Why the Time is Now:
Managed Money and Your Practice

Peter Dugery, National Sales and Distribution
Agenda

- Industry Landscape – Your Environment
- Benefits of Managed Money/Third Party Platforms/TAMPs
- How can Morningstar Managed Portfolios Help You?
Landscape - Investor Challenges

- Complexity
- Volatility
- Demographics
Advisor Challenges

- Client Service
- Building your business
- Complexity and Volatility
- Competition
- Time
What is a third-party manager?

- An RIA specifically designed to team up with you
  - They manage PORTFOLIOS for your clients on a discretionary basis
- They also handle many time-consuming tasks, including:
  - Trading and Rebalancing
  - Performance Reporting
- They are an extension of your business, serving as your team of investment analysts/portfolio managers
Benefits of Utilizing a TAMP/Third-Party Manager

- Bring continuous management and oversight to your client’s portfolios
- Employ institutional quality risk controls
- Leverage the discipline and expertise of an independent manager
Morningstar Investment Services
About Morningstar Investment Services

- Objective independent approach
- Actively managed mutual fund, stock, and ETF portfolios
- Online platform including profiling tools, proposals, and statements
- Professional, discretionary investment management
  - You manage your clients and your business
  - Let us worry about portfolio construction and manager/security selection

80+ years Investment experience
Why Morningstar Investment Services?

- Our focus
  - Help fee-based, independent advisors grow their practices

- Our experience
  - 10-plus years
  - We work with thousands of advisors like you

- Our reputation
  - Clients first
  - Independence, objectivity
Our Philosophy

- We invest for the long term
- We are independent thinkers
- We employ a disciplined, consistent investment process
- We actively manage portfolios
- We are sensitive to costs and taxes
- We invest clients’ money as if it were our own
- We communicate in a timely and candid fashion
Research: Rigorous, Independent

- We do our own work
  - Draw on decades of experience researching managers
- Leverage proprietary data, analytics, grading system
  - Look beyond the stars, style box
- The world is our oyster
  - Use any fund available to us
  - No “select list”

From our base in Chicago, our investment team travels across the country, meeting with each manager in person.
Fund Selection: GPA Fund Evaluation System

Cumulative GPA

3.4 - 4.0 = Strong Buy
2.7 - 3.3 = Buy
2.0 - 2.6 = Watch List
< 2.0 = Sell
Research: GPA Report

- Examines five critical factors:
  - People
  - Process
  - Performance
  - Capacity
  - Expenses

- Performance and expense grades updated monthly
- Qualitative factors monitored, adjusted on an ongoing basis
- React to events, not calendar

GPA Report Excerpt

<table>
<thead>
<tr>
<th>EVA WORLDWIDE (E/W)</th>
<th>GPA: 3.68 (STRONG BUY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category: World Allocation (Absolute Return)</td>
<td>Name: Current In Use</td>
</tr>
<tr>
<td>Analyst: Martin Norton</td>
<td>MFS Account: $150,910,705</td>
</tr>
<tr>
<td>Date: October 14, 2011</td>
<td></td>
</tr>
</tbody>
</table>

Summary:
EVA Funds is a new fund shop in New York City, but it’s not managed by novice investors. After what looks like a filling out between Avalon and F. W. Mead in 1987, the advisor to Fast Eagle Funds, and the underlying fund management team, many team members quit the firm to set up this fund shop. They brought with them many years of earning experience, a proven investment process, and a culture of shareholder friendliness. We see a few shortcomings here—members lack access to money markets outside of Vanguard, for example—but overall we consider this fund a high conviction holding.

