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**Form ADV Part 2A Firm Brochure and Appendix 1: Wrap Fee Program Brochure**

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Morningstar Investment Services, Inc. (MIS)

**This packet contains the MIS Firm Brochure and the Appendix  
Wrap Fee Program Brochure**

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**This Appendix Portion Applies to You Only if:**

You and/or Your Financial Advisor have chosen to utilize the Asset Based Clearing Fees  
Negotiated by MIS as your Clearing Fees.

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**This Appendix Portion Does Not Apply to You if:**

You and/or Your Financial Advisor have negotiated the separate Clearing Fees charged to your  
Account and/or if the Clearing Fees charged to your Account are on a "per transaction basis."

# Firm Brochure Summary of Changes

## Morningstar Investment Services, Inc. (MIS)

22 West Washington Street  
Chicago, IL 60602  
1-877-626-3227

[mis@morningstar.com](mailto:mis@morningstar.com)

March 26, 2015

The following is a summary of the changes to Morningstar Investment Services' (MIS) ADV Part 2A and 2B brochures since our last update dated March 26, 2014.

On an annual basis, we are required to provide you with a summary of material changes to our qualifications or business practices since the last annual update. While some of the changes made to our brochures weren't material in nature, we would like to provide you with a full summary of changes made since the last update.

### Updates to the ADV Part 2A

- As of December 31, 2014, MIS' assets under management for discretionary accounts totaled \$6,423,100,000 and for non-discretionary accounts, assets under advisement totaled \$2,058,800,000
- Fees and Compensation was updated that if the Program fee is charged in advance then the initial Program fee will be due in full on the 15<sup>th</sup> business day of the first full month after the account is opened and funded with the minimum account size ("Funded Date"). The initial Program fee will cover the period from the Funded Date through the last business day of the current calendar quarter end and be based on your account balance as of the date your account was opened. If the calculated fee is less than the minimum fee for the period, the prorated minimum fee will apply. It was also updated to reflect if the Program fee is charged in advance and the Investment Management Agreement is terminated by either you, your Advisor or MIS, you will be rebated a portion of the Program fee based on your termination date. Rebates are calculated so that each quarter contains an equal number of days per year ("Billing Quarter")
- Minimum Account Size/Fees was updated to reflect Select Stock Baskets with Fixed Income both Strategist and Custom Series having minimums of \$250,000.
- Other Financial Industry Activities and Affiliations was updated to reflect occasional training with the custodians in which the custodians will pay for travel and lodging. It was updated to reflect that MIS' parent company, Morningstar, Inc. and affiliates may share resources and that in some cases MIS' senior management may have management responsibilities to affiliated investment advisory entities located in other countries. It was also updated to reflect that in some situations exchange-traded funds, in addition to mutual funds, may own shares in Morningstar, Inc. MIS has no input into selection of the underlying securities and if the underlying holdings have shares in Morningstar, Inc. or not has no impact on the securities that MIS select.
- Code of Ethics was updated to include affiliated employees who are involved with MIS' operations, technology and marketing.
- Participation or Interest in Client Transactions was updated to reflect affiliated employees who are involved with MIS' operations, technology and marketing who have a certain level of access.
- Voting Client Securities was updated to more closely reflect MIS' policy and procedures.

### Updates to the ADV Part 2B

- In February 2014, Scott Wentsel, was named Morningstar Investment Management's (MIM) Chief Investment Officer of the Americas overseeing MIS' investment team in place of Thomas Idzorek, President of MIM.
- In April 2014, Venus Phillips, Investment Manager left MIS to pursue other opportunities.
- In May 2014, Michelle Ward, Investment Manager, joined the MIS investment team as an Investment Manager focusing on equity, alternative and fixed income investment research, asset allocation and portfolio management.
- In March 2015, Jeff Ptak, Chief Investment Officer and President left MIS to pursue other opportunities within MIS' parent company, Morningstar, Inc.
- In April 2015, Dan McNeela, Senior Portfolio Manager, joined the MIS investment team. His responsibilities include equity, alternative, and fixed income investment research, asset allocation and portfolios management in addition to overseeing investment managers, Marta Norton and Michelle Ward.

### Updates to the ADV Part 2A Appendix 1: Wrap Fee Program Brochure\*

- Account Requirements and Types of Clients was updated to Select Stock Baskets with Fixed Income both Strategist and Custom Series having minimums of \$250,000.

***\*This portion only applies to you if your account utilizes the Asset Based Clearing Fees Negotiated by MIS as your Clearing Fees. If you have questions regarding the type of Clearing Fees associated with your account please reach out to your Financial Advisor.***

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.

You may request a complete copy of our current ADV Part 2A and 2B brochures free of charge at any time by contacting our client service representatives at 877-626-3227 or [mis@morningstar.com](mailto:mis@morningstar.com). Our brochures are also available on our website, [www.mis.morningstar.com](http://www.mis.morningstar.com).

Our brochures provide information about the qualifications and business practices of Morningstar Investment Services, Inc. If you have any questions about the contents of our brochures, please contact our Compliance Department at 312-696-6000.

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. Morningstar Investment Services, Inc. is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Registration does not imply a certain level of skill or training.

Additional information about Morningstar Investment Services, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Form ADV Part 2A: Firm Brochure

### Morningstar Investment Services, Inc. (MIS)

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# Form ADV Part 2A: Firm Brochure

## Morningstar Investment Services, Inc. (MIS)

22 West Washington Street  
Chicago, IL 60602  
1-877-626-3227

mis@morningstar.com

March 26, 2015

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### Advisory Business

Morningstar Investment Services, Inc. ("MIS"), a Delaware corporation, was incorporated on December 20, 2000. MIS is a federally registered investment advisor and a wholly owned subsidiary of Morningstar, Inc., a publicly-traded company (Nasdaq Ticker: MORN). Because our parent company is publicly traded, please be advised that Joseph Mansueto, CEO of Morningstar, Inc., individually holds more than 50% of Morningstar, Inc.'s outstanding shares of stock.

MIS has made notice filings in all states, the District of Columbia, Puerto Rico and the Virgin Islands. The primary purpose of MIS' investment advisor operations is to provide discretionary investment advice on portfolios consisting of securities such as open-end mutual funds, exchange-traded funds and equity securities.

As of December 31, 2014, MIS' assets under management for discretionary accounts totaled \$6,423,100,000 and for non-discretionary accounts, assets under advisement totaled \$2,058,800,000.

### Morningstar® Managed Portfolios<sup>SM</sup> Program

The Morningstar Managed Portfolios program ("Program") is an investment advisory program available to individuals and institutions (collectively "you" or "your") primarily through arrangements MIS has with various unaffiliated registered investment advisors ("Advisory Firm"). The Program includes various strategies consisting of mutual funds, exchange-traded funds, and equity securities.

Within the Program and under the direction of the Chief Investment Officer (CIO), MIS or an investment advisory affiliate ("Affiliate") provides discretionary investment advisory services such as:

- constructing portfolios by analyzing a universe of available investments (e.g., mutual funds, exchange-traded funds, equity securities) using quantitative and qualitative analyses and any reasonable investment restrictions placed by you; and
- continuously monitoring the portfolios within the Program, rebalancing and/or reallocating when deemed necessary.

MIS delegates certain services to Advisory Firms such as:

- assisting you in completing your profile and/or other applicable account opening forms;
- determining suitability of the Program and your investment strategy and selected portfolio;
- meeting at least annually with you to review any changes in your financial situation; and
- acting as liaison between MIS and you.

For these services, MIS and your Advisory Firm will each receive a portion of the total Program fee paid by you. Please see the Fees and Compensation section below for more information.

In certain situations, the Program is referred to as a wrap fee program in which MIS is the sponsor of the Program and provides the Program's portfolio management services. More information about the wrap fee program can be found in the Brokerage Practices section and within the Form ADV Part 2A Appendix 1: Wrap Fee Program Brochure.

## Program Strategies

### Mutual Fund Strategies

*Asset Allocation Series*—range of portfolios consisting primarily of mutual funds strategically built to meet different investment time horizons and risk levels (e.g. Conservative to Aggressive Growth).

*Retirement Income Series*—A range of portfolios consisting primarily of mutual funds that are designed to address different distribution needs and risk tolerances during retirement.

*Focused Allocation Series*—A range of portfolios consisting primarily of mutual funds that are aligned with a particular investment objective or are concentrated in a certain asset class.

### Active/Passive Strategies

*Ibbotson Active/Passive Series*—A range of asset allocation portfolios consisting primarily of mutual funds and exchange-traded funds ("ETFs"), or in some cases mutual funds only, designed to meet given risk levels.

### ETF Strategies

*Asset Allocation Series*—A range of asset allocation portfolios consisting primarily of ETFs targeting specified risk/reward profiles.

*Dynamic Series*—A range of portfolios with flexible allocations consisting primarily of ETFs; designed to take advantage of market opportunities as they arise.

*Ibbotson Momentum Series* – A range of portfolios built using ETFs with a broad set of asset classes created using research that captures the effects of investors' responses to market events.

