



## Morningstar Investment Services LLC Form ADV Part 2A: Firm Brochure *Morningstar® Managed Plan Solutions<sup>SM</sup>*

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**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® Managed Portfolios<sup>SM</sup> or Morningstar® Managed Plan Solutions<sup>SM</sup>) you are requesting.

### Item 2. Material Changes

This update to the *Morningstar® Managed Plan Solutions<sup>SM</sup>* Firm Brochure dated March 27, 2020 contains the following material changes since our last annual update dated March 23, 2019:

*Item 4. Advisory Business* was updated to reflect our assets under management as of December 31, 2019.

*Item 10. Other Financial Industry Activities and Affiliations* was updated with information to address Morningstar, Inc.'s acquisition of DBRS, Inc., a credit rating agency, and its integration with Morningstar Credit Ratings LLC under the brand name "DBRS Morningstar". This section was also updated to reflect that we may offer a discount to Financial Advisers for Morningstar Office<sup>SM</sup> in certain situations through our Loyalty Program.

The Brochure Supplement accompanying this Firm Brochure was also updated since the last annual update to replace Brian Huckstep with Paul Arnold.

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### Item 4. Advisory Business

#### Firm

Morningstar Investment Services LLC ("we", "us" or "our"). Where applicable, the terms "we", "us" and "our" also includes "Our Representatives" (as defined below)) is a Delaware limited liability company that was incorporated in 2000. 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 49% 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 Investment Services is part of Morningstar's Investment Management group, a global investment team composed of investment analysts, portfolio managers, and other investment professionals. The Investment Management group consists of Morningstar's subsidiaries that are authorized in the appropriate jurisdiction to provide investment management and advisory services. The Investment Management group's investment and operations teams span the globe, with 10 country offices and primary offices in Chicago, London, and Sydney.

This brochure focuses on services we offer to retirement plans (individually a "Plan", collectively "Plans") and their participants, known as Morningstar® Managed Plan Solutions<sup>SM</sup>. You can obtain a copy of our brochures describing our other services by following the instructions above.

## Advisory Services We Offer - Overview

Morningstar Investment Services offers various investment advisory services that focus on our core capacities in asset allocation, investment selection, and portfolio construction to retail investors and to institutions including, but not limited to, asset management firms, advisory platform providers, banks, broker/dealers, endowments, foundations, insurance companies, investment advisers, investment fiduciaries, plan sponsors of retirement plans, providers of retirement plan services, trusts, and other business entities (collectively "Institutional Clients").

## Morningstar® Managed Plan Solutions<sup>SM</sup>

The Morningstar® Managed Plan Solutions<sup>SM</sup> services ("Services") are designed to help employers who are responsible for establishing and maintaining their company's defined contribution or other retirement plan (the "Plan Sponsor") and the participants enrolled in the Plan ("Participants"). Features within Services are as follows:

### *Model Asset Allocation Portfolios*

We offer model asset allocation portfolios covering various risk levels (e.g., conservative, aggressive, etc.) (each a "Portfolio," collectively, "Portfolios"). The Portfolios' initial construction and ongoing monitoring and maintenance are provided by investment professional representatives 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 Services and Portfolios ("Our Representatives"). Each Portfolio strives to achieve long-term risk and return objectives through diversification among multiple asset classes using the mutual funds and/or exchanged-traded funds ("ETF") available through the Plan or the Plan's recordkeeping provider. The goal of the Portfolios is to provide the Participant with the ability to invest their Plan account assets in a diversified manner.

### *Risk Tolerance Questionnaire*

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

### *Investment Policy Statement*

We provide Plan Sponsors with tools to help them develop an Investment Policy Statement ("IPS"). The purpose of the IPS is to provide guidelines for the investment and management of assets held for the benefit of Participants and beneficiaries of the Plan. The primary intent of the IPS is to:

- Establish a framework for structuring a retirement savings program for Plan Participants by making available diversified investment options that support a range of long-term needs, goals and risk tolerances.
- Provide participants with investment options which, when prudently used, will diversify portfolio risks and better accommodate the range of risk/return preferences they may have.
- Establish careful procedures for monitoring and evaluating the performance of the investment options within the Plan.
- Describe the investment process used to select the Plan's investment options and the asset allocation portfolios available in the Plan.
- Describe the roles and responsibilities of the various parties that may be involved in the oversight of Plan investment activities.

