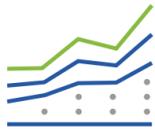




# MORNINGSTAR'S INVESTMENT PROCESS



## 1 In-Depth Valuation Analysis

We analyze capital markets with a valuation lens to find ways we can get more than we'll pay for, and gauge market sentiment to help ensure we're taking a contrarian look at markets.



## 2 Develop Asset Class Views

Our asset allocation best thinking stems from valuation-based opportunities in stock and bond markets, as we seek to maximize return for a given level of risk.



## 3 Investment Selection

Our manager research team meets personally with managers to evaluate their investment styles using a five-pillar system to identify the most appropriate strategies to include in our portfolios.



## 4 Portfolio Construction

When building portfolios, we look at the whole picture. Considering risk and return characteristics of investments may adjust our asset class thinking as we bring pieces together into a portfolio.



## 5 Ongoing Monitoring/Adjusting

As markets change, so do our portfolios. Our investment team monitors them each day to stay well-positioned and risk-aware through the market's ups and downs.

# 1 In-Depth Valuation Analysis

Morningstar's Valuation-Driven Asset Allocation:

- Starts with research
- Based on 40 years of researching the fundamental drivers of asset class returns
- In-depth valuation analysis of:
  - 200 equity markets
  - 150 bond sectors
  - 37 currencies
  - Alternative asset class: infrastructure/real estate

Valuation Process:

- Calculating a forward-looking 10-year valuation implied return
- Comparing against historical ranges looking for potential over/undervalued asset classes
- Review of investor sentiment looking at market views of an asset class

## Morningstar's Asset Class Valuation Framework

VALUATION-IMPLIED RETURN	=	CASH FLOW YIELD	+	CASH FLOW GROWTH	+	CHANGE IN VALUATION
<b>EQUITY</b>		Dividends Buybacks		FCF Growth Earnings Growth		Price/Fair Value P/CF, P/E
<b>PROPERTY</b>		Rent		Income Growth		Price/NTA
<b>BONDS</b>		Coupons Interest		Defaults		Yield Spread
<b>CURRENCY</b>		Interest Rate Differential		Inflation		Real FX Rate

# 2 Develop Asset Class Views

Monthly Group meetings to identify asset classes with potential to maximize returns for a given level:

- Review valuations
- Analyze investor sentiment
- Draws on Morningstar's global asset class teams and draws on equity and credit analysts

Employs Morningstar's Valuation-Driven Asset Allocation:

- Starts with neutral asset mix for each portfolio
- Sets long-term risk and return parameters
- Over/underweights certain asset classes relative to neutral asset mix based on assessment of valuations

## Morningstar's Global Asset Class Monthly Update



# 3 Investment Selection

Morningstar looks for managers that fit well together in a portfolio:

- Comparing:
  - Nuances of different styles
  - Managerial track records

120+ research team meet regularly with managers and utilize the Morningstar five-pillar process

## Morningstar's Five-Pillar Manager Evaluation System

<b>PEOPLE</b>	<b>PROCESS</b>	<b>PARENT</b>	<b>PERFORMANCE</b>	<b>PRICE</b>
Team Quality/Experience Team Depth Team Continuity Alignment of Interests	Security Selection/Idea Generation Valuation Discipline Portfolio Construction/Risk Management Capacity	Structure/Ownership Organization Stability/Financial Strength Culture/Stewardship Regulatory/Compliance	Rolling Risk-Adjusted Returns vs. Style Benchmark Downside Statistics Attribution	Expenses

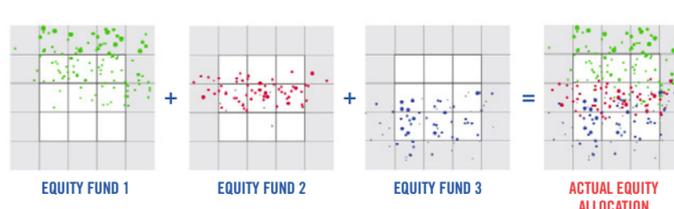
# 4 Portfolio Construction

Uses mutual and pooled funds with ETFs to hit asset allocation targets.

Morningstar goes beyond simple objective/returns-based analysis:

- Reduces holdings overlap
- Combines top managers whose holdings complement each other

## Morningstar's Holdings-Based Analysis Plotting Method



Provided for illustrative purposes only.

# 5 Ongoing Monitoring/Adjusting

Morningstar monitors and makes adjustments when:

- Market condition shifts
- Better valuation opportunities present

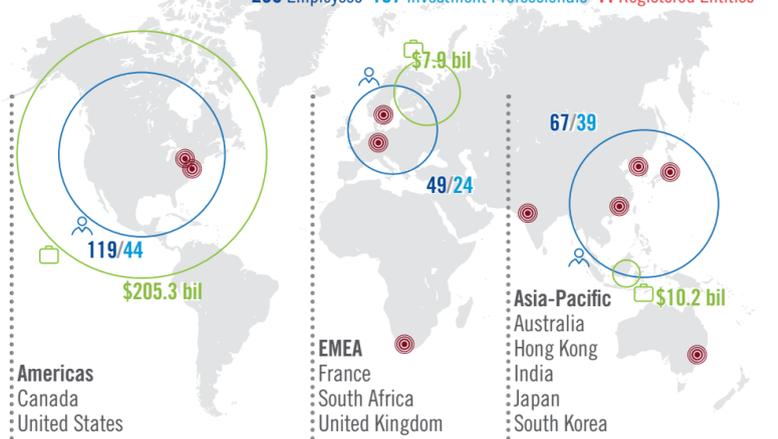
## Morningstar's Analyst Rating for Funds and Institutional Investment Software



# The Morningstar Managed Investments Program is managed by Morningstar's Investment Management group who:

- Creates investment solutions by combining award-winning research and global resources with proprietary Morningstar data
- Manages and advises on more than \$200\* billion in assets using the group's disciplined investment process
- Creates independent and cost-effective solutions for investors – helping them reach their financial goals

**\$223.4 bil** Assets under management and advisement worldwide  
**235 Employees** **107 Investment Professionals** **11 Registered Entities**



## Portfolio Management Team



**Michael Keaveney,**  
MSc., CFA  
Head of Investment Management,  
Canada

**Robert Miehme,**  
MBA, CFA  
Senior Investment Analyst

**Shehryar Khan,**  
CFA  
Senior Investment Analyst

All currency in USD.

\* As of March 31, 2017.

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