Morningstar 2014 Annual Shareholders' Meeting Transcript

Joe Mansueto: Okay. We're going to go ahead and get started. Good morning everybody. I'm Joe Mansueto, and welcome to our 2014 Annual Shareholders' Meeting. It's my pleasure to call our meeting to order.

I'm really delighted to see all of you here today, especially those of you who come year after year. We really do appreciate that. This marks our ninth year as a public company. Time flies. We always look forward to seeing our shareholders and analysts in person and taking your questions.

This year we're doing something different. We're providing a live webcast of the meeting for those of you who were unable to make the meeting in person, so welcome to those of you who are watching this outside of the office.

Our meeting today has three main parts. First is the official business of the meeting, which I don't expect will take too long; secondly our management presentations, then we'll take a short break; and then we'll come back and answer your questions.

You should have received a copy of the agenda and the rules of procedure. If you did not receive copies, please raise your hand and we'll bring copies to you.

There are four items of business on today's agenda: the election of directors, the approval of the performance measures under the Morningstar Incentive Plan, the approval of our executive compensation, and the ratification of the appointment of KPMG as our independent auditors for the year.

But before we get started, I'd like to introduce our directors. As I call your name, I'd like each of you to stand and face the audience: Don Phillips, Cheryl Francis, Steve Kaplan, Gail Landis, Bill Lyons, Jack Noonan, Paul Sturm, and Hugh Zentmyer. I'd like to thank each of you for your contributions and guidance to Morningstar over the past year. You may be seated.

Now I'd like to introduce our executive officers: First, Stéphane Biehler, our Chief Financial Officer; Bevin Desmond, Head of Global Markets and Human Resources; Greg Goff, our Chief Technology Officer; Tom Idzorek, President of Morningstar Investment Management; Kunal Kapoor, Head of Global Information Products and Client Solutions; Haywood Kelly, Head of Global Research; Cathy Odelbo, the Head of Corporate Strategy and Partnerships; Rich Robbins, our General Counsel and Corporate Secretary; Jim Tanner, Head of Global Business Development and Sales; and finally, David Williams, Head of Design and Marketing. You may be seated.

I'd also like to take this opportunity to introduce Bill Tomazin with KPMG, our auditors for 2014. Bill, would you or any of your colleagues like to make a statement at this time? Does anyone have a question for Bill?

There are no questions. I'd like to get started with the official business of the meeting. To act as the Inspector of Election, I appoint Greg Malatia, a representative of Broadridge Financial Services and Rich Robbins, our General Counsel and Corporate Secretary, and Greg will help us with counting the proxies and the ballot.

Rich, would you report on the mailing of the notice of the meeting the number of shares represented at today's meeting?

Richard Robbins: Thanks, Joe. We are holding this meeting pursuant to a notice that was mailed on April 3rd to every shareholder of record on March 14th. A certified copy of the list of shareholders of record has been available at our offices for the last 10 days, and I can report that we have established a quorum for the conduct of business.

Joe Mansueto: Thank you, Rich.

The first item of business today is the election of directors. We will elect nine directors at today's meeting. The directors elected today will hold office until the 2015 Annual Shareholders' Meeting or until their successors, if any, are elected or appointed.

The nominees for directors are Don Phillips, Cheryl Francis, Steve Kaplan, Gail Landis, Bill Lyons, Jack Noonan, Paul Sturm, Hugh Zentmyer, and myself, Joe Mansueto

The second item of business is approval of the performance measures under the Morningstar Incentive Plan.

The third item of business is the approval of our executive compensation.

And then the fourth item of business is the ratification of the appointment of KPMG as our independent auditors for 2014.

The Board recommends a vote for each proposal. Because there are no other proposals to come before the meeting, I declare that the polls are now open. If you've submitted a proxy, you do not need to change your vote now unless you wish to change your vote. To vote your shares in person, please raise your hand and we'll give a ballot to you.

If anyone has a question or a statement related to the proposals, please raise your hand and wait to be recognized. Any questions?

I now declare that the polls are closed. And while the Inspector of Elections completes the vote counting, Stéphane Biehler, our Chief Financial Officer, and I will talk about our 2013 highlights, growth strategies, and financial results. After that Kunal Kapoor, Head of our Global Solutions and Products and Tom Idzorek, Head of our Investment Management area will give an update on our 2014 key initiatives. Then as I mentioned afterwards, we'll take a short break, we'll come back, report on the voting results, and then we'll open up the floor to your questions.

