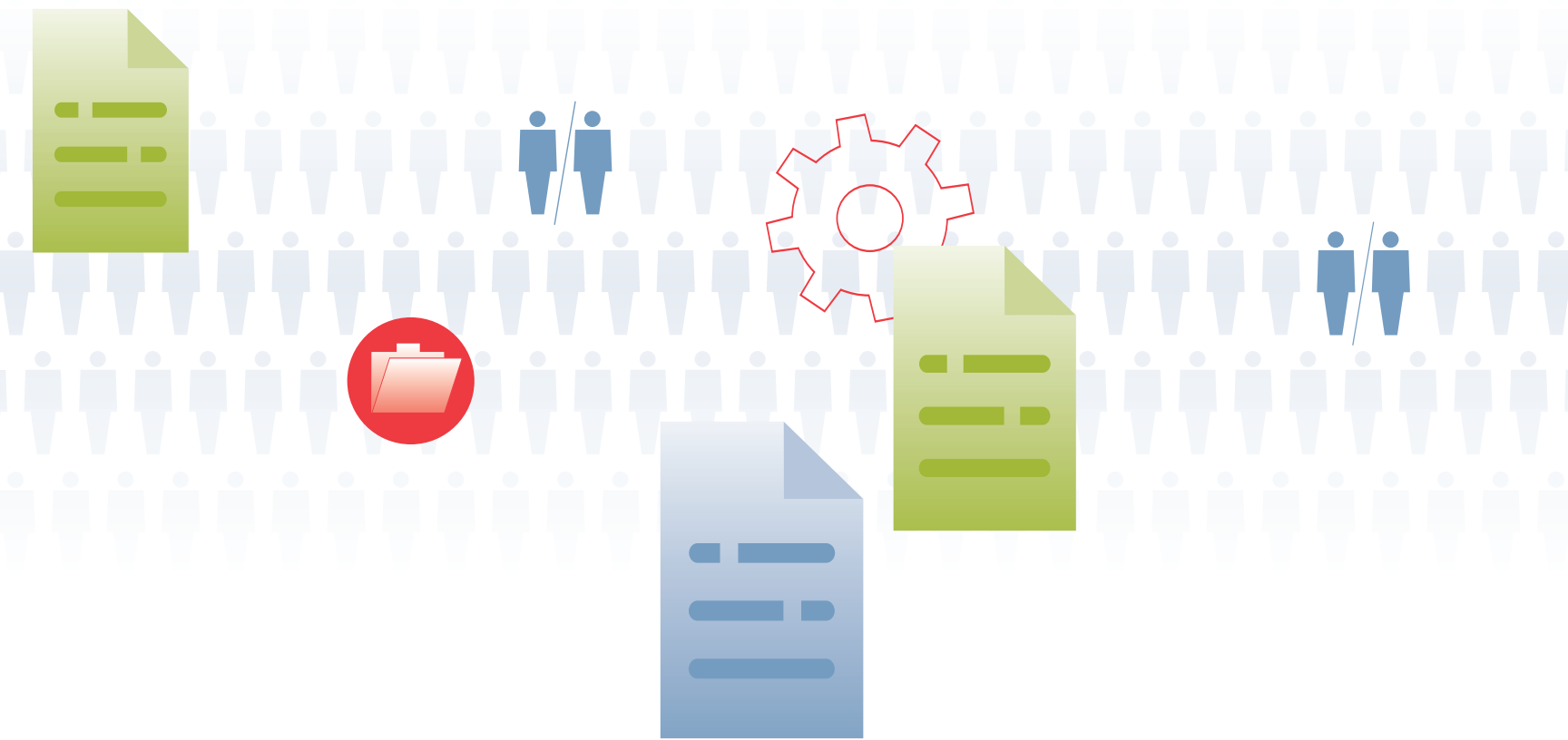


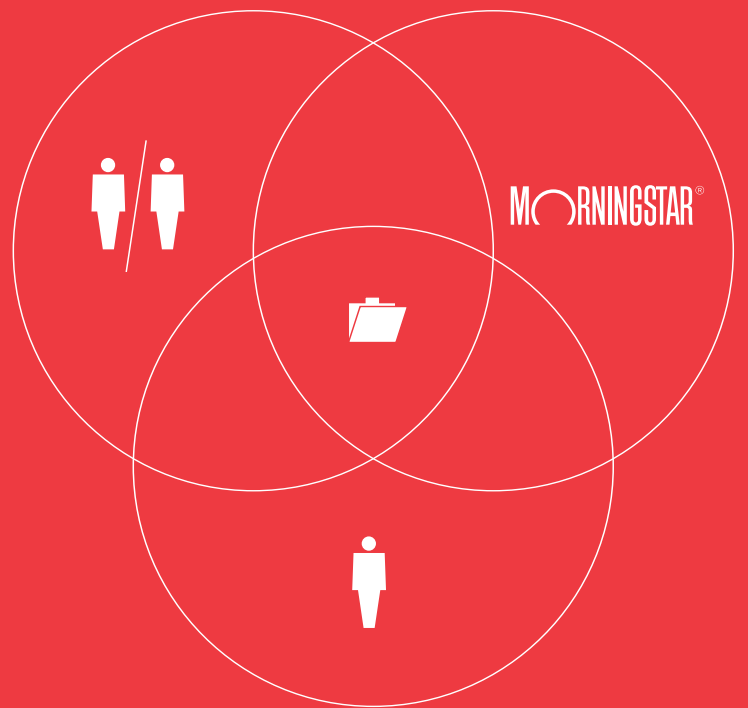
# Fund Investing Simplified

**Morningstar® Managed Portfolios<sup>SM</sup>**



**Two Sets of Expertise, One Goal.**

Morningstar Managed Portfolios is an effective investment solution because it relies on two trusted groups: Your financial advisor, who understands your dreams and future needs, and the Morningstar Investment Services team, which specializes in rigorous research and investment management and strategy. Together, we give you a portfolio that is aligned with your goals.



## **Complex Investment Strategies Simplified Portfolio Management**

Investing wisely has always been a bit complicated. In order to make the best decisions, you need to know the market intimately, research it obsessively, watch it carefully, and manage it actively. Most people, however, have neither the time nor the specialized knowledge to navigate these complexities.

Enter Morningstar® Managed Portfolios,<sup>SM</sup> an investing solution developed by Morningstar Investment Services and implemented by your financial advisor that helps maximize your portfolio's chance for success and allows you to have as much or as little involvement in the day-to-day process as you like.

Morningstar Managed Portfolios provides you with all the benefits of a complex investment service—objective and independent research, strategic asset allocation, access to a full universe of mutual funds, and proactive portfolio management that responds to market trends and changing risk—but with a simplified approach that makes sense.

# Managed Portfolios at a Glance

Morningstar Managed Portfolios gives you attractive investment options. Here's what you can expect.

## Smart Strategies

All of our strategies are diversified within their respective areas, which means your portfolio is positioned to take advantage of varying market action.

## Greater Access

As an institutional investor, we can give you access to funds and managers that may not otherwise be available to you.

## What You See Is What You Get

All our interactions are up front, transparent, and well documented.

## Less Paperwork, More Communication

We don't inundate you with paperwork, prospectuses, and brochures. They're available if you want them, but we prefer to offer only direct information about your portfolio.

## No Hidden Fees

With a simple fee structure, all our costs are clearly disclosed. There are no buried charges.

