

# Firm Brochure Summary of Material Changes

Ibbotson Associates, Inc.

## Institutional Investment Consulting Services

22 West Washington Street  
Chicago, IL 60602  
312.696.6700

[www.ibbotson.com](http://www.ibbotson.com)

March 26, 2015

We are required to provide you annually with a summary of material changes to our qualifications or business practices that have occurred since our last annual update. The following is a summary of the material changes to the Form ADV Part 2A and Part 2B for Ibbotson Associates, Inc. ("Ibbotson") since our last update, dated March 25, 2014.

### *Updates to the ADV Part 2A:*

As of December 31, 2014, our assets under management shown in the **Advisory Business** section (rounded to the nearest \$100,000) are as follows:

- Discretionary Assets: \$ 37,995,700,000
- Investment Consulting/Sub-Advising: \$ 2,430,000,000
- Retirement Solutions: \$ 35,565,800,000
- Non-Discretionary Assets: \$0

The following paragraph was added to the **Methods of Analysis, Investment Strategies, and Risk of Loss** section:

Portfolios invested in exchange-traded funds ("ETFs") in which the investment objective is to track that sector. ETFs are traded on national exchanges and therefore are subject to similar investment risks as common stocks. Additionally, exchange traded funds are subject to such things as:

- The market price of an ETF may be at, above or below its net asset value ("NAV"). The ETF's NAV will fluctuate as a result of changes in the market value of its underlying holdings whereas the market price will fluctuate in accordance with changes in the NAV plus the ETF's market supply and demand.
- An ETF's performance may not be exactly that of its underlying index. This may be due to imperfect matches between the ETF's underlying investments and those of the underlying index. In addition, differences also arise due to the fact that an ETF incurs fees and expenses while its underlying index does not.

During 2014, our parent company Morningstar, Inc., acquired all outstanding ownership interests in HelloWallet, LLC, and also acquired full ownership of ByAllAccounts. In addition, senior management was restructured to include more global oversight of the investment advisory subsidiaries. Therefore, the sixth and seventh paragraphs of the "Other Financial Industry Activities and Affiliates" were deleted and replaced with the following two paragraphs:

In some instances, we may use the employees or resources of Morningstar or its affiliates to provide certain support services in conjunction with our advisory services. In addition, Morningstar or its affiliates may also use our employees and resources to provide certain support services in conjunction with the services offered by Morningstar or its affiliates. These affiliates may include Ibbotson Associates, Inc. ("Ibbotson"), a registered investment adviser, Morningstar Investment Services, Inc., a dually registered investment adviser and limited broker-dealer, HelloWallet, LLC, an employee financial wellness program, and ByAllAccounts, an account and data aggregation service. All these entities are wholly owned subsidiaries of Morningstar. If an additional fee for such products or services by Morningstar or its affiliates is required, it will be set forth in the client advisory agreement. In these situations, clients may pay a fee directly to Morningstar or each such affiliate for its products or services, or as part of a joint fee schedule which encompasses all services.

In addition to the U.S.-based affiliates described above, Morningstar is a direct or indirect owner of a number of other investment advisory entities located in other countries. In some cases, members of our senior management may have some management responsibilities to these other affiliated entities. We do not believe that these management responsibilities create any material conflicts of interests for our clients. A current list of all of our investment advisory affiliates can be found in our

Form ADV Part 1, which can be obtained at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), as described on Page 2 of this Brochure.

### *Updates to the ADV Part 2B*

Lucian Marinescu was added to the investment team. His biographical information is as follows:

#### **Lucian Marinescu, CFA**

Email: [lucian.marinescu@morningstar.com](mailto:lucian.marinescu@morningstar.com)

*Educational Background and Business Experience:* Lucian is a senior investment consultant. He served as a project manager for Morningstar, Inc. beginning in 2002 before joining Ibbotson Associates, Inc. in 2007. Born in 1979, Lucian has a BA in economics and business administration from Monmouth College and an MBA from University of Chicago Booth School of Business. Lucian is also a CFA\* charterholder.

*Disciplinary Information:* None.

*Other Business Activities:* None.

*Additional Compensation:* None.

Thomas Idzorek stepped down as president of Morningstar's Investment Management group in February 2015 to take on a role as head of investment methodology and economic research for Morningstar. Daniel Needham, global chief investment officer for Morningstar's Investment Management group, succeeds Mr. Idzorek as president.

Therefore, the first two sentences of the Supervision section are deleted and replaced to read as follows:

Scott Wentsel, chief investment officer of the Americas for Morningstar's Investment Management group, provides guidance on the type of strategies we offer and the nature of the due diligence we conduct. He oversees, either directly or indirectly, the investment team, including setting the strategic direction and goals of the team. He is supervised by Daniel Needham, president and global chief investment officer of the Investment Management group.

