

# Morningstar Select Equity Portfolios



## Our High-Conviction Stock Ideas Seek Companies with Competitive Advantages

Morningstar Select Equity portfolios are a series of focused, Separately Managed Account (SMA) strategies rooted in a valuation-driven investment approach and built for the long term. The structure of an SMA can provide full transparency and greater control through direct ownership of the underlying investments. Customization is also available.<sup>1</sup>

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### Why Invest



#### Focused Selection

At Morningstar Investment Management LLC, we build Select Equity portfolios from the bottom up, seeking to hold what we believe are the most attractive stocks for the long run. Each portfolio is relatively focused, with 20 to 50 holdings.\*

*\*International Equity ADR has 20-70 holdings and U.S. Sustainability Moat Focus has 40-80 holdings.*



#### Investing in Moats

We believe companies with sustainable moats, also known as competitive advantages, should be able to defend or grow their market position over time.<sup>2</sup>



#### High-Quality Companies Trading at Attractive Discounts

As long-term investors, we prefer, and therefore seek, high-quality<sup>3</sup> companies with steady profits, strong free cash flows, and solid balance sheets that trade at attractive discounts to their intrinsic value.

<sup>1</sup> At sector and security level. Customization availability may vary.

<sup>2</sup> The Morningstar Economic Moat Rating is not a credit or risk rating. It is a subjective evaluation performed by the equity research analysts of Morningstar. The Morningstar Economic Moat Rating should not be used as the sole basis in evaluating a security. Morningstar ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

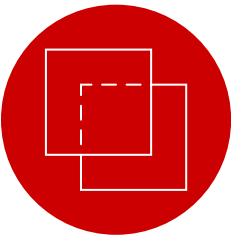
<sup>3</sup> We define "high-quality companies" as those with durable competitive advantages, as measured by the Morningstar Economic Moat Rating, and strong balance sheets.

# Why Separately Managed Accounts?

Like a mutual fund or exchange-traded fund (ETF), SMAs can offer diversification and professional management. However, SMAs give investors more control through direct ownership of the underlying investments.

	Mutual Fund	Exchange-Traded Fund	Separately Managed Account
Portfolio of Investments	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Actively Managed	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Institutional Market Access	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Transparency of Portfolio Transactions		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Opportunity for Portfolio Customization		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Direct Ownership of Underlying Securities			<input checked="" type="checkbox"/>

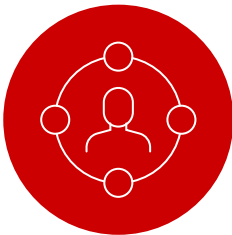
## Key Features of an SMA



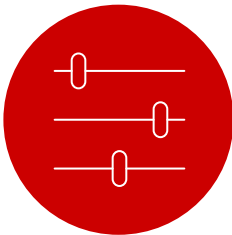
Full  
Transparency



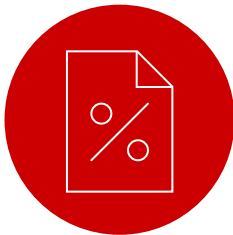
Greater  
Control



Direct  
Ownership



Customization<sup>4</sup>



Tax  
Efficiency<sup>5</sup>

<sup>4</sup> Customizations availability may vary.  
<sup>5</sup> The U.S. Sustainability Moat Focus Portfolio currently does not have tax advantages, and it is best suited for tax-deferred accounts. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances.

## Focused Selection

Our Select Equity portfolios generally consist of stocks from a variety of industries with a range of investment characteristics. We believe our approach of investing in 20 to 50 of our highest-conviction stock ideas, on average, across numerous industries provides sufficient diversification for equity investors.

We do not think it makes sense to invest in our 101st-best idea to pad the portfolio with a bunch of securities to give the illusion of diversification. An inherent feature of our concentrated portfolios is that our portfolio managers can throw the full weight of their conviction behind every stock they purchase and closely monitor the portfolio companies for opportunity.



In a 1968 study, Evans and Archer concluded that a portfolio of 15 randomly chosen stocks would be no riskier than the overall market. As stocks are more volatile than they used to be, a portfolio of 40-50 securities is what is now needed to achieve diversification in the U.S. stock market.<sup>6</sup>

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<sup>6</sup> Hicham Benjelloun, Evans and Archer—forty years later. Investment Management and Financial Innovations, March 2010.

