

Select Stock Basket Portfolios

Morningstar Investment Services, Inc.

We've combined the in-depth stock research of Morningstar, Inc. with the portfolio management expertise of Morningstar Investment Services.

The result? High-quality stock portfolios that bring you the advantages of active management—and can be tailored to work with your existing holdings, stock restrictions, and personal tax situation.

Insightful Stock Investing

Combining the powerful, objective stock analysis of Morningstar, Inc. with Morningstar Investment Services' portfolio management expertise, Select Stock Baskets puts sophisticated research within reach.

Independent Company Research

The stock analysts at Morningstar, Inc. ask themselves two questions about every company they cover: "Is this a business I'd like to own?" and "How much would I pay for it?" Their insightful answers to these questions—and the proprietary methodology that guides them through the valuation process—result in uncompromising and powerful fundamental analysis.

The diagram below illustrates the major components of Morningstar's valuation model: competitive analysis, an economic moat rating, company valuation, a fair value estimate, and a business risk assessment.

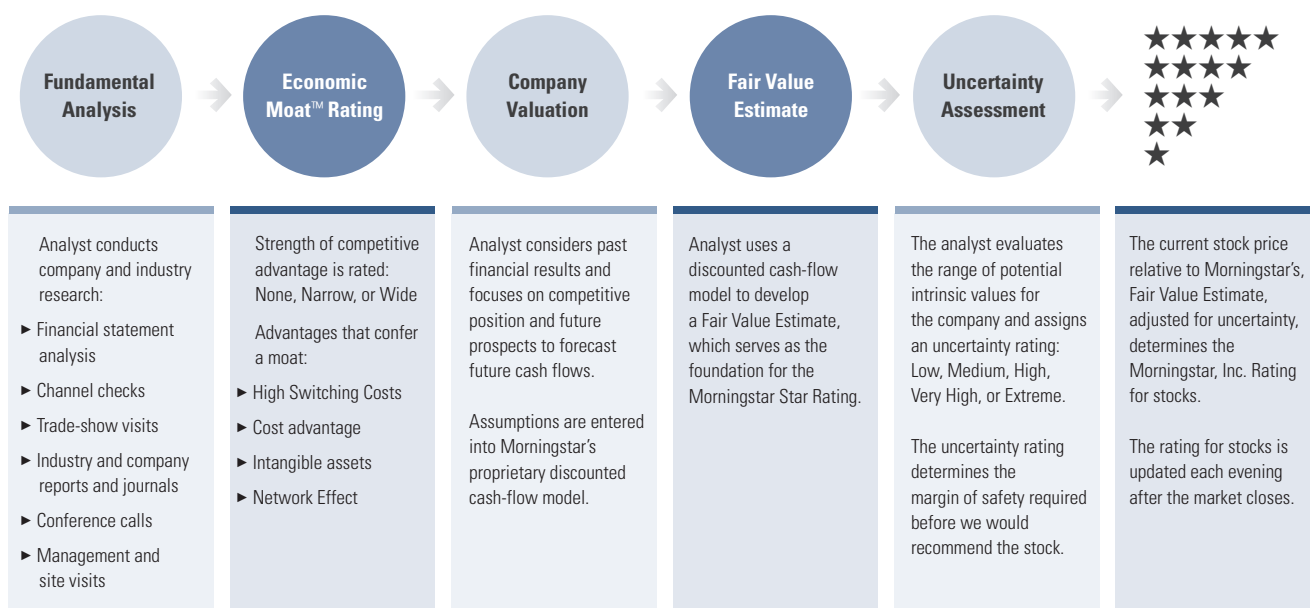
Active Portfolio Management

Morningstar, Inc.'s stock research is augmented by Morningstar Investment Services' disciplined approach to investment management. Your portfolio will be constructed and managed to accommodate various trade-offs among portfolio risk, tax, and cost implications of trades, as well as the fundamental value of the stocks. The Morningstar Investment Services team will regularly manage your account to reflect any changes to the inherent value of the stocks in your portfolio, as well as any changes you may make in your overall investment strategy. In addition, the team will monitor cash thresholds, additions and withdrawals processing and wash-sale activity on a daily basis. If investment and market activity events dictate, your portfolio will be adjusted to bring it back in line with its objectives and criteria.

