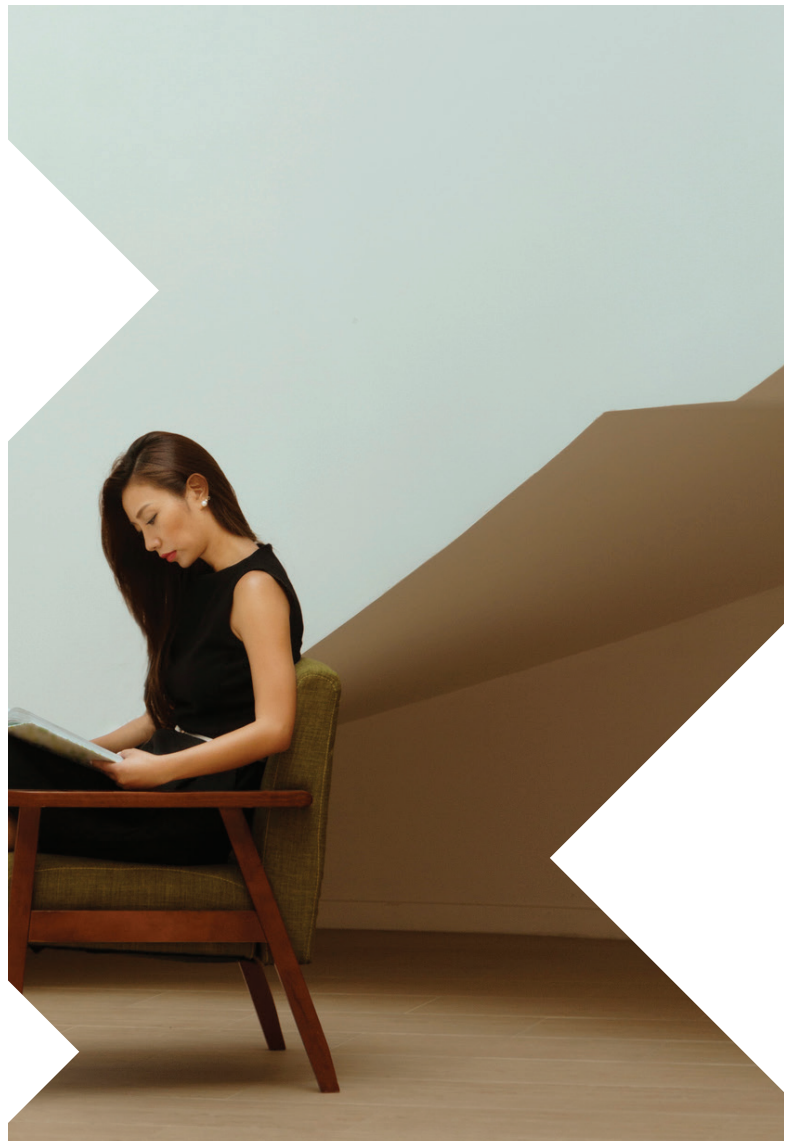


# Select Fixed-Income Portfolios

Separately Managed Accounts



# Select Fixed-Income Portfolios

Morningstar Select Fixed-Income Portfolios are fixed-income investments held within a separately managed account (SMA) that seek to provide the potential benefits of institutional access and investing in high-quality bonds.<sup>1,2</sup> The structure of an SMA can provide full transparency and greater control of your investment through direct ownership of the underlying investment. Customization is also available in SMAs.<sup>3</sup>

## Why Separately Managed Accounts (SMAs)?

SMAs offer diversification and professional management like a mutual fund or ETF. However, SMAs give investors more control through direct ownership of the underlying investments.

	Mutual Fund	Separately Managed Account
Portfolio of investments	✓	✓
Actively managed	✓	✓
Institutional market access	✓	✓
Opportunity for portfolio tailoring or customization		✓
Transparency of portfolio transactions		✓
Direct ownership of underlying securities		✓
Individualized tax planning		✓
Higher investment minimums		✓

1 Institutional access refers to the access that institutions have through their size, scale, and relationships versus an individual.