We may have made other edits to our Form ADV Part 2A and Part 2B where necessary to correct grammar or punctuation, to provide clarification or further information, for consistency in terminology or content, or to improve the readability of the brochure. We do not deem these edits to be material in nature. You may obtain a current copy of our brochure at any time as described below.

Our brochures provide information about our qualifications and business practices to help you determine whether to hire or retain us as your investment adviser. If you have any questions about the contents of this brochure, please contact us at 312.696.6700.

The information in our brochures has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Ibbotson is a registered investment adviser and wholly owned subsidiary of Morningstar, Inc. Registration does not imply a certain level of skill or training.

Additional information about Ibbotson is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Select Investment Adviser Search in the main menu, then perform a Firm Search to locate the record for Ibbotson Associates, Inc., CRD No. 111057. All current versions of our Firm Brochures are available in the Part 2 Brochures section of this record. You may also request a copy of our current Firm Brochure free of charge by contacting our Compliance Department at 312.696.6000, or by email to [complianceemail@morningstar.com](mailto:complianceemail@morningstar.com).

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# Form ADV Part 2A: Firm Brochure

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Ibbotson Associates, Inc.

## Institutional Investment Consulting Services

March 26, 2015

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## Form ADV Part 2A: Firm Brochure

Ibbotson Associates, Inc.

### Institutional Investment Consulting Services

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March 26, 2015

This brochure provides information about the qualifications and business practices of Ibbotson Associates, Inc. to help you determine whether to hire or retain us as your investment adviser. If you have any questions about the contents of this brochure, please contact us at 312.696.6700.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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Additional information about Ibbotson Associates, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Select Investment Adviser Search in the main menu, then perform a Firm Search to locate the record for Ibbotson Associates, Inc., CRD No. 111057. All current versions of our brochures are available in the Part 2 Brochures section of this record.

You may also request a copy of our current brochure free of charge by contacting our Compliance Department at 312.696.6000, or by email to [compliance@morningstar.com](mailto:compliance@morningstar.com). In your request, please indicate the name of the company (Ibbotson Associates) and the service brochure(s) (Retirement Solutions, Institutional Investment Consulting, and/or Third-Party Advisory Programs) you are requesting.

### Advisory Business

Ibbotson Associates, Inc. ("Ibbotson") is part of Morningstar's Investment Management group, which is the marketing name for the investment advisory businesses of Morningstar, Inc. ("Morningstar"), a publicly-traded company (Nasdaq Ticker: MORN). Ibbotson is a wholly owned subsidiary of Morningstar, Inc. Because we are required to inform you of any individual who holds more than 25% of our company, please be advised that Joseph Mansueto, CEO of Morningstar, individually holds more than 50% of Morningstar's outstanding shares of stock, and is therefore an indirect owner of more than 50% of Ibbotson.

Ibbotson has been registered with the SEC since 2000. In addition, we have filed the appropriate notices to conduct business in all 50 states, the District of Columbia, and Puerto Rico. Ibbotson was founded in 1977 and was acquired by Morningstar in 2006.

This brochure focuses on our Institutional Investment Consulting Services. You may obtain a copy of our brochures describing our services to providers of retirement plan services or to third-party advisory programs by following the instructions above.

We offer investment consulting and sub-advisory services to financial institutions including broker-dealers, asset management firms, banks, and insurance companies ("Institutional Clients"). The core services we offer to Institutional Clients consist of asset allocation, manager selection and portfolio construction. In most cases, this involves the construction of risk-based asset-class and/or investment-specific model portfolios (e.g., model portfolios ranging from conservative to aggressive). These services are typically used by our Institutional Clients in their investment products, wrap programs, variable annuity asset allocation programs or similar types of programs ("Products"). We review and make necessary adjustments to the model portfolios on a periodic basis, at a minimum annually. We may provide Institutional Clients with rebalancing triggers and recommendations on when the allocations for asset classes or underlying investment options should be revisited or adjusted. Our selection of investments for the investment-specific model portfolios is limited to the universe of investments as defined by the individual Institutional Client. In most cases, those investments are limited to open-end mutual funds and/or exchange-traded funds ("ETFs").

We may also assist Institutional Clients with manager selection. In this capacity, we identify fund managers that the individual Institutional Client may want to consider for its Products. The identification of fund managers is based upon factors such as manager style, consistency, discipline in the investment management process, manager performance expectations, and the desire to manage active risk.

In addition, we may design and license a risk tolerance questionnaire ("RTQ") to Institutional Clients for use with their Products. Typically, these RTQs are designed to be educational in nature and are not intended to be considered investment advice by Ibbotson.

In limited circumstances, we offer asset allocation services to insurance companies that include suggesting a life insurance face amount along with suggested allocations into traditional asset classes (e.g., large cap growth). The insurance company makes this service available to its representatives primarily as a starting point in the development of an investment strategy that the representative deems appropriate for his or her client. We do not recommend a specific insurance product and we do not have any involvement in its sale. The insurance company's representatives have full responsibility in making suitable recommendations to their clients including, among other things, determining which insurance carrier to use and which insurance product is most appropriate for their client (e.g., term, whole life).

