



## Morningstar Investment Services LLC Form ADV Part 2A: Firm Brochure Model Provider

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March 28, 2024

**This brochure provides information about the qualifications and business practices of Morningstar Investment Services LLC. If you have any questions about the contents of this brochure, please contact us at 312-696-6000 or send an email to [complianceemail@morningstar.com](mailto:complianceemail@morningstar.com). 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.**

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

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

**Please retain this brochure for future reference.**

All current versions of our firm brochures are available in the Part 2 Brochures section of this record on the SEC's website. You can 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 Wealth Platform, Model Provider and/or Morningstar® Managed Plan Solutions<sup>SM</sup>) you are requesting.

### Item 2. Material Changes

This *Model Provider* Firm Brochure dated March 28, 2024 contains the following non-material changes since our last annual update dated March 29, 2023.

All mentions of "Morningstar's Investment Management group" were removed from the Firm Brochure in favor of using the brand name Morningstar Wealth.

*Item 4. Advisory Business* was updated to reflect our assets under management and advisement as of December 31, 2023.

*Item 8. Methods of Analysis, Investment Strategies, and Risk of Loss* was updated to provide updated information about the Global Investment Committee.

*Item 10. Other Financial Industry Activities and Affiliations* was updated to provide information about the Morningstar Wealth Elite Advisors Program. It was also updated to note that there may be dual reporting or organizational lines with Morningstar Research Services' employees and that separate office "neighborhoods" are used instead of separate floors when mitigating conflicts of interest. We removed a statement noting that we do not solicit Morningstar Research Services' input prior to making investment decisions or recommendations. As a result of an internal reorganization, investment professionals of Morningstar Investment Services and Morningstar Research Services may consult each other prior to making an investment decision or creating a written analysis of a security, but they may not share material non-public information and all decisions and analyses must be made by the appropriate entity

without inappropriate influence from the other. Finally, we replaced all mentions of "DBRS Morningstar" with its new name, "Morningstar DBRS."

We made other edits where necessary to correct grammar or punctuation, to provide clarification or further information, for consistency in terminology or content, or to improve the readability of the brochure.

### Item 3. Table of Contents

Item 4. Advisory Business.....	1
Item 5. Fees and Compensation.....	2
Item 6. Performance-Based Fees and Side-by-Side Management.....	3
Item 7. Types of Clients .....	3
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....	3
Item 9. Disciplinary Information.....	5
Item 10. Other Financial Industry Activities and Affiliations .....	5
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	8
Item 12. Brokerage Practices.....	9
Item 14. Client Referrals and Other Compensation .....	9
Item 15. Custody.....	9
Item 16. Investment Discretion.....	9
Item 17. Voting Client Securities.....	9
Item 18. Financial Information .....	9

### Item 4. Advisory Business

This brochure focuses on the advisory services Morningstar Investment Services offers to third-party financial institutions ("Institutional Clients") providing portfolios on a non-discretionary basis as a model provider ("Model Provider"). You can obtain a copy of our brochures describing our other services by following the instructions above.

#### Morningstar Investment Services and its Ownership Structure

Morningstar Investment Services is a Delaware limited liability company that was incorporated in 2000. (Where applicable, the terms "we", "us", and "our" also includes "Our Representatives", as defined below, in this Firm Brochure.) Morningstar Investment Services is a wholly owned subsidiary of Morningstar Investment Management LLC. Morningstar Investment Management is a Delaware limited liability company that was incorporated in 1999, an investment adviser registered with the SEC, and a wholly owned subsidiary of Morningstar, Inc. ("Morningstar"). Morningstar is a publicly traded company (Nasdaq Ticker: MORN) with Mr. Joseph Mansueto, Executive Chairman of Morningstar, holding more than 35% of Morningstar's outstanding shares. Because of that ownership, Mr. Mansueto is an indirect owner of Morningstar Investment Services.

Morningstar Investment Services is registered with the SEC under Section 203(c) of the Investment Advisers Act of 1940, as amended ("Advisers Act"). Morningstar Investment Services has filed the appropriate notices to conduct business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the Virgin Islands.

Morningstar Wealth, through Morningstar and its subsidiaries, make available products such as: (i) the Morningstar Wealth Platform; (ii) Morningstar Funds Trust, (iii) Morningstar Office<sup>SM</sup>, Morningstar's RIA portfolio software service; (iv) Morningstar®

ByAllAccounts®, Morningstar's investment data aggregation service; and (v) Morningstar.com®, Morningstar's individual investor site offering.

Certain Morningstar subsidiaries are authorized in the jurisdictions in which they operate to provide investment management and advisory services. In the United States, these subsidiaries are Morningstar Investment Management LLC and Morningstar Investment Services, LLC.

### Advisory Services – Overview

Morningstar Investment Services offers Portfolios (as defined below) on a non-discretionary basis to Institutional Clients designed to for use with their third-party programs or platforms.

As a Model Provider we recommend asset allocation and underlying investments within the Portfolio and the Institutional Client, or a designee has the full and sole discretion to include all or a portion our recommendations and/or supplement or modify our investment recommendations. We may also provide Institutional Clients with rebalancing and reallocating recommendations at the time the asset allocation and/or underlying investments should be revisited or adjusts. We may provide wholesaling and marketing support to the Institutional Client.

We offer portfolios consisting of securities such as open-end mutual funds and exchange-traded funds ("Model Portfolios") and separately managed accounts consisting of securities such as fixed-income securities and equity securities ("SMA") (each a "Morningstar Portfolio").

