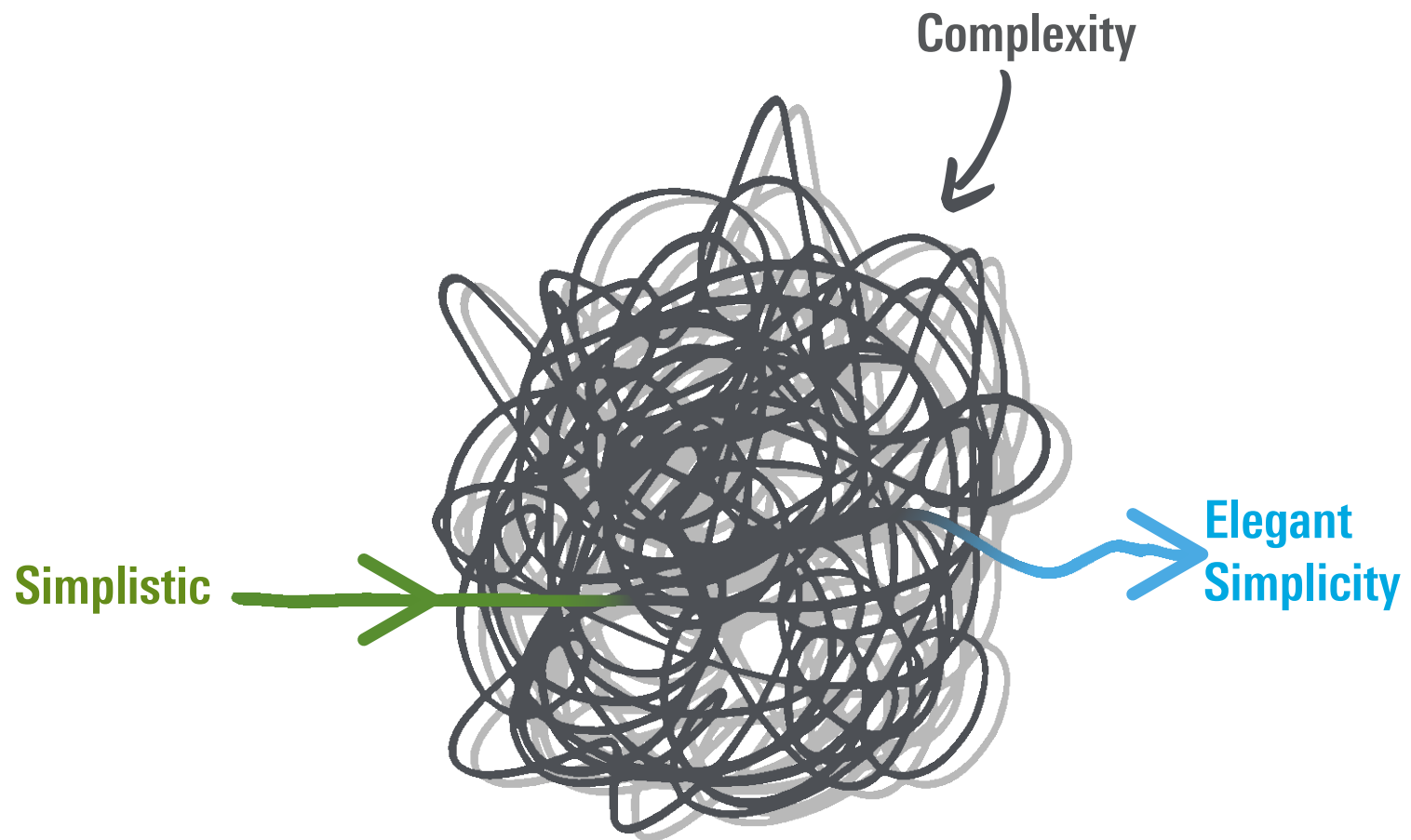

Cut the Complexity: The Power of Choice and the Need for Elegant Simplicity



Tricia Rothschild, CFA
Head of Global Advisor Solutions

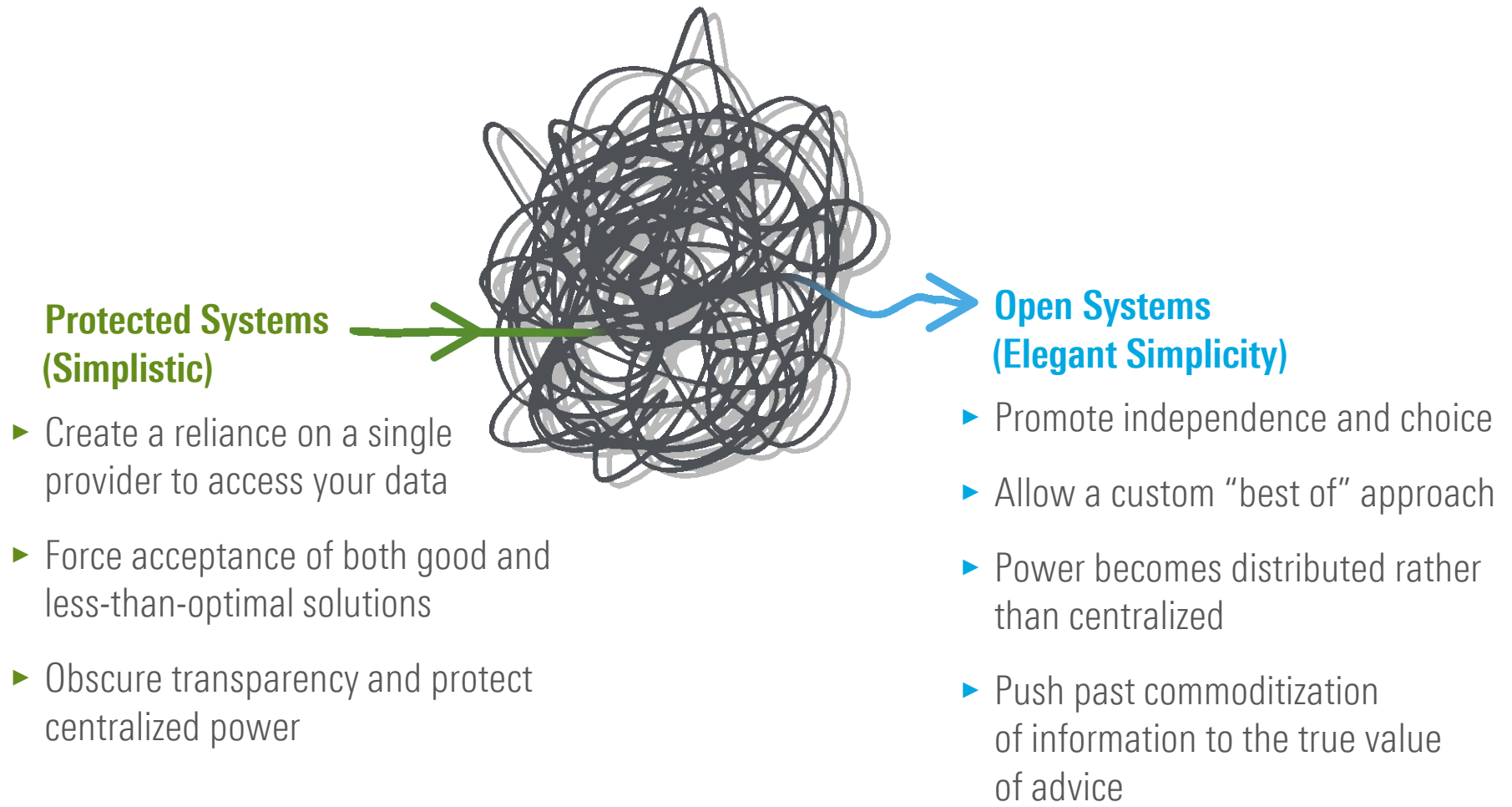
February 10, 2016

The Power of Choice

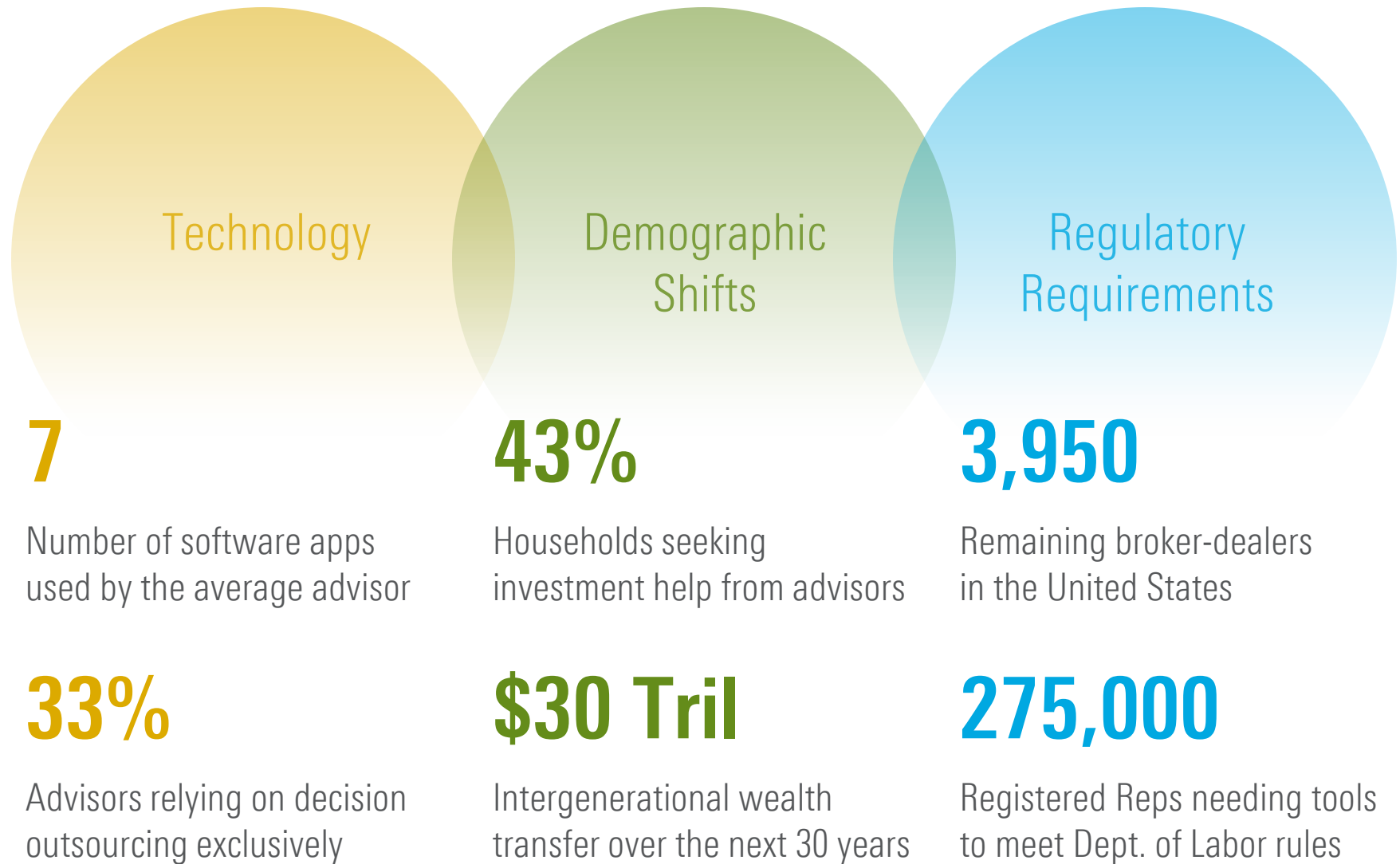


Architecting for Elegant Simplicity

Older technology and business models were built with fences.