Tax-Sensitive Solutions

The Custom Series portfolios offer sophisticated tax management, including tax-loss harvesting, and can accommodate specific requests, such as gradually selling down positions with large unrealized gains.

The Morningstar, Inc. Methodology for Valuing Companies



Our Select Stock Baskets Portfolios

The Custom Series

Since we tailor each Custom Series account to your specifications, the portfolio reflects your particular objectives and risk tolerance.



**Global
Equity**



**Large-Cap
Equity**



**Mid-Cap
Equity**



**Small-Cap
Equity**



**Value/Core
Equity**



**Growth/Core
Equity**



**Foreign
Equity**

The Strategist Series

Each portfolio in the Strategist Series puts a slightly different twist on quality-centric, value-conscious investing.



Tortoise



Hare



Dividend



**U.S. Wide
Moat Focus**

Tailored to Your Specifications

The seven basic varieties of our Custom Series portfolios cover broad spectrums of the market:

- ▶ *Global Equity*—Invests in both U.S. and foreign stocks and does not place limits on market-capitalization or style (i.e. growth vs. value).
- ▶ *Large-Cap Equity*—Invests in both large-cap U.S. and foreign stocks.
- ▶ *Mid-Cap Equity*—Invests in mid-cap U.S. as well as foreign stocks.
- ▶ *Small-Cap Equity*—Invests in both small-cap U.S. and foreign stocks.
- ▶ *Value/Core Equity*—Invests in large-, mid-, and small-cap U.S. and foreign stocks that appear inexpensive based on a variety of valuation metrics.
- ▶ *Growth/Core Equity*—Invests in large-, mid-, and small-cap U.S. and foreign stocks that exhibit growth traits based on historical and forward-looking metrics.
- ▶ *Foreign Equity*—Invests in large-, mid- and small-cap foreign stocks.

A Sophisticated, Value-Conscious Approach

The four portfolios in our Strategist Series are grounded in high-quality research. The Tortoise, Hare, and Dividend portfolios are patterned after successful portfolios of the same name featured in Morningstar, Inc.'s popular Morningstar® StockInvestorSM and Morningstar® DividendInvestorSM newsletters. The U.S. Wide Moat Focus portfolio draws upon the concept of economic moats—a cornerstone of Morningstar, Inc.'s investment research philosophy and methodology—to identify compelling stocks.

- ▶ *Tortoise*—Invests in the stocks of relatively stable, high-quality businesses that are well-entrenched in the various markets in which they operate.
- ▶ *Hare*—Invests in the stocks of firms that are experiencing rapid growth, emphasizing those that have carved out a defensible niche of some kind.
- ▶ *Dividend*—Invests in high-yielding stocks with the potential for dividend-growth and capital appreciation.
- ▶ *U.S. Wide Moat Focus*—Invests equally in the 20 cheapest “wide-moat” stocks in the Morningstar, Inc. coverage universe.

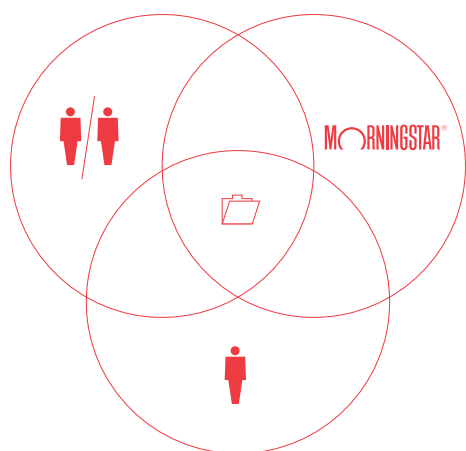


Morningstar Investment Services, Inc.

22 West Washington
Chicago
Illinois 60602 USA

+1 877 626-3227
global.morningstar.com/mis
mis@morningstar.com

Two Sets of Expertise, One Goal.



With Morningstar Managed Portfolios, you get twice the service, expertise, and ongoing attention to your portfolio. We pair with financial advisors to deliver portfolios designed for investors. As a team, we provide a solution that taps into each of our strengths.

Your financial advisor will help you assess your current situation and identify an investment strategy that's based on your financial objectives. Once your plan is in place, your financial advisor will meet with you periodically to identify any changes in your goals or circumstances that may affect your investment objectives and risk tolerance along the way.

We draw on our objective, independent research to select securities. Then, we combine our investment knowledge with our portfolio management experience to develop investing solutions that put you first.

