

Investment Management Process

Our Investment
Philosophy

We invest for the long-term

Our goal is to maximize returns by tuning out the short-term noises that distract many investors. This approach requires patience and a disciplined commitment to a high level of fundamental analysis at the time we first make an investment and for as long as we own that investment.

We are independent thinkers

While it is easy to follow the crowd, it is rare to outperform it by chasing trends. Therefore, we avoid jumping on the latest bandwagon and confidently take positions outside of the mainstream.

We employ a disciplined, consistent investment process

Our decisions are based on our objective assessment of an investment's merits based on thorough quantitative analysis. We marry this research with a qualitative overlay designed to provide investors with portfolios that are appropriate for their individual goals and risk tolerances.

We believe in active management

Outperforming passive index funds is no easy task and the vast majority of money managers fail to do so. We believe our discipline puts us in a select minority with the capacity to outperform over long-term periods with an active approach.

We are sensitive to costs and taxes

We understand the importance of costs and taxes and evaluate their impact across our strategies. For instance, when it comes to selecting individual funds, we not only pay attention to published expense ratios, but we also strive to understand the impact of hidden costs, such as those associated with day-to-day trading activity. On the tax front, our preference for lower-turnover strategies ensures a better after-tax outcome for investors.

We invest our clients' money as if it were our own

We only offer an investment strategy when we have a high level of conviction in its ability to add long-term value for clients. We will never offer a strategy because it is a good marketing idea; we are committed to only offering best-in-class investment strategies that embody the way we think and practice investment management.

We communicate in a timely and candid fashion

It is our belief that we must provide commentary on our portfolios in a consistent, easy-to-understand manner. We also provide full and fair disclosure about our investment strategies and the factors driving our positioning and performance.

Mutual Fund Portfolios Morningstar Managed Plan Solutions provides all the benefits of a sophisticated investment service—objective and independent research, strategic asset allocation, access to an extensive universe of mutual funds, and proactive portfolio management that responds to market trends and changing risk—but with a straightforward approach that makes sense. The investment process at Morningstar Managed Plan Solutions consists of:

- ▶ setting a strategic asset allocation target that serves as the benchmark for portfolio construction and performance evaluation,
- ▶ determining how we want the portfolios tactically positioned relative to their benchmarks,
- ▶ selecting underlying securities,
- ▶ rebalancing accounts to maintain a certain risk profile, and
- ▶ making adjustments to the portfolios based on the market climate or for fund-specific reasons.

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- Qualitative Analysis
- ▶ Screens to identify investments
 - ▶ Proprietary rating system
 - ▶ Monitor style consistency
 - ▶ Monitor risk factors
 - ▶ Performance attribution

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- Portfolio Construction
- ▶ Risk profile relative to benchmark
 - ▶ Funds fit with portfolio’s risk profile and portfolio reflects desired investment bias
 - ▶ Diversify and eliminate blind spots

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- Qualitative Due Diligence
- ▶ Interview managers and analysts
 - ▶ On-site visits
 - ▶ Study SEC filings and shareholder reports
 - ▶ Subjective assessment guided by the principle of putting the client’s interests first

Strategic Asset Allocation

Strategic asset allocation represents the building blocks of the portfolios. For Morningstar Managed Plan Solutions this represents the combination of asset classes (stocks, bonds, cash, real estate, alternatives, etc.) that we think results in a more efficient portfolio based on our analysis of expected returns, volatility and correlations of major asset classes over a long-term investment horizon. The strategic asset allocation serves as our benchmark for portfolio construction and performance evaluation. While we don't often make changes to the benchmark weightings, we also don't just set it and forget it. We periodically review our strategic asset allocation based on our assessment of the long-term risk-reward profiles of various asset classes.

Example: Strategic Asset Allocation



Mutual Fund Portfolios Tax-Deferred Strategies	Conservative %	Income and Growth %	Moderate Growth %	Growth %	Aggressive Growth %
● Domestic Large Cap Equity	14.06	24.30	31.50	37.69	44.85
● Domestic Mid Cap Equity	3.56	6.75	9.00	11.81	14.49
● Domestic Small Cap Equity	1.13	2.70	4.50	6.75	9.66
● Foreign Equity	6.25	11.25	15.00	18.75	23.00
● Real Estate	3.00	3.00	3.00	4.00	5.00
● Fixed Income Bonds	51.00	33.00	25.00	12.00	0.00
● High-Yield Bonds	4.00	4.00	5.00	3.00	0.00
● Real Return	12.00	10.00	4.00	3.00	0.00
● Short-Term Reserves	5.00	5.00	3.00	3.00	3.00
Total Equity ex REIT	25.00	45.00	60.00	75.00	92.00

For illustrative purposes only. Weightings are as of June 30, 2008 and subject to change at anytime.