Ongoing monitoring and maintenance of the Morningstar Portfolios is provided by the investment professionals of our direct parent company, Morningstar Investment Management. In accordance with an agreement between Morningstar Investment Management and us, those investment professionals are acting on our behalf in connection with the Morningstar Portfolios ("Our Representatives").

All Morningstar Portfolios are not available through all Institutional Clients. We reserve the right to add or remove a Portfolio at any time.

#### *Use of Morningstar Funds*

A Morningstar Portfolio, most notably those utilizing mutual funds, may have underlying holdings that include one or more of the funds within Morningstar Funds Trust ("Morningstar Funds"). Morningstar Funds Trust is registered with the SEC as an open-end management company under the Investment Company Act of 1940, as amended. Our parent company, Morningstar Investment Management, acts as investment adviser to the Morningstar Funds. Each Morningstar Funds' summary prospectus, prospectus, statement of additional information ("SAI"), and other regulatory filings are available at <http://connect.rightprospectus.com/Morningstar>.

We offer a broad array of multi-asset and equity portfolios designed to play varying roles for Clients.

Our multi-asset portfolios range from conservative to aggressive, and are comprised of mutual funds, ETFs, or a combination of the two. In addition to broad, widely diversified portfolios that can function as the "core" portion of a Client's financial strategy, we also manage more targeted portfolio options.

Our equity portfolios are generally concentrated portfolios of stocks chosen based upon their valuation and fundamental characteristics.

### Assets Under Management

As of December 31, 2023, the regulatory assets under management for Morningstar Investment Services (rounded to the nearest \$100,000) were:

Discretionary Assets: \$11,970,300,000

As of December 31, 2023, the assets under advisement for Morningstar Investment Services (rounded to the nearest \$100,000) were:

Non-Discretionary Assets: \$4,460,000,000

### Item 5. Fees and Compensation

Our standard fee schedule ("Morningstar Fee") for Institutional Clients ranges from 0.00% to 0.40%.

The Morningstar Fee charged is negotiable and depends on the complexity involved in providing Morningstar Portfolios and additional services (e.g. wholesaling and marketing support) to the Institutional Client. Some Institutional Clients charge a fee for including Morningstar Portfolios on their program or platform. Clients of those programs and platforms will be charged a higher Morningstar Fee noted above.

Morningstar Portfolios whose underlying holdings consists of one or more of the Morningstar Funds, our parent company, Morningstar Investment Management, receives compensation from Morningstar Funds Trust based on Morningstar Fund assets for its investment management activities in accordance with the Investment Management Agreement between Morningstar Funds Trust and Morningstar Investment Management ("management fee"). The annual management fee Morningstar Investment Management receives from each Morningstar Funds is noted within the Morningstar Funds Trust prospectus which is available at <http://connect.rightprospectus.com/Morningstar>.

#### Payment

The Institutional Client is responsible for collecting Morningstar Fee and paying it to us. The Morningstar Fee is typically charged to client's account on a quarterly basis either in advance based on the prior period's ending balance or in arrears based on the average daily balance for the applicable period. Please refer to the investment management agreement for an account's specific details.

#### Other Costs

The Morningstar Fee is separate from the fees and expenses charged by an account's underlying holdings (e.g., mutual funds (including Morningstar Funds), ETFs, common stocks, fixed-income securities, American Depositary Receipts ("ADRs"), and/or foreign stocks listed on a U.S. exchange). It does not include fees or commission associated with executing transactions including redemption fees or asset- or transaction-based trading fees. It does not include fees and expenses charged by Institutional Client or any third party such as a proprietary advisory program or platform, plan provider, recordkeeper, and/or custodian, if applicable.

For funds, the fees and expenses charged by a client account's underlying holdings are described in the security's prospectus or an equivalent document. These fees will generally include a management fee, transfer agent fee, shareholder servicing fee, other investment expenses, and possibly a distribution fee (e.g., 12b-1). In some cases, a security will also charge an initial or deferred sales charge. Neither Morningstar Investment Services nor anyone affiliated with us receives transaction-based compensation for the investment recommendations we make. The fees and expenses charged by Morningstar Funds are described in the prospectus at <http://connect.rightprospectus.com/Morningstar>.

Advisory and other fund-related expenses in mutual funds in which client's account assets are invested not included in the Morningstar Fee includes redemption fees that an open-end mutual fund underlying the account or qualified custodian may impose as a result of a transaction-related request client initiated (i.e., partial or complete liquidation of your account). In addition, in certain situations, our recommendation to rebalance and/or reallocate a Portfolio will result in client incurring a redemption fee imposed by one or more of the open-end mutual funds underlying their account. In both such cases, any such redemption fee charged to client's account by the underlying mutual fund or qualified custodian will be reflected on the account's quarterly custodian account statement.

A client could also incur charges by their account's custodian or its affiliates related to retirement plan accounts such as IRAs. These charges are in addition to the above-mentioned Morningstar Fee.

Exchange-traded funds have their own internal fees and expenses such as investment advisory, administration, and other fund-level expenses; by investing in them clients incur a proportionate share of those fees and expenses.

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 typically 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 can choose to pass those expenses on to the ADR shareholder.

### **Compensation from Sales of Securities**

We do not expect, accept or receive compensation for the sales of securities, including asset-based sales charges or service fees from the sale of open-end mutual funds.

You have the option to purchase investment products we recommend or similar services through other investment advisers or financial professionals not affiliated with us. Because Morningstar Portfolios and services are not exclusive to Institutional Clients, the fee for the services described in this brochure could be higher than fees charged by other financial advisers who sponsor similar programs or platforms or if you paid separately for investment advice and other services. In addition, because the underlying holdings of Morningstar Portfolios are not exclusive to Morningstar Portfolios, you can buy securities (e.g., mutual funds, exchange-traded funds, equity securities, fixed-income securities, etc.) outside of Morningstar Portfolios through Institutional Client without incurring a Morningstar Fee.