Today, we need to focus on building bridges.



Astonishing Pace of Change



Pressures Facing Advisors



Individuals Have More Choices But ...

Consumers have more data, information, choices, and autonomy than ever before — but **do they have the confidence to act?**



The Paradox of Choice



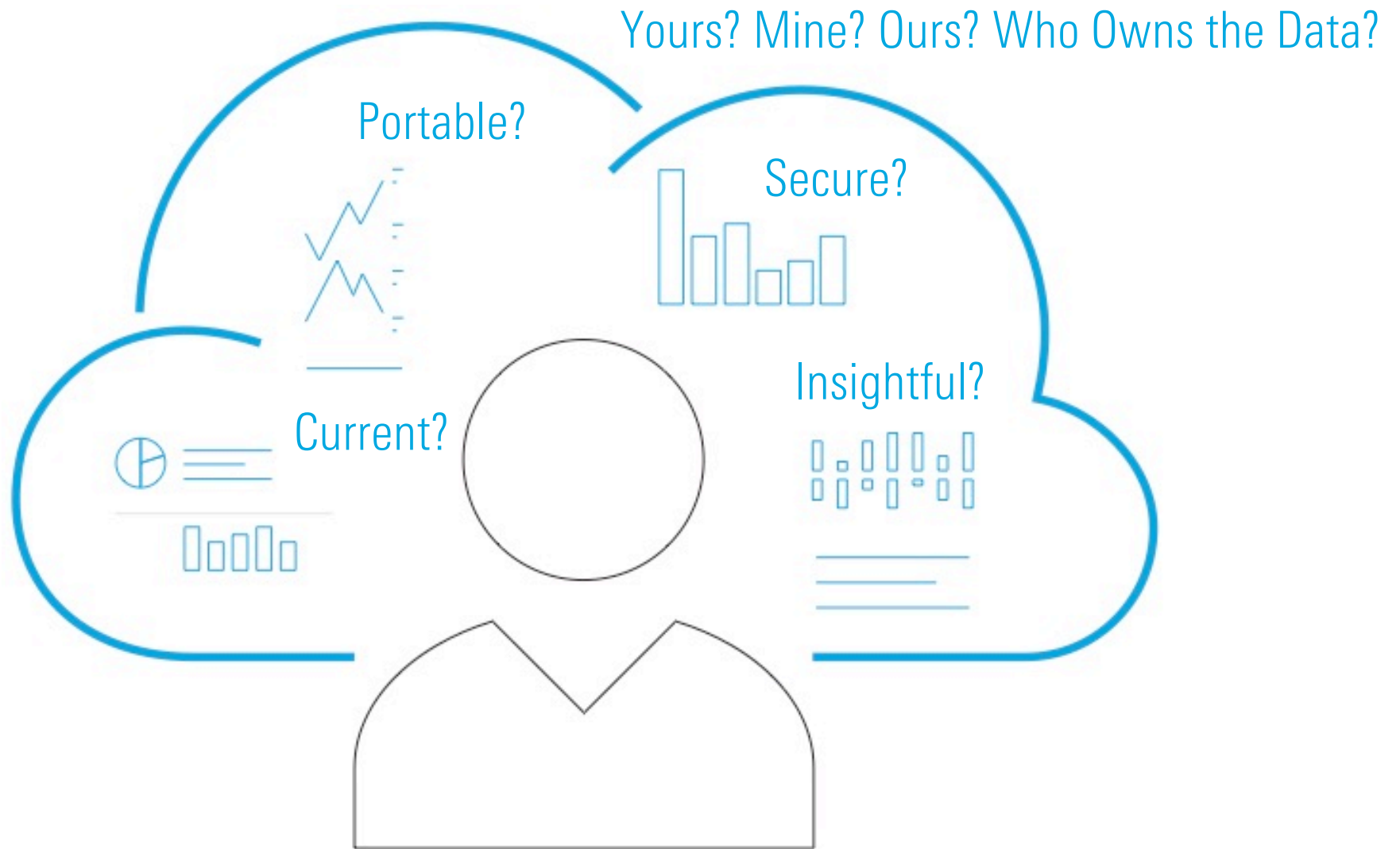
It's easy to get stuck.



We believe there are **opportunities**
despite the pressure.