### Select Stock Basket Strategies

*Custom Series*—Customizable portfolios aligned with a particular investment objective, consisting mostly of common stocks listed on U.S. stock exchanges.

*Strategist Series*—Customizable portfolios following a range of quality-centric investing approaches based on Morningstar, Inc.'s equity research. They consist primarily of common stocks listed on U.S. stock exchanges.

Certain Select Stock Basket Strategies may also have a fixed-income version in which a portion of the portfolio is allocated to fixed-income using mutual funds and/or ETFs.

In determining whether to select one of these strategies, you and a representative of your Advisory Firm ("Financial Advisor") should carefully consider the particular risks associated with each strategy as more fully explained in the Investment Risk section. In addition, the following Program products may be available in conjunction with the Strategies described above:

*Enhanced Cash Option*—The Enhanced Cash Option ("ECO") will typically consist of money market and/or short-term fixed income mutual funds. Please note: money in the ECO is not a bank deposit and therefore is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. MIS is only responsible for the selection of the funds underlying the ECO and may replace the funds at any time without prior approval from you or your Financial Advisor. The ECO is typically used by those who desire to systematically invest\* (e.g., dollar cost averaging) into the Program.

Decisions relating to ECO, such as if or when to invest, withdraw, hold or transfer to a portfolio are the sole responsibility of you and/or your Financial Advisor. All or a portion of the Program's minimum account size may be placed in ECO. See the

Fees and Compensation section for additional information on the MIS Net fees assessed for ECO.

\* Systematic investing does not ensure a profit, nor does it protect you against a loss. Also, systematic investing will not keep you from losing money if you decide to sell your shares when the market is down. You should evaluate your financial ability to continue purchases through periods of volatile price levels before deciding to invest this way.

*Enhanced Portfolio Service*—This service is no longer offered to new clients. If your initial account size was at least \$1 million, you may have elected MIS' Enhanced Portfolio Service ("EPS"). EPS is part of the Program but is separate from the above-mentioned strategies. EPS is intended for those that are seeking a portfolio strategy that is tailored around their total current holdings, not just the holdings in their Program account. The portfolio strategy will be designed specifically with a view towards your investment objectives, limitations, and/or guidelines and may consist of a variety of mutual funds, ETFs, and equity securities.

*Individual 401(K) Account*—If you are establishing an individual defined contribution plan and wish to use the Program, you will be presented for review various items, including a defined contribution plan custodial agreement. The plan custodial agreement, among other things, appoints a custodian for the 401(k) plan. That agreement is necessary to meet applicable tax requirements and will disclose fees charged by the custodian for setting-up and administering the plan which are in addition to the Program fee. The plan's custodian is not affiliated with MIS and the custodian takes full responsibility for administering the plan in accordance with the plan custodial agreement.

### Pre-Account Opening

Before opening a Program account, you and your Financial Advisor will fill out a client profile ("Profile"). This Profile helps in determining such things as your risk tolerance, investment objectives, and financial goals as well as identifying any reasonable restrictions you wish to place on the management of your account assets. Your Financial Advisor will review your Profile responses and assist you in determining an appropriate strategy from the various strategies offered by MIS and within the selected strategy determining an appropriate portfolio.

If a Select Stock Basket Strategy is selected, you and your Financial Advisor will also fill out a Select Stock Basket Specification worksheet ("Specification Sheet"). This Specification Sheet allows you to choose the specific Select Stock Basket strategy from our Strategist Series and Custom Series offerings. The Specification Sheet allows you to indicate exclusions for individual stocks, sectors, industries, master limited partnerships, and foreign companies. For Custom Series only, the Specification Sheet allows you to indicate any stocks transferred-in-kind that you'd like to retain in your portfolio. For taxable accounts in Custom Series only, you may also indicate the number of years (ranging from 1 to 4) over which you'd like to realize an existing portfolio's net capital gain. MIS will then construct a portfolio that is aligned with your Profile and Specification Sheet.

As a reminder, you may impose reasonable restrictions on the investments made in your account as well as retain the right to withdraw securities or cash from the account, the right to vote or delegate the authority to vote proxies, and the right to be provided written trade confirmations for all securities transactions made within your account.

### Account Set-Up

Once an appropriate strategy, portfolio, and if applicable, Clearing Firm has been selected, you and your Advisory Firm and/or Financial Advisor must review the disclosure documents and complete applicable account set-up documents. Account set-up documents will include an Investment Management Agreement between you, your Advisory Firm and MIS and if applicable, a brokerage application with the Clearing Firm selected. Please note, the selected Clearing

Firm is unaffiliated with MIS and will charge you Clearing Fees as a result of investment decisions made by MIS for your account that are in addition to the Program fees described in greater detail below. Please refer to the Brokerage Practices section below for important information regarding your Clearing Firm and Clearing Fees.

#### Investment Management Agreement

The Investment Management Agreement is an agreement between you, your Advisory Firm and MIS (in some cases the agreement may be between you and MIS only; please see the section titled Client Referrals and Other Compensation for more information about these and other arrangements) and is presented to you during the account opening process. The agreement may be terminated at any time without the imposition of any penalty on written notice by you, your Advisory Firm, or MIS to the other and termination will become effective upon receipt of such notice unless otherwise noted. Any termination by MIS, your Advisory Firm, or you will not, however, affect the liabilities or obligations of the parties incurred or arising from transactions initiated under the Agreement before such termination. Upon receipt of your notice of termination, MIS will have no obligation to continue to provide the agreed upon services to your account.

Pursuant to the discretionary authority granted within the Investment Management Agreement, MIS initiates transactions in a portfolio's underlying holdings to rebalance and/or to reallocate the account assets to be consistent with your selected portfolio strategy and any noted reasonable restrictions. Such rebalancing and/or reallocations are done as frequently as MIS deems necessary. Please note, in certain situations, MIS' decision to rebalance and/or reallocate your account may result in you incurring a redemption fee imposed by one or more of the mutual funds underlying the Program's portfolios or other fees/commissions charged to you by your Clearing Firm.

#### Fees and Compensation

An annual Program fee is charged to your account quarterly either in advance based on the prior period's ending balance or in arrears based on the average daily balance for the applicable period.

In the event that the Program fee is charged in advance, the initial Program fee will be due in full on the 15th business day of the first full month after the account is opened and funded with the minimum account size ("Funded Date"). The initial Program fee will cover the period from the Funded Date through the last business day of the current calendar quarter end and be based on your account balance as of the date your account was opened. If the calculated fee is less than the minimum fee for the period, the prorated minimum fee will apply. If the Investment Management Agreement is terminated, by either you, your Advisor, or MIS, you will be rebated a portion of the Program fee based on your termination date. Rebates are calculated so that each quarter contains an equal number of days per year ("Billing Quarter"). Rebates will be based on the number of days in the final Billing Quarter in which your account was open.

The Program fee consists of two parts (collectively Annual Program Fee):

- **MIS Fee**—A fee relating to services performed or provided by MIS and/or Affiliate, including discretionary investment management services, communications to you and your Financial Advisor, marketing activities and services provided by its service provider; and
- **Advisory Firm Fee**—A fee covering the services performed by your Advisory Firm and/or Financial Advisor.

For a more detailed explanation of the Annual Program Fee applicable to your Program account, please review your account-opening documents.

If Affiliate provides the services described above, Affiliate's Form ADV Part 2A: Firm Brochure will be included within your account-opening documents which will include Affiliate's portion of the MIS fee that MIS will remit to Affiliate.

#### MIS Fee

The standard fee schedule for the **Mutual Fund Strategies (including the Active/Passive Strategies)**<sup>1</sup> is:

	First \$500K	Next \$500K	Next \$1MM	Over \$2MM
MIS Net Fee <sup>2,3,4</sup>	0.40%	0.35%	0.30%	0.20%

Annual Minimum MIS Net Fee<sup>5</sup>: \$200

The standard fee schedule for the **ETF Strategies**<sup>9</sup> is:

	First \$1MM	Next \$4MM	Thereafter <sup>8</sup>
MIS Fee <sup>4</sup>	0.30%	0.25%	0.20%

Annual Minimum MIS Fee: \$150

The standard fee schedule for the **Select Stock Basket Strategies**<sup>6</sup> is:

	First \$1MM	Next \$4MM	Thereafter <sup>8</sup>
MIS Fee <sup>7</sup>	0.55%	0.50%	0.45%

Annual Minimum MIS Fee-Custom: \$1,375

Annual Minimum MIS Fee-Strategist: \$550

*In certain situations, MIS and the Advisory Firm may negotiate the MIS Fee amount and/or breakpoints applicable to your account. For those employees of MIS and its affiliates and their immediate families, MIS may waive the entire MIS fee.*

<sup>1</sup> The Mutual Fund Strategies may contain ETFs; please refer to the Sections titled "Investment Risk and Disclosure" and "Brokerage Practices" for important information related to ETFs.

