

Morningstar Equity SMA Portfolios



Our High-Conviction Stock Ideas Seek Companies with Competitive Advantages

Morningstar Equity SMA 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 seeks to provide full transparency and greater control through direct ownership of the underlying investments.

Investing Considerations

Focused Selection

At Morningstar Investment Management LLC, we build 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.*

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.¹

High-Quality Companies Trading at Attractive Discounts

As long-term investors, we prefer, and therefore seek, high-quality² companies with steady profits, strong free cash flows, and solid balance sheets that trade at attractive discounts to their intrinsic value.

* International Equity ADR has 20-70 holdings.

¹ 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.

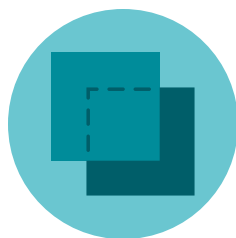
² We define "high-quality companies" as those with durable competitive advantages, as measured by the Morningstar Economic Moat Rating, and strong balance sheets. Customization availability may vary by firm and is subject to home office discretion. Not all strategies or managers will be available for all firms.

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"/>
Direct Ownership of Underlying Securities			<input checked="" type="checkbox"/>

Key Features of an SMA



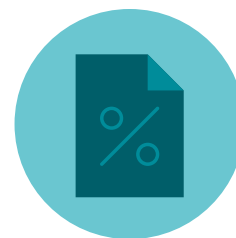
Transparency



Greater Control



Direct Ownership



Tax Efficiency³

³ 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. Hicham Benjelloun, Evans and Archer—forty years later. Investment Management and Financial Innovations, March 2010.

Focused Selection

Our 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.

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 group⁴

90+

Investment Professionals

Morningstar's
Research group⁵

130+

Analysts

⁴ 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 June 30, 2024.

⁵ 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 June 30, 2024.



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.⁵

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 Equity Strategy 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.

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.⁶

⁶ Hicham Benjelloun, Evans and Archer—forty years later. *Investment Management and Financial Innovations*, March 2010.

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.

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.

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

An economic moat is a durable competitive advantage that allows a firm to keep competitors at bay and generate economic profits over an extended period. To help investors identify companies that possess an economic moat, Morningstar's equity research team assigns one of three economic moat ratings: "wide," "narrow," or "none."



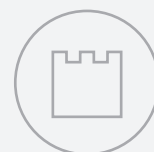
Wide Moat Rating

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.

Identified Five Sources of Moats



Network Effect

Present when the value of a network increases for new and existing users as the network grows



Cost Advantage

Allows a firm to sell at the same price as competition but still enjoy economic profits thanks to lower unit costs of production



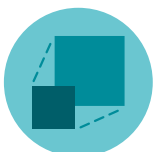
Intangible Assets

Brands, patents, and regulatory licenses that block competition and/or convey meaningful pricing power



Switching Costs

Whether in time or money, the expenses that a customer would incur to change from one producer/ provider to another



Efficient Scale

When a company operates in a small market with high entry costs, new competitors are discouraged from entering because it would drive returns below the cost of capital for everyone

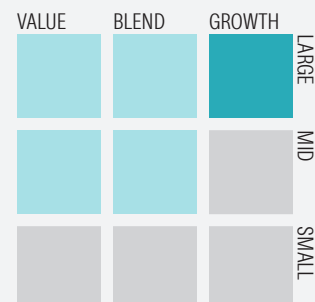
Equity SMA Portfolio Snapshots

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 US Market Index
Investment Minimum*	See Below
Number of Holdings	20-50

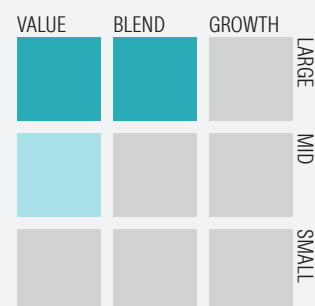


Morningstar Dividend Portfolio

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. Seeks 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 US Value Index
Investment Minimum*	See Below
Number of Holdings	20-50

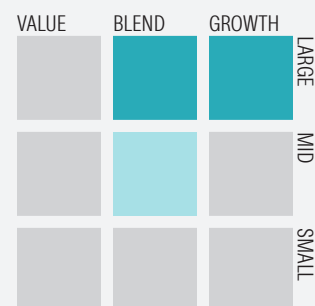


Morningstar Hare Portfolio

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 above average earnings-per-share.