It Starts With the Data



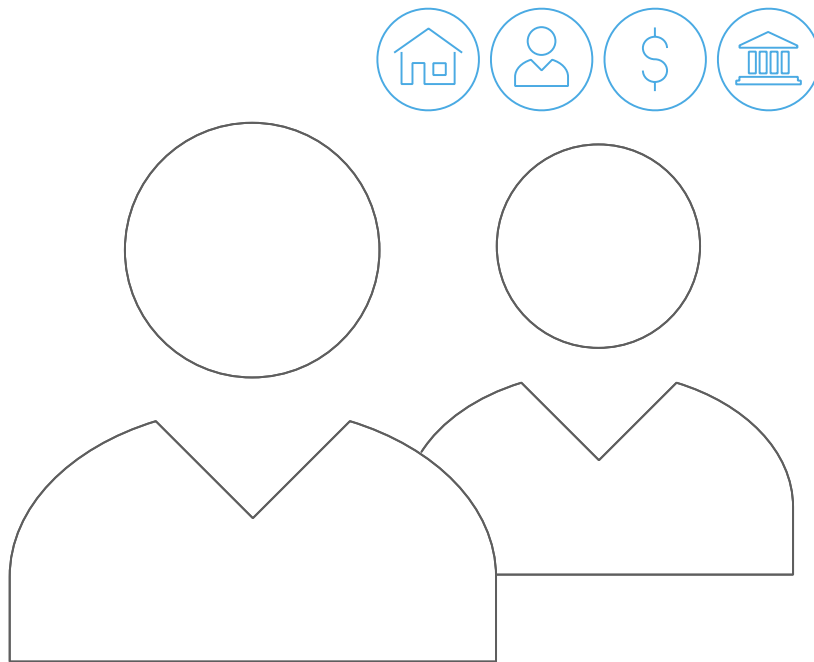
We Value an Open Ecosystem



We **collaborate** with industry leaders to **envision, iterate, and build** client-centric solutions.

By developing solutions within an **open ecosystem**, the technology conversation shifts from challenges to the solutions we can enable.

Technology Frees Us to Focus on What Matters



Advisors provide investors with **context**, help them **overcome emotional hurdles**, and **motivate** them to act in their best interests.

Advisors help investors **focus on what matters**.

Harry and Sheryl: When Research Met Practice



Even Smart People Behave Irrationally

“I should have computed the historical co-variances of the asset classes and drawn an efficient frontier.

*[But...] I **visualized my grief** if the stock market went way up and I wasn't in it—or if it went way down and I was completely in it.*

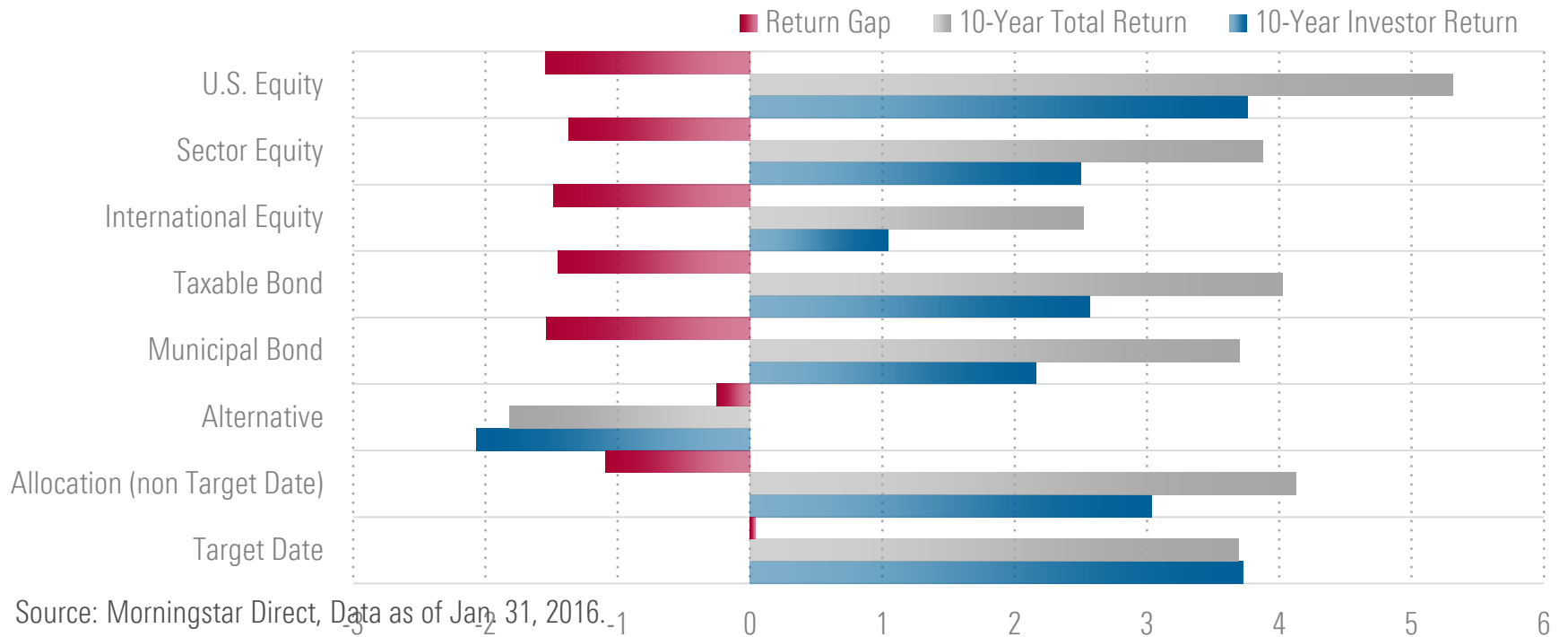
***So I split my contributions 50/50** between stocks and bonds.”*

— **Harry Markowitz**, recipient of the Nobel Memorial Prize in Economic Sciences for Modern Portfolio Theory

Investor Returns

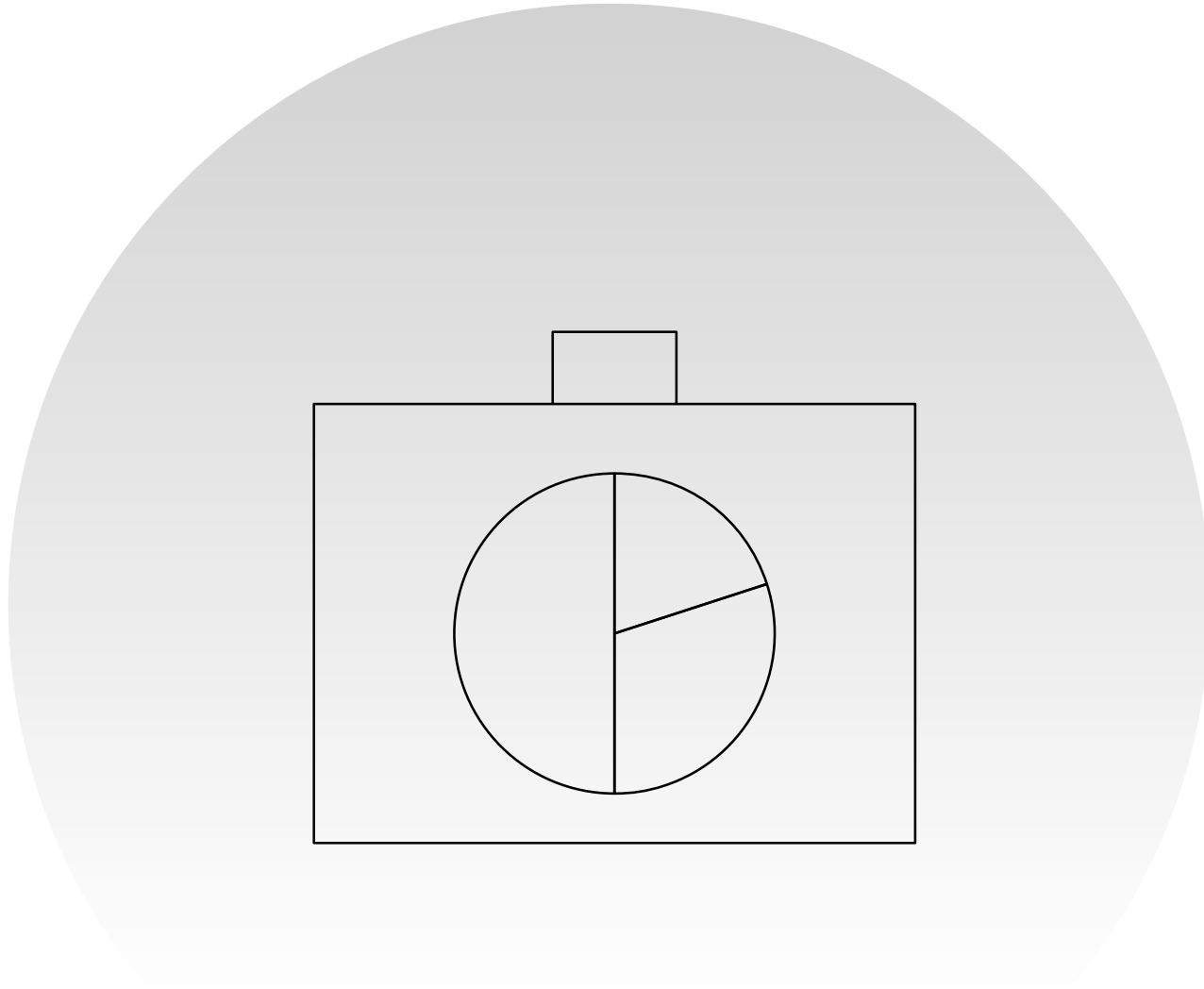
It's difficult to remove emotion from decision-making, as the "return gap" illustrates.

