

## Form ADV Part 2A: Firm Brochure

Morningstar Investment Services LLC

Non-ERISA Retirement Plan Services

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## 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 [compliance@morningstar.com](mailto:compliance@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, Plan Sponsor 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, the Commonwealth of 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 March 31, 2016, Morningstar Investment Services' assets under management for discretionary accounts totaled \$7,518,700,000 and for non-discretionary accounts, assets under advisement totaled \$2,100,900,000.

#### 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 (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 with the Program are provided on our behalf by Dual-Hatted Persons. The primary sources of information used in the security selection process are from interviews it conducts with fund managers and the extensive databases and products of Morningstar. Other sources include financial newspapers and magazines, annual reports, prospectuses, filings with the Securities and Exchange Commission, and press releases. Statistical or other data sources from various vendors may also be used in the manager research process.

### **Investment Process**

Our investment process focuses on one central idea: We seek to find fair value in what we believe are fundamentally strong but underpriced investments. This strategy helps build risk management into our investment process. From idea generation to holistically building portfolios for the long term, valuation is the key factor guiding the way we invest. Our investment process can be distilled into three main categories: We look for investment opportunities; we build portfolios in a risk-aware way; and we continue to manage portfolios with the goal of uncovering the greatest reward for risk for our investors.

### **Finding Investment Opportunities**

Our investment process does not start with a benchmark. We look broadly, investigating asset classes, subasset classes, sectors, and securities in markets around the world. Our capital markets research extends to more than 200 equity markets, regions, or sectors, while our fixed-income research covers more than 100 sectors. We also track over 30 world currencies.

We apply valuation analysis supported by in-depth fundamental research while seeking opportunities. We look to buy what our analysis concludes are overlooked investments, especially those that we think offer sound fundamentals at an attractive price. Our valuation analysis tells us how attractively priced an investment is, while insight of the fundamental drivers of asset prices increases the probability that we will get more than we pay for.

We aren't content to look only at valuation; studying investor sentiment and positioning adds contrarian elements to our process and tells us how the market consensus views an investment idea we're considering. We often choose to invest in ideas that go against the market consensus, with the idea that being different from the market can give us the potential to outperform. We also look closely at each investment's risk, which can be complex, multifaceted, and vary over time. One way to help control for risk is to buy fundamentally strong assets that are underpriced.

Our in-depth valuation analysis and contrarian indicators, when brought together, are the key ways we generate investment ideas.

Finding investment opportunities isn't just about great ideas; it's also about selecting investments for our clients' portfolios. Our research-driven approach to selecting investments is designed help investors reach their goals.

When building multi-asset portfolios, we evaluate the active investment managers and/or passive funds we use to implement our investment strategies. Our investment selection process begins with analysis from Morningstar, which covers hundreds of thousands of investment offerings globally, including mutual funds, closed-end funds, separate accounts, exchange-traded products, individual stocks, and hedge funds.

We build on Morningstar's quantitative and qualitative fundamental analyses by refining the investment universe and hand-selecting investments for our portfolios. Our investment team has years of experience evaluating active investment managers, comparing managerial track records, and determining how an investment may fit into a portfolio.

We know the active managers we use in our portfolios. They haven't just been screened; we have met them in person and subjected them to our rigorous review process. We assess whether we believe their investment team is qualified, experienced, and talented; that they follow a consistent and disciplined investment process; that their organization is strong and stable; and that they operate professionally and ethically. We study managers' holdings using our proprietary tools and analytics to assess how well their strategy may work in combination with those of other managers. And we consider managers' potential to outperform in different market environments. Rather than following simple style analytics or style neutrality blends, we seek process diversification and try to avoid the possible pitfalls of over-diversification often found in fund-of-fund investment strategies. Our own assessments lead us to managers suitable for our multimanager portfolios. That usually means a team of career portfolio managers who oversee a focused and consistent strategy, and that their investment shop is independent so that investment decisions are not constrained by other parts of the business.

Once we have selected active managers, we tend to keep them in place for the long haul. High turnover and crowded portfolios can destroy investor value. We believe hiring independent managers to run strategies we believe in is a better approach to multimanager portfolios.