Inception	November 17, 2008
Style	Large-Cap Growth
Benchmark	Morningstar US Target Market Exposure Index
Investment Minimum*	See Below
Number of Holdings	20-50



Our 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.

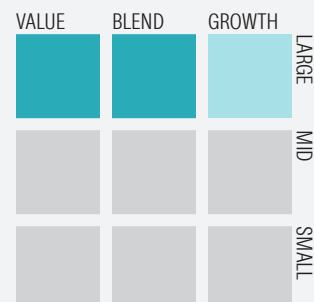
* Varies by firm, subject to home office discretion. Not all strategies or managers will be available for all firms.

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 Markets ex-US Index
Investment Minimum*	See Below
Number of Holdings	20-70

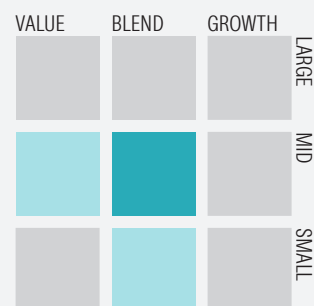


Morningstar Small/Mid-Cap Equity Portfolios

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 lesser-quality⁷ businesses.

Inception	November 7, 2007
Style	Small-Mid Cap
Benchmark	Morningstar US Small-Mid Cap Index
Investment Minimum*	See Below
Number of Holdings	20-50

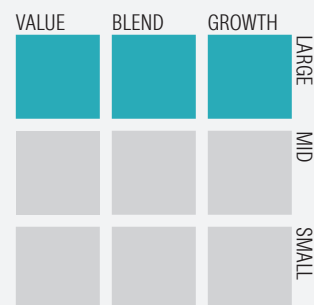


Morningstar Tortoise Portfolio

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 US Target Market Exposure Index
Investment Minimum*	See Below
Number of Holdings	20-50



* Varies by firm, subject to home office discretion. Not all strategies or managers will be available for all firms.

For General Public Use.

Important Information

Morningstar Wealth includes: (i) investment product delivery (ii) Morningstar Funds Trust, (iii) Morningstar OfficeSM, Morningstar's RIA portfolio software service; (iv) Morningstar[®] ByAllAccounts[®], Morningstar's investment data aggregation service; and (v) Morningstar.com[®], Morningstar's individual investor site offering.

Advisory services under Morningstar Wealth are offered by Morningstar Investment Management LLC, a registered investment adviser and subsidiary of Morningstar, Inc.

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 ("ROIC") over and above our estimate of a firm's Cost of Capital ("COC"), or Weighted Average Cost of Capital ("WACC"). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats including: 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 do not 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™

Morningstar Sustainability Rating™ 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™ 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™ 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™ Score rank within the following distribution:

- High (Highest 10%)
- Above Average (Next 22.5%)
- Average (Next 35%)
- Below Average (Next 22.5%)
- 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 the Portfolio Sustainability score is above 40, then the fund receives a Low Sustainability Rating
- If the Portfolio Sustainability score is above 35 and preliminary rating is Average or better, then the fund is downgraded to Below Average
- If the Portfolio Sustainability score is above 30 and preliminary rating is Above Average, then the fund is downgraded to Average
- If the 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 it 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 Sustainalytics' 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 Morningstar Indexes

The Morningstar US Market Index measures the performance of large-, mid- and small-cap stocks in the U.S., representing the top 97% of the investable universe by market capitalization.

The Morningstar US Value Index is designed to provide consistent representation of the value segment of the US equity market, with no overlapping constituents across styles. Aligned with the Morningstar Style Box™, the index is underpinned by a 10-factor model that paints a holistic picture of style.

The Morningstar US Target Market Exposure Index measures the performance of large- and mid-cap stocks in the U.S., representing the top 85% of the investable universe by float-adjusted market capitalization.

The Morningstar Global Markets ex-US Index measures the performance of large-, mid- and small-cap stocks in in developed and emerging markets outside of the U.S., representing the top 97% of the investable universe by market capitalization.


The Morningstar US Small-Mid Cap Index measures the performance of small- and mid-cap stocks in the U.S. It targets securities that fall between the 70% and 97% market cap thresholds of the investable universe.

The Morningstar US Sustainability Moat Focus Index is designed to provide exposure to companies in the Morningstar US Market Index with low-to-medium ESG risk and Morningstar® Economic Moat™ Ratings of wide or narrow trading at the lowest current market price/fair value ratios. Moat ratings and fair value estimates are determined through independent research conducted by the Morningstar Equity Research team.

For Additional Information

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