Together, we bring you the best of both worlds: a plan that's tailored to your goals—with the advantages of professional portfolio management.

The Select Stock Baskets portfolios invest in common stocks of U.S. companies, which are a type of equity security that represents an ownership interest in a corporation. Common stocks are 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. During some periods, the securities of small- and mid-cap companies, as a class, have performed better than the securities of large companies, and in some periods they have performed worse. Stocks of small- and mid-cap companies tend to be more volatile and less liquid than stocks of large companies. Small- 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. For the small-cap sector, the portfolios may contain exchange-traded funds whose investment objective is to track indexes created and maintained by MIS' parent, Morningstar, Inc. In those cases, the sponsor of the exchange-traded funds ("ETF Sponsor") enters into a licensing agreement with Morningstar, Inc. To mitigate any conflict of interests arising from MIS' usage of such exchange-traded funds, Morningstar, Inc.'s compensation from the ETF Sponsor will not be based on nor will include assets that are a result of a participating client's investment in those exchange-traded funds. In addition, Morningstar, Inc. does not/will not have any input into MIS' investment decisions, including what exchange-traded funds will be recommended for its portfolios.

Morningstar[®] Managed PortfoliosSM

Select Stock Baskets—Custom Series

Program Sponsor

Morningstar Investment Services, Inc.
22 West Washington Street
Chicago, Illinois 60602

+1 877 626-3227
Monday–Friday
7:30a–6p CST

mis@morningstar.com
global.morningstar.com/MIS

Combining the insightful, objective stock analysis of Morningstar, Inc. with Morningstar Investment Services’ portfolio management expertise, Select Stock Baskets puts sophisticated research within reach. What’s more, since we tailor each account to an investor’s specifications, the resulting portfolio reflects a particular investment objective and risk tolerance.

Putting Investors First

Unlike other separate account programs that tend to take a one-size-fits-all approach, each Select Stock Baskets portfolio revolves around an investor’s specific needs. Portfolios can exclude certain sectors, industries, or even specific stocks. Since all customization takes place at the individual account level, rather than in an all-encompassing model portfolio, Select Stock Baskets represents a truly personalized investment approach.

Tailored to Specific Needs

Our stock baskets are flexible enough to incorporate an investor’s existing holdings in an orderly, tax-efficient fashion. An individual can transfer certain investments in-kind and specify the way Morningstar Investment Services manages certain positions going forward. Select Stock Baskets can also be useful in facilitating the management of exposure to a single stock. An investor can request, for example, a reasonable period over which we should sell-off a particular investment. In those situations, we build

and manage a portfolio, incorporating those legacy positions which meet defined investment objectives and risk tolerance.

