October 20, 2020

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Via Email: rule-comments@sec.gov

Re: File No: S7-09-20; Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements

Dear Ms. Countryman:

This letter is submitted by the Independent Trustees of the Morningstar Funds Trust (the "Trust") with respect to the above-referenced release proposing rule and form amendments that would modernize the disclosure framework for open-end management investment companies (the "Proposed Rule"). The Trust is a registered investment company consisting of 9 series.

The comments set forth in this letter solely represent our views as Independent Trustees of the Trust and do not necessarily represent the views of Morningstar Investment Management ("MIM"), the investment adviser to the Trust, or MIM's parent, Morningstar, Inc.

Overview

We appreciate the opportunity to comment on the Proposed Rule and strongly support the efforts of the U.S. Securities and Exchange Commission (the "Commission") to create a disclosure framework that "features concise and visually engaging shareholder reports that would highlight information that is particularly important for retail investors to assess and monitor their fund investments." (August 5, 2020 Commission Press Release) We also strongly support the layered approach to disclosure promoted by the Proposed Rule.

In short, we believe the "less is more" approach to the shareholder report disclosure, along with the emphasis on plain English, will help ensure that the most important information is provided to retail investors in a clear, consistent and concise manner. Our hope is that this will lead to a better educated and engaged shareholder base that will utilize shareholder reports to a greater degree.

While we strongly support the overall approach taken by the Commission in the Proposed Rule, we have recommendations for enhancements designed to improve the efficiency and effectiveness of the Proposed Rule in a manner consistent with the protection of fund investors. We are concerned that eliminating any mention of the board in shareholder reports could make it more difficult for investors to hold boards accountable, and believe shareholders would benefit from additional information on the board's role, diversity make-up, compensation, investment requirements and contact information, as well as on risks faced by funds.

In this regard, we believe that that the annual report should include (a) a section on fund governance, and (b) additional risk-related information. In our view, the annual report should be able to stand on its own as a key source of timely and relevant information. As one of the few documents that is "pushed" to shareholders on a regular basis, we believe it is very important that these additional types of information be included in the annual report. In other words, since the annual or semi-annual report may be the few documents, and perhaps the only documents, that a shareholder reads, it should provide a fairly complete overview of the fund.

We understand and appreciate the difficult choices the Commission faced in the Proposed Rule with respect to what information to include in the shareholder reports, particularly in light of the Commission's goal to limit the length and complexity of shareholder reports. We believe our proposed changes will further the goal of protecting fund investors and lead to enhanced engagement with shareholder reports. We discuss these proposals in greater detail below.

Fund Governance Disclosure

The boards of directors of mutual funds play a crucial role in overseeing and monitoring the performance of investments for the benefit of fund shareholders. We believe that highlighting certain information in the shareholder reports about the role and attributes of fund boards is another key component in arming shareholders with "information that is particularly important for retail shareholders to assess and monitor their fund investments." (August 5, 2020 Commission Fact Sheet)

The Proposed Rule eliminates any mention of the board in the shareholder reports since the compensation disclosure and contract renewal disclosure is moved to the new Form N-CRS. This effectively means that investors will almost never receive a "push" communication about the board. Unlike operating companies, open-end funds do not hold annual shareholder meetings. (In fact, they rarely hold shareholder meetings.) As such, shareholders do not receive an annual proxy statement with various information about a fund board and related governance matters. The only way that shareholders can learn about the board under the Proposed Rule is by actively seeking out two relatively obscure documents (SAI and Form N-CRS).

We are concerned that preventing funds from sharing basic information about fund boards could make it more difficult for investors to hold boards accountable. In addition, including certain board information in shareholder reports will provide an opportunity to better inform shareholders about the important role that boards play in protecting their interests.

The Forrester survey (October 2018, included with Broadridge comment letter on retail investor experience https://www.sec.gov/comments/s7-12-18/s71218-4595392-176342.pdf) shows that 52% of investors look at information about director candidates in proxy statements and that 35% look at information about directors in shareholder reports.

Our proposal for information to be included in the annual report is as set forth below, an example of which is attached hereto as Exhibit A. We believe that the annual report should permit funds to share all of this important information with shareholders. (Information marked as "required" would need to be included in the annual report, while information marked as "permitted" could be included at the discretion of the fund.)

We further believe that this information represents where fund disclosure practices are headed and encompasses key principles of the best disclosure practices adopted by many Fortune 100 companies. Our proposal provides funds with the flexibility to pursue new and creative ways to share important information with shareholders in a manner that is manageable in length.

- **Statement about the role of the board (required**) – This section would provide basic information about the role of the board and number of independent directors/trustees. We believe this is basic information all shareholders should know about the board charged with representing their interests. There should also be a statement directing shareholders to where they can find additional information regarding the board and fund governance matters.

  In this section, boards should also be permitted to include contact information for the board. Boards should be able to encourage feedback from shareholders and being able to include this information in the shareholder report provides another opportunity for shareholders to provide feedback to the board.