GPA

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weighting</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td>25%</td>
<td>3.50</td>
</tr>
<tr>
<td>People</td>
<td>25%</td>
<td>3.60</td>
</tr>
<tr>
<td>Performance</td>
<td>25%</td>
<td>3.30</td>
</tr>
<tr>
<td>Capacity</td>
<td>15%</td>
<td>3.70</td>
</tr>
<tr>
<td>Expenses</td>
<td>10%</td>
<td>2.40</td>
</tr>
<tr>
<td>Adjustment</td>
<td>5%</td>
<td>2.15</td>
</tr>
<tr>
<td>GPA</td>
<td></td>
<td>3.69</td>
</tr>
</tbody>
</table>

Process:
This fund focuses exclusively on financially healthy, competitive, and well-run companies that are trading at steep discounts to the firm’s estimates of their intrinsic values. The management team can invest across traditional sectors and across asset classes, including stocks, convertible bonds, mortgage-backed securities, high-yield paper, and other assets. The fund’s cash is not paid as residual assets left over after the management team invests in all available investment opportunities, but is considered by the team a viable asset class on its own. The fund’s cash allocation will vary between 3% and 20% (the prospectus offers a 100% cash allocation), and typically consists of commercial paper with maturities shorter than one month.

In selecting investment opportunities, the team members first look for securities they deem undervalued that also have high returns on capital employed, strong barriers to entry, and profitable reinvestment opportunities for cash flows. They work on at least 300 to 400 companies, although the team also has several thousand companies that it has previously screened and will revisit if valuation looks attractive.

For any given company, an analyst reads the last five years of annual reports and 10Ks to determine the transactions for cash in the industry and to compare the relevant ratios. The analyst then adjusts financial statements for stock options, restructuring charges, impairment losses, and non-GAAP financial guidance. Finally, the analyst will apply the transaction rate to the security to determine its intrinsic value. (EVA defines “intrinsic value” as “the amount that a knowledgeable investor or corporate competitive would pay—in cash—for 100% of the economic and controlling rights”)

Source: Morningstar Investment Services, Inc.; as of October 14, 2011. For illustrative purposes only; past performance is not a guarantee of future results. Should not be viewed as a recommendation buy or sell the mentioned securities.
Research: Using Boutique Managers

Why We Use Boutique Managers
Morningstar® ManagerPortfolios™ Weekly Commentary
For Financial Advisors Covered Since 2001

A Morningstar Investment Services research for illustrative purposes only. Morningstar Investment Services is not affiliated with companies shown.

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Risk-Management: Built Into Our Process

**Disciplined Asset Allocation**
- Strategic Allocation
  - Long-term risk/return profile
  - Diversify across asset classes
- Tactical Overlay
  - Over/underweight relative to strategic allocation

**Quantitative Analysis**
- Performance analysis
- Risk metrics

**Rigorous Fund Evaluation and Selection**
- Due Diligence
  - Interview managers
  - Peruse SEC filings
  - Hold on-site visits
  - Evaluate fund company stewardship

**Cohesive Portfolio Construction**
- Portfolio Level
  - Holdings-based analysis
  - Manage to target risk
  - Monitor fund overlap
- Monitor
  - Managers
  - Portfolio positioning
  - Risk factors

**Continuous Risk Management**
- Fund Level
  - Tailor fund to strategy
  - Contribution to portfolio risk and expenses
- Adjust
  - Rebalance accounts
  - Top-down adjustments
  - Fund specific changes
Our Asset Allocation Portfolios

Diversified across asset classes, investment styles, and managers, these portfolios target specific risk and return profiles to meet investors’ needs at every stage of their lives. Each seeks to address a certain goal, from capital preservation and income to capital appreciation and growth.

We offer both tax-deferred at taxable portfolios in non-qualified and qualified accounts. The taxable versions may avoid asset classes that are not tax efficient and will invest in municipal bonds to earn tax-exempt income.