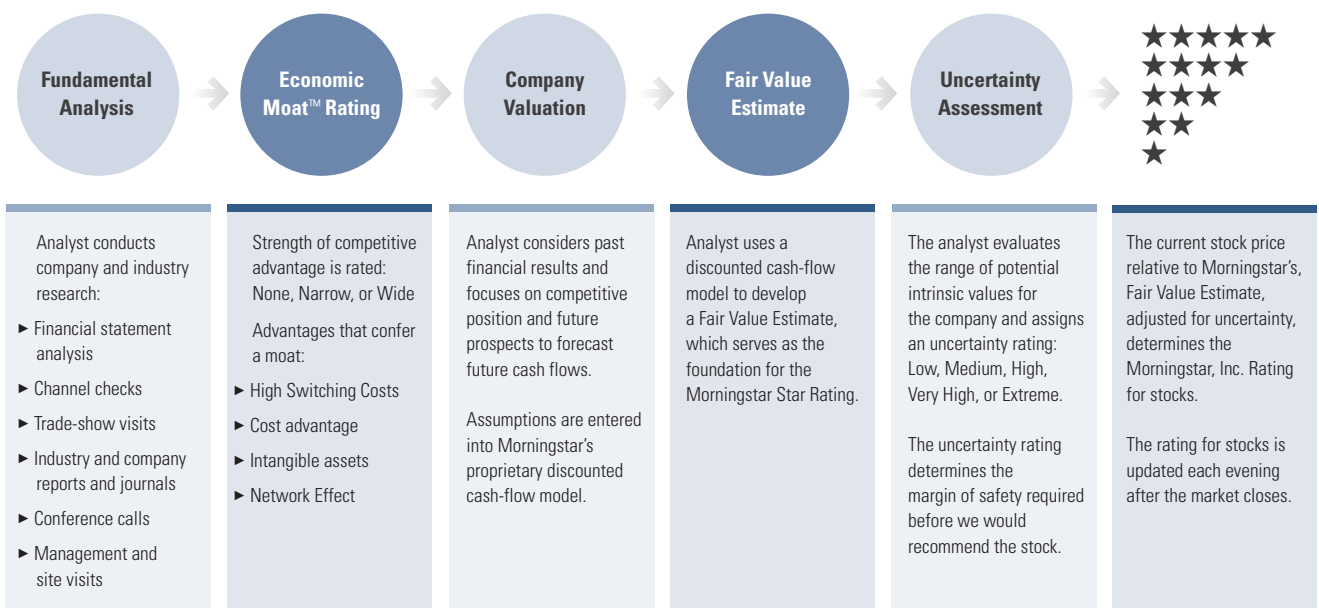
Conscious of Tax Implications

Our tax-management process is continuous, sophisticated, and tailored to your particular tax circumstances. In contrast to some programs that relegate tax-management to the end of a given tax year, we evaluate each Select Stock Baskets account for tax-optimization throughout the year. Using this proactive approach, we can better identify opportunities to harvest losses, while also calibrating the tax consequences of ongoing portfolio management decisions. We fully consider an investor’s tax status as well as investments that present unique tax issues, such as master-limited partnerships.

Grounded in Rigorous Analysis

For our Select Stock Baskets accounts, we tap into the insights provided by Morningstar, Inc. analysts who follow stocks spanning virtually all industries and numerous geographic locales. Morningstar, Inc.’s philosophy starts from the premise that an equity investment represents an ownership stake in a business. As such, Morningstar, Inc. analysts conduct extensive research on industry dynamics, a firm’s competitive position, and the durability of any advantages that the business might possess, all in an effort to estimate a firm’s value. After factoring

The Morningstar, Inc. Research Methodology for Valuing Companies



in a company's risk, the analysts evaluate a stock's fundamental attractiveness by comparing its price to their estimate of its fair value per share. We scour this research in an effort to discover promising investment opportunities for each Select Stock Baskets portfolio.

Invested with Conviction

You can't beat the benchmark if you're hugging it. Accordingly, in constructing each portfolio, we follow a "best ideas" approach, pursuing compelling investing opportunities, wherever they happen to reside. Thus, the sector weightings of our typical Select Stock Baskets portfolios can differ significantly from those of the broader market. What's more, we keep each stock basket portfolio relatively compact, with 25 to 35 holdings being the norm. This way, we can throw the full weight of our conviction behind each stock that we purchase and closely monitor the investment going forward.

Suited for Distinct Equity Preferences

Though you can customize our Select Stock Baskets at even the most granular level, we offer our Custom Series portfolios in seven basic varieties:

- ▶ *Global Equity*—U.S. and foreign stocks; no limits on market-capitalization or style (i.e. growth vs. value)
- ▶ *Large-Cap Equity*—Large-cap U.S. and foreign stocks
- ▶ *Mid-Cap Equity*—Mid-cap U.S. and foreign stocks
- ▶ *Small-Cap Equity*—Small-cap U.S. and foreign stocks
- ▶ *Value/Core Equity*—Large-, mid-, and small-cap U.S. and foreign stocks that appear inexpensive based on a variety of valuation metrics.
- ▶ *Growth/Core Equity*—Large-, mid-, and small-cap U.S. and foreign stocks that exhibit growth traits based on historical and forward-looking metrics.
- ▶ *Foreign Equity*—Large-, mid- and small-cap foreign stocks

Two Sets of Expertise, One Goal

Morningstar Investment Services pairs with advisors to deliver portfolios designed for individual investors. Advisors assess suitability and consistency of the investment process, evaluate progress, and communicate to us any changes in individual goals or circumstances that may affect the particular investment objectives and risk tolerance. We construct and manage every Select Stock Baskets account to achieve the desired balance of risk and reward, while remaining mindful of the tax and cost implications of trades. We also account for any investment strategy changes, monitor cash balances and funding activity, and rebalance positions to ensure ongoing compliance with investors' objectives and other criteria.