- **Disclosure of board diversity (permitted)** – In the absence of annual proxy statements, funds should not be foreclosed from following the trend in corporate America of providing investors with annual updates on board diversity. According to EY, 45% of Fortune 100 companies reported on diversity in their 2019 proxy statements, up from 23% just three years ago. Given the evidence supporting a link between diversity in the board room and better decision-making, we believe it is very important that funds be permitted to provide information regarding diversity in shareholder reports. Transparency is also an essential first step in promoting greater diversity in the asset management industry. Funds would have flexibility in how they define diversity for purposes of the shareholder reports. Although we have provided a sample approach as set forth in Exhibit A, we believe each fund and board should determine how – or whether – they wish to provide this information, taking into account a number of factors tailored to each board, including for example, any comfort level individual directors might have regarding self-identifying a specific gender identification, ethnic group or racial background, or sexual orientation.

- **Compensation disclosure (permitted)** – The Forrester survey shows that 46% of investors look at this information in proxy statements and 44% of investors look at this information in shareholder reports. Boards should be permitted to communicate independent trustee compensation to shareholders and any changes thereto in the past year. We believe that disclosing this information helps hold boards accountable for their compensation decisions. Disclosing the independent trustee compensation schedule in the annual report can be done concisely and, if they so choose, shareholders can continue to seek additional information about the compensation of individual independent directors/trustees in the SAI.

- **Investment requirements (permitted)** – Boards should be permitted to communicate to shareholders that directors/trustees are also required to invest in the fund and have

interests that are aligned with shareholders. If they so choose, shareholders can continue to seek additional information about amounts invested in the Fund and other funds in the fund complex in the SAI.

As you will see on the example provided on Exhibit A, we believe that the additional length to the shareholder reports in providing this information is manageable and significantly helps further the goal of protecting fund investors in a clear, consistent and concise manner.

Additional Risk-Related Information

We believe that the proposed format of the shareholder report provides a comprehensive view of performance and costs but is less complete with regard to the discussion of risk. The only risk information specifically required to be discussed in the annual report relates to liquidity and any material changes to principal risks. We do not believe that liquidity risk information is the top concern for most retail investors, particularly for funds that predominantly consist of highly liquid securities. We suggest that the Commission rethink the liquidity risk section as follows to address a broader set of risks funds have faced:

- Shorten the liquidity risk disclosure for funds that predominantly consist of highly liquid securities by moving the discussion of the management of liquidity risk to Form N-CRS.
- Add a bar chart of annual returns similar to what is currently required in the summary prospectus. We understand and appreciate that the Commission does not want to repeat information in its layered disclosure approach, but this chart provides investors with a very quick and easily digestible assessment of the volatility of returns.
- If material, add a discussion of leverage used (through borrowings or derivatives) during the reporting period.
- If material, add a discussion of significant concentration risk during the reporting period.

These items are merely suggestions and we look forward to comments from other industry participants regarding their views on including historical risk disclosures in the shareholder reports. We think these revisions to the liquidity risk section can be accomplished in a similar length as the example provided by the Commission. In instances where the disclosure would be longer than proposed, the drawback of additional length is outweighed by the benefit of providing retail investors with a more accurate picture of the risks faced by the fund. Importantly, the expanded risk disclosure is critical to enabling the shareholder report to "stand on its own."

* * * * *

We appreciate the Commission's consideration of our comments and would be pleased to respond to any questions from the Commission or the staff.

Sincerely,

/s/ Theresa Hamacher
Theresa Hamacher, Chair

/s/ Barry Benjamin
Barry Benjamin

/s/ Linda Davis Taylor
Linda Davis Taylor

/s/ Enrique Vasquez
Enrique Vasquez

Exhibit A
Fund Governance Matters

Who is representing you as a shareholder of the Fund?

When you buy shares in a mutual fund, you become a shareholder in an investment company. As an owner, your interests are represented by an independent board of trustees. The Fund's Board is comprised of 5 trustees — 4 are "independent" trustees and 1 is an "interested" trustee who is an employee of Morningstar. You may contact the board if you have comments or concerns about your investment at:

By mail: Chair of the Board of Trustees Morningstar Funds Trust 22 W. Washington Street Chicago, IL 60602	By email: BoardofTrustees.MorningstarFundsTrust@morningstar.com

Additional information about the board can be found in this fund's Statement of Additional Information, available at http://connect.rightprospectus.com/Morningstar. More information about the board members, governance matters and the board's policies are available at https://www.morningstar.com/company/morningstar-funds-governance.

What is the diversity of the independent trustees?

The 4 independent trustees self-identify as follows:	In terms of leadership positions of the Board:
• 2 as women, and 2 as men; and • 1 as Hispanic, and 4 as white.	• Chair of the Board is a woman; • Chair of the Governance Committee is a Hispanic man; and • Chair of the Audit Committee is a white man.

How are independent trustees compensated?

The compensation schedule adopted by the Board applies to all 9 Morningstar Funds overseen by the Board (this Fund is one of the 9 Morningstar Funds) and provides for an annual retainer for independent trustees of $132,000 per year. The Chair of the Board is paid an additional retainer of $40,000, while the Chair of the Audit Committee is paid an additional $15,000. The independent trustees are also reimbursed for Fund-related expenses. Due to the impact that the COVID-19 pandemic had and was expected to continue to have on the nature and number of board and committee meetings, the independent trustees adopted a flat annual retainer compensation structure, replacing a compensation structure which included both a retainer and individual meeting fees.

Are independent trustees required to invest in the Fund?

Independent trustees are required to make investments in the 9 Morningstar Funds of at least $132,000 in the aggregate, which is equal to the base annual retainer to be paid to each independent trustee. At September 1, 2020, each independent trustee has met this investment requirement.