



Morningstar Investment Services

Philosophy and Process



Morningstar Investment Services

The Insight of Your Financial Advisor, The Strength of Morningstar

A Team You Can Trust

At Morningstar Investment Services, we understand there is no “one-size-fits-all” investment or formula to secure your financial future. That’s why we’ve teamed up with LPL Financial to make our lineup of investment strategies available to you on the Model Wealth Portfolios platform.

Your financial advisor plays a vital role in helping you meet your goals, creating a holistic plan and connecting you to the options that are right for you.

No matter which investment approach you choose, you can count on us to offer model portfolios that are part of a strategy that supports your financial well-being—both now and in the years to come.



A Well-Defined Philosophy, A Disciplined Approach

Creating Our Model Portfolios

How We Think About Investing

We're committed to offering mutual fund and exchange-traded fund (ETF) portfolios that reflect the way we think and practice investment management. Our team builds each portfolio to last, investing with conviction wherever our independent, unbiased research takes us. The investment choices on the Model Wealth Portfolios platform are designed to go beyond the numbers to help meet your needs.

A Philosophy For the Long Term

In investing, it's easy to follow the crowd, but rare to outperform it by chasing trends. We are committed long-term investors, following our analysis even if it means taking positions outside the mainstream. When it comes to building portfolios, we think it's important to have a well-defined, methodical approach to making investment decisions.

We know that costs can have a significant impact on a portfolio's performance. That's why we keep an eye out for hidden expenses, favoring investments that are less likely to rack up taxable gains. What's more, we believe it's valuable to invest our own savings in the portfolios we offer, and to provide regular updates about how the portfolios are positioned.



Each member of our investment team is well-versed in the Morningstar approach and committed to our investment philosophy.

“Our team builds each portfolio to last, investing with conviction wherever our independent, unbiased research takes us.”

Research You Can Trust

We are truly independent. We select investments based on merit, drawing on a bounty of objective analysis and data from Morningstar, Inc., our parent company. We also rely on proven research from our sister firm, Ibbotson Associates, a pioneer in the field of asset allocation research. Ibbotson's guidelines help us to set the asset mix for our portfolios, creating a diversified foundation that may help limit the impact of the market's ups and downs.

Our Philosophy

- ▶ **We invest for the long term**
- ▶ **We are independent thinkers**
- ▶ **We employ a disciplined, consistent investment process**
- ▶ **We actively manage portfolios**
- ▶ **We are sensitive to costs and taxes**
- ▶ **We invest clients' money as if it were our own**
- ▶ **We communicate in a timely and candid fashion**



Your All-Access Pass to Quality Fund Managers

Mutual Fund Portfolios

When we're evaluating a mutual fund, we seek to understand not only the fund itself, but the people behind it. How do the fund managers make their decisions, and how can we ensure that they'll make the right ones with your money? Our investment team travels across the country, meeting each fund manager with whom we consider investing. We don't just want to know what they've done, we want to know who they are—and what sets their investment process apart.

Face-to-Face Investing

While many investors focus on a mutual fund's past performance, we think recent results are just one part of the story. That's why we seek to gain insight into how a fund might perform in the future. After meeting with a mutual fund manager, our experts debate their ideas and dissect what their findings mean for investors like you—whether you're looking for a way to grow your nest egg, save for college, or provide for retirement income.

Our search often leads us to smaller, well-resourced fund managers who specialize in a particular style of investing. Importantly, they share our commitment to putting investors first.



Our investment team goes the distance, each traveling an average of 14,000 miles a year to track down investment opportunities.

“...we meet one-on-one with fund managers, asking tough, discerning questions to evaluate how a fund might perform.”

We look for funds run by talented managers who are good stewards of shareholder capital. They often define “success” in terms of achieving good outcomes for their clients, and align their interests with their investors’.

Insight That’s on Your Side

When selecting a mutual fund for our model portfolios, we meet one-on-one with fund managers, asking tough, discerning questions so we can evaluate how a fund might perform.