In some cases, we may assist Institutional Clients in the construction of an index by providing allocation recommendations. The Institutional Client may use our recommendations to create an index, which the Institutional Client may use in its Products.

*Regulatory Assets Under Management.* As of 12/31/2014, our assets under management (rounded to the nearest \$100,000) were as follows:

Discretionary Assets: \$ 37,995,700,000

- Investment Consulting/Sub-Advising: \$ 2,430,000,000
- Retirement Solutions: \$ 35,565,800,000
- Non-Discretionary Assets: \$0

### **Fees and Compensation**

Fees charged for investment consulting or sub-advising services may include (1) a percentage of assets; (2) an annual, monthly, or project-based fixed fee; or (3) a combination of the two.

All fees are negotiated on an individual basis with each Institutional Client, and can vary depending on a variety of factors, including the products and services provided, the term of the contract, and the size of the Institutional Client's client base. Specific fees are stated in the contractual agreements between the parties. Asset based fees are typically collected quarterly in arrears based on eligible assets in that quarter. Fixed fees for services are typically billed as they are incurred or upon completion of the engagement. Payment schedules and terms are negotiated on an individual basis with each client.

Please note that our fees noted above do not include all fees, such as the fees and expenses charged by the investment options we may recommend (e.g., mutual fund expenses or redemption fees), and fees and expenses charged by the Institutional Client for their Products, including any revenue sharing arrangements that they may have with the investment option's investment adviser and/or distributor.

Termination of services and refunds of fees, if any, are governed by the contractual agreement between the parties, which is negotiated on an individual basis.

### **Performance-Based Fees and Side-by-Side Management**

We do not charge any performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets in your account). Therefore, we do not manage any performance-based fee accounts side-by-side with non-performance based fee accounts.

### **Types of Clients**

We offer investment consulting and sub-advisory services to Institutional Clients (e.g., broker-dealers, asset management firms, and insurance companies). The core services offered to these institutions consist of asset allocation and portfolio construction. We do not require a minimum account size, and we generally do not impose other conditions for using our institutional consulting services. In addition to the services to Institutional Clients described in this brochure, we also provide services to providers of retirement plan services and to third-party advisory programs. You may obtain a copy of our brochures describing these services by following the instructions on Page 2.

### **Methods of Analysis, Investment Strategies, and Risk of Loss**

In making our investment recommendations, we typically employ a five-step process. The steps of this process include:

*1. Develop Asset Class Inputs.* We develop capital market forecasts for every asset class by using a combination of relative historical economic data and current market information. Examples of the types of data that are used to estimate returns include inflation, dividend yields, share repurchases, growth of the economy, market valuation measures, real interest rates, the term structure of interest rates and credit spreads.

Correlations and asset class standard deviations are estimated using a variety of techniques on both relevant historical returns as well as market implied volatility information. When estimating correlations we over-weight more recent observations and under-weight more distant history based on our belief that the more recent observations are more indicative of the future relationship of asset classes with one another. When estimating standard deviations, we use the longest applicable time periods. For most fixed income asset classes this is

1973 and for many equity asset classes this is 1926. For asset classes with short histories we construct backfilled asset class proxy histories that estimate the returns of an asset class, had it existed over the longer time period. This technique enables us to have a more complete picture of the risk characteristics of asset classes with short histories.

In some projects we also look at the non-normal return properties, such as skewness (non-symmetry) and kurtosis (thickness of the tails of the distribution).

*2. Create Asset Class Model Portfolios.* When developing strategic asset allocation model portfolios, we employ a variety of advanced techniques, including traditional mean-variance optimization, higher moment optimization (mean-conditional value-at-risk), surplus optimization (liability-driven investing), resampling techniques, simulation analysis, and sensitivity analysis.

Traditional mean-variance optimization leads to an efficient frontier that maximizes return per unit of variance, or equivalently, minimizes variance for a given level of return. While we are heavy users of mean-variance optimization, we believe it is important to also go beyond traditional mean-variance optimization and use higher moment optimization techniques that recognize that asset class returns are not normally distributed. Our preferred approach is mean-conditional value-at-risk in which our definition of risk expressly accounts for non-normal returns.

After establishing several potential policy portfolios, we often conduct forward-looking Monte Carlo simulations that attempt to incorporate variable factors (e.g., cash flow) and forward-looking capital market assumptions. The goal of the simulations is to provide a reasonably accurate picture of the distribution of potential outcomes associated with different policy portfolios to better determine risk profiles.