10-Year Investor Returns vs. 10-Year Total Returns by U.S. Category Group



Source: Morningstar Direct, Data as of Jan. 31, 2016.

Looking Beyond Investments



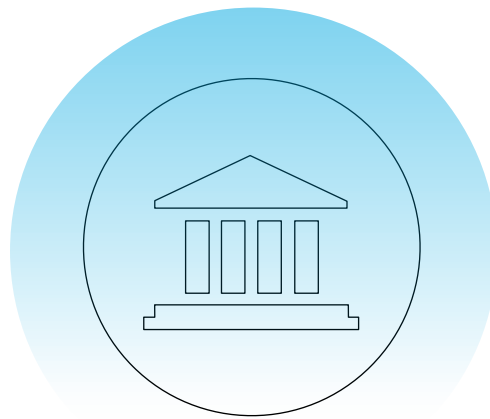
Other Inputs and Outputs Contribute to Goals



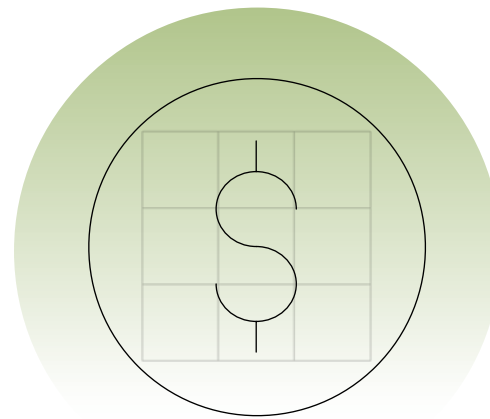
Human Capital



Real Estate Capital

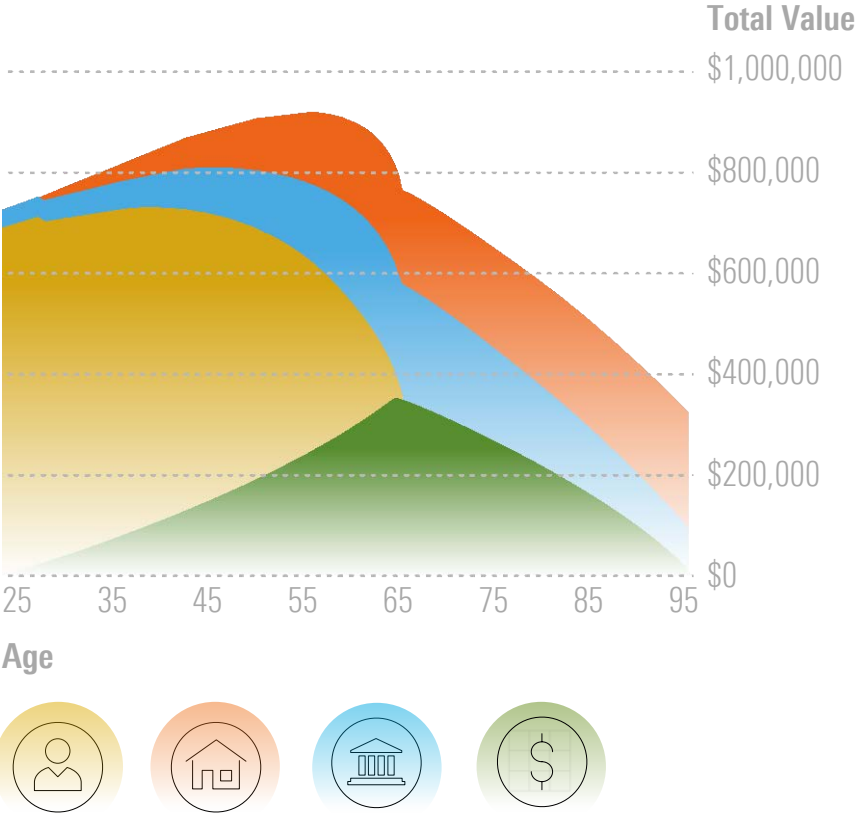


Pension Wealth



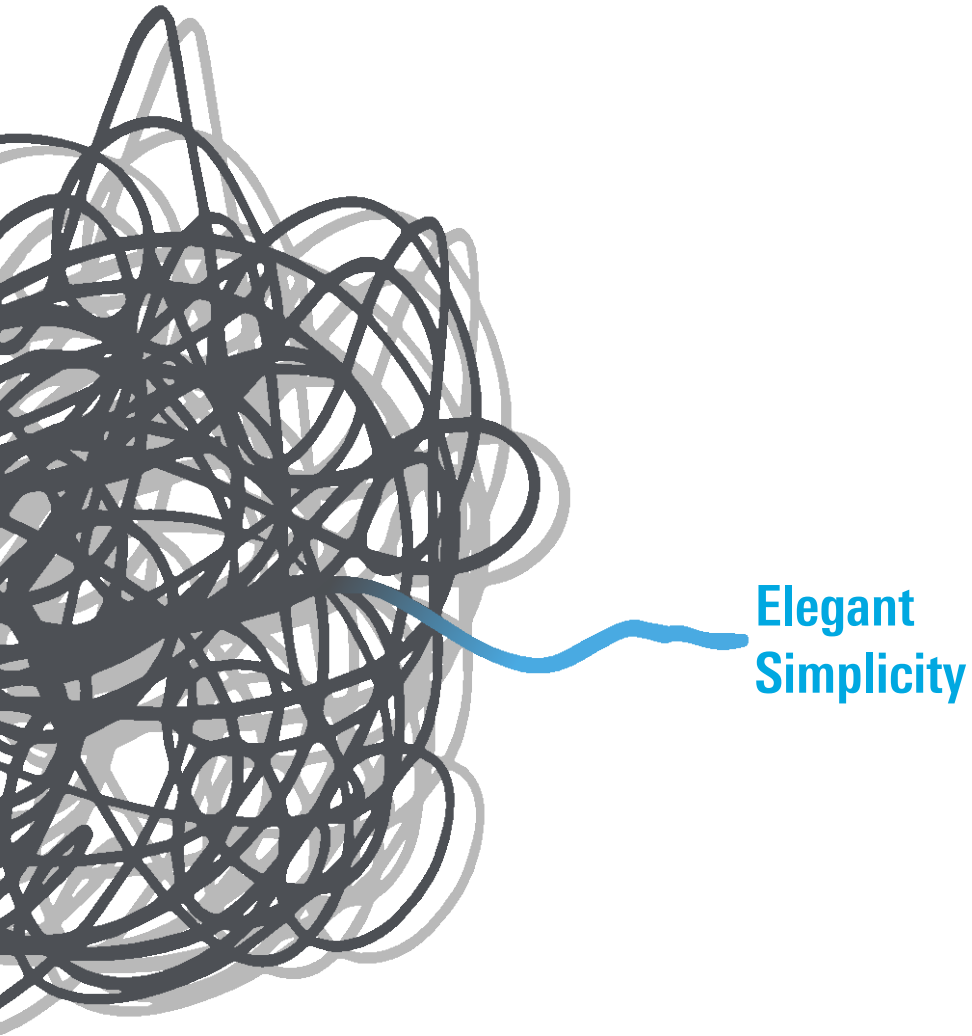
Financial Capital

Delivering a More Complete Picture



Holistic Planning accounts for investors' total wealth and illustrates what's possible when you **focus on what you can control**, instead of volatility (which you can't).