### **Marketing, Distribution, and Educational Support Arrangements**

We enter into agreements with certain Institutional Clients and advisory firms that utilize the Institutional Client's programs or platforms whereby we provide compensation to the Institutional Client or advisory firm in exchange for their financial adviser's access to educate them about Morningstar Portfolios, having Morningstar Portfolios listed or highlighted in the marketing materials, attendance or booth space at conferences, and/or similar marketing, distribution, and educational activities. We also provide compensation to Institutional Client or advisory firms to sponsor financial adviser or retail client meetings and events.

### **Revenue Sharing Arrangements**

We do not have any revenue sharing arrangements with any registered investment advisers or mutual funds.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

We do not have performance-based fee arrangements with any qualified client pursuant to Rule 205-3 under the Advisers Act.

## **Item 7. Types of Clients**

We offer services to advisory programs sponsored by third-party financial institutions or platforms offered by other Institutional Clients. Morningstar Portfolios are made available to retail investors through their proprietary advisory program or platform.

### **Minimum Account Size**

Institutional Clients establish minimum account sizes for the program or platform they offer. Please refer to the account opening documents provided by the Institutional Client and/or your financial adviser for more details.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

Ongoing monitoring and maintenance of the Morningstar Portfolios within the Wealth Platform are provided on our behalf by Our Representatives, who are investment professionals of Morningstar Investment Management.

### *Investment Philosophy*

Our investment philosophy is driven by the investment principles that are promoted throughout our organization. The principles are intended to guide our thinking, behavior and decision making. These principles have been inspired by a number of people we believe are the most experienced and successful investors in the last century. These principles also reflect and align with the history and foundation of Morningstar. The investment principles are:

- We put investors first
- We're independent-minded
- We invest for the long term
- We're valuation-driven investors
- We take a fundamental approach
- We strive to minimize costs
- We build portfolios holistically

Building upon our investment principles, the investment philosophy is built on the belief that portfolios should maintain a risk profile commensurate with the desired long-term asset allocation guidelines we provide to the client. We focus extensively on the portfolio structure to maintain a careful balance between being allocated similarly to the portfolio benchmarks and one that reflects our assessment of the value available in the current market environment. We select managers that we believe manage fund assets with a consistent and disciplined process that provides for sustainable long-term results. We prefer managers with a prudent, logical, and repeatable process and remain keenly focused on the consistency of the implementation of their investment disciplines.

### *Investment Process*

Our investment process for many of the Morningstar Portfolios starts with scouring the globe for opportunities. Instead of hewing closely to an index-defined universe, we look broadly, investigating asset classes, sub-asset classes, sectors, and securities in markets around the world. Our capital markets research extends to more than 200 equity and 150 fixed-income asset classes. We also track around 30 world currencies.

We apply deep valuation analysis supported by in-depth fundamental research to find opportunities around the globe. Alongside this analysis, which looks at both absolute and relative valuation, we also consider investor sentiment and positioning, which adds contrarian elements to our process and tells us how the market consensus views an investment class we're considering. We prefer to invest in ideas that go against the market consensus because one of the only ways to outperform is to be different from what the market has already included in the stock price.

We also look closely at each asset class' risk, which can be complex, multifaceted, and vary over time. We believe that one of the best ways to control for risk is to buy fundamentally strong assets that seem underpriced.

Our in-depth valuation analysis and contrarian indicators, when brought together, are the key ways we generate investment ideas. These ideas might be names to include in an equity portfolio or our best thinking on reward for risk at the asset class-level.

### *Investment Selection*

Finding investment opportunities isn't just about great ideas; it's also about selecting great investments for our clients. Investments may be individual stocks, or active managers and/or passive exchange-traded products in a multi-asset portfolio. Our research-driven approach to selecting investments is designed to help investors reach their goals and objectives.

When building multi-asset portfolios, we need to 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 and its affiliates, which covers hundreds of thousands of investment offerings globally, including mutual funds, closed-end funds, separate accounts, exchange-traded products, fixed-income securities, individual stocks, and hedge funds. We then build upon that analysis with reviews by our internal investment team, which includes not only quantitative screens and assessments, but also one-on-one conversations with portfolio managers as part of our fundamental due diligence. In our due diligence, we assess whether 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' ability 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 pitfalls of over-diversification often found in fund-of-fund investment strategies.

Once we have selected active managers, we tend to keep them in place for the long haul. High turnover and crowded portfolios destroy investor value by creating an overpriced index fund. We believe hiring independent managers to run high-conviction strategies is a far better approach to multimanager portfolios.

As for passive vehicles, our selection process begins with the thousands of exchange-traded products in the Morningstar database and includes the work of Morningstar and its affiliates' ETF analyst team. Our own analysts perform qualitative work that can't be found in an automated service.

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 achieve access to a particular market segment or sub-asset class.

Individual stock selection for our equity portfolios relies heavily on our asset class research to identify attractive segments of the market (sectors, countries, or factors like quality) and a review of the valuations and fundamentals of the underlying stocks. We rely heavily upon Morningstar's Equity Research group in addition to our own proprietary insights.

#### *Building Morningstar Portfolios*

For most of our Morningstar Portfolios, our global team, armed with investment ideas, 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 best ideas that are the most underpriced (that is, have the largest difference between price and fair value), while building robust portfolios designed to stand up to challenging investment environments or investment errors.