## How We Invest

### Built Upon Morningstar Equity Research

Our investment process leverages Morningstar's Equity Research group, whose independent, global insights of 100+ equity research analysts and quantitative models lay the groundwork for how we analyze investment options.

### Equity Analysts

Morningstar's Equity Analysts apply a consistent, forward-looking, and global methodology that focuses on long-term fundamental valuation, competitive advantages, risk, financial health, and stewardship.

#### Morningstar's Investment Management group<sup>7</sup>



100+

Investment  
Professionals

#### Morningstar's Research group<sup>8</sup>



120+

Analysts

## Our Security Selection Process



### Identify Opportunities

Our portfolio managers select stocks that align with our rigorous standards, leveraging insights from internal Morningstar resources and equity-research teams.<sup>8</sup>



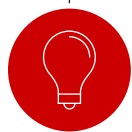
### Analyze

In-depth research on the company and its industry dynamics. We assess the firm's economic moat, financial health, and stewardship, which allows us to estimate a stock's intrinsic value.



### Validate Thesis

Our portfolio managers debate and document the investment opportunities and risks as well as the valuation assessment of each stock.



### Peer Review

Vet the company with the Morningstar Select Equity Team to help ensure the investment idea aligns with the portfolio's objectives and parameters. We select our highest-conviction stock ideas for our concentrated portfolios.

<sup>7</sup> Morningstar's Investment Management group includes Morningstar Investment Management LLC, a registered investment adviser and subsidiary of Morningstar, Inc., and Morningstar Investment Services LLC, a registered investment adviser and subsidiary Morningstar Investment Management LLC. Globally, other affiliates or subsidiaries of Morningstar, Inc. can provide consulting or investment advisory services in Europe, Africa, Asia, and Australia. Data as of December 31, 2023.

<sup>8</sup> Investment research is produced and issued by subsidiaries of Morningstar, Inc. including, but not limited to, Morningstar Research Services LLC, registered with and governed by the U.S. Securities and Exchange Commission. Data as of December 31, 2023.

## Quality Companies

We prefer, and therefore seek, what we believe to be high-quality companies that have sustainable competitive advantages. Businesses are constantly evolving and adapting as attractive profit pools are pursued by both existing competitors and new entrants. Therefore, we focus on investing in quality companies with competitive advantages we believe have the potential fend off such competition. Valuation is also important, so we invest in companies we deem to trade at discounts to our estimate of intrinsic value.

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### What are Quality Companies?

#### **Durable Competitive Advantages**

Signals the company has the potential to outlast the competition for the long-term.

#### **Steady Profits Over Market Cycles**

Indicates the success a company has had over time.

#### **Strong Cash Flow Generation**

Signals the financial strength and liquidity of the company.

#### **Solid Balance Sheets**

Illustrates the financial health of the business. We typically focus only on investment-grade rated companies.

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### Valuation-Driven Investments

Our experienced portfolio managers ask themselves two questions about every stock they consider:

1. Is this a business we would like to own?
2. How much would we pay for this business?

This fundamental methodology guides our valuation-driven approach to investing and results in powerful analysis and our high convictions for every stock we buy.

## Economic Moat

The Morningstar Economic Moat Rating represents a company's sustainable competitive advantage. We believe a company with an economic moat can fend off competition and has the potential to earn return on capital for many years to come.



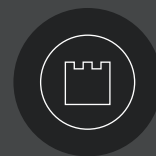
### Wide Moat Rating

A company whose competitive advantages Morningstar expects to last more than 20 years.



### Narrow Moat Rating

A company whose competitive advantages Morningstar expects to last more than 10 years.



### No Moat Rating

A firm with either no advantage or one that Morningstar thinks will quickly dissipate.

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## Morningstar has Identified Five Sources of Moat



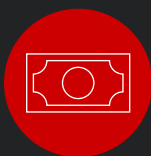
**Switching costs** are obstacles that keep customers from changing from one product to another.



**Network effect** occurs when the value of a good or service increases for both new and existing users as more people use that good or service.