2 We define "high-quality" bonds as investment-grade or higher.

3 Customizations and customization availability may vary.

## Key Features of an SMA

✓	Full Transparency
✓	Greater Control
✓	Direct Ownership
✓	Customization
✓	Tax Efficiency <sup>4</sup>

## Seeking Best-In-Class Managers

To help advisors serve their clients, Morningstar Investment Management selects best-in-class managers through a thorough review and due-diligence process. We conduct ongoing due diligence to continuously monitor our managers to ensure their management of the strategies aligns with our investment principles.

## About Nuveen Asset Management, LLC

Morningstar Investment Management has selected Nuveen<sup>5</sup> as subadviser to all six Select Fixed-Income Portfolios. Nuveen is a leading investment manager committed to separately managed accounts. Nuveen is the largest provider of municipal bond separately managed accounts and the fifth largest provider for separately managed accounts overall, providing clients with access to the expertise of leading portfolio management teams with the flexibility to customize institutional-quality strategies.<sup>6</sup>

4 Direct ownership of underlying securities provides the ability for our subadviser to implement tax-aware investing. Their ability to trade at institutional prices helps to efficiently capture tax losses, which can provide the potential to offset gains.

5 Nuveen provides investment advisory solutions through its investment specialists. Nuveen Asset Management, LLC is a registered investment adviser and an affiliate of Nuveen, LLC.

6 Source: Cerulli Associates, The Cerulli Report, U.S. Managed Accounts 2020. Data as of Dec. 31, 2019 most recent data available.

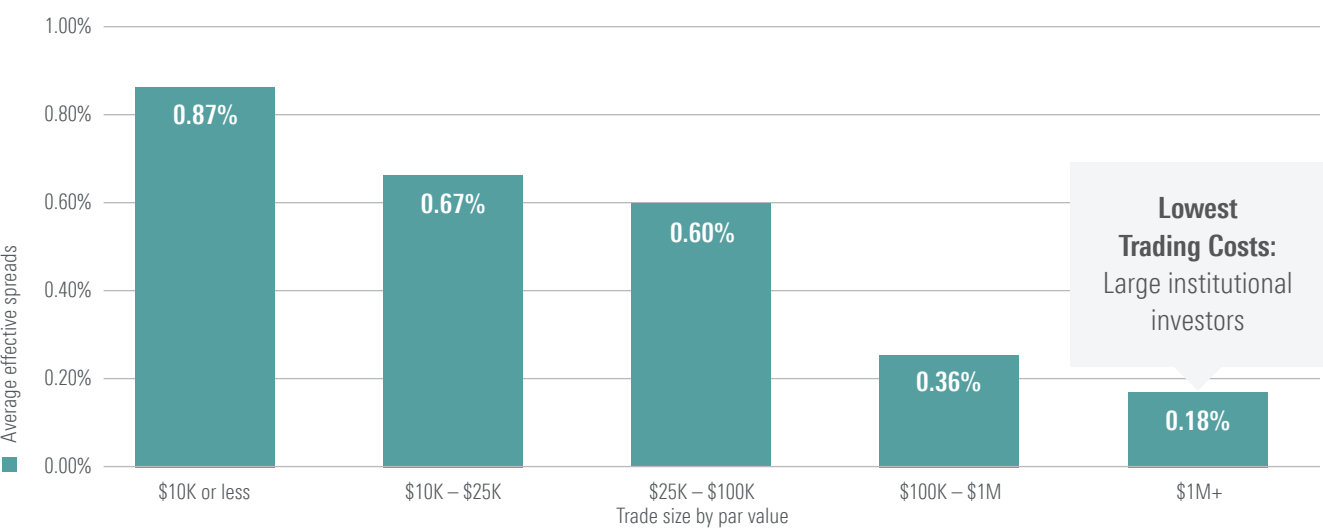
# Investing in Bonds Today

Building individual bond portfolios has become more difficult for financial professionals and investors. Investment managers for SMA portfolios can draw from a larger universe of bonds that may create the potential for trading benefits, like lower costs and greater access, and providing expanded resources.

## ► Institutional Access Can Help Create Lower Trading Cost For Municipal Bonds

Pricing always matters, but especially so in a low-rate environment like today. An institutional manager’s size and scale can help drive down trading costs and price.