Holistic is 'Elegant'



We're investing in an open ecosystem that supports a holistic workflow:

- ▶ Budgeting and Goal Prioritization
- ▶ Holistic Asset Allocation
- ▶ Investor Profiling and Education
- ▶ Investment "Decision Support" or "Outsourcing"
- ▶ Better Investment Outcomes

Budgeting and Goal Prioritization

Understand financial realities and tradeoffs ... from saving and spending to investing

The image displays two overlapping screenshots of the HelloWallet website. The background screenshot shows the 'BUDGET' section of the website, featuring a 'Monthly Budget Planner' with a 'Plan' button and a 'Track' button. It includes a pie chart for the 'April Plan' and a table of financial data.

The foreground screenshot shows the 'Financial Guidance Within Reach' section of the website. It features a hand holding a smartphone displaying the HelloWallet mobile app interface. Below this, there is a section titled 'The 5 Elements of Financial Wellness' with five icons and corresponding text:

- Spending**: Spend Less than You Earn
- Emergencies**: Save for Emergencies
- Guidance**: Plan for the Future
- Benefits**: Maximize Your Benefits
- Investments**: Prepare for Retirement

The background screenshot also shows a table of financial data for the 'April Plan':

Category	Amount
Gross Income	\$6,667
- Other Deductions	\$2,467
Take Home Income	\$4,200
- Health Savings	\$325
- Bills	\$2,270
- Regular Expenses	\$1,600
Unbudgeted	\$5

Holistic Asset Allocation

View clients' held-away accounts easily in order to provide more insightful advice

The screenshot displays a web application interface. On the left, there is a table titled "Accounts" with a sub-header "Account ^" and an "Add Accounts" button. The table contains two rows of account information:

Account ^	
Charles Schwab & Co., Inc. - Client Log In Trading account XXXX7007	2015-10-29 12:34 EDT
Charles Schwab & Co., Inc. - Client Log In Investment account XXXX7997	2015-10-29 12:34 EDT

Overlaid on the right is a modal window titled "ADD ACCOUNTS" with a close button (X). The modal contains the following elements:

- A search prompt: "Find your financial institution:"
- A search input field with a "Clear Search" button.
- A prompt: "Or choose from these popular institutions:"
- A carousel of three institution logos: CHASE, Charles Schwab, and Vanguard.
- A "DONE" button at the bottom right.

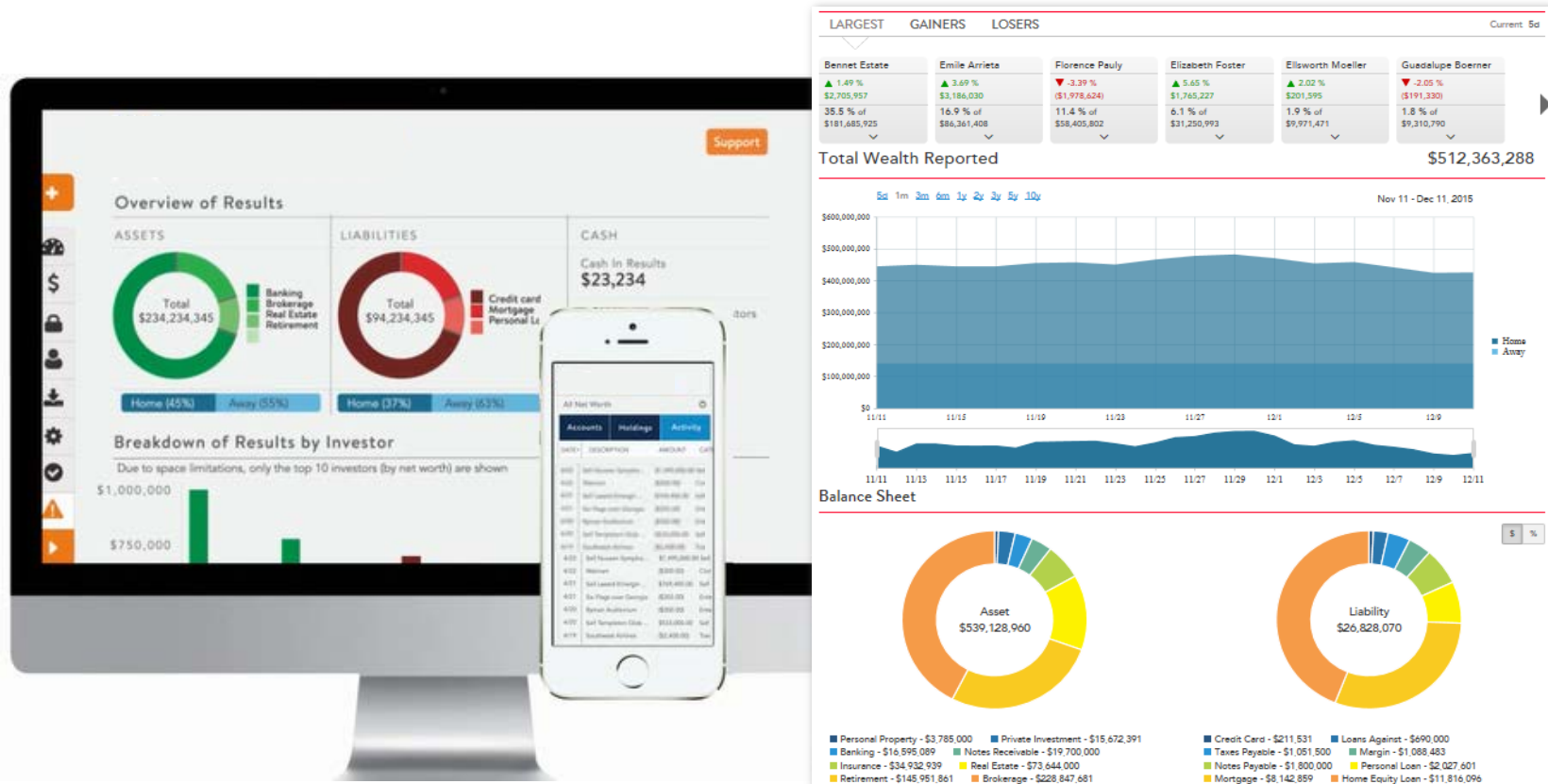
Holistic Asset Allocation

Gain a clearer understanding of clients' allocation and optimize portfolio strategy