Tactical Asset Allocation

Tactical asset allocation represents weightings that differ from the strategic mix and is used to take advantage of opportunities in the market or defend against risks. Our tactical asset allocation decisions are based on the investment team's analysis of the macroeconomic environment, outlook for various asset classes, and valuation analysis. Generally speaking, we will allocate assets toward asset classes and/or investment styles that appear to be more attractively valued on a relative basis.

For example, if we think stocks are attractively valued relative to the other asset classes, we will over-weight equity and under-weight fixed income or cash. We could also have an opinion regarding the outlook of segments of the equity market that could lead to under- or over-weighting large cap stocks versus small cap stocks or growth versus value.

Fund Selection	Our fund evaluation process is guided by our proprietary fund rating system which combines quantitative analysis with a qualitative assessment of a fund’s management team and investment process. The rating represents our overall level of conviction in a fund based on various factors that we believe are important in determining which funds have the best chance of delivering above-average risk-adjusted performance in the future. These factors include the following:
Process	We strive to identify managers who employ a disciplined and prudent investment process that has proven to be successful and which they have executed in a consistent fashion. We favor attributes such as insightful security analysis, a robust valuation discipline, and sound risk management and portfolio construction.
People	We judge the depth and capabilities of members of the investment team and stability of the organization. We also place considerable emphasis on stewardship by favoring funds where the team has shown the tendency to act in the best interests of shareholders and where the portfolio managers have their incentives aligned with fund shareholders.
Performance	We strive to identify funds that have shown the ability to deliver solid risk-adjusted performance over time. We evaluate performance over various time periods. We favor managers who have added value over an appropriate benchmark or peer group in a consistent manner.
Capacity	We consider whether the investment strategy that a team runs is constrained by size, and if so, what steps the team has taken to address the issue. All else being equal, funds with small assets bases can be more flexible in their approach, while funds that get too big often have a more difficult time adding value.
Expenses	Research indicates that expenses are one of the most important factors in predicting mutual fund performance. While a lower expense ratio is always better, we put expenses into the proper context and consider other factors such as the fund’s size and trend in expenses.
Portfolio Construction	Our fund selection process is then combined with our portfolio management expertise to construct the portfolios. After we identify attractive funds, we determine which strategies they are best suited for and how they fit with other funds in the portfolio. The goal is to create portfolios that are diversified across funds that work well together and are consistent with the risk profile of the strategy.

Sell Discipline

Generally speaking, changes to our portfolio holdings can be made for several specific reasons. The main impetus to sell a position is if we lose conviction in the fund's management due to fundamental concerns or performance issues. We evaluate performance over multiple time periods and examine various statistics to determine if a fund is consistently adding value relative to an appropriate benchmark. We become concerned, and may ultimately choose to replace a fund, when we notice deterioration in these measures over rolling long-term time periods or if a fund is not delivering results that meet our expectations given the market environment and its investment strategy.

Fundamental concerns may also cause us to lose confidence in the fund's ability to deliver above average risk-adjusted returns in the future. Examples of fundamental issues include the departure of a key member of the management team, organizational instability, a shift in investment strategy, concerns regarding the fund's size, and unfair treatment of fund shareholders.

At times, we will continue to have high conviction in a management team, but will replace a fund for portfolio construction reasons. Simply put, a fund may no longer be a good fit for a particular portfolio. For instance, we may want to adjust our exposure to a certain asset class or segment of the market, and consequently, that would require us to alter individual fund positions in order to meet our objectives.

Risk Management

We have processes and risk controls in place at multiple levels of the investment process to ensure that our portfolios are invested in a manner consistent with their risk and return objectives. At the portfolio level, we manage each portfolio against its strategic blended benchmark, which acts as its neutral allocation and is used as the basis for its risk and return objectives.

We also manage risk at the individual fund level. Each fund is assigned a target position and a "deviation threshold," which governs the degree to which a fund may sway from its target before triggering a rebalance.

In addition, we closely monitor the characteristics of each underlying fund holding to ensure that its risk profile is consistent with our expectations and its role in the portfolio. We monitor various metrics on a regular basis, including beta, standard deviation, downside deviation, maximum drawdown, and downside capture to assess a fund's risk potential.