### *Plan's Investment Lineup*

Additionally, we assist Plan Sponsors in determining the mutual funds and/or ETFs available under a Plan (each a "Fund", collectively the "Funds"). We do this as a 3(38) "investment manager" (as defined under the Employee Retirement Income Security Act of 1974, as amended) through a platform provider. These services include the selection of securities which are then used to create the Portfolios.

We rebalance the security weightings in the Portfolios and remove and replace securities as we deem necessary. We determine appropriate Funds primarily through the use of a proprietary fund rating system that is based on key factors. Such key factors are defined in the Methods of Analysis, Investment Strategies and Risk of Loss section of this brochure.

## Customized Services

We provide advice based on the strategy chosen by you and/or your Financial Adviser and take into account any reasonable restrictions you request.

## Wrap Fee Programs

While the Morningstar Managed Plan Solution service is not a wrap fee program, we do offer a wrap fee program through our Morningstar® Managed Portfolios<sup>SM</sup> service.

## Assets Under Management

As of December 31, 2019, the regulatory assets under management for Morningstar Investment Services (rounded to the nearest \$100,000) were:

Discretionary Assets: \$12,126,500,000

As of December 31, 2019, the assets under advisement for Morningstar Investment Services (rounded to the nearest \$100,000) were:

Non-Discretionary Assets: \$4,026,800,000

## Item 5. Fees and Compensation

### Fees and Compensation

#### *Morningstar® Managed Plan Solutions<sup>SM</sup>*

The Plan Sponsor, Plan, or Participant will pay us an annual basis point fee ("Fee"). Depending on what services (as described above) the Plan Sponsor or Plan choose, the Fee typically ranges from 20–30 basis points (0.20% to 0.30%) and is based on the Plan's assets and the complexity involved in providing the services. The Fee is typically remitted quarterly to us by the Plan's recordkeeper.

### Other Costs in Connection with Our Advisory Services

Our Fee is separate from the fees and expenses a Participant incurs by the Funds in which Plan account assets are invested. This may include redemption fees that a Fund can impose as a result of a transaction-related request. Also, fees related to recordkeeping and certain other administrative services for the Plan may be charged to a Participant's Plan account. Lastly, the Plan Sponsor or Participant may also secure the services of a financial adviser who may receive distribution, marketing and/or shareholder servicing fees from fund companies within the Plan. In addition, we are limited to choosing funds and fund shares classes from those made available to us through each Custodian's platform, which can result in us choosing funds that charge other fees outside of our control. There may be cheaper share classes available for a fund on other Custodian platforms. While we typically seek to use the cheapest share class available to us, you should not assume we have access to the share class with the lowest possible expense ratio for a specific fund through your Custodian. More expensive share classes reduce the performance of an account. We periodically review the universe of funds the Custodian makes available to us and update your share class as more attractive options become available. All of the fees and expenses described in this paragraph are separate from the above-mentioned Fee and we have no control, influence or involvement in them.

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.

The fees and expenses charged by your Plan 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 may also charge an initial or deferred sales charge. Neither Morningstar Investment Services nor anyone affiliated with Morningstar Investment Services receive transaction-based compensation for the investment recommendations we make.

Advisory and other fund-related expenses in mutual funds in which your account assets are invested not included in our Fee includes redemption fees that an open-end mutual

fund underlying your account or qualified custodian may impose as a result of a transaction-related request you initiated (i.e., partial or complete liquidation of your account). In addition, in certain situations, decisions to rebalance and/or reallocate your account may result in you incurring a redemption fee imposed by one or more of the funds underlying your account. In both such cases, any such redemption fee charged to your account by the underlying fund or qualified custodian will be reflected on your quarterly account statement.

Exchange-traded funds have their own internal fees and expenses such as investment advisory, administration, and other fund-level expenses; by investing in them you incur a proportionate share of those fees and expenses. Those fees and expenses are in addition to the above-mentioned Fee.

#### **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 may have the option to purchase investment products in our model portfolios or similar services through other investment advisers or financial professionals not affiliated with us. Because our services are not exclusive to your Plan or Plan Sponsor, the Fee for the services described in this brochure could be higher than fees charged by other financial advisers who provide services similar to ours or if you paid separately for investment advice and other services. In addition, because the underlying holdings of our model portfolios are not exclusive to the services described herein, you may buy securities (e.g., mutual funds, exchange-traded funds, equity securities, etc.) outside of this service without our Fee.

