

# Form ADV Part 2A: Firm Brochure

## Morningstar Investment Services LLC

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# Form ADV Part 2A: Firm Brochure

## Morningstar Investment Services LLC

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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 brochure 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 contacting 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) (Morningstar® Managed Portfolios<sup>SM</sup>, Morningstar® Managed Plan Solutions<sup>SM</sup>, Third Party Advisory Programs, Plan Sponsor Services and/or Non-ERISA Retirement Plan Services) 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 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.

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

The Morningstar® Managed Portfolios<sup>SM</sup> program ("Program") is an investment advisory program available to individuals and institutions (collectively "you" or "your") primarily through arrangements we have with various unaffiliated registered investment advisers ("Advisory Firm"). The Program includes various strategies consisting of mutual funds, exchange-traded funds, and equity securities.

Within the Program, we offer discretionary investment advisory services. Portfolio construction and ongoing monitoring and maintenance of the portfolios within the program are provided by investment professional representatives of Morningstar Investment Management that are acting on our behalf ("Dual-Hatted Persons").

We delegate 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 us and you.

\*In certain circumstances, your financial advisor may be our employee ("Our Advisor") and therefore your relationship is directly with us and not through an unaffiliated, independent Advisory Firm. Under this arrangement, Our Advisor will provide the applicable services of Financial Advisor noted within including those noted above.

For these services, Morningstar Investment Services 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 we are the sponsor of the Program and provide 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

The investment strategies available within the Program include:

### Asset Allocation Strategies

Spanning the risk spectrum and available in five core choices, the Morningstar Asset Allocation portfolios are supported by a valuation-driven asset allocation process and independent approach to security selection. For taxable accounts, tax-aware portfolios constructed with an after-tax return objective are available.

*Mutual Fund Asset Allocation Portfolios*—A range of asset allocation portfolios consisting primarily of what we believe are best-in-class active managers.

*Active/Passive Asset Allocation Portfolios*—Tapping into the strengths of both mutual funds and exchange-traded funds, each portfolio uses active investments to help increase the potential for returns, and passive investments to help remain diversified, low-cost, and tax-efficient.

*Exchange-Traded Fund (ETF) Asset Allocation Portfolios*—A range of asset allocation portfolios consisting primarily of ETFs targeting specified risk/reward profiles.

Other ETF asset allocation strategies include the following rules-based series:

*Contrarian Series*—Portfolios consisting primarily of ETFs designed to take advantage of opportunities in areas of the market that are out of favor with investors.

*Momentum Series*—A range of portfolios consisting primarily of ETFs with a broad set of asset classes designed to capitalize on market trends.

### 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 Series

The Focused Series consist of a variety of outcome-oriented portfolios made up primarily of mutual funds and, in some cases, a combination of mutual funds and ETFs that are aligned with a particular investment objective or outcome, or are concentrated in a certain asset class. Some examples include:

*Absolute Return Portfolio*—A portfolio designed to deliver moderate and consistent returns over time that are not overly dependent on the direction of the broad equity market or as susceptible to downside risk.

*Multi-Asset Income Portfolio*—A portfolio designed for long-term income generation and capital preservation. It invests in mutual funds and ETFs representing a diversified range of fixed-income, equity and alternative strategies.

### Select Equity Portfolio Strategies

The Select Equity Portfolios (Strategist and Custom Series) combine the advantages of separately management accounts with our active portfolio management. Grounded in trusted research and professionally managed, each portfolio is relatively focused, with 20 to 30 holdings being the norm. This series of customizable portfolios spans the stock market spectrum and consists primarily of common stocks listed on U.S. stock exchanges. Certain Select Equity Portfolios (Custom Series) offer a sophisticated level of customization features such as the ability to incorporate your existing stock holdings into the portfolio. Restrictions apply. Additionally, certain Select Equity Portfolio strategies may also have a fixed-income version in which a portion of the portfolio is allocation to fixed-income using mutual funds or ETFs.

Certain Select Equity Portfolio 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. The portfolios for each the above investment strategies are model portfolios and are not themselves a mutual fund registered under the Investment Company Act of 1940.