Our simulation process combines a sophisticated econometric term structure model with a Truncated Lévy Flight simulation procedure. The econometric models work to preserve serial correlations and mean reversion characteristics of asset class returns while the Truncated Lévy Flight simulation procedure helps preserve the forecasted cross-correlation structure of the different asset classes as well as the non-normal characteristics of returns, namely skewness and kurtosis. The end result is simulated asset class returns based on forward-looking capital market assumptions, with appropriate serial correlation, mean-reversion, and cross-correlation characteristics, coupled with fat tails that recognize that bad events happen far more often than the normal distribution would predict.

After establishing the relevant opportunity set, we conduct a series of optimizations based on both historical and forward-looking capital market assumptions. When conducting forward-looking optimization we use a resampling technique that recognizes that forward-looking capital market assumptions are not known with certainty. The optimizations will be based on two different definitions of risk – standard deviation and conditional value-at-risk. Standard deviation is a sufficient definition of risk when returns are normally distributed, while conditional value-at-risk is more appropriate when returns are not normally distributed. To address this issue, we will conduct both mean-variance optimization and mean-conditional value-at-risk optimizations. The result of this exercise will be a set of efficient frontiers built under the opportunity-set constraints determined in the simulation phase. The final policy portfolio will be determined based on the assessment of this information.

Sensitivity analysis is a technique under which we vary the inputs based on specific scenarios and then evaluate their impact. Probability distributions are used to evaluate whether a portfolio is appropriate for a particular investor type. The result of this analysis is a set of strategic asset class model portfolios that provide consistent risk and return characteristics under a variety of capital markets scenarios.

*Optional Step: Product Type Optimization.* When developing asset allocation model portfolios or investment-specific model portfolios to be used for individual investors, we may use a Product Type Optimizer to help determine either a life

insurance recommendation for an asset accumulator or an annuity recommendation for a retiree.

*Step 3: Fund/Manager Selection.* The goal of analyzing funds or managers is to determine their true investment style, identify managers we believe are superior, forecast the alpha of the managers, and identify the idiosyncratic risk (manager-specific tracking error) of the managers. To accomplish these goals, we start with a proprietary peer grouping analysis. Within each peer group, we separate index funds and active funds into two sub-peer groups. For active funds, we conduct both holdings-based and returns-based style analysis to determine the manager's investment style over time. We examine a manager's long-term and short-term alpha, tracking error, and information ratio. After an extensive quantitative review, we review an investment option's qualitative factors—such as manager investment philosophy or investment process—to form the final selection of active funds within each peer group. For model portfolios in which the implementation is based on ETFs, the fund selection process focuses on fees, liquidity, and tracking measurements versus the desired asset class or index.

*Step 4: Construct the Model Portfolio.* Once the asset class model portfolios are determined and the investment managers are selected for inclusion in the investment-specific model portfolios, we determine the appropriate combination of the investment managers using an alpha-tracking error optimization. Alpha is a measure of excess return provided by the investment manager. Manager-specific tracking error is a measure of the variability of the alpha. In addition to alpha and tracking error, the styles of the investment options are used to determine the optimal mix of investment options to implement the target asset allocations. When working with alternative investment vehicles with non-normal returns, such as hedge funds or commodity trading advisers ("CTAs"), we also consider skewness and kurtosis. Within our risk management framework, we not only control for the tracking error of the managers, but also the correlation among the manager active returns, and more importantly the underlying asset class exposures. The underlying asset class exposures are measured using both holdings-based and returns-based style analysis.

*Evaluating Manager Combinations.* Our top-down process starts by setting asset class targets for each model portfolio. When selecting managers, our primary focus is hitting the exposure targets that were set for each model portfolio. Another goal of our process is to select managers that have the potential to add alpha, while maintaining a level of risk we believe to be reasonable. Our primary portfolio construction tool includes our forward-looking alpha, tracking error, and alpha correlations to recommend an initial combination of managers that maximizes alpha while minimizing tracking error. Although two managers may have high-expected alphas, if their alphas are highly correlated, we may consider using alternative or additional uncorrelated managers in the model portfolio. Qualitative characteristics are also considered for model portfolios.

*Step 5: Monitor the Model Portfolio.* An asset allocation model portfolio or an investment-specific portfolio may drift from its stated objective and may need to be changed over time for various reasons (e.g., varying market conditions, manager changes, fund style drift). Therefore, we review each model portfolio regularly to ensure that it stays in line with its stated strategic asset allocation target.

On a periodic basis, we calculate and analyze attribution for each model portfolio at the asset class and underlying fund levels. At the asset class level, attribution helps identify the primary drivers of return. It also identifies sources of relative performance and helps gauge the impacts of style drift and implementation error. At the investment-specific level, we blend a customized benchmark for each manager based on returns-based style analysis, holdings-based style analysis, and manager conversations, and compare each manager's performance to the custom benchmark. This alpha relative to the custom benchmark identifies sources of true alpha better than basic methodologies that compare fund returns to a single benchmark or peer group.