#### **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**

The Services are intended for Plan Sponsors and/or Participants.

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

Portfolio construction and ongoing monitoring and maintenance of the portfolios with the Program are provided on our behalf by Our Representatives, who are investment professionals of Morningstar Investment Management.

#### **Investment Philosophy**

Morningstar Investment Management group's 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 Management group's 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.

Regardless of whether we are working with discretionary or non-discretionary clients, we build portfolios with the same research- and valuation-driven approach for all clients. We build portfolios holistically, so the asset allocation process begins with idea generation and continues through portfolio construction, where allocation tweaks can be made. For example, we may choose to increase an allocation if it's being run by a skilled active manager who may be able to add better risk control or offer more opportunistic return potential.

#### **Investment Process**

Our investment process for our Services 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 more than 30 world currencies.

We apply valuation analysis supported by in-depth fundamental research to find opportunities. We seek to buy overlooked investments, especially those that offer sound fundamentals at what we believe to be an attractive price. To do this, we need a deeper understanding of the drivers of return and risk for these investments—primarily in the context of valuation.

Our valuation analysis tells us how attractively priced an asset class is, while insight of the fundamental drivers of asset prices increases the probability that we will get more than we pay for. For us, valuations and fundamentals are joined at the hip.

But 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 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 a stock 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 securities in a stock portfolio, 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, individual stocks, and hedge funds.

We build on Morningstar's quantitative and qualitative fundamental analyses by refining the investment universe and hand-selecting investments we determine are right 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 each one in person and subjected them to our rigorous review process. 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.

Our own assessments lead us to managers we believe are well suited to 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. We aren't just looking for the best managers but those that we feel fit best into our portfolios.

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 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 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 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.

In many cases, it is not determining the fair value itself that is challenging, but rather what you do when the price is very different from fair value. We believe a willingness to be different and act on large differences between price and fair value is essential for meeting our strategies' long-term objectives. Often, when prices are very different to fair value, the consensus is positioned in a procyclical direction—hot on overpriced markets or shunning underpriced ones.

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 that aims to maximize 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 helps us to maximize our exposure to our best 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 mitigate risk in our portfolios.

It is important to understand risk looking ahead into the future, not looking at the past, just like it would not be safe to drive a car by looking in the rear-view mirror. Our research produces insight into not only future investment opportunities but also their attendant fundamental drivers of risk. By better understanding these forward-looking risk drivers, we can diversify portfolios for the future rather than basing these decisions on the past.

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 Portfolios*

Once we've holistically built portfolios, we manage them. 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 portfolio managed by the entities within Morningstar's Investment Management group.

#### **Global Investment Policy Committee**

Our global Investment Policy Committee and its regional governance bodies are responsible for oversight of the investment methodologies across all products and services. Members of the Committee may include officers, chief investment officers, managing directors, or managers of Morningstar Investment Management or its affiliates. The regional governance bodies include regional investment policy committees, asset allocation committees, investment selection committees and portfolio construction (peer review) committees. 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.

An investment team provides the investment advice used in the products and services referenced in this brochure. Information on key members of this investment team is included in the attached Form ADV Part 2B brochure supplement.

### 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. More than 300 analysts of Morningstar or its affiliates cover more than 600,000 investment options. 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 advice, recommendations, or the objectives of your portfolio will be achieved. This includes the Absolute Return portfolio whose goal is to seek modest positive returns with an emphasis on limiting volatility in various market environments. We do not guarantee that negative returns can or will be avoided in this portfolio or any of its portfolios.

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.

### Security Type Risks

#### *Exchange-Traded Funds*

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.

#### *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

As with any investment decision, you should consider the impact it may have on your tax situation. Please note, unless your investment is in a tax-deferred account, there are possible tax consequences when a mutual fund makes a distribution or you sell fund shares as a result of withdrawing or liquidating your investment. We encourage you to consult with your tax professional about these and other tax consequences related to your investments.

If you are redeeming, surrendering or otherwise selling an existing security position to fund your account's initial investment, you should fully understand the ramifications of such a redemption, surrender or sale including, but not limited to, potential tax liabilities and fees/charges that you may incur such as redemption fees, contingent deferred sales charge(s), and/or brokerage commissions.