Average Effective Spreads for Municipal Securities Trades (Jan. 2019 through April 2020)



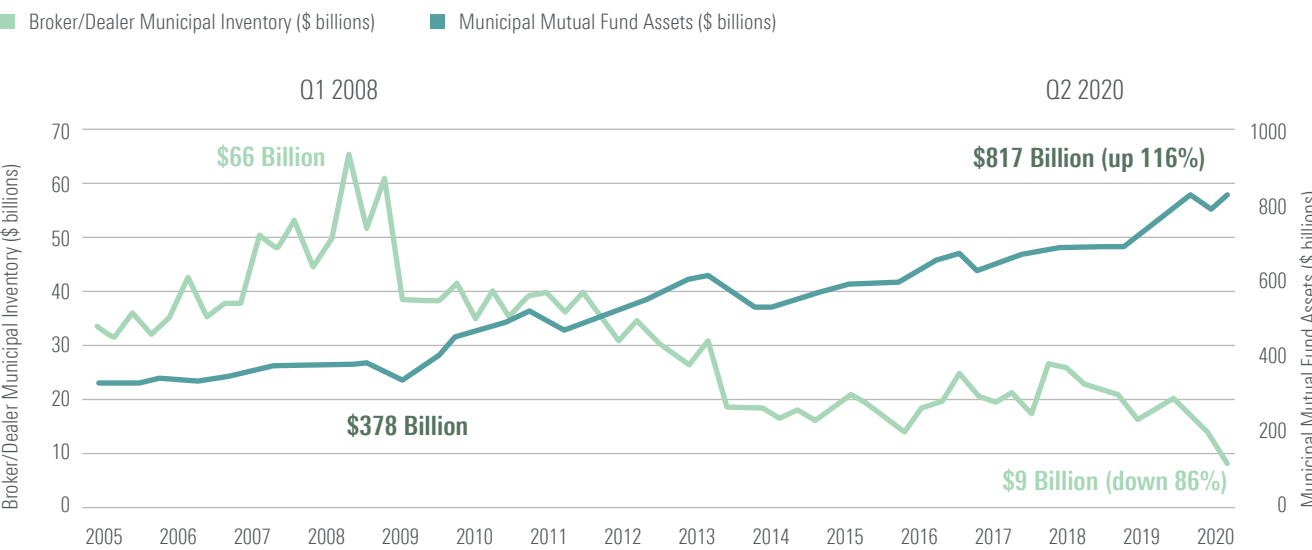
Data source: Nuveen and Municipal Securities Rulemaking Board (MSRB), Jan 01, 2019 – April 30, 2020. Most recent data available. Effective spreads are computed daily for each bond as the difference between the volume-weighted average dealer-to-customer buy and sell price, and then averaged across bonds using equal weighting. Therefore, for each trading day, each security must have at least one customer purchase and one customer sell to be eligible for the analysis. In addition, variable-rate municipal securities were excluded in this analysis, as they are typically traded by sophisticated institutional investors with no markup. For more information on the methodology, please visit msrb.org. Copyright © MSRB 2020. All Rights Reserved. The data are provided without representations or warranties and on an “as is” basis. The MSRB hereby disclaims all representations and warranties (express or implied), including, but not limited to, warranties of merchantability, non-infringement and fitness for a particular purpose. Neither the MSRB nor any supplier of data to the MSRB shall in any way be liable to any recipient or user of the data, regardless of the cause or duration, including, but not limited to, any inaccuracies, errors, omissions or other defects in the data or for any damages resulting therefrom. The MSRB has no obligation to update, modify or amend data herein or to provide notice to any person if any is inaccurate or incomplete. This data were prepared for general informational purposes only, and it is not intended to provide, and does not constitute, investment, tax, business, legal or other advice. Provision of the data by the MSRB to a firm, organization or other entity (“Recipient”) does not constitute and should not be interpreted as an endorsement of Recipient or Recipient’s product or services. The MSRB is not affiliated with, nor does it sponsor, Recipient. The MSRB does not review, approve or have any responsibility for use of the data by Recipient, including, but not limited to, in research or other material or content prepared by or on behalf of Recipient. Data is based on past performance, which is no guarantee of future results. Other methods may produce different results and the results for the individual portfolios and for different periods may vary. Institutional trade execution applies primarily to municipal bond trading as part of ongoing account management and generally does not include sales of legacy securities contributed to new or existing accounts or in connection with termination and liquidation instructions.

## ► Institutional access to municipal bonds can help in an environment of lower inventory

The market is dominated by large institutional investors with presence in the market and the opportunity to source and purchase new bond issues coming to market. In recent years, demand for municipal mutual funds has increased as inventory at broker/dealer firms has been declining.