### **Building Portfolios**

Armed with investment ideas, our global team works together to holistically build portfolios suited to each strategy we offer. Portfolio construction is about ranking and risk management. We seek to gain the largest exposure to our ideas that are the most underpriced (that is, have the largest difference between price and our assessment of fair value), while building robust portfolios designed to stand up to challenging investment environments.

As our investment ideas are implemented, they are crafted for use in each portfolio, a process in which we apply disciplined judgment to a multitude of dimensions with the goal of maximizing reward for risk in asset allocation and

investment selection across all investments. In this way, our choices come from people, not a machine.

This judgment-driven approach is designed to help maximize our exposure to our investment ideas and accounts for the complexity and multifaceted nature of investment risk. We view risk as the permanent loss of capital. Our valuation-based approach (that is, seeking underpriced assets and avoiding overpriced assets), fundamental diversification, and forward-looking approach to viewing asset class co-movements (that is, those that buffer gains and losses), all help to mitigate risk in our portfolios.

We construct robust portfolios designed to perform well in different environments rather than being considered “optimal” based on expected results or a specific environment. We avoid forecasts and building strategies based on our ability to predict specific environments. Instead, we aim to prepare for different environments through constructing portfolios that will hold up under many possible environments—even ones that we haven’t seen before. In effect, this involves trade-offs of aggregate reward for risk and a calibration of the probability and impact of negative outcomes.

### Managing Portfolios

Once we’ve holistically built portfolios, we manage them. This part of the process is continuing to search for opportunities, thinking through ways those opportunities might be included in our portfolios, and watching markets closely for any signs that would call for adjustments within the portfolio.

Portfolio management is not a stop/start process. We constantly review our positions, seeking to maximize reward for risk. Each strategy has a set of investment guidelines that outline the investment objectives, risk levels, and investment constraints. These are monitored to stay within the defined ranges. As valuation-driven investors, we primarily focus on price changes relative to fair value through time. Given that markets are dynamic, we reassess the portfolio given the changes in investment ideas, aggregate risks, and portfolio exposures. This iterative process reconsiders the opportunity set, with a constant eye on fundamental diversification and portfolio allocations.

Turnover and trading reduce returns for investors and therefore we expect any changes should be made only if we think they add value by a comfortable margin. Investment decisions happen in the real world rather than on paper—transaction costs and taxes are real. This means being biased toward inaction and long-term holdings, keeping turnover and transaction costs as low as possible.

Our global investment team works to understand markets and opportunities, monitor risk in existing portfolios, and vet ideas to make investment changes. This ongoing investment process powers every portfolio we manage.

We cannot guarantee that the objectives of the portfolios 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 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.

### 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 offer advisory services to plan sponsors as a 3(38) investment manager through a service support platform provider. These services include offering portfolios consisting of mutual funds and exchange-traded funds in which we select the underlying securities, rebalance the security weightings, and remove and replace securities as we deem necessary. Portfolio construction and on-going monitoring of the portfolios is provided on our behalf by Morningstar Investment Management. The annual fee is 30 basis points (0.30%).

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 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.

Our portfolio managers and their team members who are responsible for the day-to-day management of our portfolios are paid a base salary plus a discretionary

bonus. The discretionary bonus is based in part on the investment performance over three- and five-year time periods for the portfolio(s) the employee is responsible for managing. Benchmarks are used as a measure of investment performance, and are chosen by senior personnel and approved by the Global Investment Policy Committee's regional investment policy committee. To mitigate the conflict of interest that could arise from partially basing an employee's bonus on portfolio performance, all investment decisions made within a portfolio must be peer reviewed by a regional governance body within the Regional Investment Policy Committee, which includes asset allocation committees, manager selection committees, and portfolio construction (peer review) committees.

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.

Morningstar, as noted above, offers various products and services to the public. In some cases, Morningstar may refer clients of its products and services to Morningstar Investment Services for a referral fee as noted within the solicitation arrangement between Morningstar and Morningstar Investment Services. In those situations, Morningstar will disclose to the clients that they are affiliated with Morningstar Investment Services and that Morningstar Investment Services may pay Morningstar a referral fee.

### **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.