Our recommendations are made without taking into consideration potential tax consequences and we do not provide tax advice. Potential tax consequences may exist. We encourage you to consult with a tax professional about these and other tax consequences.

### Item 9. Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that would influence adviser 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 offerings center around advisory services in our core capabilities of asset allocation, investment selection, and portfolio construction that we offer to individual investors and institutions.

Our Representatives who are responsible for the day-to-day management of our portfolios are paid a base salary plus a discretionary bonus. The bonus has two components. The first component is based on select managed portfolio investment performance and risk metrics versus a corresponding benchmark over specified three-, five-, and/or seven-year periods depending on the portfolio. The second component is determined by a combination of the investment management business unit's overall revenue and profitability, Morningstar's overall annual revenue and profitability, and the individual's contribution to the business unit. Benchmarks are used as a measure of investment performance and are chosen by senior personnel and approved by Morningstar's Investment Management group's Global Investment Policy Committee's Regional Investment Policy Committee. 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 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.

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 primarily of mutual funds, exchange-traded funds, and equity securities. Within MMP, we provide discretionary investment advisory services such as: investing portfolios in a universe of available investments (e.g., mutual funds, exchange-traded funds, equity securities) and rebalancing and/or reallocating the portfolios when deemed necessary. Portfolio construction and ongoing monitoring and maintenance of the portfolios within MMP are provided on our behalf by Morningstar Investment Management. The maximum MMP

fee typically ranges from 130-165 basis points (1.30% to 1.65%) and is based on assets in our strategies.

We offer advisory services to third-party advisory programs of financial institutions. These services are provided on a discretionary or non-discretionary basis. The core services of these institutions consist of us offering model portfolios to be used in conjunction with each institution's proprietary advisory program. In most cases, these advisory services involve risk-based asset-class and/or investment-specific strategies and the on-going monitoring of such strategies. Model portfolio construction and ongoing monitoring of the model portfolio(s) is provided on our behalf by Morningstar Investment Management. We may also provide sales support by educating investment adviser representatives about the strategies available under the third-party advisory program. Fees charged for these advisory services will depend on assets in the selected strategies and the complexity involved in providing additional services (if any); the fee ranges from 0–55 basis points (0.00% to 0.40%).

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

- Financial Advisers with more than 50 accounts on our Platform are eligible for a one-year, no cost subscription for Morningstar® Advisor Workstation<sup>SM</sup>.
- Financial Advisers with more than 100 accounts on our Platform are eligible for a one-year, no cost subscription for either Morningstar Advisor Workstation or Morningstar Direct.

In certain situations, Financial Advisers eligible for a subscription to either Morningstar Advisor Workstation or Morningstar Direct as noted above will instead receive a discount for a one-year subscription to Morningstar Office<sup>SM</sup> based on the value of Morningstar® Advisor Workstation<sup>SM</sup> or Morningstar Direct<sup>SM</sup>.

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

Morningstar Investment Services is also registered as a broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ("FINRA"). Our broker registration gives us the ability to receive fees directly or indirectly from those mutual funds underlying a Program portfolio whose 12b-1 plans are for

distribution only. Therefore, some of our employees maintain FINRA security licenses required by our broker dealer registration and associated with their current job responsibilities.

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 – Investment Management Group Registered Entities*

Morningstar has an Investment Management group that consists of various subsidiaries across the globe that are each registered with and governed by the applicable regulatory body or bodies in that country. We are part of this group and share resources, as described earlier in this brochure. One member of this group, Morningstar Investment Management LLC, is our parent company and is also an investment adviser registered under the Advisers Act.

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 Investment Management provides consulting or advisory 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 in the Program.

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 a regional governance body within the Regional Investment Policy Committee, 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 through Morningstar® Managed Portfolios<sup>SM</sup>. While the same or similar portfolios are offered by us to under the Morningstar Managed Portfolios program, 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 Morningstar Managed Portfolios program, 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 we offer non-discretionary services under the Morningstar Managed Portfolios program, our 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.

#### *Affiliations – Other Registered Entities*

Morningstar Research Services LLC is not part of the Investment Management group but is also 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 reporting/organization lines, and the utilization of physical (i.e. separate floors) 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.