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. We are 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 Our 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 the 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 us 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 under the Program and within the selected strategy determining an appropriate portfolio.

If a Select Equity Portfolio Strategy is selected, you and your Financial Advisor will also fill out a Select Equity Portfolio Specification worksheet ("Specification Sheet"). The Specification Sheet allows you to indicate exclusions, subject to limitations, for individual stocks, sectors, industries, master limited partnerships, and foreign companies. The Specification Sheet allows you to indicate any stocks transferred-in-kind that you'd like to retain in your portfolio. For taxable accounts, you may also indicate the number of calendar years (ranging from 2 to 3) over which you'd like to

realize an existing portfolio's net capital gain. We 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 (as explained below) and if applicable, a brokerage application with the Clearing Firm selected. Please note, the selected Clearing Firm is unaffiliated with us and will charge you Clearing Fees as a result of investment decisions made by us 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 Morningstar Investment Services (in some cases the agreement may be between you and Morningstar Investment Services 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 Morningstar Investment Services to the other and termination will become effective upon receipt of such notice unless otherwise noted. Any termination by us, 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, we 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, we rebalance and/or to reallocate the account assets to be consistent with your selected portfolio(s) and reasonable restrictions, if any. These activities will occur as frequently as we deem necessary. Please note, in certain situations, our 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 you, your Advisor, or us, 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):

- **Our Fee**—A fee relating to services performed or provided by us, 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. This fee may include an administrative fee assessed by the Advisory Firm.

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

### Our Fee

The standard fee schedule for the **Mutual Fund Asset Allocation, Active/Passive Asset Allocation, Retirement Income and Focused Strategies**<sup>1</sup> are:

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

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

The standard fee schedule for the **ETF Asset Allocation Strategies**<sup>9</sup> are:

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

Annual Minimum for Our Fee: \$75

The standard fee schedule for the **Select Equity Portfolio Strategies**<sup>6</sup> are:

	First \$1MM	Next \$4MM	Thereafter <sup>8</sup>
Our Fee <sup>4</sup>	0.55%	0.50%	0.45%
Annual Minimum for Our Fee-Custom:	\$1,375		
Annual Minimum for Our Fee-Strategist:	\$550		

*In certain situations, Morningstar Investment Services and the Advisory Firm may negotiate Our Net Fee and/or Our Fee amount and/or breakpoints applicable to your account. For those employees of ours and our affiliates and their immediate families, we may waive the entirety of Our Net Fee and/or Our 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, we receive an indirect benefit from those mutual funds who pay our back-office service provider ("Provider") shareholding servicing fees directly. The Provider, in turn, reduces the monthly fee payable by Morningstar Investment Services to it (in accordance with the agreement between the Provider and us) 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), we deduct 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 our Provider from the mutual funds. The result—gross advisory fee minus the credit amount—is the Our Net Fee.

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

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

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

5 The Annual Minimum for Our Fee is applied to those accounts at a Clearing Firm only.

6 The Select Equity Portfolio 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.

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

9 The ETF Asset Allocation 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, we encourage you to review the Program Fee Schedule as well as all of your account opening documents carefully. Please note, we do 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 ours 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, our 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 our 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 we do 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 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 Clearing Fees.

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

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

### Types of Clients

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 we have with various unaffiliated registered investment advisers 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 adviser or investment adviser representative.

### Minimum Account Size/Fees

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

Mutual Fund Strategies (including Mutual Fund Asset Allocation, Active/Passive Asset Allocation, Retirement Income, and Focused Series)	\$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 (including ETF Asset Allocation, Contrarian and Momentum)	\$25,000
Select Equity Portfolios—Strategist Series	\$100,000
Select Equity Portfolios—Custom Series	\$250,000
Select Equity Portfolios with Fixed Income	\$250,000

At our 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

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. Our security selection process for stock portfolios begins with the approximately 1,700 stocks covered by equity analysts of Morningstar or its affiliates. We sort that universe using two primary factors that incorporate both quantitative and qualitative analysis: the Morningstar® Economic Moat™ Rating, and the ratio of price to the Fair Value Estimate for stocks. Combining these two factors reduces the universe to a shorter list of potential investments. But our process is not robotic or overly quantitative; instead, our portfolio managers consider how eligible stocks rate on each strategy's selection criteria. We perform additional due diligence—using both our proprietary measures with standard valuation and financial metrics—to arrive at our highest conviction stock ideas.