This judgment-driven approach also allows us to evaluate 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 mitigate risk in our portfolios.

To prepare investors for the future, we seek to 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 Morningstar Portfolios*

Once we've holistically built portfolios, we manage them. For most Portfolios, this part of the process is simply continuing to find 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 any changes should be expected to 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 around the clock to understand markets and opportunities, monitor risk in existing portfolios, and vet ideas to make investment changes. This ongoing investment process powers every Morningstar Portfolio..

#### *Global Investment Committee*

Morningstar Wealth's Global Investment Committee and its regional governance bodies, in addition to the Americas Investment Product Committee, are responsible for oversight of the investment methodologies across all products and services. Members of the Global Investment Committee may include officers, chief investment officers, managing directors, or managers of Morningstar Investment Management or its affiliates. The regional governance bodies meet quarterly to review guidance changes and performance across portfolios. Formal and informal global best practice working groups also exist with the goal of sharing methodologies and research across regions. These groups focus on specific investment areas such as valuation models driven by our capital markets research and methodologies used for asset allocation, investment selection, portfolio construction for different investment strategies and advice.

In addition to governance bodies, the investment team has regional research and portfolio construction workflows that surface best thinking across investment opportunities and guide portfolio construction.

#### **Information Sources**

Our global resources used in the formulation of our advisory services go down to our roots—the data and analysis from Morningstar, Inc. that form the base of our investment process. This expansive, in-house network of global data and investment analysis spans asset classes and regions to help drive timely new ideas. Morningstar or its affiliates have more than 800 analysts and make data available on more than 700,000 investment options and 3.5 million privately held companies. The extensive data, analysis, and methodologies from these resources, and external research reports, data, and interviews with investment managers are combined with financial publications, annual reports, prospectuses, press releases, and SEC filings to serve as the basis of our primary sources of information.



## Material Risks

Investments in securities are subject to market risk, risk of loss, and other risks and will not always be profitable. There is no assurance or guarantee that the intended investment objectives of our recommendations will be received. We do not represent or guarantee that our investment recommendations can or will predict future results, will successfully identify market highs or lows, or will result in a profit or protect clients from loss. Past performance of a security may or may not be sustained in the future and is no indication of future performance. A security's investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. We are unable to predict or forecast market fluctuations or other uncertainties that may affect the value of any investment. We cannot guarantee that the results of our recommendations or the objectives of Morningstar Portfolios will be achieved. This includes Morningstar Portfolios 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 these, or any, Morningstar Portfolios.

Asset allocation and diversification are investment strategies which spread assets across various investment types for long-term investing. However, as with all investment strategies, these strategies do not ensure a profit and do not guarantee against losses.

Morningstar 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 retail client and retail client's financial adviser discuss these and other risks associated with a focused investment approach and determine whether it is appropriate and consistent with retail client's risk tolerance, investment objectives and overall financial situation.

## Security Type Risks

### *Common Stocks*

Certain Morningstar Portfolios invest 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.

### *ADRs and Foreign Stocks*

In addition, certain Morningstar Portfolio assets can also be invested in 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.

### *Exchange-Traded Funds*

Morningstar Portfolios may be invested in exchange-traded funds 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. ETFs, like all investments, carry certain risks that may adversely affect their net asset value, market price, and/or performance. An ETF's net asset value (NAV) will fluctuate in response to market activity. Because ETFs are traded throughout the day and the price is determined by market forces, the market price you pay for an ETF may be more or less than the net asset value. Because ETFs are not actively managed, their value may be affected by a general decline in the U.S. market segments relating to their underlying indexes. Similarly, an imperfect match between an ETF's holdings and those of its underlying index may cause its performance to not match the performance of its underlying index. Like other concentrated investments, an ETF with concentrated holdings may be more vulnerable to specific economic, political, or regulatory events than an ETF that mirrors the general U.S. market.

### *Real Estate Investment Trusts*

Publicly-traded Real Estate Investment Trusts (REITs) may be included in certain Morningstar Portfolios. REITs are traded like common stocks and invest in real estate either through properties or mortgages. REITs are focused securities and may exhibit higher volatility than securities with broader investment objectives. Principal risks associated with REITs include market risk, issuer risk, economic risk, mortgage rate risk, diversification risk, and sector/concentration risk.

### *Mutual Funds*

Investments in mutual funds involve risk, including loss of principal as a result of changing market and economic conditions and will not always be profitable.

### *Money Market Funds*

A money market fund may impose a fee upon the sale of shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimum because of market conditions or other factors. An investment in a money-market vehicle is not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. For most money market funds, their sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time. Although some money market funds seek to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. It is possible to lose money by investing in money market funds.

## Additional Risks and Disclosure

Certain Morningstar Portfolios include Master Limited Partnerships ("MLPs"). 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.

Morningstar Portfolio recommendations are made without taking into consideration potential tax consequences. We do not provide tax advice. Potential tax consequences may exist.

## Item 9. Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that would influence a potential client to engage us. We do not have any material legal or disciplinary events to disclose.

## Item 10. Other Financial Industry Activities and Affiliations

Morningstar Investment Services is a wholly owned subsidiary of Morningstar Investment Management.