## As Much or as Little Involvement as You Prefer

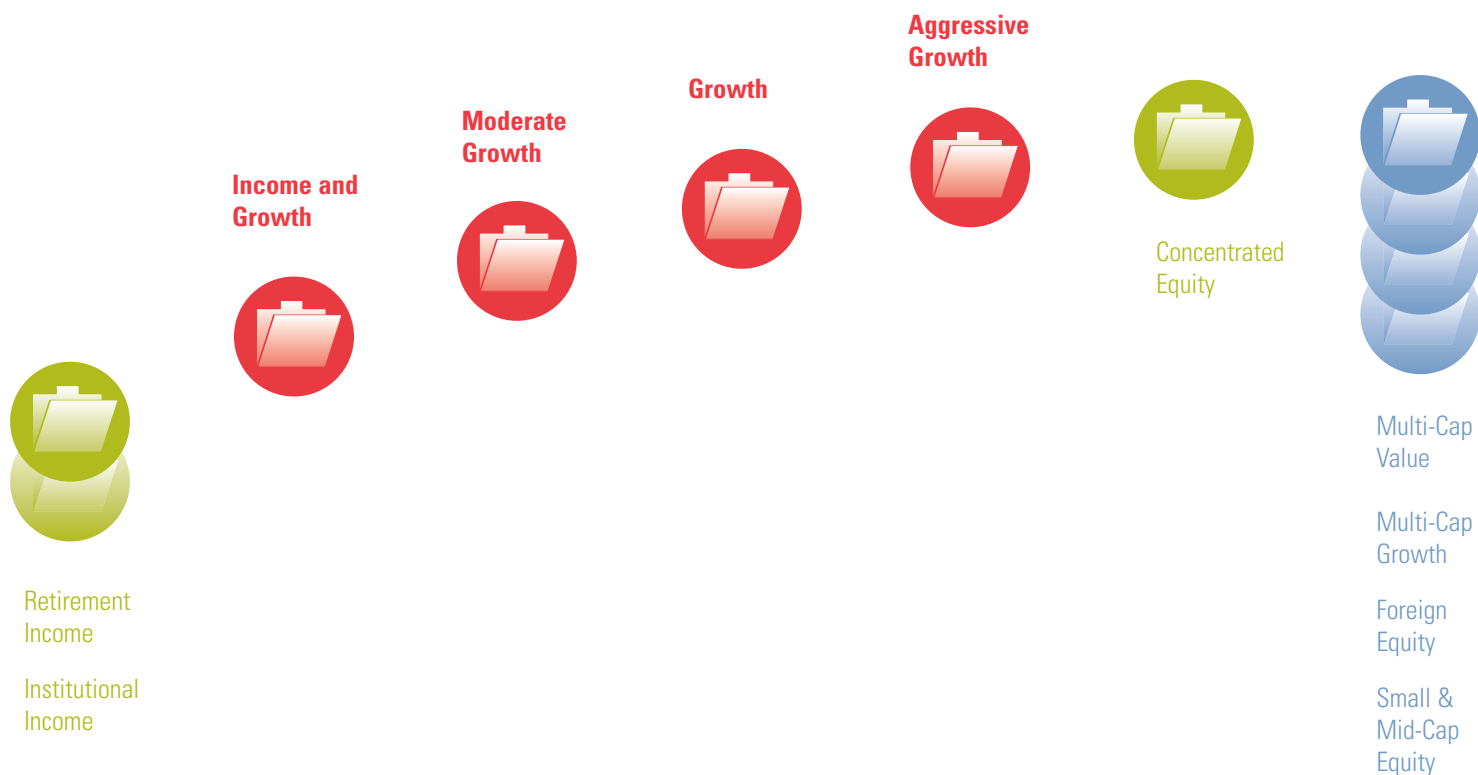
If you like to track your portfolio's progress daily, we make that available online. If you're more hands-off, you'll be happy with our quarterly reporting system.

## A Focus on You

We may know investing, but in the end, that's less important than your needs and dreams. We are simply here to help you reach your goals.



Morningstar Investment Services provides a full line of portfolios designed to meet a wide range of needs. All are managed with a focus on risk-sensitive results.



**Asset Allocation Portfolios**

These fully diversified options are designed to meet your needs at various life stages with different risk profiles and return objectives. These comprehensive portfolio solutions include multiple asset classes, investment styles, and managers.



