
A collection of conservative management and wide-moat businesses brings the earnings power of this bank into enviable ranges.			2.38	2026	95.81	2.92	68
Wells Fargo WFC	**A**	Wide/Stable	2.50	2021	100.73	2.27	56
Despite recent recent challenges stemming from its sales practices, we believe Wells Fargo's sound fundamentals remian 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	98.79	3.16	94
Healthcare							
AmerisourceBergen Corp. ABC	**A**	Wide/Stable	3.50	2021	103.89	2.43	66
As a top-tier drug distributor in the U.S., AmerisourceBergen operates with sustainable competitive advantages and significant ties to Walgreens.			3.25	2025	101.83	2.96	82
			4.25	2045	100.93	4.19	145
Amgen AMGN	**A**	Wide/Stable	1.85	2021	98.27	2.32	55
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	96.34	3.08	84
			4.56	2048	108.34	4.08	126
Baxter International Inc. BAX	**A-**	Narrow/Stable	1.70	2021	97.80	2.30	53
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	95.68	3.16	93
			3.50	2046	91.13	4.02	123
Bayer BAYRY	**A-/UR-**	Narrow/Stable	2.38	2019	100.67	2.03	51
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	102.57	2.96	83

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Healthcare, continued							
Bristol-Myers Squibb BMY	**AA-**	Wide/Stable	2.00	2022	98.94	2.24	33
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	103.10	2.87	60
			4.50	2044	112.29	3.75	104
Cardinal Health Inc. CAH	**A-**	Wide/Stable	2.62	2022	99.96	2.62	73
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	100.63	3.33	106
			4.37	2047	102.65	4.21	141
Eli Lilly LLY	**AA**	Wide/Stable	2.35	2022	100.56	2.22	34
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	100.57	2.66	51
			3.95	2047	105.62	3.64	84
Express Scripts Holding Co. ESRX	**A-**	Wide/Stable	3.30	2021	102.96	2.35	66
Although Express Scripts may lose its top client soon, management recently expressed commitment to its leverage target and a strong investment-grade rating.			3.40	2027	97.84	3.67	141
			4.80	2046	104.73	4.50	172
GlaxoSmithKline GSK	**A**	Wide/Stable	2.80	2023	102.00	2.40	43
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	109.01	3.65	95
Johnson & Johnson JNJ	**AAA**	Wide/Stable	2.25	2022	101.15	1.97	13
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	98.76	2.62	40
			3.75	2047	105.42	3.45	66
Medtronic PLC MDT	**A+**	Wide/Stable	3.15	2022	103.51	2.31	45
In our medical technology coverage, Medtronic operates with the widest moat and most diverse business.			3.35	2027	103.05	2.97	71
			4.63	2045	113.42	3.83	107
Merck MRK	**AA**	Wide/Stable	2.40	2022	101.02	2.17	28
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	100.76	2.63	49
			3.70	2045	101.25	3.63	89
Novartis NOVN	**AA**	Wide/Stable	2.40	2022	100.88	2.19	33
Corporate portfolio reshaping and new pharmaceutical launches over the past few years position Novartis for healthy growth in 2018 and beyond.			3.10	2027	102.05	2.85	58
			4.00	2045	106.77	3.61	85

