

Morningstar® Managed PortfoliosSM Exchange-Traded Funds

Program Sponsor

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Due to their low-cost, transparency, and flexibility, exchange-traded funds (ETFs) have dramatically altered the investing landscape. With a single ETF trade, investors can access broad swaths of the market or target narrow segments. And given ETFs’ paltry stated expenses and inherent tax efficiency, in our opinion these funds are very well suited to portfolio construction.

Morningstar Managed ETF Portfolios puts this investment potential within investors’ reach. Comprised entirely of ETFs, each ETF portfolio confers the benefits of a sophisticated investment solution—disciplined asset allocation, objective research, access to a wide array of ETFs, and proactive portfolio management.

Sophisticated Portfolio Construction

We offer a suite of managed ETF portfolios to suit a variety of investor needs. Each of these portfolios follows a distinct strategic asset allocation, which dictates the mix of stocks, bonds, and other asset classes. These variations allow us to target specified risk/reward profiles.

We think that our approach to asset allocation stands apart in a few ways. For one, we’re able to draw upon the work of our affiliate, Ibbotson Associates, a leading authority on asset allocation research. Ibbotson’s analysis forms the basis for the strategic asset allocation that we use in each asset allocation portfolio.

We also take a disciplined approach. Ibbotson’s forecasts are rooted in thorough analysis of long-term historical performance and relationships between asset classes. This should better ensure that the risk/reward profile of each asset allocation suits investors’ objectives, thereby obviating the need for us to make dramatic shifts between asset classes. This stability facilitates financial planning while also ensuring that investors avoid the risk and transaction costs normally associated with excessive trading.

Novel Core-and-Explore Approach

Though each managed ETF portfolio maintains a consistent asset allocation, our investment team uses a “core-and-explore” approach to judiciously shift the mix of assets based on market conditions.

Serving as the anchors of our ETF portfolios, each “core” position corresponds with a specified strategic allocation, ensuring that each portfolio remains true to its risk/reward profile. By contrast, our “explore” positions express our investment team’s tactical view. For instance, if our team identifies a market segment that looks attractive on a fundamental basis, we might establish an “explore” position in an ETF that targets that area.

This approach may confer a number of benefits, including a predictable asset allocation, low fund expenses (as the “core” ETFs that we utilize levy ultra-low expense ratios), and the opportunity to capitalize on market inefficiencies in a disciplined way.

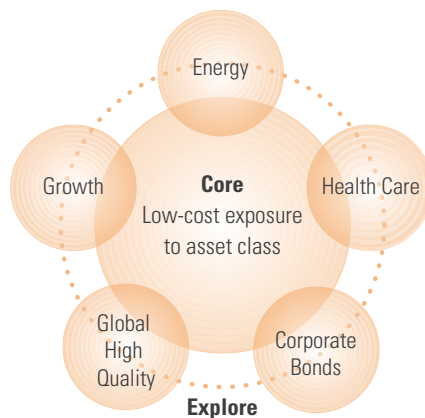
Rigorous, Disciplined Fund Selection

Unlike other managed ETF programs that employ unproven, difficult-to-execute trading strategies, our bottom-up, fundamentals-based approach ensures that we apply consistent criteria to each ETF account.

Our investment team uses a proprietary evaluation system to sift through hundreds of ETFs, seeking investments that boast low expenses and other attractive fundamental attributes. To identify potential “explore” positions, our managers pay special attention to the valuation of the underlying securities held by each stock ETF.

Core and Explore

Through our unique “core-and-explore” approach, we strive to maintain stable central holdings while adding value through attractive market opportunities. For example, the portfolio at right contains explore positions in market sectors, such as Health Care and Corporate Bonds, that we believe are undervalued and present growth potential.



Our Portfolios at a Glance

The information displayed is for illustrative purposes only. It should not be used to assess the exact risk/return relationship between portfolios. No guarantees can be given about future performance.



By leveraging Morningstar, Inc.’s coverage of more than 2,000 stocks, we can evaluate a stock ETF’s fundamental attractiveness in a much more thorough, systematic way.

For instance, Morningstar Inc.’s analysts cover stocks comprising dozens of stock ETFs. We then roll up the ratings that these analysts have placed on each stock in order to gauge the attractiveness of an ETF portfolio as a whole. Through this methodology, we create our tactical view—i.e. blue-chips vs. small-caps, health-care vs. technology, domestic vs. foreign—that’s rooted in the rigorous fundamental research that Morningstar’s analysts conduct.

We also make tactical allocations to bond and other ETFs in accordance with a disciplined, systematic framework. Our investment team confers on a regular basis regarding market conditions and the relative attractiveness of the various asset classes. Generally speaking, we take a contrarian tack, favoring those areas that we believe offer the most attractive risk/reward trade-off.

Tax- and Cost-Effective Portfolio Management

Though our investment team invests opportunistically through each portfolio’s “explore” positions, we remain sensitive to transaction costs. Thus, our managers strive to trade as infrequently as possible in an effort to keep commission costs and taxes to a minimum.

A Powerful Solution for Advisors and Investors

What’s the result of combining sophisticated portfolio construction, discerning manager research, and a wide variety of investment strategies to suit even the most-specialized needs?

An investment solution that allows financial advisors more time to grow their practices and helps investors meet their investment objectives.

ETFs, like all investments, carry certain risks that may adversely affect their net asset value, market price, and/or performance. An ETF’s net asset value (NAV) will fluctuate in response to market activity. Because ETFs are traded throughout the day and the price is determined by market forces, the market price you pay for an ETF may be more or less than the net asset value. Please refer to the Exchange-Traded Fund terms listed below for more information.

Because ETFs are not actively managed, their value may be affected by a general decline in the U.S. market segments relating to their underlying indexes. Similarly, an imperfect match between an ETF’s holdings and those of its underlying index may cause its performance to not match the performance of its underlying index. Like other concentrated investments, an ETF with concentrated holdings may be more vulnerable to specific economic, political, or regulatory events than an ETF that mirrors the general U.S. market.