<table>
<thead>
<tr>
<th>Tax-Deferred Allocation %</th>
<th>Conservative</th>
<th>Income &amp; Growth</th>
<th>Moderate Growth</th>
<th>Growth</th>
<th>Aggressive Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Stocks</td>
<td>19</td>
<td>30</td>
<td>38</td>
<td>48</td>
<td>58</td>
</tr>
<tr>
<td>Large Growth</td>
<td>5</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Large Value</td>
<td>9</td>
<td>12</td>
<td>14</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Mid-Cap</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Small-Cap</td>
<td>0</td>
<td>4</td>
<td>7</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>International Stocks</td>
<td>6</td>
<td>10</td>
<td>18</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>Developed</td>
<td>5</td>
<td>8</td>
<td>14</td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>Emerging</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Real Estate REITs</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Taxable Bonds</td>
<td>55</td>
<td>45</td>
<td>30</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>Investment-Grade</td>
<td>30</td>
<td>25</td>
<td>30</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>High-Yield</td>
<td>7</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Inflation-Protected</td>
<td>8</td>
<td>6</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Non-Domestic</td>
<td>10</td>
<td>8</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Alternatives</td>
<td>13</td>
<td>10</td>
<td>8</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Commodities</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>10</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Short Term Reserves</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Figures are based on a recent reallocation, and are subject to change. Asset classes shown are Morningstar category groups. Allocation of portfolios at the individual account level may vary.
Our Retirement Income Portfolios

- Designed to help investors make the transition from accumulation to distribution phase
- Generate cash flow streams to last through a specific retirement phase
- Set up payouts to range from 4-7%, over time horizons of 1-20+ years
- Stable endowment-like approach, diversified across various asset classes
Our Retirement Income Series is designed to meet the distribution needs of various investors to draw down their savings over specified time periods, reducing the risk of depleting savings too quickly, and preserving a portion of the capital invested.

Following an endowment-like approach, each portfolio is diversified across multiple asset classes, including alternative investments. This helps temper volatility and provides some downside protection relative to the broad equity market.
Our Focused Portfolios

- Allows investors to take a tactical approach to investing or further diversify existing portfolios that may lack exposure to certain market segments
- Global Allocation seeks long-term capital appreciation and income by investing in go-anywhere equity and bond funds
- Absolute Return portfolio aims to provide modest, equity-like returns while also minimizing volatility and providing downside protection in poor market environments.
Our Focused Portfolios

Enhanced Cash and Tax Advantaged Income are both short-term strategies designed to preserve capital. With low correlations to the broad market, our Absolute Return portfolio aims to provide modest, equity-like returns. The Real Return portfolio is designed to protect assets from inflation, and the Global Allocation portfolio offers a broadly diversified approach to global investing.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Enhanced Cash</th>
<th>Tax Advantaged Income</th>
<th>Absolute Return</th>
<th>Real Return</th>
<th>Global Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Stocks</td>
<td>0</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>International Stocks</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Global Stocks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>32</td>
</tr>
<tr>
<td>Bonds</td>
<td>0</td>
<td>95</td>
<td>18</td>
<td>52</td>
<td>31</td>
</tr>
<tr>
<td>Alternatives</td>
<td>0</td>
<td>0</td>
<td>61</td>
<td>42</td>
<td>13</td>
</tr>
<tr>
<td>Short Term Reserves</td>
<td>100</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Figures are based on a recent reallocation, and are subject to change. Asset classes shown are Morningstar category groups. Allocation of portfolios at the individual account level may vary.
### Absolute Return Portfolio

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Stocks</td>
<td>13</td>
</tr>
<tr>
<td>International Stocks</td>
<td>10</td>
</tr>
<tr>
<td>Taxable Bonds</td>
<td>15</td>
</tr>
<tr>
<td>Investment-Grade</td>
<td>10</td>
</tr>
<tr>
<td>High-Yield</td>
<td>5</td>
</tr>
<tr>
<td>Alternatives</td>
<td>61</td>
</tr>
<tr>
<td>Long-Short Equity</td>
<td>11</td>
</tr>
<tr>
<td>Convertible Arbitrage</td>
<td>11</td>
</tr>
<tr>
<td>Credit Arbitrage</td>
<td>10</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td>10</td>
</tr>
<tr>
<td>Global Macro</td>
<td>8</td>
</tr>
<tr>
<td>Merger Arbitrage</td>
<td>7</td>
</tr>
<tr>
<td>Commodities</td>
<td>4</td>
</tr>
<tr>
<td>Short Term Reserves</td>
<td>1</td>
</tr>
</tbody>
</table>

- Deliver moderate returns over time with lower volatility
  - Target Beta: 0.30 – 0.40
  - Upside Capture: 40-45%
  - Downside Capture: 30-35%
- Provide downside protection relative to equity markets
- Provide low correlation to the traditional broad market indexes

Portfolio allocation is as of June 2011, and is subject to change without notice. Allocation of portfolios at individual account level may vary.