Morningstar’s trusted reputation in the industry has allowed us to create a network of fund company contacts that regularly keeps us in the loop, giving us a valuable perspective on the state of the economy. We not only check in with fund managers each quarter to discuss their holdings, we stay in touch with them as markets shift or management teams change.



Uncovering Compelling Opportunities Using Low-Cost ETFs

ETF Portfolios

Just as with our mutual fund portfolios, we select every ETF investment according to a well-developed methodology, drawing upon Morningstar's extensive data on almost every ETF in the world. We strive to tap into ETFs' best qualities: lower costs and the flexibility to pursue market opportunities.

Coverage You Can Count On

Morningstar analysts personally evaluate more than 300 ETFs in the U.S., representing more than 95% of total U.S. assets under management. In short, we've got ETFs covered.

At Morningstar Investment Services, we leverage this deep pool of analysis to better understand an ETF's performance, key risks, and the type of portfolio to which it's best-suited. Then, we combine it with the asset allocation research of Ibbotson Associates to build our family of ETF model portfolios.

Paying Yourself First

All else being equal, we generally opt for the least-expensive options to help minimize the costs you pay. That's why we use ETFs that tend to follow benchmark indexes predictably, giving us a good sense of what an ETF may own today, tomorrow, and months into the future. At times, we'll also use ETFs that home in on narrower market segments that appear to be compellingly priced.



To develop efficient ETF strategies, our investment team draws on a rich foundation of Morningstar, Inc. research and data covering nearly every ETF on the market.

“We strive to tap into ETFs’ best qualities: lower costs and the flexibility to pursue market opportunities.”

Discovering Value

At the core of each portfolio are inexpensive, widely-diversified ETFs that help a portfolio match its targeted risk and reward profile. Around the perimeter, low-cost ETFs provide exposure to the specific types of securities we think could deliver appealing returns. In these areas, we look for positions that appear to be fundamentally undervalued. This “core and explore” format helps us to limit the costs of these actively managed portfolios.

As long-term investors, we make changes only when there’s a fundamental reason to do so. We monitor each portfolio to ensure it stays aligned with its objectives while remaining nimble enough to respond to changes in the market.



Working with Your Advisor and Morningstar Investment Services

Model Wealth Portfolios

At Morningstar Investment Services, we deliver investment choices to help create a sound plan that's built around you—and stays that way.

Talk to Your Financial Advisor

Interested in learning more about how to make our model portfolios part of your investment planning? Contact your advisor to take the next steps. He or she will help develop an appropriate investment strategy for you, taking your goals, overall financial picture, and expectations into account. From there, your advisor will identify the mutual fund or ETF portfolios that best fit your needs.

Once your plan is in place, your advisor will work closely with you to chart the progress toward your goals, keeping you up-to-date and ensuring that your portfolio changes as you do. With Model Wealth Portfolios, you'll benefit from the simplicity of having one account, one set of paperwork, one fee, and one report. 🎯



Principal Risk

It is important to note that investments in securities (e.g., mutual funds, exchange-traded funds, common stocks) involve risk and will not always be profitable. Investing in mutual funds involves risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

An investment in exchange-traded funds (ETFs), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: not diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, Index tracking error.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus and, if available, the summary prospectus contain this and other important information about the investment company. You can obtain a prospectus and summary prospectus from your financial representative. Read carefully before investing.

Morningstar Investment Services does not guarantee that the results of its advice, recommendations, or the objectives of your portfolio will be achieved. Morningstar Investment Services does not guarantee that negative returns can or will be avoided in any model portfolios. An investment made in a security may differ substantially from its historical performance and as a result, you may incur a loss.

Past performance is no guarantee of future results. Neither diversification nor asset allocation ensure a profit or guarantee against a loss.

Morningstar, Inc.—our parent company—is referred to as Morningstar or Morningstar, Inc. Morningstar Investment Services, Inc., is referred to as Morningstar Investment Services. Ibbotson Associates, Inc. is referred to as Ibbotson Associates or Ibbotson.

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