**Strategy Portfolios**

From income for retirement, to targeted equity exposure, to a way to weather multiple market environments, this line offers a number of appealing options to fit specific needs.



**Style Portfolios**

These targeted options provide exposure to a specific area of the capital markets. They make good complements to an existing portfolio and can help diversify a portfolio that may be too concentrated in a given area.

The information displayed is for illustrative purposes only. It should not be used to assess exact spacing between portfolios. No guarantees can be given about future performance. Not all portfolios may be available for your use. Please check with your financial advisor.

## What's Inside Your Managed Portfolio?

With each Morningstar Managed Portfolio, you'll find a finely honed formula for establishing, managing, and monitoring each portfolio.

### **Portfolio Engineering: A Dynamic, Highly Strategic Approach**

Every portfolio rests on a foundation of strong engineering, which drives the framework that brings the portfolio together and sets the parameters from which our investment decisions flow. This framework incorporates asset allocation strategy, strategic options, and risk tolerance. Our edge lies in the tools with which we evaluate, track, and continually test these factors, as well as the precision with which we adhere to the portfolio's parameters.

### **Fund Selection: Objective Evaluation of More than 23,000 Fund Share Classes**

The best way to understand our fund selection process is to visualize a funnel where we move from a wide field to a narrow focus.

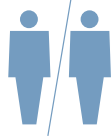
We start by screening more than 23,000 mutual fund share classes available in the Morningstar, Inc. database, examining risk-adjusted performance as well as various fundamental data such as manager tenure, expenses, risk, and portfolio characteristics. From there, we winnow down the potential universe using our quantitative analysis. We then evaluate fund interactions to ensure both diversification and that the funds work well together. Finally, we test the fund combinations to determine how the portfolios react to market conditions and economic factors—both today and in the past.

At this point, we determine the final group of funds for each portfolio.

During the fund evaluation process, we use our proprietary fund rating system, which combines quantitative data with a qualitative assessment of a fund's managers and investment process.

Only those funds with a high rating, indicating a corresponding high level of confidence by the investment team, make it into your portfolio. The team assigns a rating to the following key factors after asking penetrating questions and applying rigorous analysis:

- ▶ Investment process—Do the fund managers employ a disciplined, proven process? We look for attributes such as insightful security analysis, robust valuation assessments, active risk management, and strong idea generation.
- ▶ People—What are the depth and capabilities of the investment team? We judge the quality of the team and stability of the organization as well as management's tendency to act in the best interests of shareholders.
- ▶ Risk-adjusted performance—Which funds deliver solid, risk-adjusted performance in a consistent manner over time?
- ▶ Capacity—Is the investment strategy constrained by assets under management? If so, what steps have management taken to address capacity?
- ▶ Expenses—We review the fund's expenses from multiple angles and within the proper context, which is important for understanding future performance activity.
- ▶ Other factors—We also consider the fit within a portfolio, attractiveness within a given market environment, the level of information and support, and other subtle yet important factors.