**Intangible assets** are things such as patents, government licenses, and brand identity that help to keep competitors at bay.



**Cost advantage** helps a company produce goods or services at a lower cost, allowing them to undercut their competitors or achieve higher profitability.



**Efficient scale** benefits companies operating in a market that only supports one or a few competitors, limiting rivalry.

## Select Equity Portfolio Snapshots

### Morningstar All-Cap Equity Portfolio

Seeks Undervalued Stocks Across the Entire Market Spectrum

Seeks undervalued stocks across the entire market spectrum and may invest in select common stocks and American Depositary Receipts (ADRs).

Inception	November 7, 2007
Style	All-Cap
Benchmark	Morningstar U.S. Market Index
Minimum Investment	See Back Page*
Number of Holdings	20–50

VALUE	BLEND	GROWTH	
			LARGE
			MID
			SMALL

### Morningstar Dividend Portfolio

Seeks Companies with Established Moats and Strong Competitive Positions

Takes a concentrated, best-ideas approach when investing in select common stocks of dividend-paying companies and other securities. Seekings firms with wide or narrow moats that we believe are in a stronger competitive position than their peers and that are trading at a reasonable price.

Inception	November 17, 2008
Style	Large-Cap Value
Benchmark	Morningstar U.S. Value Index
Minimum Investment	See Back Page*
Number of Holdings	20–50

VALUE	BLEND	GROWTH	
			LARGE
			MID
			SMALL

### Morningstar Hare Portfolio

Seeks Exposure to Fast-Growing Companies with Expanding Moats

Invests in common stocks and other securities focusing on companies with strong and growing competitive advantages, as measured by their Morningstar Economic Moat Rating. Using “growth at a reasonable price” and seeking companies with aboveaverage earnings-per-share.

Inception	November 17, 2008
Style	Large-Cap Growth
Benchmark	Morningstar U.S. Target Market Exposure Index
Minimum Investment	See Back Page*
Number of Holdings	20–50

VALUE	BLEND	GROWTH	
			LARGE
			MID
			SMALL

### Morningstar International Equity ADR Portfolio

Seeks Exposure to Undervalued Stocks Outside the United States

Typically invests in non-U.S. companies, measured by domicile or revenue exposure and may also invest in foreign companies that have listed their shares on an U.S. exchange, and occasionally use exchange-traded funds (ETFs).

Inception	November 7, 2007
Style	Large-Cap Value
Benchmark	Morningstar Global ex-U.S. Index
Minimum Investment	See Back Page*
Number of Holdings	20–70

VALUE	BLEND	GROWTH	
			LARGE
			MID
			SMALL

## Morningstar Small/Mid-Cap Equity Portfolios

Seeks to Invest in Undervalued Small and Mid-Sized Firms

Seeks to buy shares of companies at a discount to our estimate of their intrinsic value, including those we believe to be undervalued firms with competitive niches and, selectively, further discounted shares of lesserquality<sup>9</sup> businesses.

Inception	November 7, 2007
Style	Small-Mid Cap
Benchmark	Morningstar U.S. Small-Mid Cap Index
Minimum Investment	See Back Page*
Number of Holdings	20–50

VALUE	BLEND	GROWTH	
			LARGE
			MID
			SMALL

## Morningstar Tortoise Portfolio

Seeks to Invest in High-Quality Companies at a Discount

Invests in stocks and other securities of undervalued companies that possess what we believe to be durable competitive advantages, as measured by their Morningstar Economic Moat Rating, and strong balance sheets.



Inception	November 17, 2008
Style	Large-Cap Core
Benchmark	Morningstar U.S. Target Market Exposure Index
Minimum Investment	See Back Page*
Number of Holdings	20–50

VALUE	BLEND	GROWTH	
			LARGE
			MID
			SMALL

## Morningstar U.S. Sustainability Moat Focus Portfolio

ESG-focused Companies with Competitive Advantages

Seeks to invest in companies with moderate to low ESG risk and long-term competitive advantages that are undervalued within an equity-focused Separately Managed Account.