Diversification does not eliminate the risk of experiencing investment losses.

See appendix for definition of statistics. An index is unmanaged and an investor cannot invest directly in an index. References to specific investments should not be considered an offer (as defined by the Securities and Exchange Act) to buy or sell that specific investment. Past performance does not indicate or guarantee future returns.
Ibbotson Active/Passive Portfolios

- Leverages the strength of both approaches
- Used by large institutions to manage investments efficiently, including CalPERS, the largest public pension fund in the U.S.
- Enhances portfolio risk-adjusted returns by finding most efficient way to invest in asset classes and markets
- Tends to reduce overall portfolio expenses
### Ibbotson Active/Passive Portfolios

<table>
<thead>
<tr>
<th>Equity / Fixed Income</th>
<th>Tax-Deferred Portfolios</th>
<th>% A / % P</th>
<th>% A / % P</th>
<th>% A / % P</th>
<th>% A / % P</th>
<th>% A / % P</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Stocks</strong></td>
<td></td>
<td>13 / 7 / 6</td>
<td>24 / 14 / 10</td>
<td>35 / 18 / 17</td>
<td>44 / 26 / 18</td>
<td>51 / 33 / 18</td>
</tr>
<tr>
<td><strong>International Stocks</strong></td>
<td></td>
<td>5 / 5 / -</td>
<td>10 / 8 / 2</td>
<td>16 / 14 / 2</td>
<td>23 / 20 / 3</td>
<td>29 / 26 / 3</td>
</tr>
<tr>
<td><strong>Real Estate REITs</strong></td>
<td></td>
<td>- / - / -</td>
<td>2 / - / 2</td>
<td>3 / - / 3</td>
<td>5 / 5 / -</td>
<td>6 / 6 / -</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td></td>
<td>71 / 29 / 42</td>
<td>56 / 25 / 31</td>
<td>37 / 20 / 17</td>
<td>19 / 11 / 8</td>
<td>4 / 4 / -</td>
</tr>
<tr>
<td><strong>Alternatives</strong></td>
<td></td>
<td>2 / - / 2</td>
<td>4 / 2 / 2</td>
<td>6 / 4 / 2</td>
<td>8 / 5 / 3</td>
<td>9 / 6 / 3</td>
</tr>
<tr>
<td><strong>Short-Term Reserves</strong></td>
<td></td>
<td>9 / - / 9</td>
<td>4 / - / 4</td>
<td>3 / - / 3</td>
<td>1 / - / 1</td>
<td>1 / - / 1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Active / Passive</strong></td>
<td>100 / 41 / 59</td>
<td>100 / 49 / 51</td>
<td>100 / 56 / 44</td>
<td>100 / 67 / 33</td>
<td>100 / 75 / 25</td>
</tr>
</tbody>
</table>

Note that the passive portion of a portfolio may be invested in a combination of indexed mutual funds and ETFs, or simply indexed mutual funds, depending on custodial arrangement. For illustration purposes, we have grouped the sub-asset allocations together, showing only the six broad asset classes above. Weightings are subject to change. All investments involve risk, including loss of principal. Past performance is no guarantee of future results. ETFs carry certain risks that may adversely affect their net asset value, market price, and/or performance. Because ETFs are not actively managed, their value may be affected by a general decline in the U.S. market segments relating to their underlying indexes. ETFs are traded on national exchanges and therefore are subject to similar investment risks as common stocks. Diversification does not assure a profit or protect against a loss in a declining market.
### Competitive Fee Structure