Our Representatives who are responsible for the day-to-day management of Morningstar Portfolios are paid a base salary plus a discretionary bonus and in some cases, annual

stock grants. The bonus is fully or partially determined by a combination of the employee's business unit's overall revenue and profitability, Morningstar's overall annual revenue and profitability, and the individual's contribution to the business unit. For most portfolio managers and their team members, part of their bonus is also based on select portfolio investment performance and risk metrics versus both a corresponding benchmark over specified three-, five-, and/or seven-year periods and appropriate peer groups. Benchmarks are used as a measure of investment performance and are chosen by senior personnel and approved by the Regional Investment Committee, which is chaired by the regional CIO. To mitigate the conflict of interest that arises from partially basing an employee's bonus on performance of a select portfolio or portfolios, all investment decisions made within a portfolio by an individual portfolio manager must be peer reviewed by the broader regional team of portfolios managers. In addition, the Regional Investment Committee reviews strategy performance on a quarterly basis.

Our primary business is offering the Morningstar Wealth Platform ("Wealth Platform"). It is an investment advisory program available to individuals and institutions primarily through arrangements we have with various unaffiliated registered investment advisers. The Wealth Platform includes various strategies consisting primarily of mutual funds, exchange-traded funds, and equity securities. Within the Wealth Platform, we provide investment advisory services such as: investing portfolios in a universe of available investments (e.g., mutual funds, exchange-traded funds, fixed-income securities, equity securities) and rebalancing and/or reallocating the portfolios when deemed necessary. Portfolios within the Wealth Platform are created by Morningstar Investment Management ("Morningstar Portfolios"), are licensed from a third-party advisory firm or are based on the strategies of another investment adviser we retain under a sub-advisory agreement. Portfolio construction and ongoing monitoring and maintenance of Morningstar Portfolios within the Wealth Platform are provided on our behalf by Morningstar Investment Management. The maximum annual Wealth Platform fee typically ranges from 115-170 basis points (1.15% to 1.70%) and is based on assets in our strategies.

As part of the Morningstar Wealth Platform, 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 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 20-30 basis points (0.20% to 0.30%) and is based on the services provided and the plan's assets.

If you would like a copy of our brochures describing Morningstar Investment Services' other services as described above, please follow the instructions on Page 1 of this Firm Brochure.

From time to time, Institutional Client and advisory firms request that we pay to sponsor a marketing event or provide marketing support as it relates to the Morningstar Portfolios. 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 advisers with the main purpose of providing education. There are situations in which we will ask a person representing a fund company in which one or more of their funds are included in our portfolios to speak on various topics unrelated to specific securities.

Financial Advisers of Advisory Firms are eligible to participate in the Morningstar Wealth Elite Advisors Program ("Elite Advisors Program") in which qualifying Financial Advisers can receive certain benefits (e.g., annual software license) we believe support them in their role as investment adviser. These benefits are based

on the Financial Adviser reaching a certain level of assets invested in accordance with Morningstar Portfolios and therefore creates a financial incentive for Financial Advisers to recommend Morningstar Portfolios.

Morningstar Investment Services is also registered as a broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ("FINRA"). Therefore, individuals involved in the day-to-day operations of Morningstar Investment Services have the option to maintain FINRA security licenses with our broker-dealer.

For some of our advisory services, the universe of investment options from which we make our investment selections is defined by our client. In some cases, this universe of investment options includes proprietary investment options of our client. To mitigate any actual or potential conflict of interests presented by this situation, we subject all investment options to the same quantitative and qualitative investment selection methodology, based on several factors, including performance, risk, and expense so that the proprietary nature of an investment option does not influence our selection.

When we, along with Morningstar and/or our other affiliates offer services to the same client, we have the option to enter into a bundled agreement with the client that encompasses all or part of those services. Additional fee(s) for such product(s) or service(s), if required, will be set forth in our agreement with the client. In these situations, clients pay a fee directly to us and each such affiliate for its products or services, or as part of a joint fee schedule which encompasses all services.

#### *Affiliations – Registered Entities*

Morningstar has various subsidiaries across the globe that are each registered with and governed by the applicable regulatory body or bodies in that country to provide investment management or other advisory services. As described earlier in this brochure, we share resources with these various subsidiaries. One subsidiary, Morningstar Investment Management LLC, is our parent company and is also an investment adviser registered under the Advisers Act. In some instances, Morningstar Investment Management compensates our affiliates for services rendered and expenses incurred via an intercompany charge. The services and compensation will be governed by an intercompany participating affiliate agreement. This compensation will likely be lower than compensation negotiated with non-affiliated financial institutions/institutional investors for same or similar services. To mitigate any conflict of interest, employees providing services to Morningstar Investment Management under a participating affiliate agreement are treated and supervised as employees, subject to Morningstar Investment Management's policies and procedures (including the Code of Ethics) and monitored by our compliance department.

In some cases, our senior management members have management responsibilities to these other affiliated entities. We do not believe that these management responsibilities create any material conflicts of interests for our clients.

Morningstar Funds Trust is registered with SEC as an open-end management investment company under the Investment Company Act of 1940, as amended, and has retained Morningstar Investment Management as its investment adviser. The funds within the Morningstar Funds Trust will be used as the underlying holdings for certain Morningstar Portfolios, most notably the mutual fund model portfolios series. If you selected a Morningstar Portfolio that contains Morningstar Funds as underlying holdings, you consent to our use of the Morningstar Funds. Morningstar Investment Management is compensated by the Morningstar Funds based on assets invested in the Morningstar Funds.

Morningstar Investment Management provides consulting or investment management services to clients that offer registered or pooled investment products, such as mutual funds, variable annuities, collective investment trusts, or model portfolios. To mitigate the conflict of interest presented by our role in these investment products, we exclude such investment products from the universe of investment options from which we make our recommendations to clients.

