

## Form ADV Part 2A: Firm Brochure

Morningstar Investment Services LLC

Non-ERISA Retirement Plan Services

### Table of Contents

Advisory Business	2
Fees and Compensation	3
Performance-Based Fees and Side-by-Side Management	3
Types of Clients	3
Methods of Analysis, Investment Strategies and Risk of Loss	3
Disciplinary Information	4
Other Financial Industry Activities and Affiliations	4
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	5
Brokerage Practices	5
Review of Accounts	5
Client Referrals and Other Compensation	5
Custody	5
Investment Discretion	5
Voting Client Securities	5
Financial Information	5

## Form ADV Part 2A: Firm Brochure

### Morningstar Investment Services LLC Non-ERISA Retirement Plan Services

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This brochure provides information about the qualifications and business practices of Morningstar Investment Services LLC to help you determine whether to hire or retain us as your investment adviser. If you have any questions about the contents of this brochure, please contact us at 312-696-6000.

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

Morningstar Investment Services LLC is a registered investment adviser. Registration does not imply a certain level of skill or training.

Additional information about Morningstar Investment Services LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Select Investment Adviser Search in the main menu, and then perform a Firm Search to locate the record for Morningstar Investment Services LLC, CRD No. 112525. All current versions of our brochures are available in the Part 2 Brochures section of this record.

You may also request a copy of our current brochure free of charge by contracting our Compliance Department at 312.696.6000, or by email to [complianceemail@morningstar.com](mailto:complianceemail@morningstar.com). In your request, please indicate the name of the company (Morningstar Investment Services LLC) and the service brochure(s) (Non-ERISA Retirement Plan Services, Morningstar® Managed Plan Solutions<sup>SM</sup>, Morningstar® Managed Portfolios<sup>SM</sup>, and/or Third Party Advisory Programs) you are requesting.

#### Advisory Business

Morningstar Investment Services LLC ("Morningstar Investment Services", "we", "us" or "our". Where applicable, the terms "we", "us" and "our" also includes "Dual-Hatted Persons" (as defined below)) is a federally registered investment adviser providing investment advisory services since 2001. Morningstar Investment Services is a wholly owned subsidiary of Morningstar Investment Management LLC ("Morningstar Investment Management"). Morningstar Investment Management is a federally registered investment adviser and wholly owned subsidiary of Morningstar, Inc. ("Morningstar"), a publicly-traded company (Nasdaq Ticker: MORN). Because we are required to inform you of any individual who holds more than 25% of our company, please be advised that Joseph Mansueto, CEO of Morningstar, individually holds more than 50% of Morningstar's outstanding shares of stock, and is therefore an indirect owner of more than 50% of Morningstar Investment Services.

Morningstar Investment Services operated under the name Morningstar Investment Services, Inc. and was a wholly owned subsidiary of Morningstar through December 31, 2015. At the close of business on December 31, 2015, Morningstar Investment Services became Morningstar Investment Services LLC and a wholly owned subsidiary of Morningstar Investment Management LLC.

Morningstar Investment Services has filed the appropriate notices to conduct business in all states, the District of Columbia, Puerto Rico and the Virgin Islands. The primary purpose of Morningstar Investment Services' investment adviser operations is to provide discretionary investment advice on portfolios consisting of securities such as open-end mutual funds, exchange-traded funds and/or equity securities.

As of September 30, 2015, Morningstar Investment Services' assets under management for discretionary accounts totaled \$6,491,400,000 and for non-discretionary accounts, assets under advisement totaled \$1,779,100,000.

#### Services

Morningstar Investment Services offers various services intended for certain non-ERISA retirement plans (e.g., 403(b), payroll IRA) (the "Program") through an arrangement we have with the Program's recordkeeping service provider ("Recordkeeper"). Those services include (and hereafter will collectively be referred to as "Services"):

##### Investment Line-up

We select the appropriate open-end mutual funds and/or exchange-traded funds (each a "Fund, collectively "Funds") from the universe of investment options available to a Recordkeeper, primarily through the use of a proprietary fund rating system that is based on the key factors outlined below.

##### Model Asset Allocation Portfolios

We offer various model asset allocation portfolios (each a "Portfolio", collectively "Portfolios"). Portfolio construction and ongoing monitoring and maintenance of the Portfolios within the service are provided by investment professional representatives of Morningstar Investment management that are acting on our behalf ("Dual-Hatted Persons").

Each Portfolio strives to achieve long-term risk and return objectives through diversification among multiple asset classes using the Program's investment line-ups. These Portfolios are for individuals who are making contributions to a Program and have established a custodial account ("Participant"). The goal of the Portfolios is to provide the Participant with the ability to invest their Program account assets in a diversified manner.