Inception	March 31, 2021
Minimum Investment	See Back Page*
Index	Morningstar U.S. Sustainability Moat Focus Index
Sustainability Rating	 <sup>10</sup>
Moat Ratings	

VALUE	BLEND	GROWTH	
			LARGE
			MID
			SMALL

<sup>9</sup> We define "lesser-quality" as companies with limited or no competitive advantages (as measured by their Morningstar Economic Moat Rating) and/or weaker balance sheets.

<sup>10</sup> Data as of December 31, 2023. The Morningstar Sustainability Rating™ is intended to measure how well the issuing companies of the securities within a fund's portfolio holdings are managing their environmental, social, and governance, or ESG, risks and opportunities relative to the fund's Morningstar Category peers. The Morningstar Sustainability Rating™ is depicted by globe icons ranging from low (1 globe) to high (5 globes).

Our Select Equity Portfolios are designed to put investors needs front and center—where they belong. To select a portfolio, talk to a trusted financial advisor, who can help build a wealth strategy focused on long-term goals.



# Disclosures

\* Varies by firm, platform, and/or portfolio. Please see back for additional information.

## Important Information

Morningstar Wealth is made available through Morningstar's Investment Management Group and includes such products as: (i) the Morningstar Wealth Platform; (ii) Morningstar Office<sup>SM</sup>, Morningstar's RIA portfolio software service; (iii) Morningstar<sup>®</sup> ByAllAccounts<sup>®</sup>, Morningstar's investment data aggregation service; and (iv) Morningstar.com<sup>®</sup>, Morningstar's individual investor site offering.

Morningstar's Investment Management Group consists of certain Morningstar subsidiaries that are authorized in the jurisdictions in which they operate to provide investment management and advisory services. In the United States, these subsidiaries are Morningstar Investment Management LLC and Morningstar Investment Services, LLC.

Morningstar Wealth Platform is an advisory platform offered by Morningstar Investment Services LLC, a registered investment adviser and subsidiary of Morningstar Investment Management LLC. Through the Morningstar Wealth Platform, Morningstar Investment Services offers model portfolios and separately managed accounts ("SMA") which include proprietary managed portfolios ("Morningstar Portfolios"), third-party asset manager portfolios where a third-party asset manager acts as a non-discretionary model provider ("Model Provider") in which Morningstar Investment Services has discretion, and third-party asset manager portfolios where third-party asset manager acts as a discretionary asset manager ("Sub-Adviser"). The Morningstar Wealth Platform is intended for citizens or legal residents of the United States or its territories and can only be offered by a registered investment adviser or investment adviser representative.

## Morningstar Portfolios

Portfolio construction and on-going monitoring and maintenance of the Morningstar Portfolios within the Morningstar Wealth Platform is provided on Morningstar Investment Services behalf by Morningstar Investment Management LLC.

All investments involve risk, including the loss of principal. There can be no assurance that any financial strategy will be successful. 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.

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

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

Individual index performance is provided as a reference only. Each index is unmanaged and is not available for direct investment. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although Index performance data is gathered from reliable sources, Morningstar Investment Management cannot guarantee its accuracy, completeness, or reliability.

The opinions expressed herein are those of Morningstar Investment Management, are as of the date written and are subject to change without notice, do not constitute investment advice and are provided solely for informational purposes. Neither Morningstar Investment Management nor Morningstar Investment Services shall be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information data, analyses or opinions or their use. All investments involve risk, including the loss of principal. There can be no assurance that any financial strategy will be successful. Morningstar Investment Management and Morningstar Investment Services do not guarantee that the results of their advice, recommendations, or objectives of a strategy will be achieved. Neither diversification nor asset allocation ensure a profit or guarantee against a loss.

## Morningstar Equity Style Box

The Morningstar Equity Style Box reveals a portfolio's investment strategy. The vertical axis shows the market capitalization of the long stocks owned, and the horizontal axis shows the investment style (value, blend, or growth). A darkened square in the style box indicates the weighted average style of the portfolio.

## Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

## Sustainalytics

Sustainalytics is an environmental, social, and governance and corporate governance research, ratings, and analysis firm. Morningstar, Inc. acquired Sustainalytics in 2020. Sustainalytics provides ESG risk scores on companies and tracks and categorizes ESG-related controversial incidents on companies. Morningstar uses Sustainalytics' company level ESG analytics to calculate ratings for managed products and indexes using Morningstar's portfolio holdings database.

