I’ve received many requests over the years for a hassle-free way to invest alongside the real-money Tortoise and Hare Portfolios. There is now a service available that will do just that. Here to answer some questions you might have about this service is John Owens, one of the investment managers from Morningstar Investment Services (MIS).

**Paul Larson** What are the Tortoise and Hare Select Stock Baskets?

**John Owens** The Tortoise and Hare Select Stock Baskets are investable portfolios patterned after the portfolios of the same name featured in StockInvestor.

Are the Tortoise and Hare Select Stock Baskets mutual funds?

No, they’re separately managed accounts. Separate accounts differ from mutual funds in that the client owns the individual securities. That structure facilitates tax-management and also allows for greater customization for the client.

Who manages the Tortoise and Hare Select Stock Basket accounts?

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 $2.9 billion across various mutual fund, exchange-traded fund, and separately managed stock portfolios.

Where will the assets be held and how can clients monitor their investments?

Either Schwab Institutional or Fidelity can be the custodian for the Tortoise and Hare Select Stock Baskets accounts and the custodian 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 performance report detailing the specific performance of their accounts. Clients will also have online access to the MIS Web site to monitor their accounts.

Who is eligible to invest in the Tortoise and Hare Stock Baskets accounts? How does the process work?

MIS normally works exclusively with financial advisors. However, it’s 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.

If prospective investors desire to have a financial advisor assist them with suitability and ongoing financial planning needs, MIS can refer the client to a qualified financial professional. MIS receives no referral fee for this.

What does it cost to invest in the Tortoise and Hare Select Stock Baskets?

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. Clients will also be charged transaction costs, which vary according to the brokerage platform that they choose.

Are there any restrictions or charges for clients wishing to add or withdraw funds?

Clients may add or withdraw funds from the Select Stock Basket account at no additional cost, other than transaction costs that brokerages levy for...
any associated trades. MIS does not limit a client’s ability to add to or withdraw from an account.

What about subscribers who already own shares of some, but not all, of the Tortoise and Hare Portfolios’ 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 invested.

Clients who opt not to transfer existing Tortoise or Hare holdings in-kind can alternatively request that MIS omit those stocks from the Select Stock Basket account that it constructs. Those exclusions would be made as part of the account-customization process.

Is it possible for a client to invest in a Select Stock Basket that combines both the Tortoise and Hare Portfolio holdings?

MIS doesn’t offer a Select Stock Basket that combines the holdings in this way. However, a client can accomplish roughly the same goal by opening two different Select Stock Basket accounts, one for the Tortoise Portfolio and the other for the Hare Portfolio, provided the appropriate minimums are met.

What kind of customizations can clients make to a Tortoise or Hare Select Stock Basket?

Clients can exclude specific stocks or industries from their Tortoise or Hare Stock Basket account. For example, a client may already own a sizable stake in one of the portfolio holdings and may not want any more exposure to it. He or she can exclude that stock, or even its entire industry, from the portfolio. Say a client interested in the Tortoise Stock Basket did not want to invest in alcohol, gaming, and tobacco stocks. That client could simply specify those preferences and then a stock like Molson Coors TAP would be automatically excluded from his/her Tortoise Stock Basket. A client who doesn’t want to hassle with the additional tax paperwork associated with master limited partnerships may specify to exclude those names (such as Energy Transfer Equity ETE, Enterprise Product Partners EPD, and Magellan Midstream Partners MMP).

Must a client customize a Tortoise or Hare Select Stock Basket?

No. Customization is an option made available to each client. But for those who opt not to customize, we offer a non-custom version of each Select Stock Basket portfolio. That non-custom version is likely to closely resemble the portfolios in StockInvestor.

How are the Tortoise and Hare Select Stock Basket portfolios constructed?

These strategies will follow the same basic tack as the newsletter portfolios by buying many of the same names at similar weightings. However, there will be some differences. The Tortoise and Hare Select Stock Baskets will not make initial investments in stocks with extreme fair value uncertainty ratings, or in stocks without economic moats (a current example would be Dell DELL). In these cases, the Tortoise and Hare Select Stock Baskets may also invest in select names from the newsletter’s Wide-Moat Watchlist to fill gaps in the portfolio. Watchlist names and other stocks may also be added to optimize a portfolio around a client’s customization requests.

How do you ensure that the Tortoise and Hare Select Stock Baskets remain consistent with the newsletter versions over time? How often do you trade the Tortoise and Hare Select Stock Baskets?

MIS will typically follow your lead and buy and sell many of the same names that you do in the corresponding newsletter portfolio, subject to the client’s restrictions. So, MIS will trade about as frequently as you do. That is, not very often.

How can subscribers learn more about this offering?

To learn more about Morningstar Investment Services’ Tortoise and Hare Select Stock Baskets, call 1-866-765-0663.

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The responses and opinions are those of John Owens, an investment manager of MIS, as of April 2011, and are subject to change without notice. Morningstar Managed Portfolios is offered by Morningstar Investment Services, Inc., a registered investment advisor and wholly owned subsidiary of Morningstar, Inc., and is intended for citizens or legal residents of the United States or its territories. This program can only be offered by a registered investment advisor or investment advisor representative.