##### Risk Tolerance Questionnaire

We make available to Participants a risk tolerance questionnaire. The questionnaire's sole purpose is to provide the Participants with general assistance in terms of identifying their risk tolerance and investment objectives and based on this, which Portfolio is most aligned with that risk tolerance/investment objective.

## Fees and Compensation

Pertaining solely to the Services, Participants will pay us an annual fee ("Fee") of 0.25% (25 bps). The Fee will be assessed every calendar quarter and will be based on the value of the Participant's Program account's assets as of the last business day of a calendar quarter-end. The Fee will be remitted to us by the Recordkeeper.

In addition to the Fee, the Participant may also incur management and other fund-related expenses imposed by the Funds in which the Program assets are invested. This may include redemption fees that a Fund underlying the Program account may impose as a result of a transaction-related request. In addition to the Fee, the Participant may also incur fees related to recordkeeping and certain other administrative services imposed by the Recordkeeper and fees charged by the Participant's financial advisor. All of the fees and expenses described in this paragraph are separate from the above-mentioned Fee and we have no control, influence or involvement in them.

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

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

## Types of Clients

These services are intended for Participants of the Program.

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

Portfolio construction and ongoing monitoring and maintenance of the portfolios within the program are provided by Dual-Hatted Persons. The Portfolios are constructed to achieve diversification across many asset classes to produce the long-term risk and return characteristics that are intended to be appropriate based on the Participant's goals, risk tolerance and time horizon. This is done by combining quantitative analysis and screening methods with fundamental and qualitative evaluations of investment portfolios and individual investments. Additionally, it is done by evaluating 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.

## Security Selection Process/ Due Diligence

Investment methodologies and process used in constructing and maintaining the portfolios under the Program, 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 include investment professionals of Morningstar's investment management group including certain Dual-Hatted Persons. 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.

In selecting the underlying holdings of a portfolio available under the Program, Morningstar databases, subscriptions to a number of outside sources of information and portfolio management tools are used during the process. Other sources are various investment-related periodicals, newsletters, and websites as well as information provided by mutual fund companies and regularly conducted interviews and on-site visits with investment professionals at fund companies.

## Mutual Funds

The 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 the overall level of conviction in a fund based on various factors that are deemed important in determining which mutual funds have the best chance of delivering

above average risk-adjusted performance in the future. These factors include the following:

*Process* – We strive to identify portfolio managers of asset management firms who employ a disciplined and prudent investment process that has proven to be successful in the past and have executed in a consistent fashion. We favor 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. Ownership structure of the firm, its organizational stability and financial strength are also taken into consideration as well as asset management portfolio management teams that have shown the tendency to act in the best interests of fund shareholders and where the portfolio managers have made a personal investment in the mutual fund they manage.

*People* – We judge the depth and capabilities of members of the portfolio management team of an asset management firm and the overall stability of the firm.

*Performance* – We strive to identify mutual funds that have shown the ability to deliver solid risk-adjusted performance over time by evaluating performance from several angles and over various time periods including those 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 mutual fund performance. While a lower expense ratio is typically better, Morningstar Investment Management puts expenses into the proper context including factors such as the size of the fund, trend in expenses, and investment strategy.

Once the mutual funds we have a high level of conviction in are identified, we then determine what Portfolio each mutual fund is best suited for and the appropriate allocation. In doing this, we consider 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)

Our evaluation of ETFs typically involves four steps. First, evaluate the index that a given ETF tracks, its diversification, and its relevance to the Portfolio's objective. Second, evaluate 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, consider 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, we will consider how long a sponsor has been operating, as well as salient factors like their success in tracking the benchmark. Fourth and finally, consider the fundamental attractiveness of an ETF's underlying holdings.

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

Our 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, we strive to make judicious investments in areas that look mispriced based on our macroeconomic analysis or other fundamental factors.

## Investment Risk and Disclosure

It is important to note that investments in securities (e.g., mutual funds and exchange-traded funds) involve risk and will not always be profitable. We cannot guarantee that the results of our advice, recommendations, or the objectives of your portfolio will be achieved. We do not guarantee that negative returns can or will be avoided in 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.

ETF 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.

## Disciplinary Information

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

## Other Financial Industry Activities and Affiliations

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

Our primary business is offering the Morningstar Managed Portfolios program ("MMP"). It is an investment advisory program available to individuals and institutions primarily through arrangements we have with various unaffiliated registered investment advisers. MMP includes various strategies consisting primarily of mutual funds, exchange-traded funds, and equity securities. Within MMP, we provide discretionary investment advisory services such as: investing portfolios in a universe of available investments (e.g., mutual funds, exchange-traded funds, equity securities) and rebalancing and/or reallocating the portfolios when deemed necessary. Portfolio construction and ongoing monitoring and maintenance of the portfolios within MMP are provided on our behalf by Morningstar Investment Management. The maximum MMP fee typically ranges from 140-165 basis points (1.40% to 1.65%) and is based on assets in our strategies.