The Select Stock Baskets portfolios invest in common stocks of U.S. companies and American Depositary Receipts (ADRs), which are a type of equity security that represents an ownership interest in a corporation. Common stocks are 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.

Morningstar® Managed PortfoliosSM Select Stock Baskets—Strategist Series

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mis@morningstar.com
global.morningstar.com/MIS

The four portfolios in the Strategist Series combine the active portfolio management of Morningstar Investment Services with the extensive equity research of Morningstar, Inc. The first three portfolios in the series, the Tortoise, Hare, and Dividend, are patterned after successful portfolios of the same name featured in Morningstar, Inc.'s popular Morningstar® StockInvestorSM and Morningstar® DividendInvestorSM newsletters. The fourth portfolio, the U.S. Wide Moat Focus, is designed to track the Morningstar® Wide Moat FocusSM Index—which boasts an outstanding long-term track record.

A Prudent Approach

Our Tortoise, Hare, and Dividend strategies share a common approach—investing in higher-quality firms at sharp discounts to what Morningstar Inc.'s analysts believe they're worth. Popularized by famed investor Warren Buffett, this approach assumes that a stock investment represents an ownership interest in a business. Accordingly, when selecting stocks for the newsletter portfolios (upon which the Strategist Series is based), Paul Larson and Josh Peters operate from the mindset of a business-owner, asking questions like “what gives this firm an edge over competitors?” and “how durable are those advantages?” or “does this business create value for shareholders?”

Our U.S. Wide Moat Focus portfolio is based on the concept of an economic moat—a cornerstone of the Morningstar, Inc. investment philosophy. Just as a moat around a medieval castle kept the opposition at bay, an economic moat is a structural competitive advantage that allows a firm to earn above-average returns on capital over a long period of time.

Grounded in Rigorous Analysis

As with all our Select Stock Baskets portfolios, the portfolios in the Strategist Series harness Morningstar Inc.'s comprehensive, in-depth research. The nearly 100 equity analysts at Morningstar, Inc., conduct extensive research on industry dynamics, a firm's competitive position, and the defensibility of any advantages that the business might boast, all in an effort to estimate a firm's intrinsic worth per share.

A Strategy That Suits Individual Needs

Each of our portfolios in the Strategist Series put a slightly different twist on quality-centric, value-conscious investing.

Tortoise—Invests in the stocks of relatively stable, high-quality businesses that are well-entrenched in the various markets in which they operate. Though these firms aren't typically growing at a furious pace, they are normally very profitable, reflecting their dominance.

Based on the popular
Morningstar, Inc.
Newsletter portfolios



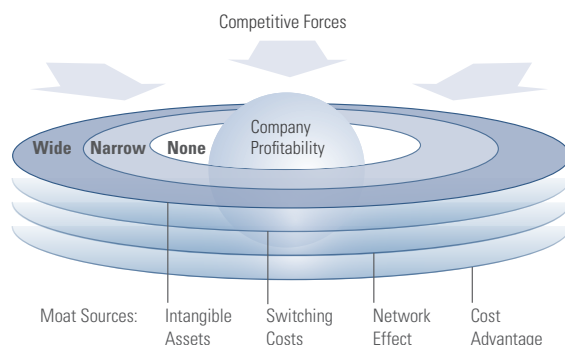
The Morningstar, Inc. newsletter portfolios demonstrate a proven record and strong reputation. Morningstar Investment Services offers similar versions of these portfolios—the Tortoise, Hare, and Dividend—for direct investment.

- Tortoise
- Hare
- Dividend

For illustrative purposes only, the newsletters do not report on the Morningstar Investment Services Strategist Series portfolios. Past performance is no guarantee of future results.

Economic Moat

The Four Sources of Sustainable Competitive Advantage



The Morningstar, Inc. U.S. Wide Moat Focus Index is comprised of the twenty most undervalued Wide Moat stocks.

W U.S. Wide Moat Focus

Hare—Invests in the stocks of firms that are experiencing rapid growth, emphasizing those that have carved out a defensible niche of some kind. Importantly, they're selling at reasonable prices, not nosebleed price multiples.

Dividend—Invests in high-yielding stocks with the potential for dividend-growth and capital appreciation. Though "dividend-investing" often brings to mind stodgy utilities or banks, the Dividend portfolio is composed of stocks from a variety of industries. The common-thread is that the typical name is significantly undervalued, financially strong, and founded on a durable business model.