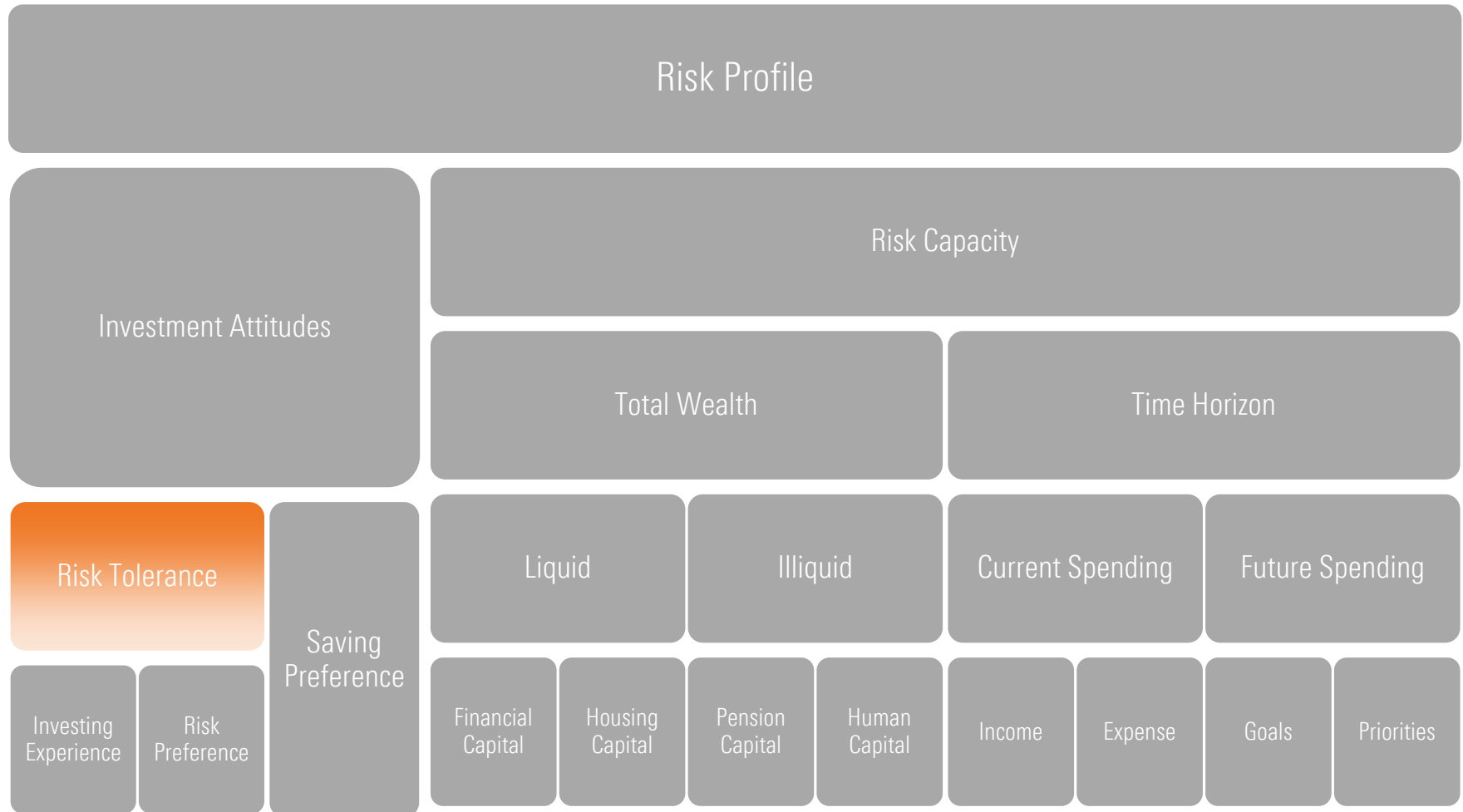
Investor Profiling and Education

Facilitate investor engagement and satisfaction through a web portal



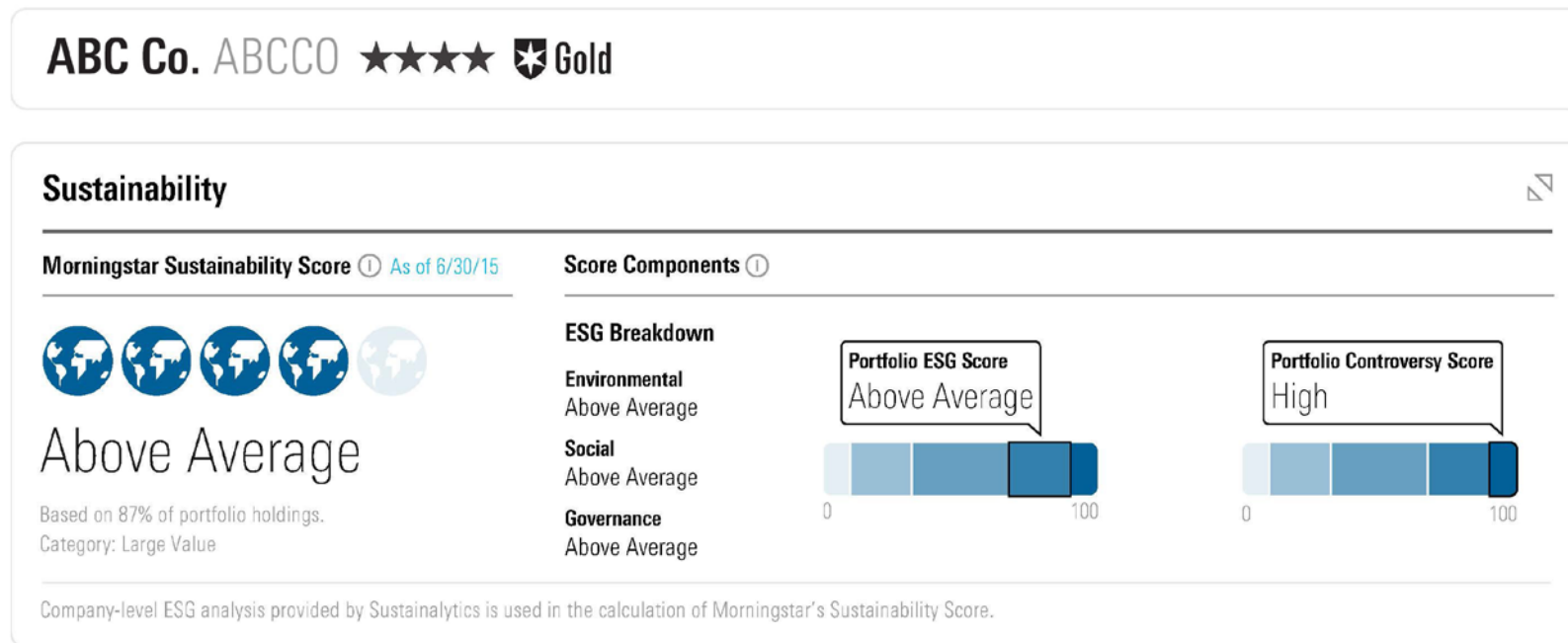
Investor Profiling and Education

Risk tolerance is just a small part of the equation



Investor Profiling and Education

Use an Environmental, Social, and Governance lens to add value to a client's portfolio



Investment Decision Support

Data and research enables strategic portfolio allocation and attribution



... or Outsourced Investment Management

Portfolios for advisors, managed by Morningstar



Better Investment Outcomes

Automated, tax-aware rebalancing to add efficiency to your practice, quantify the value you bring to clients, and deliver better investment outcomes

The screenshot shows the tRx Edge user interface. At the top, there is a navigation bar with 'Logout' and 'Read Me' links, and a 'Welcome' message. Below this, a dashboard displays 'AUM \$54,797,031' and 'Action Req. 32'. There are buttons for 'Rebalance' and 'GO', along with checkboxes for 'OOB' and 'CASH'. A table lists several households with their respective models, advisor sets, and values.