## Portfolio Construction

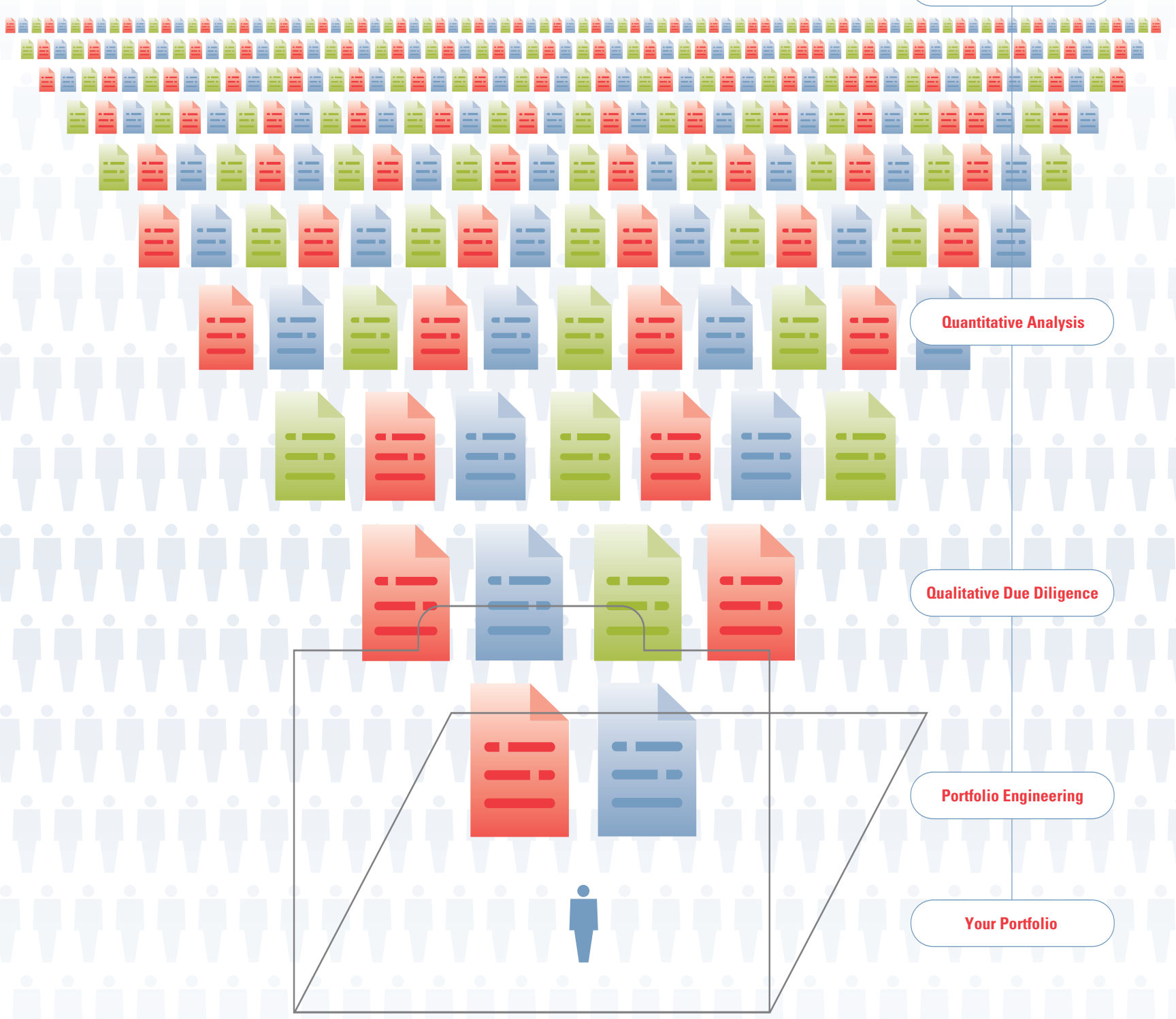
Universe of 23,000 Funds

Quantitative Analysis

Qualitative Due Diligence

Portfolio Engineering

Your Portfolio



## **Active Management: Continually Aligning Portfolio Objectives with Expectations**

We divide portfolio monitoring into two distinct parts: reallocating, which allows us to make adjustments to the portfolio's positioning based on the market environment and for fund-specific reasons, and rebalancing, which we use to maintain a certain risk profile. Think of it as the difference between redesigning the house's foundation and architecture and making minor design changes to the interior of a house.

### *Reallocating*

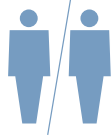
By monitoring the portfolio on multiple levels—at the portfolio level to ensure it stays in line with established parameters, at the fund level to track manager activities, and at the market level to monitor influences—we can determine when it is appropriate to make changes. For example, we would reallocate when the structure deviates from the investment strategy, when alterations at a fund indicate that performance expectations will fall short, when market conditions shift, when a fund manager leaves, or when there are significant changes within the management company. After identifying the changes needed, we then look at all the factors affected by the change: redistribution of assets, which strategies are affected, potential tax implications, and the impact on funds.