<sup>2</sup> The Portfolios' underlying mutual funds incur their own internal expenses such as management, transfer agent, shareholding servicing, and 12b-1 fees. In certain situations, MIS receives an indirect benefit from those mutual funds who pay MIS' back-office service provider ("Provider") shareholding servicing fees directly. The Provider, in turn, reduces the monthly fee payable by MIS to it (in accordance with the agreement between the Provider and MIS) by the amount of shareholding servicing fees it receives relating to the clients' assets in the Program. To mitigate the conflict of interest this may present (e.g., incentive to select mutual funds with shareholder servicing fees), MIS deducts from its gross advisory fee at each tier a flat credit amount that is an amount equal to the greater of 25 basis points (i.e., 0.25%) or the aggregate fees received by MIS' Provider from the mutual funds. The result—gross advisory fee minus the credit amount—is the MIS Net Fee.

Example	First 500K	Next 500K
Gross MIS Fee	0.65%	0.60%
Credit Amount	(0.25%)	(0.25%)
MIS Net Fee	0.40%	0.35%

<sup>3</sup> The MIS Net Fee for ECO will be assessed a fee of 0.20% across all break points.

<sup>4</sup> Does not include fees/commissions associated with executing transactions nor the internal expenses of ETFs and/or mutual funds. It also does not include the Advisory Firm Fee. Additionally, this fee covers costs associated with MIS' service provider services such as a trading infrastructure and client accounting and reporting.

<sup>5</sup> The Annual Minimum MIS Fee is applied to those accounts at a Clearing Firm only.

<sup>6</sup> The Select Stock Basket Strategies consist primarily of common stocks listed on U.S. stock exchanges and may also contain American Depositary Receipts ("ADRs") or foreign stocks listed on an U.S. exchange; please refer to the Sections titled "Investment Risk and Disclosure" and "Brokerage Practices" for important information related to common stocks and ADRs.



7 Does not include fees/commissions associated with executing transactions nor the Advisory Firm Fee. Additionally, this fee covers costs associated with MIS' service provider services such as a trading infrastructure and client accounting and reporting.

8 For clients with account assets of \$5 million or above, MIS Fee is negotiable.

9 The ETF Strategies consist primarily of ETFs; please refer to the Sections titled "Investment Risk and Disclosure" and "Brokerage Practices" for important information related to ETFs.

**Advisory Firm Fee**—The Advisory Firm Fee portion of your Annual Program Fee is solely determined by your Advisory Firm and/or Financial Advisor. Their determination of what the Advisory Firm Fee will be for you will be noted within the Program Fee Schedule presented to you as part of your account opening documents. As always, MIS encourages you to review the Program Fee Schedule as well as all of your account opening documents carefully. Please note, MIS does not determine the fee that your Advisory Firm will charge you.

**Supplemental Fee Information**—Please note that in certain situations, the Annual Program Fee may be based on your account's asset value as well as the value of your related accounts. Such aggregation of accounts may result in a lower Annual Program Fee compared to an Annual Program Fee calculated on each account separately.

Because the Program is not exclusive to your Advisory Firm and/or Financial Advisor, the fee for the services described in this brochure may be higher than fees charged by other financial advisors who sponsor programs similar to MIS' or if you paid separately for investment advice and other services. In addition, because the underlying holdings of the Program's portfolios are not exclusive to the Program, you may buy securities (e.g., mutual funds, exchange-traded funds, equity securities, etc.) outside of this Program without incurring the Annual Program Fee.

In addition to the Annual Program Fee described above, you may pay advisory and other fund-related expenses in mutual funds in which your account assets are invested. This includes redemption fees that an open-end mutual fund underlying your account or Clearing Firm may impose as a result of a transaction-related request you initiated (i.e., partial or complete liquidation of your account). In addition, in certain situations, MIS' decision to rebalance and/or reallocate your account may result in you incurring a redemption fee imposed by one or more of the open-end mutual funds underlying your account. In both such cases, any such redemption fee charged to your account by the underlying mutual fund or Clearing Firm will be reflected on your quarterly account statement.

As the result of MIS' discretionary authority, investment decisions made for your account set-up through a Clearing Firm will result in you incurring a Clearing Fee imposed by your Clearing Firm. Please ask your Financial Advisor for information about the Clearing Fee applicable to your account. The payment of the Clearing Fee to your Clearing Firm is solely your responsibility. Typically, your Clearing Firm will charge your account directly for any applicable Clearing Fee. The Clearing Fee is in addition to the above-mentioned Annual Program Fee. When securities can be traded in more than one marketplace, your Clearing Firm will use its discretion in selecting the market in which such orders are entered. Please be aware that your Clearing Firm may receive remuneration, compensation or other consideration for directing orders to particular broker/dealers or market centers for execution (i.e., payment for order flow) and that MIS does not participate in such arrangements.

You may also incur certain charges by your Clearing Firm or its affiliates related to retirement plan accounts such as IRAs. These charges are in addition to the above-mentioned Annual Program Fee and Clearing Fees.

Exchange-traded funds have their own internal fees and expenses such as investment advisory, administration, and other fund-level expenses; by investing in them you incur a proportionate share of those fees and expenses. Those fees and expenses are in addition to the above-mentioned Annual Program Fee and Clearing Fee.

American Depository Receipts ("ADRs") are typically created, organized and administered by a U.S. bank. Generally, these banks charge a fee for their services (e.g., custody) and may deduct these fees from the dividends and other distributions generated from the ADR shares. In addition, banks incur expenses, such as converting foreign currency into U.S. dollars, and as a result may pass those expenses on to the ADR shareholder. These fees and expenses are in addition to the above-mentioned Annual Program Fee and Clearing Fees.

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

MIS does 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

The Program is an investment advisory program available to individuals and institutions, whose initial investment meets the minimum account size noted below. This Program is primarily offered through arrangements MIS has with various unaffiliated registered investment advisors and is intended for citizens or legal residents of the United States or its territories. This Program can only be offered by a registered investment advisor or investment advisor representative.

#### Minimum Account Size/Fees

The minimum initial account size for each strategy is as follows:

Mutual Fund Strategies (including the Active/Passive Strategies)	\$50,000
Individual 401(k) Account	\$40,000
Enhanced Portfolio Service	\$1,000,000

#### For Each of the Above

Minimum subsequent investment	\$500
Minimum subsequent investment—IRA Accounts	\$250

ETF Strategies	\$50,000
Select Stock Baskets—Custom Series	\$250,000
Select Stock Baskets—Strategist Series	\$100,000
Select Stock Baskets with Fixed Income—Strategist & Custom Series	\$250,000

At MIS' sole discretion, an initial or subsequent funding of less than the above stated minimums may be allowed. This may include a lower minimum relating to a Financial Advisor's own personal program account or multiple Program accounts.

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

MIS constructs its Asset Allocation Series, Retirement Income Series, and ETF Strategies to achieve diversification across many asset classes to produce the long-term risk and return characteristics that are intended to be appropriate based on your goals, risk tolerance and time horizon. We do this by combining quantitative analysis and screening methods with fundamental and qualitative evaluations of investment portfolios and individual investments. MIS evaluates various combinations of securities seeking characteristics that interact in an

optimal way with the goal of developing diversified portfolios that offer a long-term stable performance solution within a controlled level of risk.

Portfolios within the Focused Allocation Series are constructed to invest in securities in a narrow capital market segment, such as value, growth, real estate, natural resources or foreign equity segments, or securities which, when combined, are designed to accomplish a specific narrow investment strategy. As part of this line up, we may also offer the Enhanced Cash and Tax Advantaged Income portfolios, both short-term strategies meant to preserve capital, as well as the Absolute Return portfolio, which aims to provide modest returns that are not overly dependent on market movements, and the Global Allocation and Global Opportunities portfolios that offer a broadly diversified and an equity-centric approach to global investing, respectively.

Select Stock Basket Strategy portfolios are based on Morningstar, Inc.'s proprietary equity research. This equity research forms the basis of the equity securities underlying the portfolio. For Custom Series portfolios, MIS will narrow that universe of equity securities and select specific holdings by using quantitative and qualitative screening techniques, which include Morningstar, Inc.'s equity data and research. The Tortoise, Hare, and Dividend Strategist Series portfolios are patterned after the Morningstar, Inc. Newsletter portfolios of the same name, and the U.S. Wide Moat Focus Strategist Series is based on the Morningstar® Wide Moat Focus Index<sup>SM</sup>.

The primary sources of information used by MIS are from interviews it conducts with fund managers and the extensive databases and products of its parent company, Morningstar, Inc. Other sources include financial newspapers and magazines, annual reports, prospectuses, filings with the Securities and Exchange Commission, and press releases. MIS may also use statistical or other data sources from various vendors in its manager research process.

#### Security Selection Process/ Due Diligence

MIS' investment team uses various Morningstar, Inc. databases and tools and also subscribes to a number of outside sources of information and portfolio management tools. The investment team also peruses various investment-related periodicals, newsletters, and websites on a regular basis, and also relies on information provided by mutual fund companies and regularly conducts interviews and on-site visits with investment professionals at fund companies.