### Environment of Lower Inventory for Broker/Dealers

Broker/dealer inventory declined 86% since 2008, while municipal mutual fund assets grew 116%.



Data source: Nuveen and Issuance data from Bond Buyer as of Sept. 21, 2020. Assets and inventory data from Federal Reserve Flow of Funds ending June 30, 2020.

## ► Institutional Access Helps Provide Expanded Resources and Opportunity

Purchasing bonds can look different for financial professionals and asset managers.

### A Financial Professional Buys a Bond

- Talks with trading desk
- Works with bond dealers
- May rely on external ratings
- Can be subject to inventory
- May have varying block sizes

### Asset Manager Buys a Bond

- Confers with team of analysts
- Works with over 100 dealers
- Independent credit analysis and monitoring
- Access to full market of securities
- Institutional trade execution

Source: Nuveen, as of October 2020.

# Morningstar Select Fixed-Income Portfolios: Key Features

If you’re trading individual bonds, you may not be efficiently capturing potential tax benefits, competitive prices, and risk management in the same ways as a professionally-managed SMA.

Credit Research	Capitalizing on institutional research allows for extensive evaluation of government, corporate, and municipal issuers, as well as individual bonds and sectors, seeking value that the market may have overlooked.
Large-Scale Market Access	Seeks to buy at scale in both primary and secondary markets and navigates the inefficient bond market through established relationships with national and regional dealers.
Institutional Trade Execution	A large presence in the market can provide greater access to inventory to seek bonds in appropriate sizes and at institutional prices.
Tax-Aware Investing	The ability to trade at institutional prices helps to efficiently capture tax losses, which can provide the potential to offset gains.
Direct Bond Ownership	Separately managed accounts allow clients to have direct ownership of bonds.
Active Portfolio Management Oversight	Seeks to sell appreciated bonds, capture gains and purchase bonds that have the potential to enhance overall portfolio returns.
Relative-Value Oriented	Use a relative-value approach to rigorously evaluate securities and sectors, select attractive bond structures, and position the portfolio within appropriate maturity ranges.

# Finding the Right Opportunity for Income

Morningstar Select Fixed-Income Portfolios offer six fixed-income SMA strategies:

- **Actively Managed Portfolios** – Focused on providing current income and capital appreciation with taxable and tax-exempt options.
- **Bond Ladder Portfolios** – Focused on providing predictable income through regular maturities with taxable and tax-exempt options.

Select Fixed-Income Portfolio	Taxable	Tax-Exempt <sup>1</sup> (Municipal Bonds)
Actively Managed Portfolios	<b>Morningstar Intermediate Government/Credit Portfolio</b> Seeks to deliver current income and capital appreciation by investing in U.S. government and investment-grade corporate securities.	<b>Morningstar Intermediate Municipal Bond Portfolio</b> The Intermediate Municipal Bond Portfolio focuses on total return performance potential while seeking to provide consistent income.
Bond Laddering Portfolios	<b>Morningstar Corporate Bond Ladder 1-7 Years Portfolio</b>  <b>Morningstar Corporate Bond Ladder 1-10 Years Portfolio</b> Seeks to provide current income and regular maturities by building an equally-weighted portfolio of high-quality corporate securities that will typically be held to maturity or sold as they reach the portfolio minimum maturity. <sup>2</sup>	<b>Morningstar Municipal Bond Ladder 1-7 Years Portfolio</b>  <b>Morningstar Municipal Bond Ladder 1-10 Years Portfolio</b> Seeks to provide tax-efficient current income from a portfolio of municipal bonds that will typically be held to maturity or are sold as they reach the portfolio’s minimum maturity.

1 Most municipal bond income is exempt from federal income tax. Investors purchasing municipal bonds issued by their state, city, or county of residence may also be exempt from state or local taxes. However, municipal bond income could be subject to these and other taxes (such as the Alternative Minimum Tax) for various reasons. Capital gains, if any, are taxable.

2 We define “high-quality” bonds as investment-grade or higher.



# Taxable Actively Managed Strategies

Creating individual fixed-income portfolios for clients by researching and trading bonds takes time and expertise. Our Intermediate Government/Credit portfolio is a professionally managed strategy that seeks the income to meet your clients’ needs while helping to provide more time and efficiency into your practice.