#### Maximum Fee Schedule

<table>
<thead>
<tr>
<th>Mutual Fund Portfolios</th>
<th>Up to $500,000</th>
<th>Next $500,000</th>
<th>Next $1MM</th>
<th>Over $2MM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morningstar Investment Services*</td>
<td>0.40%</td>
<td>0.35%</td>
<td>0.30%</td>
<td>0.20%</td>
</tr>
<tr>
<td>Advisory Firm **</td>
<td>1.10%</td>
<td>1.05%</td>
<td>1.00%</td>
<td>0.90%</td>
</tr>
<tr>
<td>Total Annual Fee</td>
<td>1.50%</td>
<td>1.40%</td>
<td>1.30%</td>
<td>1.10%</td>
</tr>
</tbody>
</table>

- Account Minimum: $50,000 (lower in family plan)
- Minimum Exceptions: Enhanced Portfolio Service, $1MM
- Client fee does not include the mutual funds’ expenses
- Advisor fee can be discounted in 5 bps increments
- Client fee does not include transaction costs associated with custody/clearing (if applicable)

*MIS Minimum Annual Fee is $200 for those accounts not held at PFPC.
**Please note that fees may vary based on business relationships.
Our ETF Portfolios
Morningstar Managed ETF Strategies

- Core-and-Explore format leverages Morningstar’s strengths
  - Asset allocation research
    - Strategic asset allocations set by Ibbotson Associates
  - Security research, portfolio construction
    - Morningstar, Inc.’s deep ETF analytics, data
    - MIS’ extensive experience managing client capital, making tactical decisions
Core-and-Explore Approach

**Core**
- Broadly diversified ETFs
- Passive and low cost
- Track asset classes in strategic asset allocation

**Explore**
- ETFs that track narrower segments (style, sector, region, etc.)
- Selection based on proprietary rating methodology
- Aim to add value over index
Core-and-Explore Approach

Information is for illustrative purposes only and is not a recommendation or an offer to purchase or sell a specific security. Information is subject to change at anytime without notice.
Our Tactical Viewpoint
April 2012

A quick take on the market and our current portfolio weightings.

The U.S. economy continued its slow improvement in the first quarter, with
signs of healing in the labor and housing markets and growing confidence
among consumers and small businesses. Nevertheless, risks remain in the
form of the European sovereign debt crisis and China’s cooling economy.

With a recovery still vulnerable to outside risks and profit margins at
extremely high levels, we’ve maintained our emphasis on high-quality compa-
nies in both the equity and debt markets. We continue to position for an
eventual increase in interest rates given their rock-bottom levels, and remain
wary of signs the economic recovery has begun to stir up inflation.

Current Portfolio Positioning

- After a strong first quarter, valuations rose into territory fairly valued, however, they still appear to offer a better risk/reward tradeoff relative to other asset classes.
- Treasury yields do not adequately compensate for the risk of rising interest rates. We keep equities and high
  quality bonds.
- Considering their negative real yields, TIPS do not look attractive to us. We remain overweight in U.S. bonds, which currently offer healthier yields and exposure to dynamic fixed income funds.
- Low-quality debt and return strategies receive our attention. We consider them as attractive alternatives to low yielding bonds.

Market Summary and Outlook

A summary of our market outlook and current portfolio positioning.

Economy

We expect the U.S. economy to continue to grow in 2012. We do not foresee recession this year, but acknowledge that the recovery remains vulnerable to external risks.

Inflation

Slight price rise during the quarter. However, U.S. wage growth, a critical component of broad-based inflation, remains tepid. Given this, we do not expect headline inflation to pick up, though the environment remains challenging.

Interest Rates

We expect rates to gradually increase as the Fed gradually ends bond purchases, the accumulated negative yield on long-term bonds, and inflationary pressures build.

U.S. Stocks

Recent earnings growth and improved economic data have spurred stock gains. Valuations don’t look cheap, but aren’t cheap.

International Stocks

A broad-based sell-off in both Europe and developing markets during the back half of 2011 seems to have made potential bargains present.