### *Rebalancing*

We employ a needs-based rebalancing methodology, whereby we assign a target position and deviation threshold for every mutual fund in your portfolio. This governs how far a fund can stray from its target weighting. The thresholds are determined by the percentage of your assets invested in each fund and the volatility of the securities in which each fund invests. Whenever a fund reaches its predetermined deviation threshold, we immediately evaluate the account and determine if we need to make adjustments to bring the portfolio back into alignment. It's similar to quality control practices used in manufacturing in which machinery gets recalibrated when output falls either over or under the desired rates and needs to get back on track.

## **Due Diligence: In-Depth Research and Careful Questioning**

Our comprehensive approach includes penetrating quantitative analysis along with an extensive qualitative review of the fund and management team. With the latter, we make on-site visits at fund companies, conduct frequent follow-ups, and track fund managers' careers closely. We look at fund management's "bench strength" to ensure continuity, and work to ensure that a fund's strategy and performance are in sync. We are also not afraid to continually ask the tough questions: Is this company doing what it says it will do? How much risk does a manager take on? Is the fund's performance in line with its stated strategy? If the fund manager leaves, are there people in place who can seamlessly take over?



## Active Management

Monitoring Economic Forces

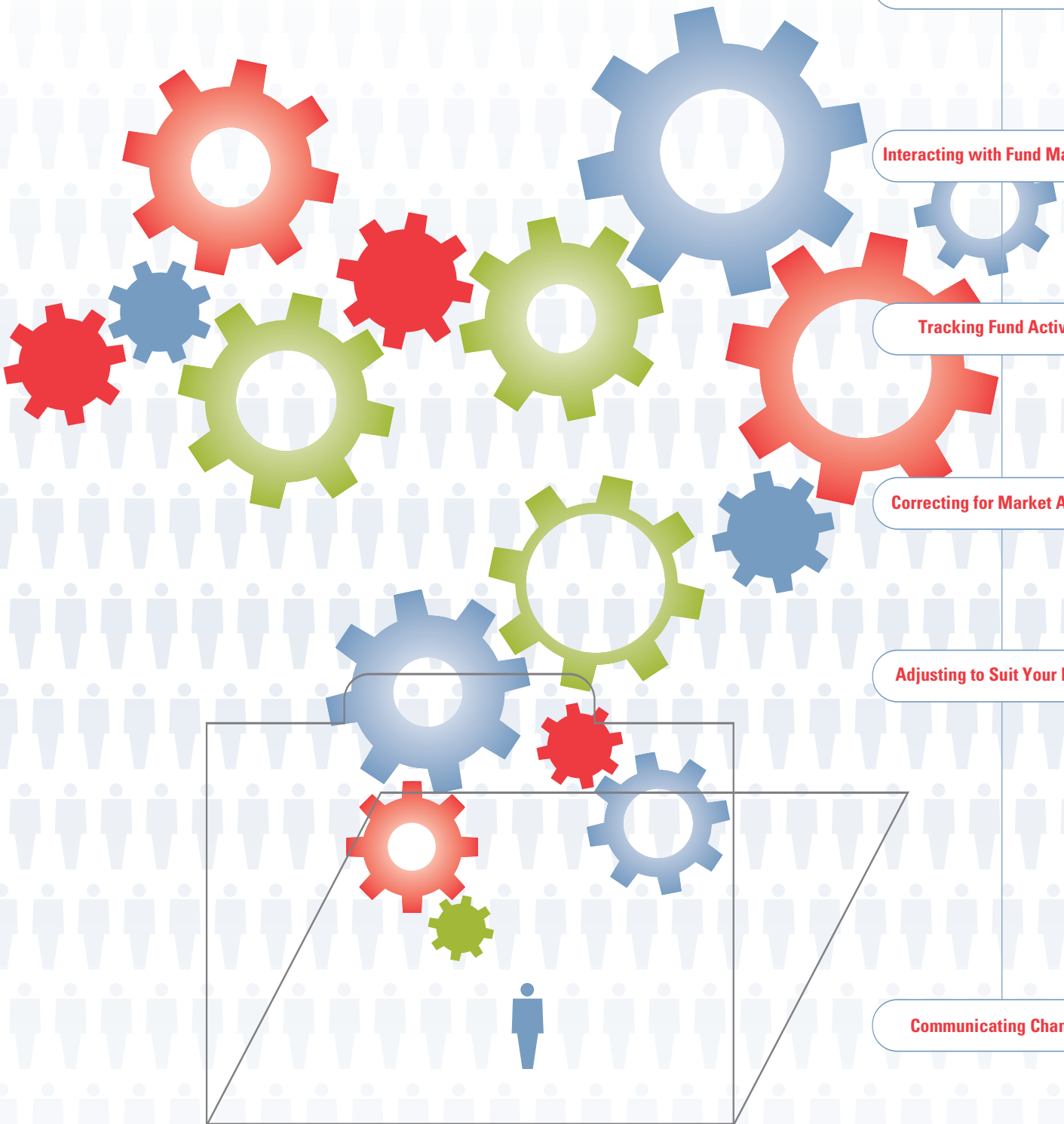
Interacting with Fund Managers

Tracking Fund Activity

Correcting for Market Actions

Adjusting to Suit Your Needs

Communicating Changes



## Creating a Streamlined, Simplified Investment Process: How Morningstar Investment Services and Your Financial Advisor Work Together

With Morningstar Managed Portfolios, you get twice the service, expertise, and ongoing attention to your portfolio because we work directly with your financial advisor. As a team, we provide a full-service solution that taps into each of our strengths.