U.S. Wide Moat Focus—Invests equally in the twenty cheapest "wide-moat" stocks in Morningstar, Inc.'s coverage universe. The portfolio identifies stocks that can generate high returns on invested capital by tracking the Morningstar® Wide-Moat Focus Index, which is reviewed and rebalanced on a quarterly basis.

A Flexible Solution

Investors can modify their Select Stock Baskets accounts to exclude certain sectors, industries, or even individual stocks. For instance, if an investor is a dividend enthusiast, but prefers not to own the stocks of energy-related firms in the Dividend strategy, they could customize the account to omit such firms. Since all customization takes place at the individual account level, rather than in an all-encompassing model portfolio, Select Stock Baskets represents a personalized investment approach.

Two Sets of Expertise, One Goal

Morningstar Investment Services pairs with financial advisors to deliver portfolios designed for individual investors. We construct and manage every Select Stock Baskets account to achieve the desired balance of risk and reward, while remaining mindful of the tax and cost implications of trades. We also account for any investment strategy changes, monitor cash balances and funding activity, and rebalance positions to ensure ongoing compliance with investors' objectives and other criteria. A financial advisor will assess suitability and consistency of the investment process, evaluate progress, and communicate to us any changes in individual goals or circumstances that may affect the particular investment objectives and risk tolerance.

The Select Stock Baskets portfolios invest in common stocks of U.S. companies and American Depositary Receipts (ADRs), which are a type of equity security that represents an ownership interest in a corporation. Common stocks are 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.

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22 West Washington Street
Chicago, Illinois 60602

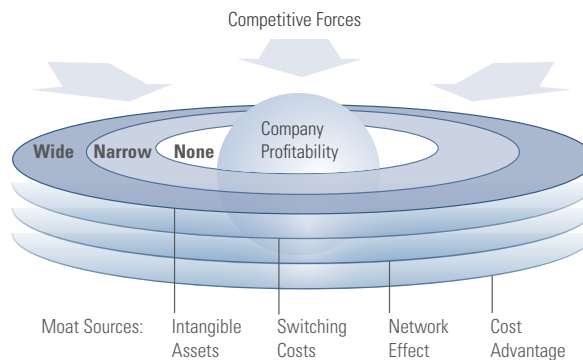
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mis@morningstar.com
global.morningstar.com/MIS

The U.S. Wide Moat Focus Select Stock Basket is the newest addition to the Strategist Series of Select Stock Baskets from Morningstar Investment Services. This low-cost, low investment minimum strategy is designed to track the Morningstar® Wide Moat Focus™ Index, which boasts an outstanding long-term track record. The portfolio invests equally in the 20 cheapest “wide moat” stocks in the Morningstar, Inc. coverage universe.

Economic Moats

The Four Sources of Sustainable Competitive Advantage



	Wide Moat	Narrow Moat	No Moat
Intangible Assets	Coca-Cola: It's just sugar water, but the brand commands a premium.	Dr Pepper Snapple: Good brands, but a lack of scale hurts returns.	Cott Corporation: Private-label beverages are a commodity, with no brand loyalty.
Switching Costs	Oracle: Switching from Oracle's tightly integrated databases could cause massive disruptions.	Blackboard: Popular collaboration software fosters stickiness in its educational user base.	Red Hat: Customers can switch Linux support vendors without disruption.
Network Effect	Chicago Mercantile Exchange: Its clearinghouse function keeps volume captive.	NYSE Euronext: Equity volume is interchangeable, and competitors have been stealing share.	Knight Capital Group: Few network benefits from being an order-taker or market-maker.
Cost Advantage	UPS: Ground delivery network has low marginal costs and high returns on capital.	FedEx: The high fixed-cost air express segment is still a large proportion of revenue.	Con-way: Trucking industry is very fragmented, making it tough to build scale and dig a moat.

Source: Morningstar, Inc. For illustrative purposes only and should not be viewed as a recommendation to buy or sell the securities mentioned above. Past performance is not a guarantee of future results.

What's a Wide Moat?

The concept of an economic moat is a cornerstone of Morningstar, Inc.'s investment philosophy. Just as a moat around a medieval castle kept the opposition at bay, an economic moat is a structural competitive advantage that allows a firm to earn above-average returns on capital over a long period of time.