The portfolio manager, consultant or analyst assigned to the client relationship will apply our proprietary methodology listed above to create the client's model

portfolio. All asset allocation and investment-specific model portfolios are reviewed by an officer, a senior investment consultant, or a senior portfolio manager before they are released to the client.

For manager selection services, we use a number of qualitative and quantitative techniques to evaluate and select investment managers, and evaluate how the inclusion or exclusion of a manager influences the total model portfolio. These techniques may include returns-based style analysis, cluster analysis, performance attribution, performance evaluation, manager interviews, holdings-based analysis, review of model portfolio risk and return characteristics, and situation analysis.

We offer a number of tactical or dynamic asset allocation programs that adjust the model portfolio weights on a short-term or intermediate-term basis relative to the strategic asset allocation policy. These programs can rely on a selection of fundamental and quantitative factors to aid in decision-making. Fundamental factors include asset class relative valuations, potential capital loss, sentiment, and other macro-economic data. Quantitative factors include momentum, volatility, and mean reversion indicators.

Our Global Investment Policy Committee ("GIPC") and its working sub-committees are responsible for oversight of the investment methodologies, including the tactical and dynamic asset allocation programs. Members of the GIPC may include officers, chief investment officers, managing directors, or managers of Ibbotson or its affiliates. The sub-committees focus on specific investment areas such as capital market assumptions, asset allocation, manager selection, portfolio construction, advice methodologies, fundamental dynamic asset allocation, and quantitative tactical asset allocation.

An investment team provides the investment advice used in the products and services referenced in this brochure. Information on the key members of this investment team is included in Part 2B attached.

*Risk of Loss and Strategy Risk.* You should remember that all investments involve risk and will not always be profitable. We do not guarantee that our recommendations will result in profits or avoid negative returns. An investment's future performance may differ substantially from its historical performance and as a result, may incur a loss. Past performance is no guarantee of future results.

Asset allocation and diversification are investment strategies which spread assets across various investment types for long-term investing. However, as with all investment strategies, these strategies do not ensure a profit and do not guarantee against losses.

Portfolios invested in exchange-traded funds ("ETFs") in which the investment objective is to track that sector. ETFs are traded on national exchanges and therefore are subject to similar investment risks as common stocks. Additionally, exchange traded funds are subject to such things as:

- The market price of an ETF may be at, above or below its net asset value ("NAV"). The ETF's NAV will fluctuate as a result of changes in the market value of its underlying holdings whereas the market price will fluctuate in accordance with changes in the NAV plus the ETF's market supply and demand.
- An ETF's performance may not be exactly that of its underlying index. This may be due to imperfect matches between the ETF's underlying investments and those of the underlying index. In addition, differences also arise due to the fact that an ETF incurs fees and expenses while its underlying index does not.

*Tax Considerations.* Potential tax consequences may exist. We do not provide tax advice. We encourage you to consult with a tax professional about these and other tax consequences.



### Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that would influence your decision to hire or retain us as your investment adviser. We do not have any material legal or disciplinary events to report.

### Other Financial Industry Activities and Affiliations

This section provides information on other business activities we may conduct in addition to the services described above. In addition, it describes any potential conflicts of interest we may have, and how we mitigate those potential conflicts.

Our parent company, Morningstar, offers various products and services to the public. Some of its clients are service providers (e.g., portfolio managers, advisors, or distributors affiliated with a mutual fund or other investment option) (collectively "Service Providers"). We may have a contractual relationship to provide consulting or advisory services to these same Service Providers. In some cases, we may recommend the products of these Service Providers to our advisory clients. To mitigate any actual or potential conflicts of interest, we do not consider Morningstar's relationship with these Service Providers when making investment option recommendations. We are not paid to recommend one investment option over another, including products of Service Providers with which Morningstar has a relationship.

Morningstar provides information to the public about various investment products, including open-end mutual funds and ETFs. In some cases, this information includes written analyses of these investment products. Although we may use certain products, services, or databases of Morningstar, we do not participate in or have any input in the written analyses that Morningstar provides its subscribers. Our investment recommendations are based on our separate and independent research and analysis of the available investment products.

In some situations, we may recommend an investment product that holds a position in publicly-traded shares of Morningstar. Such an investment in Morningstar is solely the decision of the investment product's portfolio manager. We have no input into a portfolio manager's investment decision nor do we require that the investment products we recommend own shares of Morningstar. An investment product's position in Morningstar has no direct bearing on our investment selection process.

In certain situations, we may recommend an ETF that tracks an index created and maintained by Morningstar, and the ETF sponsor has entered into a licensing agreement with Morningstar to use such index. To mitigate any conflicts of interest arising from our selection of such ETFs, we may use solely quantitative criteria established by our advisory client to make such selection, or, in the alternative, Morningstar's compensation from the ETF sponsor will not be based on nor will it include assets that are a result of our recommendation to our advisory client to invest in those ETFs. In addition, Morningstar does not and will not have any input into our investment decisions, including what ETFs will be recommended for our recommended model portfolios.

