

## Form ADV Part 2A: Firm Brochure

### Morningstar Investment Services LLC

#### Third-Party Advisory Programs

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## Form ADV Part 2A: Firm Brochure

### Morningstar Investment Services LLC

#### Third-Party Advisory Programs

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*The appropriate audience for delivery of this firm brochure depends on the services we provide to the third-party advisory program as outlined below.*

#### **Morningstar Investment Services as Strategist**

*This firm brochure is meant for delivery to the third-party advisory firm only.*

#### **Morningstar Investment Services as Investment Manager**

*This firm brochure is meant for delivery to the third-party advisory firm and clients of the advisory firm's program.*

This brochure provide 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 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.

#### **Third-Party Advisory Programs**

We offer services to advisory programs of third-party financial institutions. 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 by investment professional representatives of Morningstar Investment Management that are acting on our behalf ("Dual-Hatted Persons").

We may be an Investment Manager or Strategist to the proprietary advisory program platform (collectively, "Product Sponsor"). In which, we offer portfolio strategies and the identification and selection of the underlying securities based on a universe of investments as defined by the Product Sponsor ("Portfolios"). We may also provide Product Sponsors with rebalancing and reallocating recommendations at the time the asset class and/or the underlying securities should be revisited or adjusted.

We provide both discretionary and non-discretionary services related to the Portfolios. Under discretionary arrangements, we are responsible for selecting and monitoring the asset allocations and underlying holdings of the Portfolios; we may also submit trade instructions to the clearing firm selected by the Product Sponsor for those clients in the Portfolios ("Investment Manager"). Under non-discretionary arrangements, we provide Portfolios as models to the Product Sponsor, in which the third-party advisory firm has discretion over the clients' accounts and may deviate away from our model recommendations ("Strategist"). In both scenarios, we may provide wholesaling and marketing support to the Product Sponsor.

## Fees and Compensation

The current fees charged for these services range from 15–55 basis points (0.15% to 0.55%) and will depend on the complexity involved in providing the Portfolios and additional services (e.g. trading instructions, wholesaling, and marketing support) and is based on the client assets in the selected Portfolio. The proprietary advisory program is responsible for collecting such fees and paying to us a portion of fees. Payment schedules and terms are subject to negotiation.

Please note that our fees noted above do not include the underlying fees and expenses charged by the underlying holdings (e.g., mutual funds) including redemption fees and the fees and expenses charged by the proprietary advisory program or clearing firm (if applicable).

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

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

We do not charge any performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets in the account).

## Types of Clients

We offer services as an Investment Manager or Strategist to advisory programs of third-party financial institutions. The Portfolios are made available to retail investors through their proprietary advisory program.

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

### Portfolio Strategies

Please note that the strategies listed below may not be available under all Product Sponsors.

### 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

Grounded in trusted research and professionally managed, each strategy is combines the advantages of a separately managed account with quality-centric investing. 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 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.

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 recommendations or the objectives of the Portfolio will be achieved. We do not guarantee that negative returns can or will be avoided in our 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.

Select Equity Portfolios will consist primarily of 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.

In addition, certain recommendations in Select Equity Portfolios may include American Depositary Receipts ("ADRs") or foreign stocks listed on a 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 consist primarily of exchange-traded funds ("ETFs") whose investment objective is to track that sector. ETFs are traded on national exchanges and therefore are subject to similar investment risks as common stocks. Additionally, exchange traded funds are subject to such things as:

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

## Disciplinary Information

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

## Other Financial Industry Activities and Affiliations

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

Our primary business is offering the Morningstar® Managed Portfolios<sup>SM</sup> 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 of primarily 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 by Dual-Hatted Persons. 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 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 to 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 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 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 offer equity research services to institutional investors (e.g., portfolio managers). The goal of the service is to provide the institutional investor with insightful equity research services. Through a contractual arrangement with Morningstar, we intend to use this research service as a basis for making

recommendations for certain Portfolios. The services provided to us are based on Morningstar’s documented methodology and/or standard process for researching, analyzing, and ranking common stocks. To mitigate conflicts this arrangement may present, we do not allow Morningstar to have direct involvement in our recommendations, and we pay Morningstar, Inc. for this equity research service.

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

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, Product Sponsors may request that we pay to sponsor a marketing event or provide marketing support as it relates to our services. 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 investment adviser representatives associated with Product Sponsors (“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 or recommended in our portfolios, to speak on various topics unrelated to specific securities.

Financial Advisors of Product Sponsors 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 through Product Sponsor are eligible for a one-year, no cost subscription for Morningstar Advisor Workstation.
- Financial advisors with more than 100 accounts through Product Sponsor 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

Our trade instructions and/or recommendations are communicated to the Product Sponsor or the clearing firm designated by the Product Sponsor in a reasonable time frame following when the final trade instructions and/or recommendations are made by us.

We do not receive compensation, research, or soft dollar benefits from the clearing firm selected by the Product Sponsor nor are we and the clearing firm affiliated.

*Arrangements where we act as an Investment Manager*—We, at our discretion, typically aggregate purchase or sale orders for your account with purchase and sale orders for the same security for other clients' accounts we have been granted discretionary authority over. 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. Clients will receive the security's average share price for that order in accordance with the clearing and custody firm's policy. When faced with a security with limited supply or demand, we intend to allocate among clients on a pro-rata basis. We may, depending on the circumstances, increase or decrease the amount of securities allotted to each client by applying de minimis standards (e.g., avoid odd-lot or small number of securities for a client), or 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, the third-party financial institution is responsible for periodically reviewing client accounts including suitability.

## 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 or other referral 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 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

We do not maintain custody for client funds or securities. Statements regarding client accounts are sent by the qualified custodian.

## Investment Discretion

In the course of its business relationships with financial institutions; we may maintain investment discretion.

## 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.

If applicable, we will vote proxies on those securities underlying your Portfolio unless you elect otherwise, as indicated in your client agreement with the third-party advisor firm.

*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 anytime 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

#### **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.