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Healthcare, continued							
Pfizer PFE	**AA-**	Wide/Stable	1.95	2021	99.96	1.96	22
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	100.04	2.74	52
			4.40	2044	112.03	3.69	95
Roche Holdings RHHBY	**AA-**	Wide/Stable	1.75	2022	97.91	2.27	43
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	95.34	2.95	69
			4.00	2044	105.11	3.70	96
Sanofi SNY	**AA-**	Wide/Stable	4.00	2021	105.94	2.20	48
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.							
Stryker Corp. SYK	**A+**	Wide/Stable	2.63	2021	101.34	2.20	50
Stryker operates with sustainable advantages in orthopedics, medical equipment, and neurovascular products.			3.50	2026	103.53	3.01	81
			4.63	2046	110.31	4.01	124
Zimmer Biomet Holdings Inc. ZBH	**BBB+**	Wide/Stable	3.15	2022	101.80	2.70	86
Zimmer finally appears focused on deleveraging after the Biomet merger, but a downgrade is possible if deleveraging is delayed again.			3.55	2025	101.66	3.29	114
			4.45	2045	100.95	4.39	164
Industrials							
3M Company MMM	**AA-**	Wide/Stable	1.63	2021	98.77	1.95	17
3M benefits from a strong brand name and cost advantage that have helped it garner a wide economic moat			2.25	2026	95.45	2.83	59
			3.13	2046	91.38	3.61	81
ABB, Ltd. ABB	**A**	Wide/Stable	2.88	2022	102.32	2.34	46
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	107.99	3.87	119
Airbus Group SE AIR	**A-**	Narrow/Stable	2.70	2023	101.22	2.46	48
A strong balance sheet featuring a net cash position complements Airbus' competitive strength in the duopolistic commercial aerospace market.			3.15	2027	101.97	2.91	64
			3.95	2047	104.99	3.67	87
BAE Systems BA.	**BBB+**	Narrow/Stable	4.75	2021	107.86	2.66	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	105.03	3.00	86
			4.75	2044	110.38	4.11	137

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Industrials, continued							
Boeing BA	**A**	Wide/Stable	2.50	2025	98.27	2.76	60
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	102
			3.50	2045	97.09	3.67	91
Caterpillar CAT	**A-**	Wide/Stable	3.40	2024	105.12	2.52	45
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	110.85	3.65	93
CSX Corp. CSX	**BBB+**	Wide/Stable	2.60	2026	96.39	3.06	81
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	97.44	3.95	115
Deere & Co. DE	**A**	Wide/Stable	2.60	2022	101.20	2.31	46
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	105.33	3.57	90
Dover Corp. DOV	**A-**	Narrow/Stable	3.15	2025	102.09	2.85	67
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	123.55	3.83	119
FedEx Corp. FDX	**BBB**	Narrow/Positive	2.30	2020	100.86	1.91	35
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	101.24	3.14	89
			4.40	2047	103.52	4.19	140
General Dynamics GD	**A+**	Wide/Stable	2.25	2022	100.08	2.23	32
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	94.46	2.84	60
			3.60	2042	100.36	3.58	90
Honeywell HON	**A**	Wide/Stable	1.85	2021	98.97	2.12	31
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	96.22	2.98	73
			5.38	2041	125.72	3.72	107
Lockheed Martin LMT	**A-**	Wide/Positive	2.90	2025	100.56	2.81	67
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	99.49	3.64	115
			3.80	2045	99.00	3.86	110

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Moat-Focused Corporate Credit List

Representative Issues (Data as of 16 October 2017)
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Company	Morningstar Corporate Credit Rating	Economic Moat™/ Moat Trend*	Coupon (%)	Maturity Date	Price (USD)	YTM	Spread
Industrials, continued							
Northrop Grumman NOC	A-	Narrow/Positive	3.50	2021	104.16	2.23	51
Northrop Gruman'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	103.15	2.66	64
			3.85	2045	98.84	3.92	116
Norfolk Southern NSC	BBB+	Wide/Stable	2.90	2026	99.62	2.95	72
Norfolk's defensive freight mix and reputation support its moat and lead to strong free cash generation.			4.65	2046	112.81	3.89	113
Raytheon RTN	A	Narrow/Stable	2.50	2022	101.02	2.28	36
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	103.18	2.64	51
			4.20	2044	109.79	3.62	89
Rockwell Collins COL	BBB	Narrow/Stable	3.20	2024	102.13	2.83	76
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	102.84	3.14	88
			4.35	2047	105.96	4.00	120
Union Pacific UNP	A	Wide/Stable	2.25	2020	101.17	1.78	18
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	101.29	2.84	58
			4.00	2047	105.90	3.67	87
United Parcel Service UPS	A+	Wide/Stable	3.13	2021	103.57	1.98	29
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	96.98	2.78	53
			3.40	2046	96.93	3.57	77
United Technologies UTX	A	Wide/Stable	1.95	2021	98.72	2.28	48
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	96.98	3.03	78
			3.75	2046	96.72	3.94	114
Technology, Media & Telecommunications (Technology)							
Adobe Systems ADBE	A+	Wide/Stable	3.25	2025	103.14	2.76	62
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.							