Household	Model	Advisor Set	Value
Vine, Jim & Jane	2014 - 40/60	AA	\$2,286,45
Smith, Robert & Janet	2014 - 60/40	AA	\$461,43
Duke, Sheldon and Natalie	2014 - 60/40	SR	\$1,210,05
Stark, William	2014 - 60/40	SR	\$655,23
Ingersol, Edwin Personal Trust	2014 - 60/40	SR	\$932,21
Allen, Philip and Irma	2014 - 60/40	SR	\$1,261,26

TRX EXCLUSIVE TAX BENEFIT REPORT

*Portfolio Management
Tax Benefits Summary*

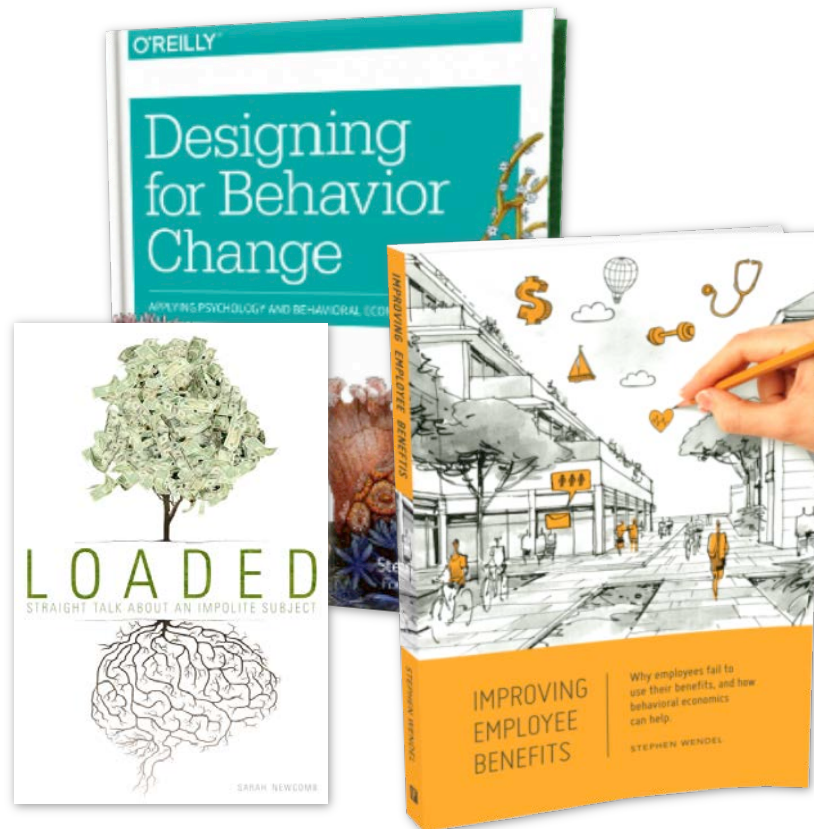
<u>Household Accounts</u>			<u>Market Value</u>		
Acct: I5662313	Sample Account L	Annuity	IRA	\$725,464.12	
Acct: 56623I313	Sample Account I	Annuity	IRA	\$0.00	
Acct: 21422469	Sample Account E	IRA Rollover	IRA	\$472,842.60	
Acct: 142242469	Sample Account B	IRA Rollover	IRA	\$0.00	
Acct: 31197861	Sample Account G	Trust	TAX	\$1,786,568.09	
Acct: 119783861	Sample Account A	Trust	TAX	\$0.00	
Household			Sample Household	Total Value	\$2,984,874.81

Cumulative Savings from 01/01/2010 - 12/31/2012 from Benefits generated 01/01/2010 - 04/01/2010:

Capital Gains Distribution Avoidance	\$0.00
Tax Lot Identification	\$13,275.87
Location Optimization Savings	\$8,858.53
Tax Loss Harvesting Tax Savings	\$12,235.19
Total \$ Benefit	\$34,369.59
Total % Benefit	1.15%
Present Value of \$ Benefit	\$28,440.91
Present Value of % Benefit	0.95%

Better Investment Outcomes

Our behavioral science team develops tools to help advisors overcome investor biases and integrate lessons from behavioral science into their practices



▶ **Thought leadership:**

- ▶ Underserved investors
- ▶ Retirement sufficiency
- ▶ Investor behavior
- ▶ Advisor dynamics