REITs

Real estate fundamentals have improved, but valuations are far from being considered cheap. We pared the back of the sector as we feel better risk/reward characteristics.

Investment-Grade Bonds

We believe that the risks will rise, but that fixed income exposure is still a good bet. Treasury, especially longer dated issues, tends to hold up better. Municipals are more attractive than Treasury, but discerning investment selection is key.

High-Yield Bonds

The outlook for high-yield bonds remains positive, with strong fundamentals and low default rates. Yields in default-related and other sectors of the high-yield market.

Inflation-Protected Bonds

Negative real yields in the TIPS market make the attractive, but we feel there’s room for improvement.

Non-Durable Goods

Given our current state of economic growth and depressed growth, we feel foreign demand remains strong and export-oriented businesses.

Equity

Underweight Neutral overweight

U.S. Stocks

International

TIPS

Bonds

Investment-Grade

High Yield

Inflation-Protected

International bonds

Alternatives

Commodities

Resource Rent

Short Term Reserves

We thank Morningstar for providing market data. Morningstar is an independent research firm that offers mutual fund data andMorningstar research is not intended as investment advice. Morningstar provides independent research and is the sole source of Morningstar data and ratings. Morningstar and Morningstar data are available at www.morningstar.com. Morningstar data also includes the Morningstar Risk-Adjusted Ratings. Morningstar and Morningstar data are available at www.morningstar.com.
Our Asset Allocation ETF Series

The low-cost portfolios in this series offer specific risk and return profiles to meet investors’ needs throughout the stages of life, from capital preservation and income to capital appreciation and growth.

Each is built and benchmarked against a targeted strategic asset allocation that represents the efficient portfolio over a long time period. An asset class review process guides decisions as to which asset classes to over- or underweight in pursuit of market opportunities.
Our Contrarian ETF Portfolios

- Three portfolios
  - Contrarian
  - Contrarian & Income
  - Contrarian & Growth
- Invest in market’s “unloved” areas
  - Based on mutual fund outflows
- Transparent, cheap to implement
  - Use ETFs that mirror unloved areas
- Potential core holding, or supporting player
Our Contrarian ETF Portfolios

The rules-based Contrarian portfolios invest in areas of the market that have recently experienced the highest outflows of mutual fund assets. Rather than adhering to a fixed asset allocation or strategic benchmark, they focus on the areas where selling has been most pronounced.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Contrarian &amp; Income</th>
<th>Contrarian</th>
<th>Contrarian &amp; Growth</th>
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</thead>
<tbody>
<tr>
<td>US Stocks</td>
<td>22</td>
<td>41</td>
<td>55</td>
</tr>
<tr>
<td>Large Growth</td>
<td>7</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>Large Value</td>
<td>6</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>Mid-Cap</td>
<td>6</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Small-Cap</td>
<td>3</td>
<td>6</td>
<td>10</td>
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<tr>
<td>International Stocks</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Developed</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Emerging</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Real Estate REITs</td>
<td></td>
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</tr>
<tr>
<td>Taxable Bonds</td>
<td></td>
<td></td>
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<tr>
<td>Investment Grade</td>
<td>46</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>High-Yield</td>
<td>4</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Inflation-Protected</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Non-Domestic</td>
<td>4</td>
<td>2</td>
<td>1</td>
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<tr>
<td>Commodities</td>
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<td>0</td>
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</tr>
<tr>
<td>Short Term Reserves</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>
Momentum investing: tendency of investments to show persistence in their patterns of returns

Can exist in nearly all securities, sectors, international markets, and asset classes.

Supported by nearly two decades of academic research

Ibbotson: strategies buying recent winners, selling recent underperformers generate significant positive returns over 6- to 12-month holding periods\(^1\).

Eugene Fama and Kenneth French: momentum investing recognizes a “missing component” -- it captures the *continuation of short-term returns*\(^2\).


