About Tortoise and Hare Stock Baskets

Matt Coffina, CFA and John Owens, CFA

When I became editor of *StockInvestor*, I wanted to quickly build up personal positions in all of the Tortoise and Hare stocks, to make sure I’m “eating my own cooking.” After evaluating my options, I decided the easiest way to track the portfolios would be through Morningstar Investment Services’ (MIS) Select Stock Baskets. Here to answer some questions about this service is John Owens, an investment manager with MIS.

**Matt Coffina** So what exactly did I buy? What are the Tortoise and Hare Select Stock Baskets?

**John Owens** The Tortoise and Hare Select Stock Baskets are investable portfolios patterned after the model portfolios of the same names featured in *StockInvestor*. Select Stock Baskets are not mutual funds or exchange traded funds. Rather, they are separately managed accounts. They differ from mutual funds in that the client owns the individual securities. That structure offers a tax advantage (i.e., no unrealized capital gains at inception) and, unlike ETFs, also allows for greater customization for the client.

Who manages these Stock Baskets?

Morningstar Investment Services, a registered investment advisor and wholly owned subsidiary of Morningstar, manages the Tortoise and Hare Select Stock Basket portfolios. MIS manages about $4 billion across various mutual fund, exchange-traded fund, and separately managed stock portfolios.

Where will the assets be held and how can I monitor my investments?

Clients can choose either Schwab Institutional or Fidelity as their custodian, who will provide monthly statements, detailing the account’s balances, holdings, and any transactions. In addition to custodial account statements and other documentation, MIS will send account holders a quarterly commentary and statement, detailing the specific performance of their accounts. Clients will also have online access to the MIS website to monitor their accounts.

Who is eligible to invest in the Tortoise and Hare Stock Baskets?

MIS normally works exclusively with financial advisors. However, MIS is making the Tortoise and Hare Select Stock Baskets available directly to the subscribers of *StockInvestor*. Prospective investors will be asked to complete a questionnaire to determine their suitability for investing in these strategies. Those who qualify, based on their investment objectives, risk tolerance, and time horizon, will be eligible to invest in the Tortoise and Hare Select Stock Baskets. The minimum account size is $100,000 (or $250,000 when combining the portfolio with fixed income mutual funds or ETF).

What does it cost? Are there any restrictions or charges if clients wish to withdraw or add funds?

MIS charges an annual fee of 0.55% of assets on an account’s first $1 million, 0.50% on the next $4 million, and 0.45% thereafter.* This fee compensates MIS for managing the client’s account. The minimum annual MIS fee is $550 (or $1,375 when including an allocation to fixed-income mutual funds or ETFs). Clients will also be charged transaction costs, which vary according to the brokerage platform that they choose. There aren’t any restrictions for clients to withdraw or add funds, but clients can be assessed transaction costs for buying or selling holdings in the portfolio.

What if subscribers already own shares of some, but not all, Tortoise and Hare holdings?

A client can transfer those stocks in-kind. In such cases, we’ll build a portfolio around the positions that the client already owns, though we might adjust the size of those positions somewhat depending on the value of the client’s stake in relation to the full amount being
I wanted to track the Tortoise and Hare as closely as possible, but what customizations are available for clients who want them?

Clients can exclude specific stocks from their Tortoise or Hare Stock Basket account. For example, a client may already own a sizable stake in one of the portfolio holdings in an outside account and may not want any more exposure to it. He or she can exclude that stock from the portfolio. A client who doesn’t want to deal with the additional tax paperwork associated with master limited partnerships may specify to exclude those names (such as Energy Transfer Equity ETE and Enterprise Product Partners EPD). Furthermore, clients have the option of adding fixed income mutual funds containing taxable or municipal bonds or ETFs to their accounts with the following equity to fixed-income percentage allocations: 80/20, 65/35, or 50/50.

How do you make sure the Tortoise and Hare Stock Baskets stay consistent with the newsletter over time? How often do you trade?

MIS will typically follow your lead and buy and sell the same names at similar weightings that you do in the corresponding newsletter portfolio, subject to the client’s restrictions (in which case MIS may add to the weightings of non-restricted newsletter holdings and/or invest in stocks not currently invested in the newsletter portfolio, but consistent with the strategy’s style of investing).

How can subscribers learn more about this offering?

If they’re ready to find out more about how they can invest in the Tortoise and Hare Select Stock Baskets, they can call Morningstar Investment Services at +1 866 765-0663.

*As a Morningstar, Inc. employee, Matt Coffina was exempted from these provisions.

The responses and opinions are those of John Owens, an investment manager of MIS, are as of March 2013, and are subject to change without notice. ©2013 Morningstar Investment Services, Inc. All rights reserved. The Morningstar name and logo are registered marks of Morningstar, Inc. All other marks are the property of the respective owners. Morningstar Investment Services, Inc. is a registered investment advisor and wholly-owned subsidiary of Morningstar, Inc.