## Why Invest in Taxable Actively Managed Strategies?

**Active Portfolio Management Oversight** — Seeks to sell appreciated bonds, capture gains, and purchase bonds that have the potential to enhance overall portfolio returns.

**Risk-Adjusted Return Focus** — Strategies prioritize what we believe are the three main drivers of fixed-income performance: sector rotation, security selection, and yield curve positioning.

### Investment Process

- 1

Seeks to optimize value through the careful analysis of fundamentals, technicals, and valuations.
- 2

Evaluates the opportunity in each sector and identifies relative value across sectors.
- 3

Seeks to drive risk-adjusted returns by focusing on drivers of fixed-income performance:
  - Sector rotation
  - Security selection
  - Yield curve positioning

1 Credit ratings depict a registered rating organization’s forward-looking assessment about credit risk that reflect the creditworthiness of an entity or security.

### Morningstar Intermediate Government/Credit Portfolio

Seeks to deliver current income and capital appreciation by investing in U.S. government and investment-grade corporate securities.

Benchmark	Bloomberg Barclays Intermediate Government/Credit Index
Account Minimum	\$175,000
Sectors, Diversified sectors exposures, including:	U.S. Treasuries, U.S. Agencies, U.S. Corporate Debt (Investment Grade)
Average Duration Target (years)	3 – 5
Credit Quality Target <sup>1</sup>	A-/A3



# Tax-Exempt Actively Managed Strategies

Investing in municipal bonds can provide investors with tax-exempt income. The highest marginal federal tax rate is currently 40.8%,<sup>1</sup> underscoring the importance of tax-exempt income.<sup>2</sup>

## Why Invest in Tax-Exempt (Municipals) Actively Managed Strategies?

**Tax-Exempt Income**—Municipal bonds are issued by state, local, quasi-government (i.e. public corporations) and nongovernment entitles (i.e. hospitals) and their income is typically exempt from federal and state income tax. This is important for investors who are seeking tax-exempt income and potentially in higher tax brackets.

**Active Portfolio Management Oversight**—Seeks to sell appreciated bonds, capture gains and purchase bonds that have the potential to enhance overall portfolio returns, through ongoing credit analysis.

### Investment Process

Fundamental credit research is the foundation of the investment process.

- 1

Considers economic outlook, credit analysis, trading and yield curve analysis when determining overall investment strategy.
- 2

Targets and guidelines are developed for duration, yield curve positioning, security structure, sectors and credit quality.
- 3

Portfolio managers construct portfolios through close collaboration with the credit research analysts and traders.

### Morningstar Intermediate Municipal Bond Portfolio

Investing in the intermediate portion of the municipal yield curve can provide unique risk and reward characteristics while aiming to generate consistent tax-exempt income. Intermediate Bond Municipal focuses on total return performance while seeking to provide consistent income.

Benchmark	Bloomberg Barclays 3-15 Year Blend (2-17) Municipal Bond Index
Account Minimum	\$150,000
Number of Positions	8–15
Average Duration Target (years)	5–6.5
Average Maturity Target (years)	7–10
Credit Quality Target <sup>3</sup>	AA
Average Annual Turnover (%)	15–40