Morningstar Investment Management receives compensation for its research and analysis activities (e.g., research papers) from a variety of financial institutions including large banks, brokerage firms, insurance companies, and mutual fund companies. In order to mitigate any actual or potential conflicts of interest that may arise from this service, we ensure that our research and analytical activities are non-biased and objective given our business relationships. Employees who provide research and analysis for clients are separate from our sales and relationship manager staff in order to mitigate the conflict of interest that an employee may feel pressure to present results in such a way as to maintain existing or gain new business. In addition, as noted above, all investment decisions must be peer reviewed by fellow portfolio managers, which mitigates the conflict of interest by providing checks and balances so that no employee can act unilaterally in making recommendation decisions.

Our Representatives provide portfolio construction and ongoing monitoring and maintenance for the portfolios offered by Morningstar Investment Management. While the same or similar portfolios are offered by us under the Wealth Platform and to Institutional Clients, we do not believe these responsibilities create any material conflicts of interest for our clients. In order to mitigate any perceived conflict of interest, when we offer discretionary services under the Wealth Platform, transactions for our clients are placed at the same time as transactions for Morningstar Investment Management's discretionary clients as part of block trades. We have procedures in place to ensure that trades are allocated in such a manner as to not favor one client over another. When Morningstar Portfolios on a non-discretionary basis to Institutional Clients, our Institutional Clients and Morningstar Investment Management's non-discretionary clients receive trade recommendations after trades are placed for discretionary clients, due to the heightened fiduciary responsibilities of discretionary clients. In addition, all non-discretionary clients are notified of transaction recommendations after the close of the trading day, so that no one such client has an advantage over another.

Morningstar Investment Management is registered as a Commodity Pool Operator with the Commodity Futures Trading Commission. Some of Morningstar Investment Management's employees are registered with the National Futures Association as principals or associated persons.

The Investment Management group has set up a shared services team, composed of employees of our affiliate and located at our affiliate's office in Mumbai, India. We compensate our affiliate for services rendered via an intercompany charge. The services and compensation will be governed by an intercompany agreement. This compensation will likely be lower than compensation negotiated with non-affiliated firms for the same or similar services. To mitigate any conflict of interest between us and our affiliate we have established dual reporting lines for employees on the shared services team so that such employees report up to employees of Morningstar Investment Management. We've also established information security boundaries and technology separation to protect our non-public information and Morningstar's compliance department monitors the personal trading activity of these employees.

Morningstar Investment Management invested in the Series D funding round of SMARtX Advisory Solutions ("SMARtX"), a managed account technology provider and architect of the SMARtX turnkey asset management platform, and has licensed SMARtX's technology to power the Morningstar Wealth Platform. This investment will assist in the build out of SMARtX's development capabilities, including those that will support the Wealth Platform, which will benefit us. Daniel Needham, our president and president of the Investment Management group and Michael Holt, co-president and chief strategy officer and head of investment research for Morningstar Research Services LLC, serves on the board of SMARtX.

Morningstar Research Services LLC is a wholly owned subsidiary of Morningstar and an investment adviser registered under the Advisers Act. Morningstar Research Services' offerings center around the production of investment research reports and investment consulting services to financial institutions/institutional

investors who themselves are registered with and governed by a regulatory body. Conflicts of interests between us and Morningstar Research Services are mitigated by such things as the maintenance of separate legal entities and dual reporting/organization lines, and the utilization of physical (i.e. separate office "neighborhoods") and technological separation. Morningstar Research Services also maintains a committee structure so as to limit any unilateral decisions. Morningstar's compliance department monitors the personal trading activities of Morningstar Research Services' employees.

Morningstar Research Services provides information to the public about various securities, including managed investments like open-end mutual funds and ETFs, which include written analyses of these investment products in some instances. Although we use certain products, services, or databases that contain this information, we do not participate in or have any input in the written analyses that Morningstar Research Services produces. While we consider the analyses of Morningstar Research Services, our investment recommendations are based on our decisions in regard to the investment product.

Morningstar Research Services prepares qualitative analysis on separately managed accounts and model portfolios. To mitigate conflicts of interest, Morningstar Research Services does not prepare qualitative analysis nor recommend any Morningstar separately managed account or model portfolio we create and manage.

Morningstar Research Services may issue investment research reports on securities we hold in our portfolios or recommend to our clients, but they do not share any yet-to-be published views and analysis and/or changes in estimates (i.e., their confidential information) with us on these securities. In making investment decisions or recommendations, we use Morningstar Research Services' publicly available analysis as part of our review process and do not have access to their analysis prior to its public dissemination. We mitigate any actual or potential conflicts of interest that could arise from the access of their analysis prior to publication through measures such as informational barriers (both physical and technological), maintaining separate or dual organizational reporting lines, and monitoring by the compliance department.

Some of Morningstar Research Services' clients are sponsors of funds or associated with other securities that we may recommend to our clients. We mitigate any actual or potential conflicts of interests resulting from this fact through such measures as informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department. In addition, we do not factor in the relationship between Morningstar Research Services when analyzing investments or making recommendations.

Morningstar Investment Management serves as an investment adviser to investment companies registered under the Investment Company Act of 1940, as amended, and to other pooled investment products. To mitigate conflicts of interest, Morningstar Research Services does not prepare qualitative analysis nor recommend as part of their investment consulting services any investment company Morningstar Investment Management is an investment adviser or sub-adviser to.

#### *Affiliations – Morningstar, Inc.*

Our parent company, Morningstar, Inc., is publicly traded (Ticker Symbol: MORN). We may recommend an investment product that holds a position in publicly traded shares of Morningstar's stock. Such an investment in Morningstar's stock 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. We mitigate any actual or potential conflicts of interest by not factoring Morningstar's publicly traded stock into our qualitative or quantitative analysis nor in our recommendations.