In some instances, we may use the employees or resources of Morningstar or its affiliates to provide certain support services in conjunction with our advisory services. In addition, Morningstar or its affiliates may also use our employees and resources to provide certain support services in conjunction with the services offered by Morningstar or its affiliates. These affiliates may include Morningstar Associates, LLC ("Morningstar Associates"), a registered investment adviser, Morningstar Investment Services, Inc. ("MIS"), a dually registered investment adviser and limited broker-dealer, HelloWallet, LLC, an employee financial wellness program, and ByAllAccounts, an account and data aggregation service. All of these entities are wholly owned subsidiaries of Morningstar. If an additional fee for such services by affiliates is required, it will be set forth in the client advisory agreement. In these situations, clients may pay a fee directly to each such affiliate for its services, or as part of a joint fee schedule which encompasses all services.

In addition to the U.S.-based affiliates described above, Morningstar is a direct or indirect owner of a number of other investment advisory entities located in other countries. In some cases, members of our senior management may have some management responsibilities to these other affiliated entities. We do not

believe that these management responsibilities create any material conflicts of interests for our clients. A current list of all of our investment advisory affiliates can be found in our Form ADV Part 1, which can be obtained at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), as described on Page 2 of this Brochure.

We may make our clients aware of various products and services offered by Morningstar or its affiliates. We do not receive compensation from our affiliates in presenting these potential opportunities.

In certain circumstances and for compensation from Ibbotson, Morningstar Investment Services may provide middle-office and back-office capabilities and sales support for investment adviser representative education about programs for which Ibbotson and Morningstar Investment Services act as investment strategists. For the sales support, the third-party investment adviser will pay a specific agreed upon fee to Ibbotson and Morningstar Investment Services.

The universe of investment options from which we make our investment selections is typically defined by the institutional client for which we are providing services or by the plan provider client through which our retirement plan services are delivered. In some cases, this universe of investment options may include proprietary investment options of the institutional client or plan provider client. To mitigate the conflict of interest presented by this situation, we subject all investment options to the same quantitative and qualitative investment selection methodology, based on several factors, including performance, risk, and expenses, and the proprietary nature of the investment options does not influence our selection.

We may provide consulting or advisory services to institutional clients that offer investment products, such as mutual funds, variable annuities, or model portfolios. Because of our role in these investment products, recommending these products to other advisory clients presents a conflict of interest. To mitigate this potential conflict of interest, we exclude these investment products from the universe of investment options from which we make our recommendations.

We may also receive compensation for our research and analysis activities (e.g., research papers) from a variety of financial institutions including large banks, brokerage firms, insurance companies, and mutual fund companies.

### Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

*Code of Ethics.* We have adopted a Code of Ethics that strives to uphold the highest standards of moral and ethical conduct, including placing our clients' interest ahead of our own. All access persons are subject to this Code of Ethics. "Access persons" includes our officers and employees, and any officer or employee of our affiliates who makes or participates in investment recommendations to clients; or who has the ability to access a client's nonpublic information, including a client's security holdings or investment recommendations a client has received or will receive. Our Code of Ethics addresses such topics as our fiduciary duty, our professional responsibilities, protecting our clients' non-public personal information, our gifts and entertainment policies, and the personal trading practices of all access persons. A copy of our Code of Ethics is available to existing and prospective clients by sending a written request to our Compliance Department at the address or email address shown on Page 2 of this brochure.

*Participation or Interest in Client Transactions.* Our access persons may maintain personal investment accounts, and may purchase or sell investments in those accounts that are the same as or different from the investments we recommend to clients. Because we primarily recommend mutual funds and ETFs, our access persons' personal investing activities should not conflict with our advisory activities or the timing of our recommendations. In addition, our Code of Ethics is designed to ensure that access persons' personal trading activities will not interfere with our clients' interests, while allowing our access persons to invest in their own accounts.

We do not engage in principal transactions (transactions where we, acting in our own account or in an affiliated account, buy a security from or sell a security to a client's account). In addition, we do not engage in agency cross transactions (transactions where we or our affiliate executes a transaction while acting as a broker for both our client and the other party in the transaction).

**Personal Trading.** Our Code of Ethics also includes policies designed to prevent access persons from trading on the basis of material non-public information. Access persons in possession of material non-public information may not trade in securities which are the subject of such information, and may not tip such information to others. In certain instances, we employ information blocking devices such as restricted lists to prevent illegal insider trading. Our Compliance Department monitors the trading activities of all access persons in their personal accounts on an ongoing basis.