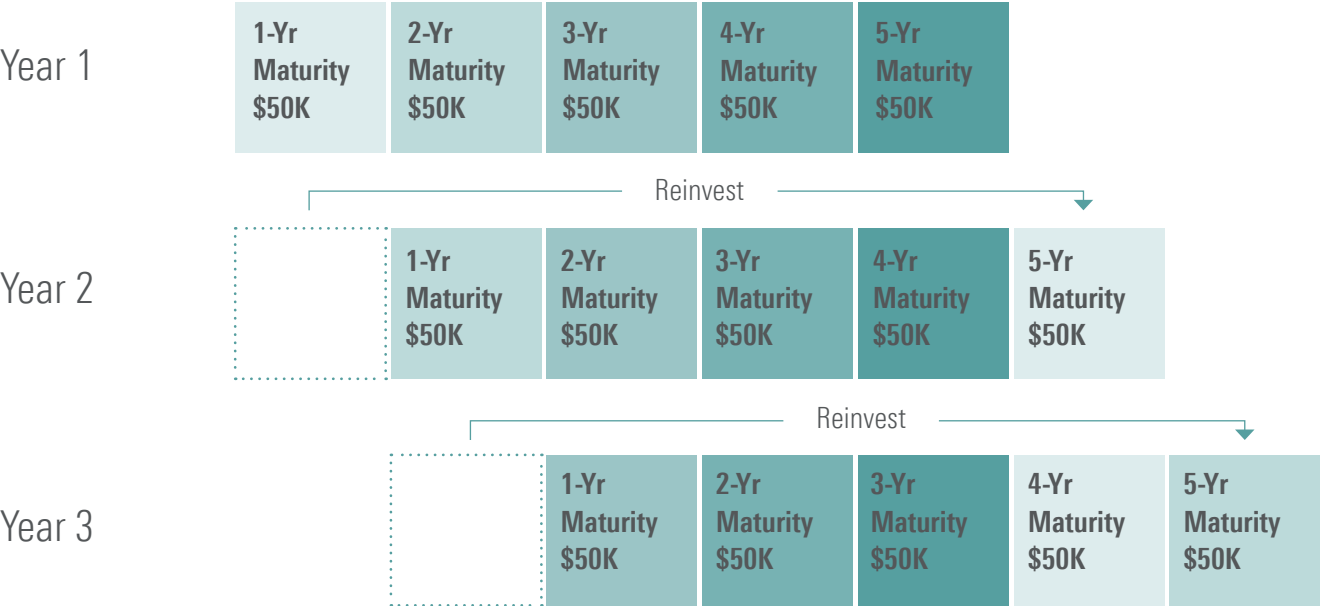
<sup>1</sup> Source: IRS as of Nov. 2019. Includes 3.8% Medicare tax on investment income.  
<sup>2</sup> Most municipal bond income is exempt from federal income tax. Investors purchasing municipal bonds issued by their state, city, or county of residence may also be exempt from state or local taxes. However, municipal bond income could be subject to these and other taxes (such as the Alternative Minimum Tax) for various reasons. Capital gains, if any, are taxable.  
<sup>3</sup> Credit ratings depict a registered rating organization’s forward-looking assessment about credit risk that reflect the creditworthiness of an entity or security.



# Bond Ladder Strategies

## How Does a Bond Ladder Work?

A bond ladder is an investment strategy that staggers the maturity of bonds in a portfolio so that the proceeds from maturing bonds can be reinvested at regular intervals. This method of reinvesting seeks to generate predictable income streams. Staggering the maturity of bonds can also be advantageous in a rising interest-rate environment, as maturing proceeds from a bond are reinvested at potentially higher rates.



### Investment Process:

- Build a bond ladder based on the designated maturity range
- Monitor credit worthiness of portfolio positions; no active trading unless warranted by credit events or client cash flow needs
- Maintain designated maturity of the ladder by seeking to purchase new bonds at the longest available maturity in the range to replace those that mature or are sold as they reach the minimum maturity
- May invest in callable bonds, which if called prior to maturity, with required reinvestment of proceeds to maintain the composition of the specified ladder





# Why Invest in Bond Ladders?

- **Designed to Provide Predictable Income**

Diversifying maturities and credit risk can allow for overall less risk to your portfolio, helping provide more predictable income to help manage cash flow needs.

- **Helps Minimize Interest-Rate Risk**

Worried about changing interest rates? It’s hard to know when rates will rise or fall. A bond ladder may help investors who want to diversify their bond exposure and help minimize their interest-rate risk. By staggering maturity dates, investors aren’t locked into a single rate. When rates rise, shorter-term bonds can provide liquidity quickly to seek to take advantage of the environment. When rates fall, investors still have exposure to potentially higher-yielding bonds.