MIS leverages the proven research from its affiliate, Ibbotson Associates, a leader in asset allocation research, to set appropriate risk and reward expectations for each strategy. Investment methodologies, including the tactical and dynamic asset allocation programs are overseen by the Global Investment Policy Committee ("GIPC") and its working sub-committees. Members of GIPC may include officers, chief investment officers, managing directors, or managers of MIS 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.

#### Mutual Funds

MIS' mutual fund evaluation process is guided by its proprietary fund rating system, which combines quantitative analysis with a qualitative assessment of a fund's management team and investment process. The rating represents MIS' overall level of conviction in a fund based on various factors that MIS believe are important in determining which have the best chance of delivering above average risk-adjusted performance in the future. These factors include the following:

*Process* – MIS strives to identify managers who employ a disciplined and prudent investment process that has proven to be successful in the past and have executed in a consistent fashion. MIS favors attributes such as insightful security analysis, a robust valuation discipline, and sound risk management and portfolio construction.

*Parent* – The culture and structure of an asset management firm can have a significant impact on its ability to attract and retain talent and its penchant for serving in the best interests of fund shareholders. MIS looks at the ownership structure of the firm, its organizational stability and financial strength. MIS also places considerable emphasis on stewardship by favoring funds where the team has shown the tendency to act in the best interests of fund shareholders and where the portfolio managers eat their own cooking and have their incentives aligned with fund shareholders.

*People* – MIS judges the depth and capabilities of members of the investment team and stability of the organization. MIS looks beyond the lead portfolio manager such as assessing the quality of the investment team's research analysts.

*Performance* – MIS strives to identify funds that have shown the ability to deliver solid risk-adjusted performance over time. MIS evaluates performance from several angles and over various time periods. MIS favors managers that have added value over an appropriate benchmark or peer group in a consistent manner.

*Price* – Research indicates that expenses are one of the most important factors in predicting mutual fund performance. While a lower expense ratio is always better, MIS puts expenses into the proper context and consider factors such as the size of the fund, trend in expenses, and investment strategy.

Once MIS identifies the funds it has a high level of conviction in, it then determines what Program portfolio each fund is best suited for and the appropriate allocation. In doing this, MIS considers how various funds interact with each other in a given portfolio by examining their investment strategies, risk profiles, and holdings overlap. The goal is to construct portfolios that are well-diversified across asset classes, investment styles, and strategies.

#### Exchange-Traded Funds (ETFs)

MIS' evaluation of ETFs typically involves four steps. First, MIS evaluates the index that a given ETF tracks, its diversification, and its relevance to the Program portfolio's objective. Second, MIS evaluates the ETF's expense ratio and trading costs, typically favoring very low-cost ETFs (in attempt to mitigate the 'drag' such expenses can have on its investment returns). Third, MIS considers the track record of the ETF sponsor concerned as well as the reported performance of the ETF, typically opting for ETF sponsors that have an established track record in the business and a reputation for capably managing the strategies in their line-up. To that end, MIS will consider how long a sponsor has been operating, as well as salient factors like their success in tracking the benchmark. Fourth and finally, MIS considers the fundamental attractiveness of an ETF's underlying holdings.

MIS' tactical ETF investments can follow several approaches. For ETFs that invest primarily in U.S. stocks, MIS employs a proprietary valuation approach, whereby the fair value estimates that Morningstar, Inc.'s ETF analysts have placed on ETFs constituent stock holdings are rolled-up. By comparing that aggregate fair value estimate to an ETF's price (similar to the approach we employ when assessing individual stocks), MIS strives to gauge its fundamental attractiveness. MIS is typically most bullish on U.S. stock ETFs that are trading at marked discounts to fair value. (This is not to be confused with premiums or discounts to an ETF's net asset value; those premiums and discounts simply reflect the divergence of a stock's market price from the sum-of-the-parts prices of its underlying holdings.)

In addition to this proprietary valuation approach, MIS will typically compare the aggregate price multiples and growth rates of a stock ETF's holdings with those of other ETFs. MIS scores ETFs based on this research and then ranks them on that basis.



MIS' strategic investments in bond and foreign stock ETFs take a different tack, more closely resembling that described above for our mutual fund strategies. Generally speaking, in these cases, MIS strives to make judicious investments in areas that look mispriced based on our macroeconomic analysis or other fundamental factors.

### Stocks

With respect to Select Stock Baskets, MIS strives to identify 15–50 stocks that it believes are most compelling on a risk-adjusted basis. These stocks are derived from approximately 1,400 stocks under coverage by its parent company, Morningstar, Inc.

MIS focuses on stocks that the Morningstar, Inc.'s stock analysts ("Analysts") have identified as trading at marked discounts to the Analysts' estimate of the firm's intrinsic worth. In estimating a firm's intrinsic worth per share, Analysts forecast the cash flows that they believe a business is likely to generate over a multi-year time horizon and discount those cash flows back to the present. The size and durability of those cash flows depends largely on the Analysts' assessment of a firm's competitive standing. The more dominant a firm, the more durably profitable it is likely to remain, and vice versa. Thus, the Analysts tend to place greater worth on more-entrenched firms that routinely throw-off cash flows and lesser worth on those in commoditized industries that fail to earn back their cost of capital.

MIS' purchase decisions are influenced both by a stock's valuation as well as its risk. Generally speaking, the cheaper a stock's price relative to the Analyst's estimate of its fair value, the more interested MIS is likely to be in it. However, MIS also considers a stock's risk before buying. Specifically, MIS looks for a steeper discount to the Analyst's fair value estimate for riskier stocks and a smaller discount for less-risky names. In that way, MIS affords itself a margin for error in the event that our Analysts' estimate proves too optimistic.

MIS generally sells a stock in three situations. First, when the stock is no longer attractively valued. This can occur, for instance, when a stock appreciates to a level that approximates the Analysts' fair value estimate. Second, when a company's fundamentals change; for instance, if new information emerges that may negatively impact the firm's fundamentals. Third, when other opportunities emerge such as when another stock whose fundamental merit surpasses that of an existing holding.

MIS cannot guarantee that the objectives of its advisory services will be achieved. Investments in securities involve risk, including the loss of principal.

### Investment Risk and Disclosure

It is important to note that investments in securities (e.g., mutual funds, exchange-traded funds, equity securities) involve risk and will not always be profitable. MIS does not guarantee that the results of its advice, recommendations, or the objectives of your portfolio will be achieved. This includes the Absolute Return portfolio whose goal is to seek modest positive returns with an emphasis on limiting volatility in various market environments. MIS does not guarantee that negative returns can or will be avoided in this portfolio or any of its portfolios. An investment made in a security may differ substantially from its historical performance and as a result, you may incur a loss. Past performance is no guarantee of future results.

Portfolios whose strategies invest in a narrow capital market segment, such as natural resources or foreign equity segments or fixed income segments such as municipal bonds, are designed to accomplish a specific narrow investment strategy and will typically be more sensitive to the volatility of those market segments than an account investing in accordance with a broader asset allocation approach. In addition, investing in a narrow market segment and/or in accordance with a narrow investment strategy typically will mean that the portfolio developed

by MIS pursuant to such a strategy will hold fewer and potentially more concentrated investments than a portfolio more broadly diversified. It is important that you and your Financial Advisor discuss these and other risks associated with a focused investment approach and determine whether it is appropriate and consistent with your risk tolerance, investment objectives and overall financial situation.

Select Stock Basket Strategy portfolios will be invested primarily in common stocks listed on U.S. stock exchanges, which are a type of equity security that represents an ownership interest in a corporation. Please be aware that common stocks are typically subject to greater fluctuations in market value than other asset classes as a result of such factors as a company's business performance, investor perceptions, stock market trends and general economic conditions. Stocks of small-cap and mid-cap companies tend to be more volatile and less liquid than stocks of large companies. Small-cap and mid-cap companies, as compared to larger companies, may have a shorter history of operations, may not have as great an ability to raise additional capital, may have a less diversified product line making them susceptible to market pressure, and may have a smaller public market for their shares.

In addition, Select Stock Basket Strategy assets may also be invested in American Depositary Receipts ("ADRs") or foreign stocks listed on an U.S. exchange. An ADR is typically created by a U.S. bank and allows U.S. investors to have a position in the foreign company in the form of an ADR. Each ADR represents one or more shares of a foreign stock or a fraction of a share (often referred as the 'ratio'). The certificate, transfer, and settlement practices for ADRs are identical to those for U.S. securities. Generally, the price of the ADR corresponds to the price of the foreign stock in its home market, adjusted for the ratio of ADRs to foreign company shares. There are investment risks associated with ADRs and foreign stocks including, but not limited to, currency exchange-rate, inflationary, and liquidity risks as well as the risk of adverse political, economic and social developments taking place within the underlying issuer's home country. In addition, the underlying issuers of certain ADRs are under no obligation to distribute shareholder communications to ADR holders, or to pass through to them any voting rights with respect to the deposited securities.

ETF Strategy portfolios will be invested in exchange-traded funds ("ETFs") whose 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.