There are four sources of economic moats. The first two include intangible assets (such as brands, patents, licenses, and government approvals) and switching costs. The second two sources of moats are the network effect, which helps to keep market share captive, and the cost advantages that some companies enjoy. The longer a company can sustain a competitive advantage, the wider its economic moat. Morningstar, Inc. assigns one of three Economic Moat Ratings—Wide, Narrow, or None—to each of the companies it covers.

Wide Moats Are Rare

Great management, the right size, dominant market share, easily-replicable technology, and hot products all represent advantages to any business. However, none of them is a structural advantage—that is, an advantage inherent to the business—guaranteed to sustain high returns over a long period of time. That's because high returns attract competitors like bees to honey. So, rivals will try to poach managers, knock off products, and do just about anything to get in on the action, which will often cause a company's once-high returns to dwindle.

Carving out a wide moat able to withstand the relentless onslaught of competition is difficult. In fact, according to the nearly 100 equity analysts at Morningstar, Inc., less than 10% of the 1,800 companies in their coverage universe warrant a Wide Moat rating. These analysts conduct extensive research on industry dynamics, a firm's competitive position, and the durability of any advantages that the firm might boast.

Why Do Wide Moats Matter?

A wide moat company that can generate high returns on invested capital for many years will compound wealth at a very brisk clip. Yet the benefits conferred by a wide moat are often not fully factored into stock prices. After all, market participants tend to own securities for relatively short time periods, and moats matter much more in the long

Performance Record of the Morningstar® Wide Moat Focus™ Index

Index Performance as of 12-31-2009	Trailing 1-Year	Trailing 3-Year	Trailing 5-Year	Since 09-30-2002*
Morningstar Wide Moat Focus Index	46.93	5.26	7.52	15.69
S&P 500 Index (Cap-Weighted)	26.46	-5.63	0.42	6.51

*Morningstar Wide Moat Focus Index Inception

For illustrative purposes only; the indices' returns do not represent actual client experience. Morningstar Investment Services manages a Select Stock Basket Strategist Series that is based on the Morningstar Wide Moat Focus Index and the research of Morningstar, Inc. The indices displayed are unmanaged and cannot be directly invested in. Past performance is not a guarantee of future results.

run. The performance of the Wide Moat Focus Index suggests that purchasing wide moat stocks when they're cheap can be a compelling strategy.

A Professionally Managed, Focused Solution

Our newest portfolio is designed to track the Morningstar Wide Moat Focus Index, which consists of equal sums of the twenty wide moat domestic stocks trading at the largest discounts to Morningstar, Inc.'s fair value estimates. The strategy follows a "best ideas" approach, investing in the most compelling opportunities among wide moat stocks, wherever they happen to reside. Thus, the sector weights in the U.S. Wide Moat Focus Select Stock Basket portfolio can bear scant resemblance to those of the broader market. The strategy's approach also means that it is unbiased to size (i.e., large-cap vs. small-cap) and to style (i.e., growth vs. value). Each client portfolio is assembled by Morningstar Investment Services, and monitored daily, as well as rebalanced quarterly to replicate the Index.

Tailored to Investor Needs

As with all of our stock portfolios, the U.S. Wide Moat Focus Select Stock Basket offers the flexibility to exclude certain sectors, industries, or individual stocks for a customized solution. It also allows investors to combine a portfolio of stocks with fixed income mutual funds or ETFs in a single account, provided that the equity portion of the portfolio meets the account minimum of \$100,000.

S&P 500 Index—The S&P 500 Index tracks the performance of the 500 largest stocks that are considered to be widely held. Its performance is thought to be representative of the stock market as a whole.

Morningstar Wide Moat Focus Index—An index comprised of the 20 stocks given an Economic Moat™ rating of Wide that are trading at the largest discounts to the Morningstar, Inc. fair value estimate. The Index is reviewed and rebalanced on a quarterly basis.

The Select Stock Baskets portfolios invest in common stocks of U.S. companies and American Depositary Receipts (ADRs), which are a type of equity security that represents an ownership interest in a corporation. Common stocks are 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. During some periods, the securities of small- and mid-cap companies, as a class, have performed better than the securities of large companies, and in some periods they have performed worse. Stocks of small- and mid-cap companies tend to be more volatile and less liquid than stocks of large companies. Small- 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.