### Brokerage Practices

Where we exercise investment discretion, we will generate trade instructions for each model portfolio that requires trading or rebalancing and forward those instructions to the appropriate institution as designated by our client. As a result, we do not have the ability to make decisions regarding which broker is used to execute the transactions. We do not participate in any soft dollar practices.

### Review of Accounts

If included in our contract with our Institutional Client, we may review our recommendations and make adjustments as we deem appropriate. We may also provide ongoing monitoring of underlying holdings in investment-specific model portfolios. The frequency and nature of our reviews is governed by our contract with each Institutional Client.

In addition, we may provide periodic reports to our Institutional Clients on the investment-specific model portfolios and the underlying holdings. The content and frequency of these reports are governed by our contract with each Institutional Client.

### Client Referrals and Other Compensation

Although no arrangements exist currently, situations may arise in which others introduce potential clients to us or solicit clients on our behalf. If such a situation occurs, we will enter into a written agreement with the solicitor that complies with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended. Such agreement would require the third-party solicitor provide each prospective client with a copy of our brochure and a disclosure document that sets forth the terms of the arrangement (including the nature of the relationship and the fees to be paid).

### Custody

We do not serve as a custodian of client assets. The Institutional Client or its designee is responsible for selecting the custodian for client assets. Account statements, if applicable, are sent by the qualified custodian.

### Investment Discretion

In some cases, we may have complete investment discretion in managing investment-specific model portfolios or registered funds for our Institutional Clients. In other cases, we may make investment recommendations to an investment committee, board, or other person or persons acting on behalf of the Institutional Client, but the Institutional Client has the discretion to accept, reject, or modify our recommendations. The extent of our investment discretion is set forth in our contract with the Institutional Client.

### Voting Client Securities

**Proxy Voting Policy and Procedures.** Rule 206(4)-6 of the Investment Advisers Act of 1940, as amended, places a number of requirements on those investment advisers who have proxy voting authority with respect to securities held in their clients' accounts. These requirements are to:

- Adopt and implement proxy voting policies and procedures that are reasonably designed to ensure that the adviser votes proxies in the best interests of its clients;

- Maintain procedures that include how to address material conflicts that may arise between the adviser's interest and those of its clients.
- Disclose to clients how they may obtain information about how proxies were voted with respect to their securities; and
- Describe to clients the adviser's proxy voting policies and procedures and, upon request, furnish a copy of the policies and procedures.

In very limited circumstances, we will agree to vote proxies on the underlying securities in an institutional client's account. In these cases, the following procedures will apply.

**Proxy Voting Committee.** In efforts to mitigate conflicts of interest, we have established a Proxy Voting Committee ("Proxy Committee"). The Proxy Committee includes the chief compliance officer, as well as other members of our operations staff and our investment team. The Proxy Committee is responsible for tasks such as:

- developing, implementing and updating policy and procedures to ensure voting of proxies is conducted in a manner that is in the best interests of its clients;
- making voting decisions and ensuring votes are cast on time; and
- maintaining documents material to the voting decision.

**Proxy Voting Process.** Upon receiving a proxy statement, an investment team member will review the proxy and make a recommendation to the Proxy Committee. The recommendation will primarily be based on pre-determined factors identified by the Proxy Committee for that particular type of proxy proposal.

The Proxy Committee members will review the proxy issue and the recommendation and will cast their vote as to whether they agree or disagree with the recommendation. If the other Proxy Committee members agree with the recommendation, the proxy will be voted in that manner. If there is not a consensus, the Proxy Committee will hold a meeting to resolve the issue.

In some cases, the Proxy Committee uses a third party vendor that provides additional services such as providing corporate governance voting recommendations, submitting votes on our behalf, and accessing e-ballot and meeting information.

**Obtaining Proxy Voting Information.** At any time you may request information on how we have voted proxies and/or request a copy of our proxy voting policies and procedures. Requests can be submitted by sending a written request to our Compliance Department at the address or email address shown on Page 2 of this brochure.

### Financial Information

We are required to provide you with certain financial information or disclosures about our financial condition. We do not have any financial commitment that impairs our ability to meet our contractual and fiduciary commitments to clients, and we have not been the subject of any bankruptcy proceeding.

# Form ADV Part 2B: Brochure Supplement

Ibbotson Associates, Inc.

## Investment Team for Investment Consulting Services

22 West Washington Street  
Chicago, IL 60602  
312.696.6700

[www.ibbotson.com](http://www.ibbotson.com)

March 26, 2015

This brochure supplement provides information about the investment team for Ibbotson Associates' Investment Consulting Services.

You should have received a copy of our Firm Brochure. Please contact the Compliance Department at 312.696.6700 or [compliance@morningstar.com](mailto:compliance@morningstar.com) if you did not receive our brochure, if you have questions about the content of this supplement, or if you would like information about other members of our investment team. In your request, please indicate the name of the company (Ibbotson Associates) and the type of service (Institutional Investment Consulting).

