

Morningstar® Managed PortfoliosSM Select Stock Baskets

Program Sponsor

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Stock investing has never been simple. With thousands of stocks to choose from, getting started can be a daunting task. Plus, it can be hard just to figure out which stocks suit your client’s objectives and circumstances. And that’s to say nothing of other vexing questions, like how to construct a portfolio that’s adequately diversified, when to sell a stock, and how to ensure that the portfolio remains tax-efficient.

Morningstar® Managed PortfoliosSM Select Stock Baskets greatly simplifies this process. Combining Morningstar, Inc.’s insightful, objective stock analysis with Morningstar Investment Services’ portfolio management expertise, Select Stock Baskets puts sophisticated research within your reach. What’s more, since we custom-tailor each Stock Basket account to a client’s specifications, the portfolio reflects a client’s particular goals and circumstances.

Putting Clients First

Unlike separate account programs that take a one-size-fits-all approach, Select Stock Baskets revolves around a client’s individual needs. For instance, we tailor Select Stock Baskets to suit each client’s investment objective and risk tolerance. In addition, clients can manicure their Select Stock Baskets’ portfolio to exclude certain sectors, industries, or even individual stocks. Since all customization takes place at the individual account level, rather than in an all-encompassing model portfolio, Select Stock Baskets puts a distinctively tight focus on the client.

Bending Over Backwards

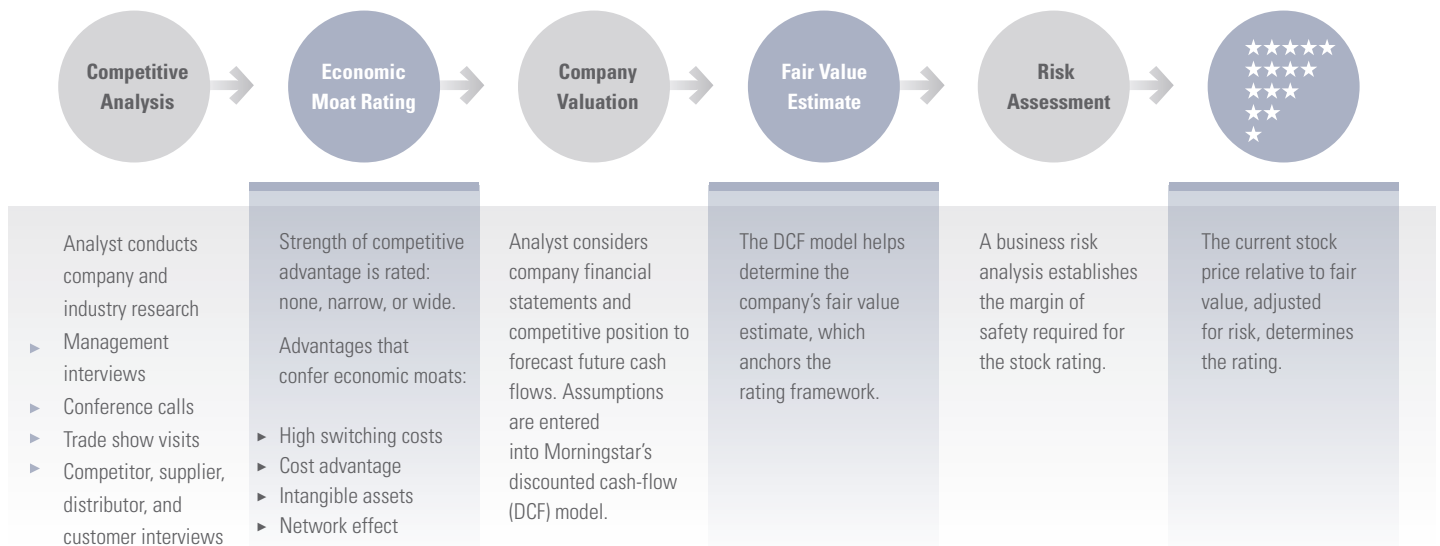
Perhaps a client already owns stocks. Select Stock Baskets is flexible enough to incorporate such investments in an orderly, tax-efficient fashion. For instance, a client can transfer investments in-kind and stipulate the way we manage those positions going forward. Select Stock Baskets can also be useful in facilitating the management of a client’s exposure to a single stock. Clients can specify, for example, the period over which we should liquidate a particular investment.

Keeping the Taxman at Bay

The Select Stock Basket tax-management process is continuous, sophisticated, and tailored to a client’s particular tax circumstances. In contrast to some programs that relegate tax-management to the waning days of a given tax year, we evaluate each Select Stock Baskets account for tax-optimization on a daily basis. Using this proactive approach, we can better identify opportunities to harvest losses, while also calibrating the tax consequences of ongoing portfolio management decisions. We pay due attention to the client’s marginal tax rate as well as investments that present unique tax issues, such as master-limited partnerships.

Putting 100 Analysts on the Case

Select Stock Baskets taps into the insights provided by Morningstar, Inc.’s 100-plus analysts, who follow more than 2,000 stocks spanning virtually all industries



Morningstar Managed Portfolios Select Stock Baskets Custom Series

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.'s analysts conduct extensive research on industry dynamics, a firm's competitive position, and the durability of any advantages that the business might boast, all in an effort to estimate a firm's intrinsic worth per share. After factoring in a business' risk, the analysts evaluate a stock's fundamental attractiveness by comparing its price to their estimate of its fair value per share.

Investing with Conviction

In our opinion, you can't beat the benchmark if you're hugging it. Accordingly, in constructing each Stock Basket portfolio, we follow a "best ideas" approach, flowing to the most compelling investing opportunities, wherever they happen to reside. Thus, the typical Stock Basket portfolio's sector weights bear scant resemblance to those of the broader market. What's more, we keep each Stock Basket portfolio relatively compact, with 25 to 40 holdings being the norm. In that way, we can throw the full weight of our conviction behind each stock that we purchase.

A Range of Options

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

Custom Series—Portfolios that cover broad swaths of the U.S. and foreign stock markets.

- ▶ Global Equity—U.S. and foreign stocks (ADRs only); 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 (ADRs Only)—Large-, mid- and small-cap foreign stocks

Strategist Series—Portfolios modeled after the "Tortoise," "Hare," and "Dividend" strategies featured in Morningstar Inc.'s popular StockInvestor and DividendInvestor newsletters.

- ▶ Tortoise—Invests in the stocks of relatively stable, high-quality businesses that are typically 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.
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Partnering With Financial Advisors

We manage Select Stock Baskets in concert with financial advisors. We construct and manage each Stock Baskets account to achieve the optimal balance of risk and reward, while remaining mindful of the tax and cost implications of trades. We also manage the account to effect any investment strategy changes, monitor cash balances and funding activity, and rebalance positions to ensure ongoing compliance with the client's objectives and other criteria. Advisors are able to evaluate progress, assess suitability and consistency of the investment process, and communicate any changes in their client's goals or circumstances that may affect the portfolio.

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.