### Additional Risks and Disclosure

As with any investment decision, you should consider the impact it may have on your tax situation. Please note, unless your investment is in a tax-deferred account, there are possible tax consequences when a mutual fund makes a distribution or you sell fund shares as a result of withdrawing or liquidating your investment from the Program. MIS encourages you to consult with your tax professional about these and other tax consequences related to an investment in the Program.

If you are redeeming, surrendering or otherwise selling an existing security position to fund your Program's account's initial investment, you should fully understand the ramifications of such a redemption, surrender or sale including, but not limited to, potential tax liabilities and fees/charges that you may incur such as redemption fees, contingent deferred sales charge(s), and/or brokerage commissions.

If you fund a Select Stock Basket Strategy account with existing security positions, you understand MIS may sell most, if not all, of those positions and invest the proceeds in securities that are consistent with your Specification Sheet. In this case, you will incur tax consequences as a result of MIS selling these positions. You may also fund your account with a stock that has a low tax basis (so called "legacy stock") and, as an accommodation (as described on your Specification Sheet), MIS will sell the legacy stock positions for you over your designated Phase-In Period and reinvest the proceeds in accordance with your Specification Sheet. In this case as well, (1) you will experience a tax consequence as a result and (2) MIS will not be liable to you if the ultimate proceeds from its sale of part or all of the legacy stock positions is not as profitable to you as might have been the case had the legacy stock been sold at any other time from the date of your deposit of the legacy stock in your Stock Basket Strategy account.

Additionally, if on your Specification Sheet you allow MIS to include Master Limited Partnerships ("MLPs") in the universe of investments available for your Stock Basket Strategy account, there are advantages/ disadvantages associated with MLPs including, but not limited to, MLPs' net income being passed through to the investor, which is then taxed at the investor's individual tax rate and certain distributions being deemed as return of capital. MIS does not provide tax advice and therefore MIS strongly encourages you to consult with your Financial Advisor and/or tax accountant about this and other tax issues relating to your Account.

MIS, as owner-of-record, maintains various portfolios containing the same holdings as those available to you. However, any potential conflict arising from this is mitigated by the fact that any rebalancing and/or reallocating instruction sent to the Provider is executed for all eligible accounts (i.e., both client and MIS accounts).

#### Disciplinary Information

Neither Morningstar Investment Services nor its employees have been involved, or are currently involved in any litigation, arbitration, or SRO/regulatory violations.

#### 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.

As part of the Morningstar Managed Portfolios Program, MIS also offers Morningstar Managed Plan Solutions, a service intended for employers responsible for establishing a participant-directed defined contribution plan and employees of an employer who participate in such a plan. Features within Managed Plan Solutions may include providing model asset allocation portfolios, a risk tolerance questionnaire, an investment policy statement, and assistance with the plan's underlying security lineup. The plan, employer, or employee will pay to MIS an annual basis point fee depending on the services chosen and the complexity involved in providing those services. The fee typically ranges from 12–35 basis points (0.12% to 0.35%) and is based on the services provided and the plan's assets.

In addition to the Morningstar Managed Portfolios Program, MIS offers advisory services to third-party advisory programs of financial institutions. These services may be provided on a discretionary or non-discretionary basis. The core services offered to these institutions consist of asset allocation and portfolio construction to be used in conjunction with their proprietary advisory program. In most cases,

this involves the construction of risk based asset-class and/or investment-specific strategies and on-going monitoring of such strategies. MIS may also provide sales support by educating investment adviser representatives about the MIS strategies available under the third-party advisory program. Fees charged for these advisory services will depend on assets in the selected strategies and the complexity involved in providing additional services (if any); the fee ranges from 15–55 basis points (0.15% to 0.55%).

MIS also assists a financial institution, issuing registered securities, with the portfolio composition and relative weight recommendations of the registered security's underlying holdings. The current fee for this service is approximately 20 basis points (0.20%) based on assets of the registered security.

MIS is also registered as a broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ("FINRA"). MIS' broker registration gives MIS the ability to receive fees directly or indirectly from those mutual funds underlying a Program portfolio whose 12b-1 plans are for distribution only. Therefore, some MIS employees maintain the FINRA security licenses required with MIS broker dealer registration and associated with their current job responsibilities.

MIS' parent company, Morningstar, Inc., and its affiliates may use MIS' employees and resources to provide certain support services in conjunction with the services offered by Morningstar, Inc. or its affiliates. In addition, MIS may use the employees or resources of Morningstar, Inc. or its affiliates to provide certain support services in conjunction with MIS' advisory services. These affiliates may include Ibbotson Associates, Inc., a registered investment adviser, Morningstar Associates, LLC, a registered investment adviser, HelloWallet, LLC, an employee financial wellness program, and ByAllAccounts, an account and data aggregation service. All these entities are wholly owned subsidiaries of Morningstar, Inc.

MIS may present the various products and services offered by Morningstar, Inc. or its affiliates. In certain situations, MIS may receive compensation from bringing these potential opportunities to them.

In addition, MIS may work with one or more of its affiliates in providing products/services intended for the affiliate or the affiliate's clients. In these arrangements, MIS is typically compensated for its work either by MIS' affiliate or the affiliate's client.

In addition to the U.S.-based affiliates previously described, Morningstar, Inc. is a direct or indirect owner of a number of other investment advisory entities located in other countries. In some cases, members of MIS' 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 MIS' clients. A current list of all of MIS' 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.

Morningstar, Inc. offers equity research services to institutional investors (e.g., portfolio managers). Through a contractual arrangement with Morningstar, Inc., MIS intends to use this research service as a basis for making investment decisions for certain portfolios under the Program. The services provided to MIS are based on Morningstar Inc.'s documented methodology and/or standard process for researching, analyzing, and ranking common stocks and are not individualized based on the specific circumstances of a Program client. To mitigate conflicts this arrangement may present, MIS does not allow Morningstar, Inc. to have direct involvement in MIS investment decisions, does not provide or give Morningstar, Inc. access to specific information on a Program client, and does not allow Morningstar, Inc. to communicate with a Program client directly about their specific needs and circumstances. MIS pays Morningstar, Inc. for this equity research service.

For those portfolios consisting of open-end mutual funds or exchange-traded funds, there may be situations where one or more of these securities own shares in Morningstar, Inc. Such an investment in Morningstar, Inc. is solely the decision of the securities' portfolio manager. MIS has no input into a securities' investment decision nor does it require that the underlying its portfolios own shares of Morningstar, Inc. Whether or not the security has a position in Morningstar, Inc. has no direct impact on MIS' security selection process.

In addition, Morningstar, Inc. provides its subscribers various services including information about open-end mutual funds, exchange-traded funds, and equity securities; in some cases, this information includes written analysis of the security. While MIS does utilize Morningstar, Inc.'s databases for statistical information and may meet periodically to discuss changes to the methodology and development of such statistical information, it does not participate in or have any input in the written analyses Morningstar, Inc. provides to its subscribers. MIS and its employees are separate and distinct from Morningstar, Inc. and as such conduct their own research and analysis of the securities used within the Program.

In certain situations, MIS may recommend an exchange-traded fund(s) whose investment objective is to track indexes created and maintained by Morningstar, Inc. In those cases, the sponsor of the exchange-traded fund ("ETF Sponsor") enters into a licensing agreement with Morningstar, Inc. To mitigate any conflicts of interest arising from MIS' usage of such ETFs, Morningstar, Inc.'s compensation from the ETF Sponsor will not be based on nor will it include assets that are a result of your investment in those ETFs. In addition, Morningstar, Inc. does not and will not have any input into MIS' investment decisions, including what ETFs will be recommended for its portfolios.

MIS' affiliates are sub-advisors to registered fund-of-funds. To mitigate any conflicts of interests, MIS will not include in any of its portfolios those registered fund-of-funds which are sub-advised by MIS' affiliates.

From time to time, Advisory Firms may request that MIS pay to sponsor a marketing event or provide marketing support as it relates to the Program. These requests are reviewed on a case-by-case basis. For marketing events, such monetary support will typically be provided if a representative or representatives of MIS attend, including being a speaker, and/or is provided booth space.

Periodically, MIS will host regional meetings for Financial Advisors with the main purpose of providing education. There may be situations in which MIS will ask a person representing a fund company that one or more of their funds are included in our portfolios to speak on various topics unrelated to specific securities.

On occasion, Employees, as defined below, may visit the offices of the custodians offered on Program to receive training. In these instances the custodian may pay for the travel and lodging associated with this training.

#### Code of Ethics

MIS is dedicated to providing effective and proper professional investment management services to its clients including protecting their sensitive information. MIS' reputation is a reflection of the quality of its employees and their dedication in supporting the ethical culture of the firm. Because this culture is of critical importance, MIS has adopted a Code of Ethics ("Code") that all MIS employees and any affiliate employee involved with MIS' operations, technology or marketing ("Employees") must adhere to. Every Employee is expected to demonstrate the highest standards of moral and ethical conduct including placing clients' interests ahead of their own and those of MIS. MIS' Code covers such topics as:

- fiduciary responsibility to our clients,
- prevention of clients' non-public personal information being disclosed,
- giving and receiving of gifts,

- mitigating and disclosing conflicts of interests,
- reporting and monitoring employees' personal security transactions, and
- insider trading prohibitions.