In some situations, we engage Morningstar Research Services to perform investment manager due diligence and/or fund selection services on our behalf as a sub-adviser. The notification to and authorization by our clients to our engaging Morningstar Research Services is addressed in our agreement with the client. On such occasions, we compensate Morningstar Research Services for services rendered via an intercompany charge. This compensation will likely be lower than compensation negotiated with non-affiliated financial institutions/institutional investors for the same or similar services. Morningstar Research Services' employees who are engaged to provide manager due diligence and/or fund selection services are prohibited from using non-public/confidential information obtained because of their engagement in its investment research reports and/or investment consulting services to clients, including us.

Morningstar Research Services provides information to the public about various securities, including 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 typically based on our separate and independent research and analysis of the available investment product.

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. Other than the use of their publicly available analysis as part of our review process, we do not solicit

the input of Morningstar Research Services prior to making investment decisions or recommendations (unless we engage them as a sub-adviser as noted under the 2<sup>nd</sup> paragraph of the Affiliations – Other Registered Entities), nor do we 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 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 on nor recommend as part of their investment consulting services any investment company we are an investment 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 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 participate in or have any input in the written analyses that Morningstar provides its licensees. While we consider the analyses of Morningstar, our investment recommendations are typically based on our separate and independent research and analysis of the available investment product.

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 Clients 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.

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 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. Morningstar Investment Services utilizes its broker/dealer registration solely for the receipt of 12b-1 fees, therefore, 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.

#### *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*

Morningstar's subsidiaries, Morningstar Credit Ratings LLC and DBRS, Inc. (collectively, "DBRS Morningstar"), are credit rating agencies registered with the Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (NRSRO). DBRS is also registered with and governed by applicable regulatory body or bodies in other countries around the globe. In our analysis of certain securities, we may use the publicly available credit rating and analysis issued by DBRS Morningstar. Because of our use of DBRS Morningstar's 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 [compliance@morningstar.com](mailto:compliance@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. Because we generally 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) nor do we 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).

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

Morningstar Investment Management has and maintains a number of seed accounts (accounts used to establish a strategy we offer or track), many of which follow strategies we offer to clients. We place block trades for accounts, therefore trade requests for the seed accounts are placed at the same time as trades are placed for those client accounts invested in the same strategy and for which we have discretion. Block trades are allocated in such a manner as to ensure that the seed accounts do not receive more favorable trades than our clients' accounts. Client accounts that we manage on a discretionary basis and thus, the seed accounts, are traded just before we provide model portfolio trade recommendations to other clients using our U.S. managed portfolios. However, our model portfolio clients receive trade recommendation after the close of the trading day, so that no one model portfolio 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 and private placement transactions with Morningstar's compliance department.



## Item 12. Brokerage Practices

Our trade recommendations are communicated to the appropriate institution as designated by the Plan Sponsor or your recordkeeper. We do not participate in any soft dollar practices.

## Item 13. Review of Accounts

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

## Item 14. Client Referrals and Other Compensation

Situations arise in which others introduce accounts to us or solicit clients for us. In those cases, we will enter into a written agreement with the solicitor that complies with the "Cash Solicitation Rule" (Rule 206(4)-3) under the Investment Advisers Act of 1940, as amended. The agreement will identify the specific percentage of the annual fee to be shared with the solicitor commensurate with the degree of effort and assistance provided. Our fee charged to clients will not be affected if they were introduced or referred by a solicitor.

Morningstar, as noted previously, offers various products and services to the public. In some cases, Morningstar refers 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.

## Item 15. Custody

We do not serve as a custodian of Participant 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.

Your Plan Sponsor or recordkeeper is responsible for selecting the custodian for Plan assets. The selection of custodians may be limited by the plan provider or recordkeeper.

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

## Item 16. Investment Discretion

When we provide plan sponsor advice, typically the Plan Sponsor retains the investment discretion and control of Plan assets. We provide Plan Sponsors with information designed to help them make investment choices regarding their retirement plans, but the Plan Sponsors are responsible for managing the investments in their plans. However, in some cases, Plan Sponsors may delegate investment management discretion to us.

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

## Item 17. Voting Client Securities

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

Please note, we will not act on or advise you in regard to legal proceedings, including bankruptcies or class actions, involving securities held in an account. You are responsible for determining whether you want to participate in any class action suits filed against companies in which you are invested.

## 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.