

Morningstar® Managed PortfoliosSM

Select Stock Baskets Strategist Series

Program Sponsor

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Stock investing has never been simple. With thousands of names to choose from, figuring out which stocks suit a client’s goals, constructing a portfolio that’s adequately diversified, and deciding when to sell can be very challenging.

The Strategist Series of Morningstar Managed Portfolios Select Stock Baskets greatly simplifies matters. The Strategist Series consists of three Stock Basket portfolios—the “Tortoise”, “Hare”, and “Dividend”—that are patterned after successful portfolios of the same name featured in Morningstar, Inc.’s popular Morningstar StockInvestor and Morningstar DividendInvestor newsletters.

These strategies combine the judgment and insight of Morningstar Inc. strategists Paul Larson (who runs the Tortoise and Hare newsletter portfolios) and Josh Peters (who runs the Dividend newsletter portfolio) with Morningstar Investment Services’ portfolio management expertise. In so doing, they put sophisticated research and portfolio management well within your reach.

A Proven Record

The Tortoise, Hare, and Dividend newsletter portfolios have been standout performers over the short- and long-term. For instance, as of October 2008, all three portfolios had handily topped the S&P 500 Index over the trailing one-, three-, and (in the case of the Tortoise and Hare) five-year periods. Though the Strategist Series’ portfolios are distinct from the newsletter portfolios, they’ll follow

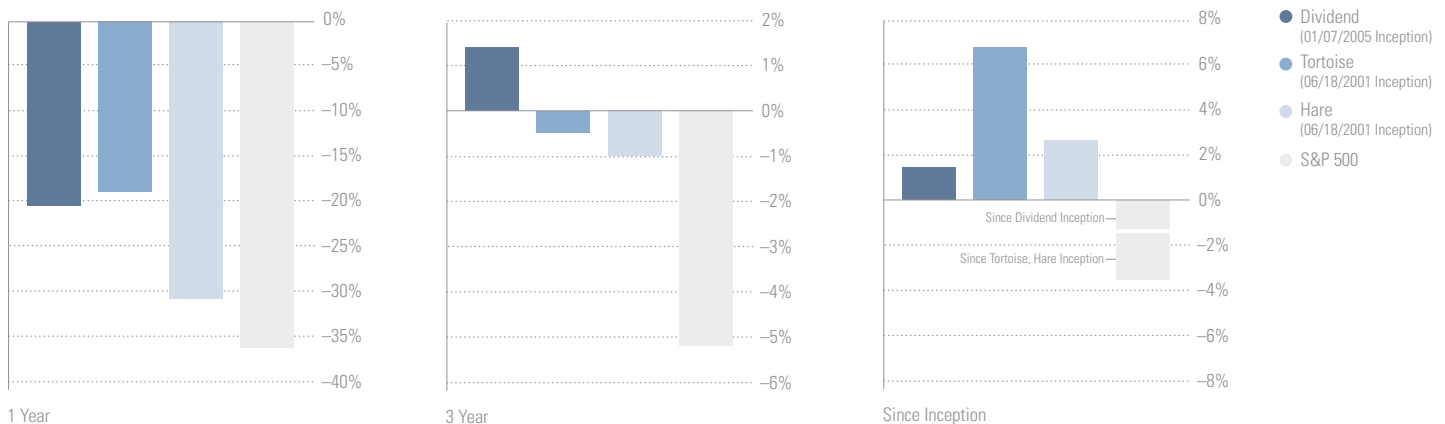
the same basic tack by investing in many of the same names that the newsletter portfolios hold. Thus, clients can invest into an approach that has stood the test of time.

A Prudent, Rigorous Approach

Our Tortoise, Hare, and Dividend strategies share a com-mon 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 invest-ment represents an ownership interest in a business. Accord-ingly, 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?”

As with all our Select Stock Basket portfolios, the portfolios in the Strategist Series harness Morningstar Inc.’s comprehensive, in-depth equity research. When picking stocks for the newsletter portfolios (upon which the Strategist Series is based), Paul and Josh are tapping into research on more than 2,000 stocks spanning virtually all industries and numerous geographic locales. Morningstar Inc.’s analysts 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.

Dividend, Tortoise, and Hare Portfolio Performance vs. the S&P 500



The S&P Index is unmanaged and cannot be invested in directly. The model portfolios noted are those managed by Morningstar, Inc. Such portfolios seeded by cannot be invested in directly. Morningstar Investment Services manages a Select Stock Basket Strategist Series that is based on those portfolios. The performance of the portfolios does not include program fees. If such fees were included, the performance would be lower, and in some cases, significantly lower. Past performance does not guarantee future results.

Morningstar Managed Portfolios Select Stock Baskets Strategist Series

A Strategy to Suit Your Client

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 typically 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. Examples include Berkshire Hathaway and diversified healthcare giant Novartis.
- ▶ 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. Examples of recent holdings in the Hare newsletter portfolio include Amgen, eBay, Western Union, and Mastercard.
- ▶ 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, Dividend newsletter holdings hail 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. Recent examples include Abbott Laboratories, Diageo, and Kinder Morgan Energy.

A Flexible Solution

Clients can manicure their accounts to exclude certain sectors, industries, or even individual stocks. For instance, if your client is a dividend enthusiast, but prefers not to own the stocks of energy-related firms in the Dividend

strategy, you could customize the account to omit such names. Since all customization takes place at the individual account level, rather than in an all-encompassing model portfolio, Select Stock Baskets put a distinctively tight focus on the client.

A Partnership 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.