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Technology, Media & Telecommunications (Technology), continued							
Analog Devices ADI	A	Wide/Stable	3.50	2026	101.70	3.28	104
The addition of Linear's high-margin product portfolio should complement Analog Devices' leading market share in signal conversion circuitry.							
Apple AAPL	AA-	Narrow/Positive	2.85	2024	101.80	2.54	47
Apple's large installed base of customers and brand recognition provide an offset to concentration in consumer-driven products.			3.35	2027	103.08	2.96	71
			4.25	2047	107.88	3.80	101
Cisco Systems CSCO	AA	Narrow/Stable	3.00	2022	103.08	2.30	41
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	101.06	2.81	59
			5.50	2040	127.11	3.70	108
Alphabet GOOGL	AA	Wide/Stable	3.63	2021	105.85	1.93	19
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	94.44	2.71	47
Intel INTC	AA-	Wide/Negative	3.10	2022	104.04	2.20	30
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	102.11	2.89	62
			4.10	2046	106.32	3.73	96
Intl. Business Machines IBM	A+	Narrow/Negative	2.50	2022	101.20	2.20	37
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	102.16	3.03	77
			4.70	2046	113.37	3.91	113
Maxim Integrated Products MXIM	A	Wide/Stable	3.45	2027	101.78	3.23	96
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.							
Microsoft MSFT	AA+	Wide/Stable	2.38	2022	100.91	2.15	32
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	104.30	2.76	51
			4.25	2047	110.64	3.65	86
Oracle ORCL	AA-	Wide/Negative	2.80	2021	102.68	2.05	29
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	98.63	2.83	59
			4.00	2046	103.60	3.79	101

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Technology, Media & Telecommunications (Technology), continued							
Texas Instruments TXN	AA-	Wide/Stable	1.85	2022	98.59	2.18	30
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	99.19	2.41	42
			2.63	2024	100.33	2.57	49
Technology, Media & Telecommunications (Media)							
Time Warner TWX	BBB+/UR-	Wide/Stable	4.75	2021	107.78	2.39	66
The value of video content continues to increase even as the distribution markets mutate, helping Time Warner generate strong cash flow.			3.80	2027	101.07	3.66	141
			4.85	2045	103.88	4.60	185
Walt Disney Company DIS	A+	Wide/Stable	1.80	2020	99.94	1.82	21
Strong brands that post robust growth help Disney generate plenty of free cash flow and management maintains a conservative balance sheet.			2.95	2027	100.40	2.90	62
			4.13	2044	106.29	3.75	101
Technology, Media & Telecommunications (Telecommunications)							
AT&T T	BBB/UR-	Narrow/Negative	3.00	2022	101.02	2.76	89
AT&T is one of the most diversified telecom carriers in the U.S. with a strong competitive position in wireless. However, our rating remains under review for downgrade following the company's proposed merger with Time Warner.			4.25	2027	103.27	3.82	157
			5.65	2047	109.49	5.02	223
Comcast CMCSA	A-	Wide/Negative	2.35	2027	94.27	3.07	80
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	100.14	4.05	293
Verizon VZ	BBB	Narrow/Stable	2.45	2022	99.44	2.57	63
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	104.60	3.55	127
			4.13	2046	91.21	4.68	189

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22 West Washington Street
Chicago, IL 60602 USA