At a minimum, on an annual basis, MIS' Code is distributed to all Employees. In conjunction with this, the Compliance Department reminds Employees of the key points of the Code as well as points out and discusses any new or modified provisions that have been put in place since the last time the Code was distributed to them. Upon their review of the Code and the aforementioned communication by the Compliance Department, Employees will be required to provide a written acknowledgement indicating that they have read, understood, and will adhere to the Code. At any time you may request MIS' Code policy by:

- Calling 877-626-3227
- Sending an e-mail to [mis@morningstar.com](mailto:mis@morningstar.com), Subject Line: Code of Ethics
- Writing: Morningstar Investment Services, Inc. at 22 West Washington Street, Chicago, IL 60602 ATTN: Chief Compliance Officer

#### Participation or Interest in Client Transactions

Employees may purchase or sell for their own accounts the same or different investments from those recommendations made to its clients. However, Employees with a certain level of access ("Access Persons") cannot transact in securities listed on its parent company's restricted list. Also, Access Persons are required to submit to the Compliance Department an initial and annual holdings report as well as quarterly transaction reports. These requirements are intended to mitigate any appearance of conflicts of interest for MIS. MIS seeks to ensure that potential or actual conflicts of interests are appropriately addressed, putting Program accountholders' interests ahead of its own.

MIS has adopted policies to prevent Employees from trading on the basis of material nonpublic information. Employees in possession of material, nonpublic information may not trade in securities to which the information relates or tip such information to others. In certain instances, the firm will employ information blocking devices, such as, watch lists and restricted lists as a means of preventing illegal insider trading.

#### Brokerage Practices

If your appropriate strategy consists of either ETFs and/or common stocks, your Advisory Firm and/or Financial Advisor and, in some specific cases MIS under a Solicitation Arrangement, must select a clearing/custody provider (e.g. brokerage firm). This provider must have the appropriate technical and operational connections with MIS' service provider, and will effect, clear, and settle transactions MIS places on behalf of your account and will act as your account custodian (your "Clearing Firm").

Typically, if you and your Financial Advisor select an Asset Allocation, Focused Allocation or Retirement Income Series Strategy, you, your Advisory Firm and/or Financial Advisor have the option of either using a Clearing Firm or MIS' service provider.

If your Advisory Firm does not have an existing relationship with a clearing/custody provider, MIS will provide a list of those providers that have the appropriate technical and operational connections with MIS' service provider. From that list, you and your Advisory Firm, and in some specific cases MIS under a Solicitation Arrangement, will be responsible for selecting a clearing/custody provider.

Please note, MIS does not receive compensation, research, or soft dollar benefits from the clearing firm selected by your Advisory Firm and/or Financial Advisor nor are MIS and the Clearing Firm affiliated.

Your Advisory Firm is solely responsible for deciding whether to negotiate with its selected Clearing Firm the clearing/custody fees to be charged to your Account or where applicable, to use the clearing/custody fee schedule MIS has in place with that Clearing Firm ("Clearing Fee"). Please note, if your Advisory Firm chooses to use the clearing/custody fee schedule MIS has secured with your Clearing Firm, it may be higher than a clearing/custody fee schedule you and/or your Advisory Firm may be able to negotiate.

Your Financial Advisor is solely responsible for determining whether your Clearing Fee is charged to your Account on an "asset" or "per transaction" basis (in some cases, under a Solicitation Arrangement, MIS will be responsible for determining if your Clearing Fee charged to your Account is on an "asset" or "per transaction" basis; please see the section titled Client Referrals and Other Compensation for more information on Solicitation Arrangements). If 'asset' basis is selected, your Account will be charged a fee every quarter based on the market value of your Account at a calendar quarter-end ("Asset Based Clearing Fee") Please see additional information about the Asset Based Clearing Fee in the Form ADV Part 2A Appendix 1: Wrap Fee Program Brochure. If 'per transaction' basis is selected, you understand your Account will be charged a transaction fee in the calendar quarter the transactions are made based on a specific rate per trade ("Transaction Based Clearing Fee").

Please consult with your Financial Advisor on the advantages/disadvantages of each method and the Clearing Fee associated with each. Asset Based Clearing Fee may not be appropriate for everyone and should be based on an individual's particular circumstances and any other relevant factors. You should note that if the number of transactions in your Account is low enough or if you have no transactions in any given quarter, the Asset Based Clearing Fee you pay your Clearing Firm may/will exceed the transaction costs that would otherwise be charged for transactions effected in that quarter.

Your Clearing Firm will deduct Clearing Fees from your Account in accordance with the Clearing Fee schedule (i.e., Asset Based or Transaction Based Clearing Fee) presented to you during the account-opening application. As a result of your Clearing Fee being pre-determined, neither MIS nor your Advisory Firm will negotiate trading fees (e.g., brokerage commissions) each and every time a transaction is placed with your Clearing Firm. The Clearing Fee imposed by your Clearing Firm may be different, including higher, than those of other available brokerage firms.

The payment of the Clearing Fee is solely your responsibility; MIS will not be obligated to pay the Clearing Fees incurred by your Account. These Clearing Fees are in addition to the Annual Program Fee described in the Fees and Compensation section.

Additionally, your Clearing Firm may impose a fee based on their short-term trading policies. If these fees are imposed, the appropriate amount will be charged to your Account, which is separate and distinct from the Annual Program Fee and Clearing Fees.

In setting up a brokerage account with your Clearing Firm you may be required to produce a government-issued identification number (e.g., U.S. driver's license number) and other personal, non-public information. MIS' discretionary authority will not become active until all necessary agreements have been executed and accounts established.

**Trade Aggregation and Allocation**—MIS, at its discretion, may aggregate purchase or sale order instructions for your Program account with purchase and sale orders for the same security for other clients' accounts MIS has been granted discretionary authority over ("Participating Clients"). This aggregation is intended to facilitate the trade execution process and is designed so that no one client or group of clients is favored over another. Participating Clients will receive the

security's average share price for that order in accordance with the Clearing Firm's policy. When faced with a security with limited supply or demand ("Partial Fill"), MIS intends to allocate that Partial Fill among Participating Clients on a pro-rata basis. MIS may, depending on the circumstances, increase or decrease the amount of securities allotted to each Participating Client by applying de minimis standards (e.g., avoid odd-lot or small number of securities for a client). Additionally, if MIS deems it impractical or inappropriate to allocate securities among the Participating Clients on a pro-rata basis, it may allocate such securities in some other equitable manner. Allocations generally are made prior to or at the time of execution. Subsequent allocations may be made in unusual circumstances such as, but not limited to, recognition of new account restrictions or availability of cash.

#### Review of Accounts

In most cases, your Financial Advisor will review your responses to the questionnaire and assist you in determining if a Program strategy is appropriate for you and, if it is, making a final determination as to the most appropriate portfolio for you from among the portfolios available within the Program. In addition, your Financial Advisor agrees to meet with you at least annually to discuss and review any changes in your financial situation.

#### Client Referrals and Other Compensation

In addition to our typical Program arrangements, MIS may offer its Program under the following arrangements and may receive compensation and/or economic benefit for providing services under the Program:

**Solicitation Arrangements**—Situations may arise in which others, including affiliates, may introduce accounts to MIS or solicit clients for MIS that they deem appropriate. In those cases, MIS will enter into a written agreement with the solicitor that complies with the "Cash Solicitation Rule" (Rule 206(4)-3) under the Investment Advisers Act of 1940, as amended. Where applicable, the agreement will identify the roles and responsibilities of the solicitor and MIS and the specific amount of the annual referral fee to be shared with the solicitor commensurate with the degree of effort and assistance provided. The annual referral fee charged to you will not be affected if you were introduced or referred by a solicitor.

Through a Solicitor Disclosure Statement, which is given to you prior to or upon receiving the Investment Management Agreement, you are made aware of the arrangement between the solicitor and MIS (and thus it has a financial interest in recommending MIS to you) and the specific referral fee paid to the solicitor.

The referral fee will be paid quarterly for so long as you maintain an Investment Management Agreement with MIS and the solicitor's agreement with MIS remains in-force. If at any time either agreement is terminated, the referral fee payments to the solicitor will cease.

**Additional Compensation**—MIS utilizes the services of unaffiliated providers, to provide, among other things, a platform that includes trade entry, trade allocation/portfolio management, rebalancing, trade clearing, fee processing, individual client accounting, and tax reporting. As a result of this relationship, MIS receives benefits, such as the ability to aggregate securities transactions and the ability to deduct program fees directly from your account (in accordance with federal and state requirements).

In addition, MIS benefits from the fact that its provider for strategies consisting of open-end mutual funds receives shareholding servicing fees directly from the mutual funds within the Program. The provider, in turn, reduces the monthly fee and expenses payable by MIS to it (in accordance with the agreement between the parties) by the amount of shareholding servicing fees it receives relating to the clients of the Program. Such arrangement could create a conflict of interest; however, in an effort to reduce such conflict, MIS offsets the Program Fee



charged to the client with an amount reflective of the reduction MIS received as noted in the Fee and Compensation section.