Morningstar offers various products and services to the public. Some of Morningstar's clients are service providers (e.g., portfolio managers, advisers, or distributors affiliated with a mutual fund or other investment option). We may have a contractual relationship to provide consulting or advisory services to these same service providers or 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 the relationship between Morningstar and these service providers when making recommendations. We are not paid to recommend one investment option over another, including products of service providers with which Morningstar has a relationship.

Morningstar provides information to the public about various investment products, including managed investments like open-end mutual funds and ETFs. In some cases, this information includes written analyses of these investment products. Although we use certain products, services, or databases of Morningstar, we do not have any decision-making input in the written analyses that Morningstar provides its licensees. While we consider the analyses of Morningstar, our investment recommendations are oriented to the mandates of the investment products in question.

Morningstar hosts educational events and conferences and, in some instances, provides us with the opportunity to suggest invitees or offer (proactively or upon request) discounted or waived registration fees. We mitigate any actual or potential conflicts of interest this introduces by using pre-defined criteria to select the participants for these opportunities.

Morningstar offers various products and services to retail and institutional investors. In certain situations, we recommend an investment product that tracks an index created and maintained by Morningstar. In such cases, the investment product 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 investment products, we use solely quantitative criteria established by our advisory client to make such selection, or, in the alternative, Morningstar's compensation from the investment product 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 investment products. In other cases, some of Morningstar's clients are sponsors of funds that we recommend to our clients. Morningstar does not and will not have any input into our investment decisions, including what investment products will be recommended for our recommended portfolios. We mitigate any actual or potential conflicts of interest by imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department. In addition, we do not factor in the relationship between Morningstar when analyzing investments or making recommendations. We mitigate any actual or potential conflicts of interests resulting from that by not producing qualitative analysis on any such exchange-traded fund as well as imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines between, and monitoring by the compliance department.

In some instances, we offer Morningstar Portfolios that track an index created and maintained by Morningstar. Morningstar does not and will not have any input into our investment decisions, including what investment products will be included in our portfolios. We mitigate any actual or potential conflicts of interest resulting from tracking a Morningstar index by imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department.

Morningstar has and maintains accounts which they invest in accordance with investment strategies created and maintained by us. Those investment strategies are deployed using equity securities. As we have discretion over these accounts, Morningstar's accounts are traded at the same time as our and Morningstar Investment Services' other discretionary client accounts in order to ensure that Morningstar's accounts are not treated more favorably than our client accounts. Some of Morningstar's accounts are used as the subject of newsletters offered by Morningstar. In order to ensure that Morningstar's newsletter subscribers are not treated more favorably than our clients, which would result in a breach of our fiduciary duty, we do not report trades in Morningstar's accounts invested in our

strategies to newsletter subscribers until after our client accounts have been traded or our non-discretionary clients have been notified.

As a wholly owned subsidiary, we use the resources, infrastructure, and employees of Morningstar and its affiliates to provide certain support services in such areas as technology, procurement, human resources, account, legal, compliance, information security, and marketing. We do not believe this arrangement presents a conflict of interests to us in terms of our advisory services. Employees of Morningstar that provide support services to us have the option to maintain their Financial Industry Regulatory Authority ("FINRA") security licenses our limited broker/dealer registration, if appropriate for their current job responsibilities. We believe no conflict of interest exists due to the maintenance of these security licenses.

We have the option to make our clients aware of various products and services offered by Morningstar or its affiliates. We do not receive compensation for that introduction. Morningstar and its affiliates also have the option to make their clients aware of various products and services offered by us. Morningstar and its affiliates do not receive any compensation from us for that introduction, unless it falls under a solicitation arrangement, as described in Item 14 below.

Morningstar Wealth, through Morningstar and its subsidiaries, make available products such as: (i) the Morningstar Wealth Platform; (ii) Morningstar Funds Trust, (iii) Morningstar Office<sup>SM</sup>, Morningstar's RIA portfolio software service; (iv) Morningstar<sup>®</sup> ByAllAccounts<sup>®</sup>, Morningstar's investment data aggregation service; and (v) Morningstar.com<sup>®</sup>, Morningstar's individual investor site offering. Daniel Needham, our president, has management responsibilities for Morningstar Wealth. We do not believe that these management responsibilities create any material conflicts of interests for our clients, but we mitigate any actual or potential conflicts of interests resulting from that by imposing informational barriers where appropriate and undertaking compliance monitoring.

#### *Affiliations – Morningstar, Inc.'s Subsidiaries*

Equity and manager research analysts based outside the United States are employed by various wholly owned subsidiaries of Morningstar. These analysts follow the same investment methodologies and process as Morningstar Research Services, as well as being held to the same conduct standards. As a result, we do not believe this structure causes actual or a potential for a conflict of interest.

#### *Affiliations – Credit Rating Agency*

We are affiliated with the Morningstar DBRS group of companies, which include DBRS, Inc., DBRS Limited, DBRS Ratings GmbH, and DBRS Ratings Limited. DBRS, Inc. is registered with the Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (NRSRO). Morningstar DBRS companies are also registered with and governed by applicable regulatory body or bodies in other countries around the globe. In our analysis of certain securities, we use the publicly available credit rating and analysis issued by Morningstar DBRS. Because of our use of Morningstar DBRS ratings and analysis is limited to that which is publicly available, we do not believe there is an actual or potential conflict of interest that arises from such use.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

We have in place a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act ("Code of Ethics"). Our Code of Ethics strives to uphold the highest standards of moral and ethical conduct, including placing our clients' interest ahead of our own. Our Code of Ethics covers all our officers and employees as well as other persons who have access to our non-public information (collectively "Access Persons"). Our Code of Ethics addresses such topics as professional and ethical responsibilities, compliance with securities laws, our fiduciary duty, and personal trading practices. Our Code of Ethics also addresses receipt and/or permissible use of material non-public information and other confidential information our Access Persons may be exposed and/or have access to given their position. The Code of Ethics is provided upon hire and at least annually



thereafter and at each time, the Access Person must certify in writing that she or he has received, read, and understands the Code of Ethics and that they agree to or have complied with its contents.