▶ **Communications optimization:**

- ▶ How to best engage investors

▶ **Product optimization:**

- ▶ Apply findings to Morningstar's products and boost the success of users

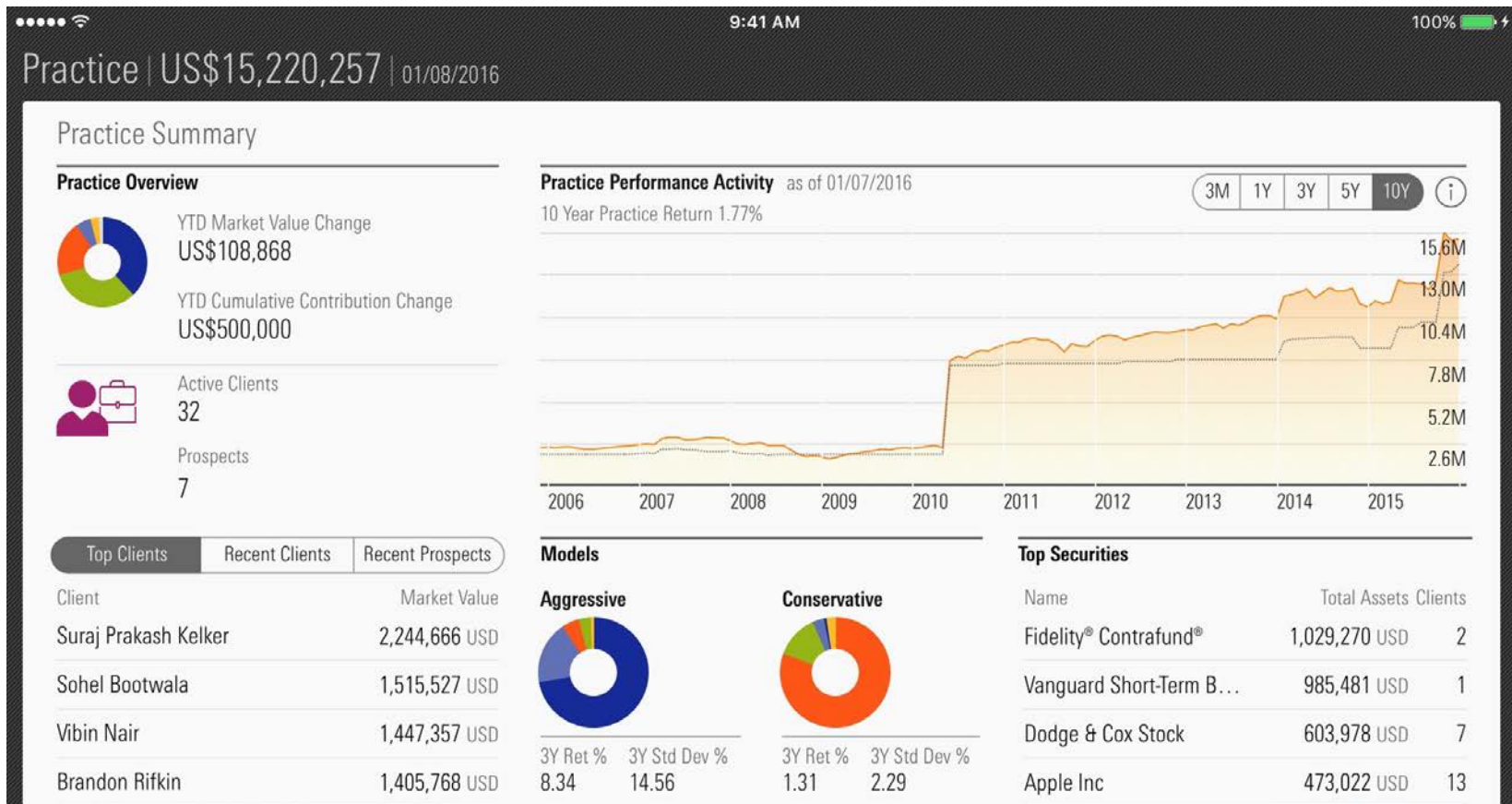
Better Investment Outcomes

Communicate seamlessly through mobile applications and client portals

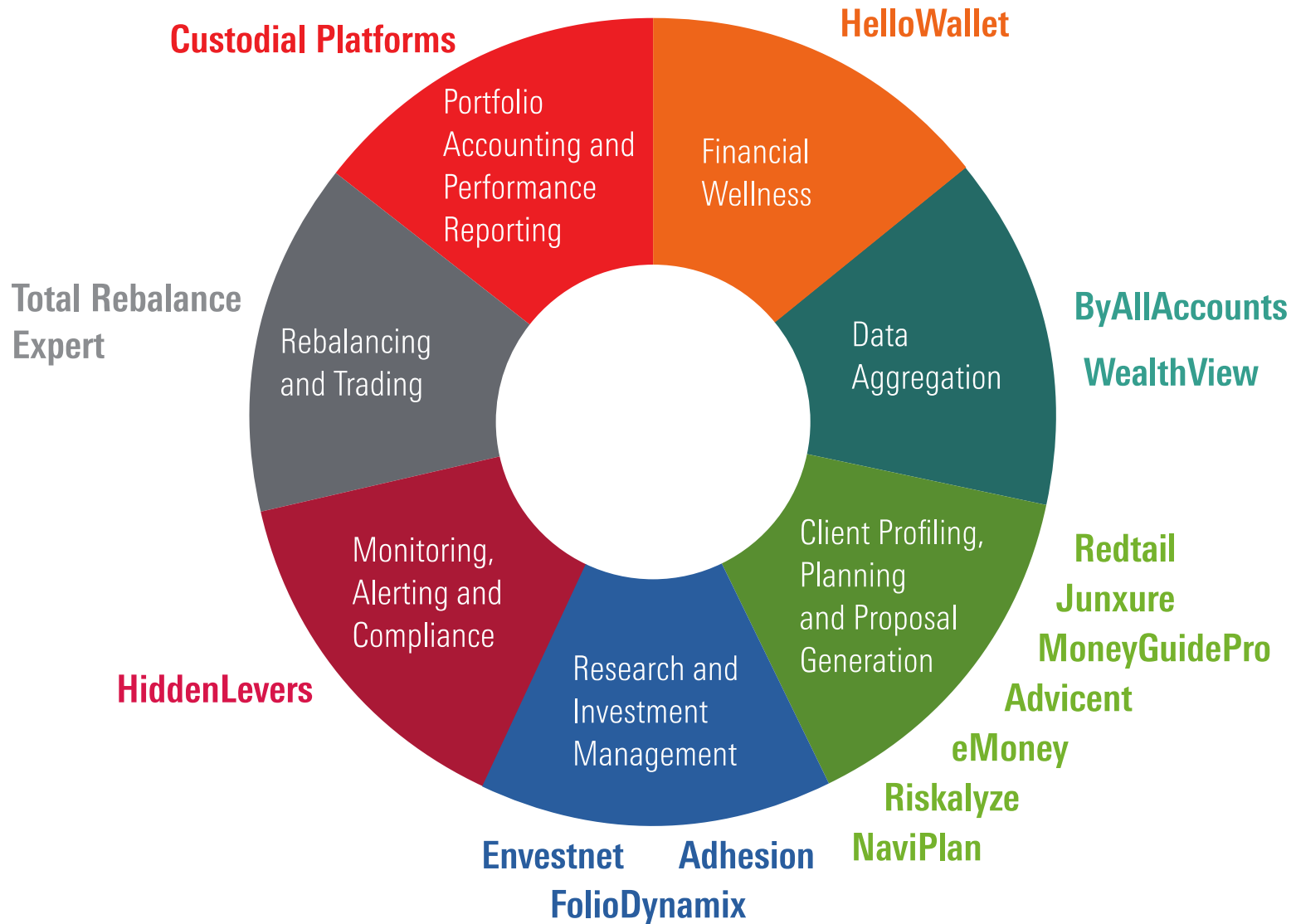


Better Outcomes for Your Practice

With the mobile Practice Dashboard, you can see your assets, performance, clients, and more at a glance from your iPad



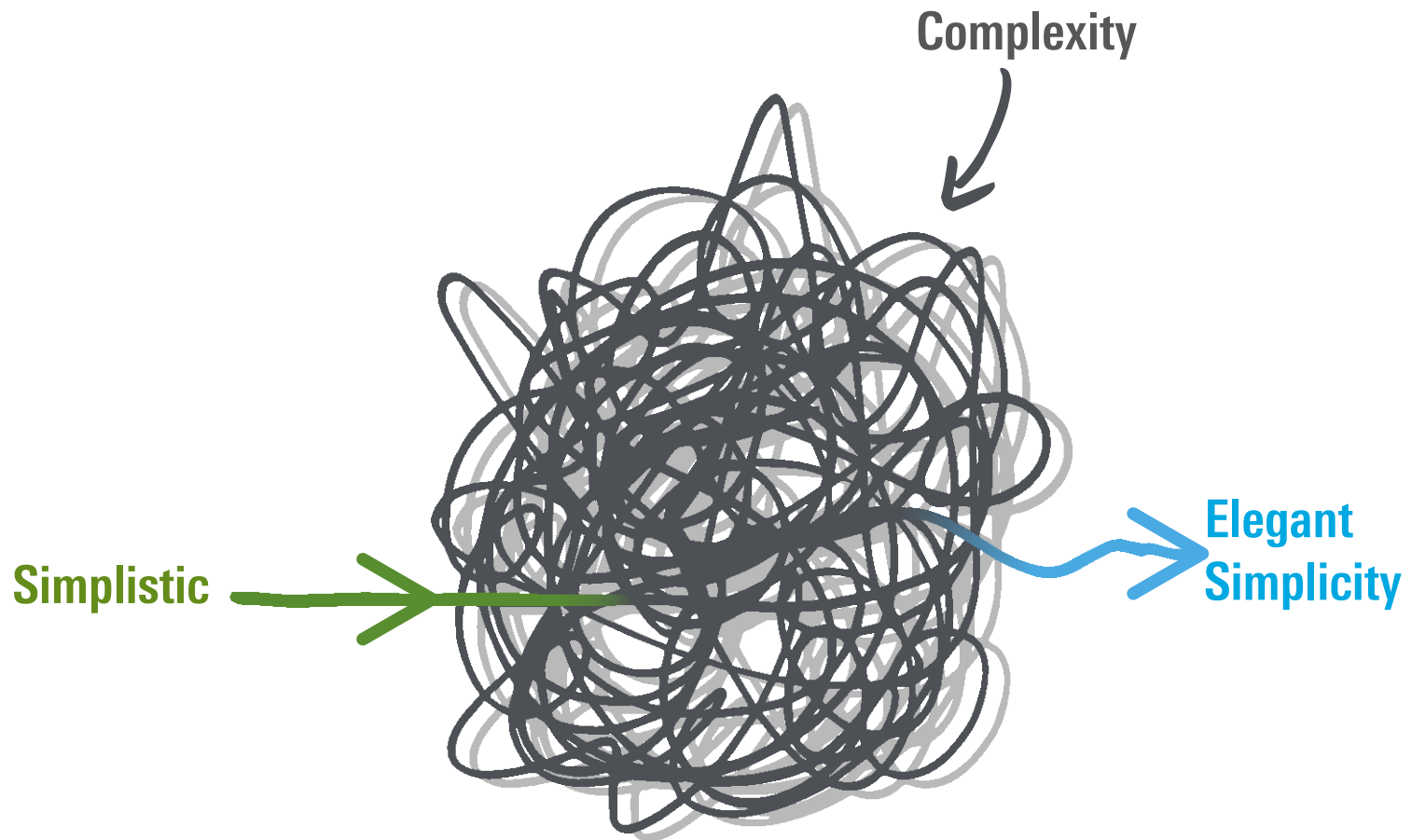
Integrations Provide a Seamless Workflow



Maximizers or Satisficers?



The Solution for Complexity? Focus on What Matters, To You



All-Inclusive, Yet Open...

We seek to deliver elegant simplicity through a comprehensive suite of capabilities, including:

- ▶ Independent research, ratings, reports, and analytics on stocks, ETF, mutual funds, SMAs
- ▶ Portfolio accounting and billing
- ▶ Client reporting and performance measurement, including goals-based reporting (in progress)
- ▶ Client account aggregation via ByAllAccounts
- ▶ Custodial import and reconciliation
- ▶ iPad app: New Practice Management Dashboard
- ▶ Tax-aware rebalancing, powered by Total Rebalance Expert
- ▶ Integrations with leading third-party software providers

When one door closes, another opens...

...but often we look so long and so regretfully on the closed door that we do not see the one which has opened for us.

— Alexander Graham Bell

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