## Morningstar Select Fixed-Income Bond Ladder Strategies

Taxable (Corporate Bonds)		Tax-Exempt (Municipal Bonds)	
<b>Morningstar Corporate Bond Ladder 1-7 Years Portfolio</b>		<b>Morningstar Municipal Bond Ladder 1-7 Years Portfolio</b>	
<b>Morningstar Corporate Bond Ladder 1-10 Years Portfolio</b>		<b>Morningstar Municipal Bond Ladder 1-10 Years Portfolio</b>	
Seeks to provide current income and regular maturities by building an equally-weighted portfolio of high quality corporate securities that will typically be held to maturity or sold as they reach the portfolio minimum maturity.		Seeks to provide tax-efficient current income from a portfolio of municipal bonds that will typically be held to maturity or are sold as they reach the portfolio’s minimum maturity.	
Investable Universe		U.S Corporates	U.S. Municipal Bonds
Account Minimum		\$150,000	\$150,000
Maturity Range (years)		1–7, 1–10	1–7, 1–10
Credit Quality Range		AAA to A-	AAA to A
Credit Quality Target <sup>1</sup>		A	AA
Maximum Position Exposure <sup>2</sup>		10%	15%

1 Credit ratings depict a registered rating organization’s forward-looking assessment about credit risk that reflect the creditworthiness of an entity or security.  
2 At time of purchase.





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### Average Effective Duration

Duration is a time measure of a bond's interest-rate sensitivity. Average effective duration is a weighted average of the duration of the fixed-income securities within a portfolio.

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All investments involve risk, including the loss of principal. There can be no assurance that any financial strategy will be successful. Morningstar Investment Management does not guarantee that the results of their advice, recommendations or objectives of a strategy will be achieved. Customers should seriously consider if an investment is suitable for them by referencing their own financial position, investment objectives, and risk profile before making any investment decision.

We retained Nuveen Asset Management, LLC ("Sub-Adviser"), an unaffiliated investment adviser, as a Sub-Adviser to our Select Fixed-Income Portfolios and have delegated certain of our duties related to those Portfolios to them. Notwithstanding such agreement, we are fully responsible for the proper performance by the Sub-Adviser of the services rendered by it under the sub-advisory agreement. Sub-Adviser provides the construction and ongoing monitoring and maintenance for these Portfolios on our behalf. Sub-Adviser's portfolio managers are responsible for the investment decisions made with respect to the Select Fixed-Income Portfolios, including identification and selection of specific securities for the Portfolios in light of current and anticipated economic and market conditions, taking into account legal restrictions and Sub-Adviser's internal strategy guidelines.

In the United States, Morningstar Managed Portfolios are offered by Morningstar Investment Services LLC or Morningstar Investment Management LLC as part of a discretionary investment advisory service or as model portfolios to third-party advisory programs on a discretionary or non-discretionary basis.

### Fixed-Income Securities

Fixed-income securities are influenced by interest rate sensitivity and credit risk. They have varying levels of sensitivity to changes in interest rates, but in general, the price of a fixed-income security tends to fall when interest rates rise and vice versa. The value of a fixed-income security with a longer duration or maturity is typically impacted more by a change in interest rates than one with a shorter duration or maturity. During periods of falling interest rates, the income from the security can decline and longer-term securities may be priced to their call dates. Credit risk is the risk an issuer cannot make interest and principal payments when due. If an issuer or guarantor of a security defaults or is downgraded, or if the value of the assets underlying a security declines, the value of the investment will decline and may become worthless. Investors should be aware of an issuer's assets, debt, and solvency prior to investing. Other risks to investing in fixed-income securities include early redemption risk, extension risk, income risk, inflation risk, liquidity risk, and prepayment risk.

Interest income from municipal fixed-income securities is generally exempt from federal income taxes, but it could be subject to other taxes, including state and local income tax (depending on your state of residence) and the Alternative Minimum Tax. Interest for municipal fixed-income securities issued in U.S. territories is generally exempt from state taxes. The municipal fixed-income securities market and its securities can be impacted by many factors, including, but not limited to, changes in the ratings or financial health of a municipal issuer or insurer of a municipal issuer, weaknesses in sectors related to municipal security issues, political, legislative and economic conditions, or changes that impact the revenue of an issuer. Municipal bond inventory has decreased recently, which impacts the ability to buy or sell bonds and can lead to increased price volatility and trading costs. The secondary market for municipal bonds is less liquid than other fixed-income security markets, which could lead to the risk of being unable to sell a municipal bond at a desired price or time or to sell securities to raise cash or seek other investment opportunities.

U.S. government securities are issued by the United States Treasury and backed by the full faith and credit of the U.S. government. U.S. government agency securities are indirect obligations of the U.S. government and are issued by federal agencies and government-sponsored entities. They have different levels of credit support and therefore different degrees of credit risk.

Diversification and asset allocation are investment methods used to help manage risk. They do not ensure a profit or protect against a loss.