### Your Advisor's Role

#### Aligning You with Your Investment Goals

##### *Blueprint Architect*

Your advisor works with you to develop your investment goals, establish risk preferences, decide upon asset allocation, and determine long-term strategy. This then serves as the map, or blueprint, from which your portfolio is created.

##### *Account Monitor*

Whether you're actively accessing your account or just letting it sit and accumulate, your advisor can monitor your cash flow, performance, and transaction activity.

##### *Investment Liaison*

By staying connected to the Morningstar Investment Services investment team, your advisor can help you understand why portfolio decisions are made and ensure that your portfolio continues to meet your needs.

##### *Financial Coach*

Your advisor can support you through all life's events and help you determine their effect on your investment goals and portfolio.

### Morningstar Investment Services' Role

#### Building on the Company's Key Principles

##### *Reputation*

For more than 20 years, Morningstar, Inc. has been one of the most trusted names in investment research. You receive the benefit of this experience, along with doors that our reputation opens.

##### *Research*

Our objective, independent research assesses thousands of investments and identifies those with the best long-term prospects. This enables us to construct a portfolio with the strongest potential for compounding your wealth.

##### *Relationships*

The finest portfolio of securities is irrelevant if it is not designed to meet your needs and objectives. That's why we take a personalized, long-term approach to working with you and your advisor.

##### *Reliability*

Our investing solutions are built on sound portfolio and risk-management techniques. We remain completely objective with fund selections, which in turn allows us to build portfolios that work for you, and with you.