A copy of our Code of Ethics is available to existing and prospective clients by sending written request to [complianceemail@morningstar.com](mailto:complianceemail@morningstar.com).

### **Interest in Client Transactions**

Our Access Persons have the option to maintain personal investment accounts and purchase or sell investments in those accounts that are the same as or different from the investments we recommend to clients. Our Code of Ethics is designed to ensure that Access Persons' personal trading activities should not conflict with our advisory activities or the timing of our recommendations and 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). We have the option to engage in agency cross transactions (transactions where we or our affiliate executes a transaction between two or more clients), but will only do so when we feel the cross transaction is in the best interest of the clients.

### **Interest in Securities That We May Recommend**

Morningstar Investment Management has and maintains a number of seed accounts (accounts used to establish a portfolio we offer or track), many of which follow portfolios we offer to clients. Client accounts that we manage on a discretionary basis and thus, the seed accounts, are traded just before we provide portfolio recommendations to Institutional Clients for applicable Morningstar Portfolios. Institutional Clients receive portfolio recommendations after the close of the trading day, so that no one Institutional Client is favored over another.

### **Personal Trading By Access Persons**

Our Code of Ethics is designed to ensure that Access Persons' personal trading activities do not interfere with our clients' interests. While our Access Persons have the option to maintain personal investment accounts, they are subject to certain restrictions. Our Code of Ethics includes policies designed to prevent Access Persons from trading based on material non-public information. Access Persons in possession of material non-public information are prohibited from trading in securities which are the subject of such information and tipping such information to others. In certain instances, we employ information blocking devices such as restricted lists to prevent illegal insider trading. Morningstar's compliance department monitors the activities in the personal accounts of our Access Persons (and any accounts in which they have beneficial ownership) upon hire and thereafter. Access Persons are required to pre-clear IPO, initial digital coin offering, and private placement transactions with Morningstar's compliance department.

## **Item 12. Brokerage Practices**

### **Our Brokerage Practices**

Morningstar Portfolio updates are typically submitted to the Institutional Client after the close of trading on the same day we submit trade instructions for clients we have discretion over. This process was designed so that no one Institutional Client receiving Morningstar Portfolio recommendations receives preferential treatment over another Institutional Client. For large orders or thinly traded securities, this may result in Institutional Clients receiving less favorable prices. We do not participate in any soft dollar practices.

#### *Securities Lending*

To generate additional income or to earn credits that offset expenses, the Morningstar Funds reserves the right to lend its portfolio securities to unaffiliated broker/dealers, financial institutions or other institutional investors pursuant to agreements requiring that the loans be secured continuously by collateral, marked-

to-market daily and maintained in an amount at least equal in value to the current market value of the securities loaned. The aggregate market value of securities lent by a Morningstar Fund will not at any time exceed 33 1/3% of the total assets of the Morningstar Fund. All relevant facts and circumstances, including the creditworthiness of the broker-dealer or institution, will be considered in making decisions with respect to the lending of securities subject to review by the Morningstar Funds Trust's Board of Trustees. Currently, six of the nine Morningstar Funds participate in a securities lending program.

The cash collateral received from a borrower as a result of a Morningstar Fund's securities lending activities will be invested in cash or high quality, short-term debt obligations, such as securities of the U.S. government, its agencies or instrumentalities, irrevocable letters of credit issued by a bank that meets the Morningstar Fund's investment standards, bank guarantees or money market mutual funds or any combination thereof.

Securities lending involves two primary risks: "investment risk" and "borrower default risk." Investment risk is the risk that a fund will lose money from the investment of the cash collateral received from the borrower. Borrower default risk is the risk that a fund will lose money due to the failure of a borrower to return a borrowed security in a timely manner. There also may be risks of delay in receiving additional collateral, in recovering the securities loaned, or a loss of rights in the collateral should the borrower of the securities fail financially. In the event a Morningstar Fund is unsuccessful in seeking to enforce the contractual obligation to deliver additional collateral, then the Morningstar Fund could suffer a loss.

## **Item 14. Client Referrals and Other Compensation**

Please see the Marketing, Distribution, and Educational Support Arrangements section under [Item 5](#) for additional information about our other compensation.

## **Item 15. Custody**

We do not serve as a custodian of client assets. However, in other services we offer, in those cases where we have the ability to debit fees directly from client accounts or where clients have "standing letters of authorization" on file that directs assets to a third-party, we have custody of client assets under Rule 206(4)-2 of the Advisers Act, even if we do not act as a custodian.

## **Item 16. Investment Discretion**

We do not have investment discretion in instances where we provide Morningstar Portfolios to Institutional Clients.

## **Item 17. Voting Client Securities**

We do not vote proxies in instances where we provide Morningstar Portfolios to Institutional Clients.

Please note, we will not act on or advise in regards to legal proceedings, including bankruptcies or class actions, involving securities held in an account.

## **Item 18. 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, nor have we been the subject of any bankruptcy proceeding.