### Custody

Generally, on a quarterly basis, MIS will provide you with a report detailing the performance of your Account and holdings analysis as well as an overview and commentary of your selected portfolio. The report will also include a reminder that you should inform your Financial Advisor promptly of any changes in your financial situation or investment objectives or if you wish to modify or impose any restrictions on your account. You should also inform your Financial Advisor promptly of any changes to your Specification Sheet that you wish to make. Additionally, you will be provided trade confirmations or transaction statements from your Clearing Firm pertaining to your Account. If at anytime, you do not receive a statement on at least a quarterly basis from your Clearing Firm, please contact your Financial Advisor immediately. In addition, MIS encourages you to compare your Clearing Firm statements with reports or information provided by MIS and to contact your Financial Advisor immediately if you find any discrepancies between the two.

### Investment Discretion

In order to provide the discretionary authority to invest and reinvest in securities for your Account, you grant MIS authority to make investment decisions and initiate transactions on your behalf without seeking approval or discussing these investment decisions first with you, the Advisory Firm or your Financial Advisor. As a result, you, your Advisory Firm and your Financial Advisor are not authorized to make any security-related investment decisions (e.g., rebalance, reallocation, buy/ sells) pertaining to your Account assets nor is your Advisory Firm or Financial Advisor authorized to independently debit from your Account their portion of the Annual Program Fee (as explained in the Fees and Compensation section). If any of the activities described in the previous sentence do occur MIS may recover costs, expenses and/or losses associated with correcting such unauthorized activities from you, your Advisory Firm or your Financial Advisor. MIS' investment decision making authority as described above does not include MIS having direct access to or the authority to obtain possession of your Account assets.

### 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 advisors who have proxy voting authority with respect to securities held in their clients' accounts. These requirements are:

- Adopt and implement written policies and procedures that are reasonably designed to ensure that MIS votes in the best interest of their clients, which procedures must include how to address material conflicts that may arise between MIS' interests and those of their clients;
- Disclose to clients how they may obtain information about how proxies were voted with respect to their securities; and
- Describe to clients MIS' proxy voting policies and procedures and, upon request, furnish a copy of the policies and procedures.

As indicated in the Investment Management Agreement (presented with the account opening documents), MIS will vote proxies on those securities underlying your Program account unless you elect otherwise.

**Proxy Voting Committee**—In efforts to mitigate conflicts of interest, MIS has in place a Proxy Voting Committee ("Committee"). This Committee consists of both non-voting and voting members (collectively, "Committee Members"). Committee Members include the Compliance Officer (or appointed designee), Director of Operations (or its equivalent) and members of MIS' investment team. The Committee is responsible for tasks such as:

- Developing, implementing and updating policy and procedures intended to ensure voting of proxies is conducted in a manner that is in the best interests of its clients;
- Assessing whether proxy voting should be internally, externally by a third-party vendor, or a combination of the two;
- Overseeing the third-party vendor, when applicable;
- Making voting decisions and ensuring votes are cast on time, when applicable;
- Maintaining documents material to the voting decision; and
- Implementing appropriate proxy voting disclosures and maintaining records of all communications received from clients requesting information on how proxies were voted and MIS' responses

**Proxy Voting Process**—A Committee Member receives proxy statement notifications from an independent third-party vendor when a proxy statement has been issued on a security that currently underlies a Program portfolio. This third party vendor may provide additional services such as providing us with the corporate governance voting recommendations, vote submission on our behalf, and access to e-ballot and meeting information.

In instances in which MIS does not rely on a third party vendor, the vote will be determined on a case-by-case basis. Upon receiving a proxy statement the investment team member with the primary oversight responsibility for the security will review the proxy statement and make a recommendation to the Committee.

The voting 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 voting Committee Members agree with the recommendation, the proxy will be voted in that manner. If there is not a super-majority, the Committee will hold a meeting to discuss the proxy and reach a resolution.

### How you can Obtain Proxy Voting Information

At anytime you may request information on how MIS has voted proxies and/or request a copy of MIS' proxy voting policies and procedures. Requests can be submitted by:

- Calling 877-626-3227
- Sending an e-mail to [mis@morningstar.com](mailto:mis@morningstar.com), Subject Line: Proxy Voting Information
- Writing: Morningstar Investment Services, Inc. at 22 West Washington Street, Chicago, IL 60602 ATTN: Chief Compliance Officer

Please note, MIS will not act on or advise you regarding legal proceedings, including bankruptcies or class actions, involving securities held in your Account. You and your Financial Advisor are responsible for determining whether or not you want to participate in any class action suits filed against companies in which you've invested.

### 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 2A Appendix 1: Wrap Fee Program Brochure

## Morningstar Investment Services, Inc. (MIS)

22 West Washington Street  
Chicago, IL 60602  
+1 877-626-3227

[mis@morningstar.com](mailto:mis@morningstar.com)

March 26, 2015

In addition to the a Form ADV Part 2A: Firm Brochure, this Wrap Fee Program Brochure is provided to inform you of additional disclosures related to your Account. Based on the Annual Program Fee and Clearing Firm fees charged to your Account, you are participating in what is typically referred to as a "wrap fee program." A wrap fee program is a program under which you are charged a specific fee based on the market value of your Account, and not on a 'per transaction' basis. All capitalized terms noted throughout the Appendix will have the same meanings as those set forth in the Brochure.

### Summary of Material Changes

Please refer to the Summary of Material Changes noted on the Form ADV Part 2A: Firm Brochure

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Our brochure provides information about the qualifications and business practices of Morningstar Investment Services, Inc. If you have any questions about the contents of our brochure, please contact our Compliance Department at +1 312 696-6000.

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

Additional information about Morningstar Investment Services, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### Service, Fees and Compensation

The Morningstar Managed Portfolios program ("Program") is an investment advisory program available to individuals and institutions (collectively "you" or "your") primarily through arrangements MIS has with various unaffiliated registered investment advisors ("Advisory Firm"). The Program includes various strategies consisting primarily of mutual funds, exchange-traded funds, and equity securities.

Within the Program, MIS or an investment advisory affiliate, provides discretionary investment advisory services such as:

- ▶ constructing portfolios by analyzing a universe of available investments (e.g., mutual funds, exchange-traded funds, equity securities) using quantitative and qualitative analyses and any investment restrictions placed by you; and
- ▶ continuously monitoring the portfolios within the Program, rebalancing and/or reallocating when deemed necessary.

MIS delegates certain services to Advisory Firms such as:

- ▶ assisting you in completing your profile and/or other applicable account opening forms;
- ▶ determining suitability of the Program and your investment strategy and selected portfolio;
- ▶ meeting at least annually with you to review any changes in your financial situation; and
- ▶ acting as liaison between MIS and you.

For these services, MIS and your Advisory Firm will each receive a portion of the total Program fee paid by you.

In some instances an investment advisory affiliate of MIS will provide investment advisory services for a portion of the MIS fee. For additional information on the fees please refer to the ADV Part 2A of MIS and its affiliate.

### Maximum Annual Program Fee Schedule

Mutual Fund Strategies (including the Active/Passive Strategies<sup>1</sup>):

	First \$500K	Next \$500K	Next \$1MM	Over \$2MM
MIS Net Fee <sup>2</sup>	0.40%	0.35%	0.30%	0.20%
Advisory Firm Fee <sup>4</sup>	1.10%	1.05%	1.00%	0.90%
Total Program Fee	1.50%	1.40%	1.30%	1.10%

Annual Minimum MIS Net Fee: \$200

ETF Strategies<sup>1</sup> fees:

	First \$1MM	Next \$4MM	Thereafter <sup>3</sup>
MIS Fee <sup>2</sup>	0.30%	0.25%	0.20%
Advisory Firm Fee <sup>4</sup>	1.10%	1.10%	1.10%
Total Program Fee	1.40%	1.35%	1.30%

Annual Minimum MIS Fee: \$ 150

Stock Basket Strategies<sup>1</sup> fees:

	First \$1MM	Next \$4MM	Thereafter <sup>3</sup>
MIS Fee <sup>2</sup>	0.55%	0.50%	0.45%
Advisory Firm Fee <sup>4</sup>	1.10%	1.10%	1.10%
Total Program Fee	1.65%	1.60%	1.55%

Annual Minimum MIS Fee-Custom: \$1,375

Annual Minimum MIS Fee-Strategist: \$550

1 Risks and important information associated with the Portfolios' underlying holdings: The Stock Basket Strategy invests primarily in common stocks listed on U.S. stock exchanges, which are a type of equity security that represents an ownership interest in a corporation. Common stocks are subject to greater fluctuations in market value than other asset classes as a result of such factors as a company's business performance, investor perceptions, stock market trends and general economic conditions.