Ibbotson Momentum Portfolios

Managed by Ibbotson Associates, these low-cost, active portfolios follow a strategy designed to capitalize on the tendency of investments to gather momentum over a period of time.

In each portfolio, asset class exposures generally target a ‘tilt’ of up to 75% in either direction, as the minimum and maximum percentages illustrate. The percentages vary for portfolio construction reasons, and may exceed this target in either direction.

The information displayed is for illustrative purposes only. It should not be used to assess the exact risk/return relationship between portfolios. No guarantees can be given about future performance.
Our ETF Portfolios

Asset Allocation ETF Series
- Conservative
- Income & Growth
- Moderate Growth
- Growth
- Aggressive Growth

Dynamic Series
- Contrarian & Income
- Contrarian
- Contrarian & Growth
- Global Tactical

Ibbotson Momentum Series
- Momentum 20/80
- Momentum 40/60
- Momentum 60/40
- Momentum 80/20
- Momentum 90/5

For illustrative purposes only. Not to be used to assess the exact risk/return relationship between portfolios. No guarantees can be given about future performance.
## Competitive Fee Structure

### Maximum Fee Schedule

<table>
<thead>
<tr>
<th>ETF Portfolios</th>
<th>Up to $1MM</th>
<th>Next $4MM</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morningstar Investment Services*</td>
<td>0.31%</td>
<td>0.25%</td>
<td>0.20%</td>
</tr>
<tr>
<td>Advisory Firm **</td>
<td>1.10%</td>
<td>1.10%</td>
<td>1.10%</td>
</tr>
<tr>
<td>Total Annual Fee</td>
<td>1.41%</td>
<td>1.35%</td>
<td>1.30%</td>
</tr>
</tbody>
</table>

- $100,000 account minimum
- Client fee does not include the underlying ETF’s expenses
- Client fee does not include costs associated with custody/clearing/execution
- Advisor fee can be discounted in 5 bps increments

---

*MIS Minimum Annual Fee is $200 for those accounts not held at PFPC.

**Please note that fees may vary based on business relationships.
Morningstar Managed Portfolios: Select Stock Baskets
Leveraging Morningstar, Inc.’s Equity Research

- Independent analysis from over 100 analysts, covering around 1,800 stocks
- Actionable investment ideas
  - Economic Moat ratings
  - Fair Value estimates
- Coverage Snapshot

<table>
<thead>
<tr>
<th>Cyclical</th>
<th>Sensitive</th>
<th>Defensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Materials</td>
<td>Communication Services</td>
<td>Consumer Defensive</td>
</tr>
<tr>
<td>Consumer Cyclic</td>
<td>Energy</td>
<td>Health Care</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Industrials</td>
<td>Utilities</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Technology</td>
<td></td>
</tr>
<tr>
<td>157</td>
<td>87</td>
<td>124</td>
</tr>
<tr>
<td>233</td>
<td>148</td>
<td>149</td>
</tr>
<tr>
<td>251</td>
<td>239</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>178</td>
<td>82</td>
</tr>
</tbody>
</table>

As of April 2012
In 2011 and 2012, Morningstar had a total of 11 analysts recognized in The Wall Street Journal's ‘Best on the Street’ survey.
Morningstar’s Stock Research: Focus and Key Tenets

- Look for superior businesses that trade at discounts to the Morningstar Analyst estimate of their fair values
- Free cash flow is what matters, not reported earnings
- A firm that grows without earning its cost of capital destroys long-term business value
- Shareholder value is created by maximizing the return on invested capital
- Focus on firms whose businesses display “moat-like” characteristics.
Our Select Stock Baskets: Custom Series
Our Select Stock Baskets Custom Series at a Glance

- Customized portfolio of individual equities
  - 25 to 35 of our highest conviction stock ideas
- Tailored to a client’s needs
  - Restrict sector, industry, or individual stock exposures
  - Combine with a portfolio of fixed-income mutual funds or ETFs
- Accommodate current client holdings*
  - Transfer existing holdings
  - Portfolio can be built around client’s other holdings
- Actively managed to achieve added value
  - Buy and sell discipline
  - Optimal balance of risk and reward
  - Mindful of tax and cost implications