Ibbotson Associates, Inc. ("Ibbotson") is part of Morningstar Investment Management ("MIM"), which is the marketing name for the investment advisory businesses of Morningstar, Inc.

### Scott Wentsel, CFA, CFP®

Email: [scott.wentsel@morningstar.com](mailto:scott.wentsel@morningstar.com)

*Educational Background and Business Experience:* Scott joined Ibbotson in 2005, and is currently the Chief Investment Officer, Americas, for the Morningstar Investment Management group. He has served as a senior portfolio manager and Vice President. Scott is responsible for the oversight of the investment management group. Born in 1961, Scott has a BA from the University of Illinois and an MBA from the University of Chicago Booth School of Business. Scott is also a CFA\* charterholder and a CFP.\*\*

*Disciplinary Information:* None.

*Other Business Activities:* None.

*Additional Compensation:* None.

### Brian Huckstep, CFA

Email: [brian.huckstep@morningstar.com](mailto:brian.huckstep@morningstar.com)

*Educational Background and Business Experience:* Brian joined Ibbotson in 2005 as a portfolio manager. Prior to joining Ibbotson, Brian served as director of data acquisition for Morningstar, Inc. beginning in 2003. Born in 1970, Brian has a BA in economics from the University of Michigan and an MBA from the University of Chicago Booth School of Business. Brian is also a CFA\* charterholder.

*Disciplinary Information:* None.

*Other Business Activities:* None.

*Additional Compensation:* None.

### Carrie Scherkenbach

Email: [carrie.scherkenbach@morningstar.com](mailto:carrie.scherkenbach@morningstar.com)

*Educational Background and Business Experience:* Carrie joined Ibbotson in 1999 and has served as a consultant and a portfolio manager. Carrie is responsible for the delivery of fund-of-funds programs for institutional and retail clients. Born in 1975, Carrie has a BS from the University of Wisconsin, Madison.

*Disciplinary Information:* None.

*Other Business Activities:* None.

*Additional Compensation:* None.

### Jared Watts

Email: [jared.watts@morningstar.com](mailto:jared.watts@morningstar.com)

*Educational Background and Business Experience:* Jared joined Ibbotson in 2006 and has served as a portfolio manager and a senior consultant. Jared works with clients to construct and implement asset allocation solutions and services. Born in 1975, Jared has a BS in finance from Southern Illinois University and an MBA from Saint Xavier University Graham School of Management.

*Disciplinary Information:* None.

*Other Business Activities:* None.

*Additional Compensation:* None.

### Lucian Marinescu, CFA

Email: [lucian.marinescu@morningstar.com](mailto:lucian.marinescu@morningstar.com)

Phone: 312.696.6700

*Educational Background and Business Experience:* Lucian is a senior investment consultant. He served as a project manager for Morningstar, Inc. beginning in 2002 before joining Ibbotson Associates, Inc. in 2007. Born in 1979, Lucian has a BA in economics and business administration from Monmouth College and an MBA from University of Chicago Booth School of Business. Lucian is also a CFA\* charterholder.

*Disciplinary Information:* None.

*Other Business Activities:* None.

*Additional Compensation:* None.

### Supervision

Scott Wentsel, chief investment officer of the Americas for Morningstar's Investment Management group, provides guidance on the type of strategies we offer and the nature of the due diligence we conduct. He oversees, either directly or indirectly, the investment team, including setting the strategic direction and goals of the team. He is supervised by Daniel Needham, president and global chief investment officer of the Investment Management group. The activities of the investment team are guided by the Global Investment Policy Committee. The Global Investment Policy Committee and its working sub-committees are responsible for oversight of the investment methodologies. The sub-committees focus on specific investment areas such as capital market assumptions, asset allocation, manager selection, portfolio construction, advice methodologies, fundamental dynamic asset allocation and quantitative tactical asset allocation. Please refer to the "Methods of Analysis, Investment Strategies and Risk of Loss" section of our Firm Brochure for a description of the Global Investment Policy Committee.

*\*The Chartered Financial Analyst (CFA) designation is an international professional certification offered by the CFA Institute. To become a CFA charterholder, candidates must pass three six-hour exams, possess a bachelor's degree, and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct. The CFA is a qualification for finance and investment professionals, particularly in the fields of investment management and financial analysis of stocks, bonds and their derivative assets. The program focuses on portfolio management and financial analysis, and provides a general knowledge of other areas of finance.*

*\*\*The Certified Financial Professional (CFP®) designation is a professional certification offered by the Certified Financial Planner Board of Standards, Inc. (CFP Board). To become a CFP, candidates must complete an advanced college-level course of study, pass a comprehensive 10-hour exam administered over two days, complete at least three years of full-time financial planning related experience; and agree to be bound by the CFP Board's Standards of Professional Conduct. The program focuses on insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning.*