## Morningstar Sustainability Rating<sup>TM</sup>

Morningstar Sustainability Rating<sup>TM</sup> is intended to measure how well the issuing companies of the securities within a fund's portfolio holdings are managing their financially material environmental, social, and governance, or ESG, risks relative to the fund's Morningstar Global Category peers.

The Morningstar Sustainability Rating<sup>TM</sup> calculation is a five-step process.

First, each fund with at least 67% of assets covered by a company-level ESG Risk Score from Sustainalytics receives a Morningstar Portfolio Sustainability core. The Morningstar Portfolio Sustainability Score is an asset-weighted average of company-level ESG Risk Scores. The Portfolio Sustainability Score ranges between 0 to 100, with a higher score indicating that a fund has, on average, more of its assets invested in companies with high ESG Risk.

Second, the Historical Sustainability Score is an exponential weighted moving average of the Portfolio Sustainability Scores over the past 12 months. The process rescales the current Portfolio Sustainability Score to reflect the consistency of the scores. The Historical Sustainability Score ranges between 0 to 100, with a higher score indicating that a fund has, on average, more of its assets invested in companies with high ESG Risk, on a consistent historical basis.

Third, the Morningstar Sustainability Rating<sup>TM</sup> is then assigned to all scored funds within Morningstar Global Categories in which at least 30 funds receive a Historical Sustainability Score and is determined by each fund's Morningstar Sustainability Rating<sup>TM</sup> Score rank within the following distribution:

- High (highest 10%)
- Above Average (next 22.5%)
- Average (next 35%)
- Below Average (next 22.5%) and
- Low (lowest 10%)

Fourth, we apply a 1% rating buffer from the previous month to increase rating stability. This means a fund must move 1% beyond the rating breakpoint to change ratings.

Fifth, we adjust downward positive Sustainability Ratings to funds with a with high ESG Risk scores. The logic is as follows:

- If Portfolio Sustainability score is above 40, then the fund receives a Low Sustainability Rating
- If Portfolio Sustainability score is above 35 and preliminary rating is Average or better, then the fund is downgraded to Below Average
- If Portfolio Sustainability score is above 30 and preliminary rating is Above Average, then the fund is downgraded to Average
- If Portfolio Sustainability score is below 30, then no adjustment is made

The Morningstar Sustainability Rating™ is depicted by globe icons where High equals 5 globes and Low equals 1 globe. Since a Sustainability Rating is assigned to all funds that meet the above criteria, the rating is not limited to funds with explicit sustainable or responsible investment mandates.

Morningstar updates its Sustainability Ratings monthly. The Portfolio Sustainability Score is calculated when Morningstar receives a new portfolio. Then, the Historical Sustainability Score and the Sustainability Rating is calculated one month and six business days after the reported as-of date of the most recent portfolio. As part of the evaluation process, Morningstar uses Sustainability's ESG scores from the same month as the portfolio as-of date.

Please visit <http://corporate1.morningstar.com/SustainableInvesting/> for more detailed information about the Morningstar Sustainability Rating methodology and calculation frequency.

#### About Indexes

The Morningstar® U.S. Sustainability Moat Focus Index is created and maintained by Morningstar, Inc. Morningstar, Inc. does not sponsor, endorse, issue, sell, or promote Morningstar® U.S. Sustainability Moat Portfolio and bears no liability with respect to the ETFs or any security. Morningstar® is a registered trademark of Morningstar, Inc. Morningstar® U.S. Sustainability Moat Focus Index is a service marks of Morningstar, Inc.

The S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 23 Developed Markets (DM) countries, excluding the United States, and 26 Emerging Markets (EM) countries.

The Dow Jones U.S. Select Dividend Index measures the performance of 100 high dividend-paying companies, excluding REITs, that meet specific criteria for dividends, earnings, size, and liquidity.

The Morningstar U.S. Small-Mid Cap Index provides a comprehensive depiction of the performance and fundamental characteristics of the Small-Mid Cap segment of U.S. equity markets.

The Morningstar U.S. Market Index measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index.

## For Additional Information



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