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 or its affiliates, 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.

As for passive vehicles, our selection process begins with the approximately 11,000 exchange-traded products in the Morningstar database and includes the work of the ETF analyst team of Morningstar or its affiliates. Our own analysts perform qualitative work that can't be found in an automated solution. ETFs are often less expensive than their open-end mutual fund counterparts, but assessing them has to go beyond this fact. We closely examine the risk characteristics that define ETFs—including tracking to the index, trading volume, bid/ask spread, and premium/discount—to help ensure the goals are realistic and the liquidity is what we expect. As with other funds, we assess ETFs within a portfolio context to help achieve access to a particular market segment or sub-asset class.

## 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, exchange-traded funds, equity securities) 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. This includes the Absolute Return portfolio whose goal is to seek modest positive returns with an emphasis on limiting volatility in various market environments. We do 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 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 Equity 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 Equity Portfolio 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 Asset Allocation Strategy portfolios and in some cases Active/Passive Asset Allocation and Focused 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. We encourage 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 Equity Portfolio account with existing security positions, you understand we 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 us 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), we 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) we 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 Select Equity Portfolio account.

Additionally, if on your Specification Sheet you allow us to include Master Limited Partnerships ("MLPs") in the universe of investments available for your Select Equity portfolio account, there are advantages and 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. We do not provide tax advice and therefore we strongly encourage you to consult with your Financial Advisor and/or tax accountant about this and other tax issues relating to your Account.

We, as owner-of-record, maintain 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 our accounts).

### 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.

As part of the Morningstar Managed Portfolios Program, 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.

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 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%).

We offer various services intended for certain non-ERISA retirement plans (e.g., 403(b), payroll IRA) through an arrangement we have a recordkeeping service provider. These services may include selecting an investment line-up, offering model asset allocation portfolios and providing a risk tolerance questionnaire. Model portfolio construction and on-going monitoring of the model asset allocation portfolios is provided on our behalf by Morningstar Investment Management. The annual fee is 25 basis points (0.25%).

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 Program 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 and its affiliates provide 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. These employees or resources may be located outside of the United States and also provide support services to other investment advisory subsidiaries of Morningstar. If an additional fee for such products or services by Morningstar or its affiliates is required, it will be set forth in the client advisory agreement. In these situations, clients may pay a fee directly to Morningstar or each such affiliate for its products or services, or as part of a joint fee schedule which encompasses all services.

In addition, 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 Management LLC, a registered investment adviser and our parent company, Morningstar Research Services LLC, a registered investment adviser 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 offers equity research services to institutional investors (e.g., portfolio managers). Through a contractual arrangement with Morningstar, we intend to use this research service as a basis for making investment decisions for certain portfolios under the Program. The services provided to us are based on Morningstar'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, we do not allow Morningstar to have direct involvement in our investment decisions, do not provide or give Morningstar, access to specific information on a Program client, and does not allow Morningstar to communicate with a Program client directly about their specific needs and circumstances. We pay Morningstar for this equity research service.

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.

From time to time, Advisory Firms may request that we 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 one or more individuals will be attending on our behalf, including being a speaker, and/or is provided booth space.

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.

On occasion, our representatives 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.

Financial Advisors of Advisory Firms are eligible to participate in our Managed Portfolio Loyalty Program in which qualifying Financial Advisors receive a one-year license for a Morningstar software product at no cost to the Financial Advisor. Financial Advisors that meet certain account thresholds each year are eligible for the following:

- Financial Advisors with more than 50 accounts on our Platform are eligible for a one-year, no cost subscription for Morningstar Advisor Workstation.