As part of the MMP, we also offer Morningstar® Managed Plan Solutions<sup>SM</sup> ("MPS"), 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 MPS 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 us 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 MMP, we offer 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 of these institutions

consist of Morningstar Investment Services offering model portfolios to be used in conjunction with each institution's proprietary advisory program. In most cases, these advisory services involve risk based asset-class and/or investment-specific strategies and the on-going monitoring of such strategies. Model portfolio construction and ongoing monitoring of the model portfolio(s) is provided on our behalf by Morningstar Investment Management. We may also provide sales support by educating investment adviser representatives about the strategies available under the third-party advisory program. Fees charged for the sub-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%).

We also assist a financial institution with the portfolio composition and relative weight recommendations of a 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. If you would like a copy of our brochures describing Morningstar Investment Services' other services as described above, please follow the instructions on Page 2.

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

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

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

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

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

In some instances, we may use the employees or resources of Morningstar or its affiliates to provide certain support services in conjunction with our advisory services. If an additional fee for such products or services by Morningstar or its affiliates is required, it will be set forth in the client advisory agreement. In these situations, clients may pay a fee directly to Morningstar or each such affiliate for its products or services, or as part of a joint fee schedule which encompasses all services.

In addition, Morningstar or its affiliates may also use our employees and resources to provide certain support services in conjunction with the services offered by Morningstar or its affiliates. These affiliates may include Morningstar Investment Investment LLC, a registered investment adviser and our parent company, HelloWallet, LLC, an employee financial wellness program and subsidiary of Morningstar, and ByAllAccounts, an account and data aggregation service and subsidiary of Morningstar. In these arrangements, we may be compensated by our affiliate or the affiliate's client.

In addition to the U.S.-based affiliates described above, Morningstar is a direct or indirect owner of a number of other investment adviser entities located in other countries. In some cases, members of our senior management may have some management responsibilities to these other affiliated entities. We do not believe that these management responsibilities create any material conflicts of interests for our clients. A current list of all of our investment adviser affiliates can be found in our Form ADV Part 1, which can be obtained at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), as described on Page 2 of this Brochure.

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

Morningstar Investment Management is a sub-advisor to certain registered fund-of-funds. To mitigate any conflicts of interests, those registered fund-of-funds will not be recommended for inclusion in any of the portfolios available under the Program.

Periodically, we will host regional meetings for Financial Advisors with the main purpose of providing education. There may be situations in which we 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.

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

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

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

We do not engage in principal transactions (transactions where we, acting in our own account or in an affiliated account, buy a security from or sell a security to a client's account). In addition, we do not engage in agency cross transactions

(transactions where we or our affiliate executes a transaction while acting as a broker for both our client and the other party in the transaction).

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

### **Brokerage Practices**

Our trade recommendations are communicated to Recordkeeper. We do not participate in any soft dollar practices.

### **Review of Accounts**

Our services for Program do not include the periodic review or ongoing monitoring of Participant accounts. We may, however, provide ongoing monitoring of specific investments in a Program's lineup and make periodic reports to the Recordkeeper, and/or provide recommendations to the Recordkeeper for changes in the Program's investment lineup.

### **Client Referrals and Other Compensation**

Situations may arise in which others may introduce accounts to us or solicit clients for us. In those cases, we 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. The agreement will identify the specific percentage of the annual fee to be shared with the solicitor commensurate with the degree of effort and assistance provided. Our fee charged to clients will not be affected if they were introduced or referred by a solicitor.

### **Custody**

We do not serve as a custodian of Participant assets. The Recordkeeper is responsible for selecting the custodian for Program assets. The selection of custodians may be limited by the Recordkeeper.

Participants should receive statements from the qualified custodian that holds the Program assets at least quarterly. Participants should carefully review such statements. If you note any discrepancies on your account statements, you should promptly contact your Recordkeeper.

### **Investment Discretion**

When we provide advice, typically the Participant retains the investment discretion and control of their assets. We provide Participants with information designed to help them make investment choices regarding their assets and the Recordkeeper notifies them of any changes recommended within their Portfolio. Participants are responsible for responding to the Recordkeeper if they do not approve of those recommendations.

### **Voting Client Securities**

Participants are responsible for receiving and voting proxies for all investments held in their account. We do not have the authority to and will not vote proxies.

### **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.