Stock Basket Strategy may also invest in American Depositary Receipts ("ADRs") or foreign stocks listed on an U.S. exchange. There are investment risks associated with ADRs and foreign stocks including, but not limited to, currency exchange-rate, inflationary, and liquidity risks as well as the risk of adverse political, economic and social developments taking place within the underlying issuer's home country. In addition, the underlying issuers of certain ADRs are under no obligation to distribute shareholder communications to ADR holders, or to pass through to them any voting rights with respect to the deposited securities.

Some portfolios may contain exchange-traded funds whose investment objective is to track indexes created and maintained by MIS' parent, Morningstar, Inc. In those cases, the sponsor of the exchange-traded funds ("ETF Sponsor") enters into a licensing agreement with Morningstar, Inc. To mitigate any conflict of interests arising from MIS' usage of such exchange-traded funds, Morningstar, Inc.'s compensation from the ETF Sponsor will not be based on nor will it include assets that are a result of a Participating Client's investment in those exchange-traded funds. In addition, Morningstar, Inc. does not and will not have any input into MIS' investment decisions, including what exchange-traded funds will be recommended for its Portfolios.

2 Does not include fees/commissions associated with executing transactions nor the internal expenses of the underlying holdings. Additionally, this fee covers costs associated with MIS' service provider services such as a trading infrastructure and client accounting and reporting.

3 For clients with account assets of \$5 million or above, MIS Fee is negotiable.

4 The Advisory Firm Fee portion of your Annual Program Fee is solely determined by your Advisory Firm and/or Financial Advisor. Their determination of what the Advisory Firm Fee will be for you will be noted within the program fee schedule presented to you as part of your account opening documents. As always, MIS encourages you to review the program fee schedule as well as all of your account opening documents carefully. Please note, MIS is not involved in determining what your Advisory Firm will charge you.

## Fee Schedule for the Asset Based Clearing Fee Negotiated by MIS

*Fidelity*

Fidelity Asset Based Clearing Fee	0.10%
Annual Minimum Fidelity Asset Based Clearing Fee	\$50

*Schwab*

Schwab Asset Based Clearing Fee	0.10%
Annual Minimum Schwab Asset Based Clearing Fee	\$50

The payment of the Asset Based Clearing Fee to your Clearing Firm is solely your responsibility. Typically, your Clearing Firm will charge your account directly for any applicable clearing fees. When securities can be traded in more than one marketplace, your Clearing Firm will use its discretion in selecting the market in which such orders are entered. Please be aware that your Clearing Firm may receive remuneration, compensation or other consideration for directing orders to particular broker/dealers or market centers for execution (i.e., payment for order flow) and that MIS does not participate in such arrangements.

**Supplemental Fee Information** — Because the Program is not exclusive to your Advisory Firm and/or Financial Advisor, the fee for the services provided may be higher than fees charged by other financial advisors who sponsor programs similar to MIS' or if you paid separately for investment advice and other services. In addition, because the underlying holdings of the Program's portfolios are not exclusive to the Program, you may buy securities (e.g., mutual funds, exchange-traded funds, common stock, etc.) outside of this Program without incurring the Annual Program Fee.

Exchange-traded funds have their own internal fees and expenses such as investment advisory, administration, and other fund-level expenses and that by investing in them you incur a proportionate share of those fees and expenses. Those fees and expenses are in addition to the above-mentioned Annual Program Fee and Asset Based Clearing Fee.

You may also incur certain charges by your Clearing Firm or its affiliates related to retirement plan accounts such as IRAs. You understand that these charges are in addition to the above-mentioned Annual Program Fee and Asset Based Clearing Fee.

American Depositary Receipts ("ADRs") are typically created, organized and administered by a U.S. bank. Generally, these banks charge a fee for their services (e.g., custody) and may deduct these fees from the dividends and other distributions generated from the ADR shares. In addition, banks incur expenses, such as converting foreign currency into U.S. dollars, and as a result may pass those expenses on to the ADR shareholder. These fees and expenses are in addition to the above-mentioned Annual Program Fee and Asset Based Clearing Fee.

Specific information about your Annual Program Fee, Asset Based Clearing Fee, and any additional fees can be found in your account-opening documents and within the attached Form ADV Part 2A: Firm Brochure.

**Account Requirements and Types of Clients**

The Morningstar Managed Portfolios program is an investment advisory program available to individuals and institutions, whose initial investment meets the minimum account size noted within. This program is primarily offered through arrangements MIS has with various unaffiliated registered investment advisors and is intended for citizens or legal residents of the United States or its territories. This program can only be offered by a registered investment advisor or investment advisor representative.

The minimum initial account size for each strategy is as follows:

Mutual Fund Strategies (including Active/Passive Strategies)	\$50,000
Enhanced Portfolio Service	\$1,000,000
Individual 401(k) Account	\$40,000
For each of the above:	
Minimum subsequent investment	\$500
Minimum subsequent investment—IRA Accounts	\$250
ETF Strategies	\$50,000
Select Stock Baskets—Custom Strategies	\$250,000
Select Stock Baskets—Strategist Strategies	\$100,000
Select Stock Baskets with Fixed Income—Strategist & Custom Series	\$250,000

At MIS' sole discretion, an initial or subsequent funding of less than the above stated minimums may be allowed. This may include a lower minimum relating to a Financial Advisor's own personal program account or multiple Program accounts.

### Portfolio Manager Selection and Evaluation

MIS provides discretionary investment advisory services, including constructing portfolios by analyzing a universe of available investments, using quantitative and qualitative analyses and any investment restrictions placed by you; and continuously monitoring the portfolios within the Program, rebalancing and/or reallocating when deemed necessary.

As part of the Program, MIS may offer portfolios managed by one of its investment advisory affiliates, in addition to the portfolios managed by MIS. Should MIS choose to offer portfolios managed by an unaffiliated investment advisor, all portfolios and investment advisor portfolio managers available within the Program will be subject to the same review and selection process.

This process includes but is not limited to the following criteria:

*Process*—MIS strives to identify portfolio managers who employ a disciplined and prudent investment process that has proven to be successful in the past and been executed in a consistent fashion. MIS favors attributes such as insightful security analysis, a robust valuation discipline, and sound risk management and portfolio construction.

*Parent*—The culture and structure of an asset management firm can have a significant impact on its ability to attract and retain talent and its penchant for serving in the best interests of its clients. MIS looks at the ownership structure of the firm, its organizational stability and financial strength. MIS also places considerable emphasis on stewardship by favoring those where the team has shown the tendency to act in the best interests, and whose incentives align with those of, its clients. This includes portfolio managers who eat their own cooking.

*People*—MIS judges the depth and capabilities of members of the investment team and stability of the organization. MIS looks beyond the lead portfolio manager such as assessing the quality of the team's research analysts.

*Performance*—MIS strives to identify funds that have shown the ability to deliver solid risk-adjusted performance over time. MIS evaluates performance from several angles and over various time periods. MIS favors portfolio managers that have added value over an appropriate benchmark or peer group in a consistent manner.

*Price*—Research indicates that expenses are one of the most important factors in predicting portfolio performance. While a lower expense ratio is always better, MIS puts expenses into the proper context and considers factors such as the trend in expenses and investment strategy.

Morningstar Investment Services' calculates internally the performance of its seeded portfolios; such calculations are then reviewed by ACA Compliance Group Beacon Verification Services ("Beacon"), a third-party reviewer. Beacon's review includes the overall methodology of the calculation, accurate implementation of the methodology and assumptions in the formulae of the calculations, and the accuracy of the basic input data which drives the calculations. Based on the reviews, it is Beacon's opinion that the seed account performance results have been calculated accurately. MIS has been utilizing Beacon's services periodically since 2008; however, the calculation review period dates back to the inception of the seeded portfolios.

For additional information regarding MIS' management of the portfolios within the Program, please refer to the Form ADV Part 2A: Firm Brochure, sections titled Advisory Business, Performance-Based Fees and Side-By-Side Management, Methods of Analysis, Investment Strategies and Risk of Loss and Voting Client Securities.

### Client Information Provided to Portfolio Managers

Since MIS will invest your account assets on the basis of your responses to the questionnaire, or equivalent, and information given to your Financial Advisor, you understand and acknowledge the importance of responding accurately to these questions and for ensuring all information within your questionnaire is complete and accurate. You understand and acknowledge that MIS will rely on the information it is provided in managing your account and that MIS will not independently verify any information you have given in response to the questionnaire.

On at least an annual basis, your Financial Advisor will typically meet with you to discuss any changes to your personal/financial situation that may affect your account. In addition, contact your Financial Advisor promptly when any changes occur in your financial circumstances that may have a bearing on the manner in which your account assets are invested; which may include but are not limited to changes in your financial circumstances, risk tolerance, investment objectives, or reasonable restrictions you wish to place on your account.

### Client Contact with Portfolio Managers

Appropriate MIS personnel will be made available during normal business hours to consult with you upon reasonable request.

### Additional Information

Please refer to the Form ADV Part 2A: Firm Brochure, for additional information regarding Disciplinary Information and Other Financial Industry Activities and Affiliations of MIS, as well as information about MIS' Code of Ethics, Participation or Interest in Client Transactions and Personal Trading, Review of Accounts, Client Referrals and Other Compensation, and MIS' Financial Information.