*Initial and subsequent funding in the client’s account may be in cash, and/or transfer of positions currently held including common stocks, ETFs and mutual funds; due to liquidity restrictions and trading constraints, any position that is transferred may be rejected and required to be removed from the account. For Illustrative Purposes only. Data and information is subject to change at any time without notice.
Select Stock Baskets Custom Series

<table>
<thead>
<tr>
<th>Broad Market</th>
<th>Global Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite Style</td>
<td>Equity Income</td>
</tr>
<tr>
<td></td>
<td>Capital Appreciation</td>
</tr>
<tr>
<td>Foreign</td>
<td>Foreign Equity</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>Small + Mid-Cap Equity</td>
</tr>
</tbody>
</table>

- You can elect further customization
- $250,000 account minimum
Keeping the Taxman at Bay

► Our tax management process has a personalized touch
  ► Accommodate client-specific requests
  ► Example: recognizing the account’s net unrealized capital gain over a stated number of years

► We look for tax-loss harvesting opportunities throughout the year
  ► Not only at year-end

► We think twice before realizing large capital gains
  ► The value of deferral can be quite significant

► Bottom line: maximizing our client’s long-term after-tax returns
Select Stock Baskets: Strategist Series
Select Stock Basket strategies to choose from

- The Tortoise Portfolio
- The Hare Portfolio
- The Dividend Portfolio

These three are patterned after Morningstar, Inc.’s popular monthly newsletters

- Morningstar StockInvestor
- Morningstar DividendInvestor

Account minimums

- All Equity - $100,000
- With Fixed Income (80/20, 65/35, 50/50) - $250,000

For illustrative purposes only. There is no guarantee that the Select Stock Basket Strategist Series will perform as the portfolios after which they were patterned.

*Please note that portfolio availability may vary based on business relationships.
The U.S. Wide Moat Focus Portfolio

Invests equally in the 20 cheapest “wide moat” stocks
Designed to track the Morningstar Wide Moat Focus Index
Morningstar Wide Moat Focus Index has an outstanding long-term record

Morningstar Wide Moat Focus Index Performance
# Select Stock Baskets

<table>
<thead>
<tr>
<th>Our Select Stock Baskets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategist Series</strong></td>
</tr>
<tr>
<td>Minimum Investment: $100,000</td>
</tr>
<tr>
<td>T Tortoise Portfolio</td>
</tr>
<tr>
<td>H Hare Portfolio</td>
</tr>
<tr>
<td>+ Dividend Portfolio</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Custom Series</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Investment: $250,000</td>
</tr>
<tr>
<td>📈 Global Equity Portfolio</td>
</tr>
<tr>
<td>📈 Small/Mid-Cap Equity Portfolio</td>
</tr>
<tr>
<td>📈 Equity Income Portfolio</td>
</tr>
<tr>
<td>📈 Capital Appreciation Portfolio</td>
</tr>
<tr>
<td>🌍 Foreign Equity Portfolio</td>
</tr>
</tbody>
</table>
## Competitive Fee Structure

### Maximum Fee Schedule

<table>
<thead>
<tr>
<th>Select Stock Baskets</th>
<th>Up to $1MM</th>
<th>Next $4MM</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morningstar Investment Services*</td>
<td>0.55%</td>
<td>0.50%</td>
<td>0.45%</td>
</tr>
<tr>
<td>Advisory Firm **</td>
<td>1.10%</td>
<td>1.10%</td>
<td>1.10%</td>
</tr>
<tr>
<td>Total Annual Fee</td>
<td>1.65%</td>
<td>1.60%</td>
<td>1.55%</td>
</tr>
</tbody>
</table>

- Account minimums: $100,000 Strategist Series, $250,000 Custom Series
- Client fee does not include costs associated with custody/clearing/execution
- Advisor fee can be discounted in 5 bps increments
Our Sales Team

Reach our sales team members at 877 626-3224

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