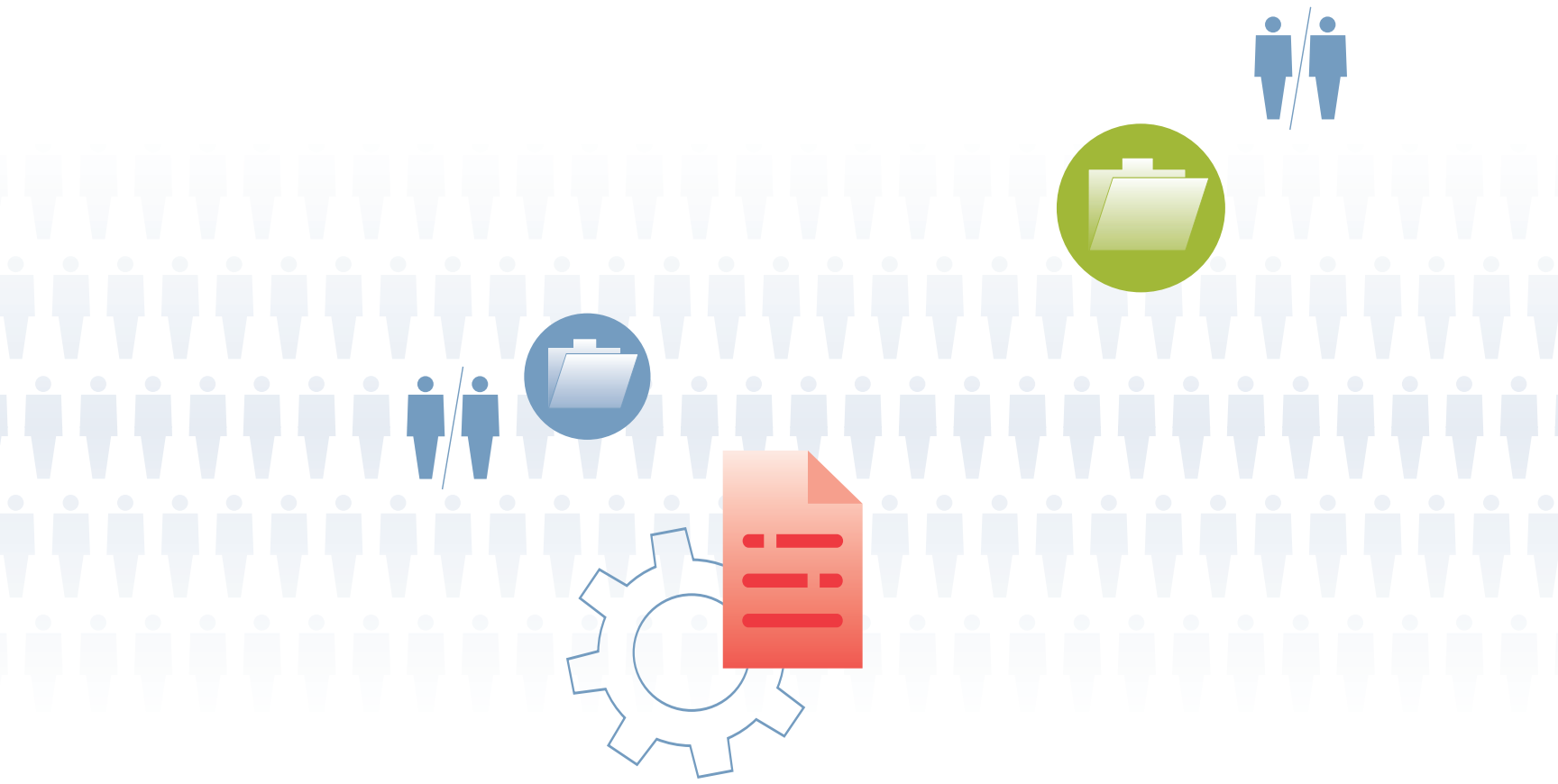
##### *Results*

Solid results come from an investment process that is consistent with the stated objectives. Integrity in our process means that we do what we say we'll do. Every time. It's that simple.

#### Combining Strengths to Create Your Portfolio

By merging the investing blueprint you've developed with your advisor with our investment management experience, together we construct a portfolio that not only reflects your goals but can also balance stability and security with opportunity. In a very real sense, you get the best of both worlds: a simplified investing process tailored to your goals that doesn't compromise on the complexities of portfolio management—choice, value, research, monitoring, and due diligence.





**MORNINGSTAR<sup>®</sup>**

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