- Financial Advisors with more than 100 accounts on our Platform are eligible for a one-year, no cost subscription for either Morningstar Advisor Workstation or Morningstar Direct.

Upon expiration of the subscription, if the Financial Advisor continues to meet the account minimum, the subscription subsidiary will be renewed for an additional year. Morningstar Advisor Workstation and Direct were chosen for the Loyalty Program as we believe they offer Financial Advisors data, tools, and/or reports that can support them in their role as investment advisor. Pricing for Advisor Workstation and Direct varies depending on such items as functionality level, but is estimated to be valued at \$2000 and \$9000 respectively for the Loyalty Program.

### **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**

If your appropriate strategy consists of either ETFs and/or common stocks, your Advisory Firm and/or Financial Advisor and, in some specific cases Morningstar Investment Services 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 our service provider, and will effect, clear, and settle transactions we place on behalf of your account and will act as your account custodian (your "Clearing Firm").

Typically, if you and your Financial Advisor select a Mutual Fund Asset Allocation, Active/Passive Asset Allocation, or Focused Strategy, you, your Advisory Firm and/or Financial Advisor have the option of either using a Clearing Firm or our service provider.

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

Please note, we do not receive compensation, research, or soft dollar benefits from the clearing firm selected by your Advisory Firm and/or Financial Advisor nor are Morningstar Investment Services 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 we have in place with that Clearing Firm ("Clearing Fee"). Please note, if your Advisory Firm chooses to use the clearing/custody fee schedule we have 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, we 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 month or quarter ("Period"), depending on Clearing Firm, based on the average daily balance of your Account ("Asset Based Clearing Fee"). Please refer to your account opening documents for details regarding your Asset Based Clearing Fee Period. There is also 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 Period, 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 Period.

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 Morningstar Investment Services 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; we 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. Our discretionary authority

will not become active until all necessary agreements have been executed and accounts established.

**Trade Aggregation and Allocation**—We, at our discretion, typically aggregate purchase or sale order instructions for your Program account with purchase and sale orders for the same security for other clients' accounts we have 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"), we intend to allocate that Partial Fill among Participating Clients on a pro-rata basis. We 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 we deem 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, we may offer our 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 us or solicit clients for us that they deem appropriate. 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. Where applicable, the agreement will identify the roles and responsibilities of the solicitor and Morningstar Investment Services and the specific amount of the annual or other referral fee to be shared with the solicitor commensurate with the degree of effort and assistance provided. The 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 us (and thus it has a financial interest in recommending us 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 us and the solicitor's agreement with us remains in force. If at any time either agreement is terminated, the referral fee payments to the solicitor will cease.

**Additional Compensation**—We utilize 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, we receive 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).

We benefit 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 us 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, we offset the Program Fee charged to the client with an amount reflective of the reduction we receive as noted in the Fee and Compensation section.

In addition, Morningstar, as noted previously, 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

Generally, on a quarterly basis, we 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 any time, you do not receive a statement on at least a quarterly basis from your Clearing Firm, please contact your Financial Advisor immediately. In addition, we encourage you to compare your Clearing Firm statements with reports or information provided by us 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 us 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 we may recover costs, expenses and/or losses associated with correcting such unauthorized activities from you, your Advisory Firm or your Financial Advisor. The portfolio construction and on-going portfolio monitoring will be performed on our behalf by Morningstar Investment Management, a registered investment adviser and the direct parent company of us. Our investment decision making authority as described above does not include us or Morningstar Investment Management 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 we vote in the best interest of their clients, which procedures must include how to address material conflicts that may arise between our interests and those of our clients;
- Disclose to clients how they may obtain information about how proxies were voted with respect to their securities; and

- Describe to clients our 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), we will vote proxies on those securities underlying your Program account unless you elect otherwise.

*Proxy Voting Committee*—In efforts to mitigate conflicts of interest, we have 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 the 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 our 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 we do 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 any time you may request information on how we voted proxies and/or request a copy of our 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 LLC at 22 West Washington Street, Chicago, IL 60602 ATTN: Chief Compliance Officer

Please note, we 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.