In addition, we've set up a link that allows people to send in questions to us in real time, so if you have a question you'd like us to address and you're not here in the office, you can visit this web page at morningstar.socialqa.com to send us a question and we will try to answer those questions as well.

First, a legal disclaimer. Take a moment to read this. And I'm going to start with my portion of the presentations and update and I'm going to cover four things in my part of the presentation.

First, I'm going to start with the company overview, then I'll turn and look backwards, give some highlights on last year, talk about the industry landscape what we see going on in the industry, and then finish with our growth strategies.

We typically begin Morningstar presentations with the mission slide. We have a very strong sense of mission. At Morningstar, our mission is to create great products that help investors reach their financial goals. Everything we do is aligned towards supporting this mission. Our investors first attitude really separates us from our competitors. They may see themselves as software vendors or data suppliers, but really this differentiates us and sets us apart in our industry.

Within the context of this mission what we're trying to do is build a wide moat business. This is the construct that we've borrowed from Warren Buffett, think of the castle protected by the moat, building sustainable competitive advantages that keep our competitors at bay. So we've very consciously tried to build a wide moat business at Morningstar over the years.

In our view, there are three sources of moat. First is our brand and our intangible assets. We think this is our biggest asset, our reputation. Secondly, our switching costs. When somebody has installed our software, gotten used to our proprietary metrics, are using our data to fuel their enterprise, it's very hard to switch away from Morningstar. And then thirdly is the network effect. Because we've built up a big audience of individuals, financial advisors want to do business with us. Why, because their end clients know Morningstar. Once we have a big audience of individuals and advisors, then the institutions want to work with us. Why, because their end investors are using our metrics to make their investment

decisions. And once we've a big audience of individuals we can spend more to attract more – once we've a big audience of institutional investors, we can invest more to attract more individuals, and we get this virtuous circle going, this network effect, that really strengthens our business.

So, to build our moat, we're doing three things, three key objectives. One is we want to develop the next generation of software for all of our platforms. We want to make sure this is the most intuitive, user-friendly platform in the marketplace, cloud-based, mobile-friendly. Secondly, is we need to have the best research, the best and most effective data, research, and ratings in the marketplace. We have to deliver better outcomes for investors. And then thirdly is to build a world-class investment management organization based on our proprietary investment research.

Really, research in the middle is what drives everything at Morningstar. Our research, our investment IP differentiates what we're doing. That gets surfaced in our software on the left and then we build solutions around that on the right in terms of our investment management organization. We also sell our research directly, but again, research is the core part of our differentiation and really what we try and surface in our products and our solutions.

So, our strategy fits nicely on one slide. So, again, we want to widen our economic moat. That translates into these three key objectives and then we're very focused on four customer groups: Advisors, Asset Managers, Retirement and Individual Investor. And it's the combination, the meshing of these objectives on these four major customer groups that's really at the heart of our strategy and what we're trying to achieve.

Let's talk more about these for major customer groups. First is the Advisor group. We work with today about 260,000 advisors globally, about one out of four advisors, and we think we've got a terrific opportunity with advisors. One of the things happening with financial advisors around the world is that advisors are moving to fee-based practices, moving away from commissions. They're becoming fiduciaries. In the U.K. and Australia, commissions have been banned. MiFID II takes that directionally to the continent and in the U.S. commission-based advisors are on the decline and it's moving to fee-based fiduciary responsibility that advisors have.

This plays right into our strength, our wheelhouse, as advisors need to exercise their fiduciary obligations and look to do the due diligence, look at research. We've got a lot of research that we can sell to advisors to help support their fiduciary responsibilities. Or if an advisor doesn't want to be a fiduciary, they want to outsource that to an independent third-party, we also have a solution for that, our Morningstar Managed Portfolios, where we become the fiduciary and the advisor can focus on other things.

So, we think we've got a really wonderful opportunity in the Advisor group.

Secondly, the asset management firms is another large opportunity. Today, we work with about 1,500 firms. We sell both to the business side of the house, so people doing product management, people doing marketing, we have a lot of tools and solutions to help them do competitive intelligence. But we also sell to the buy-side part of the house; people doing funds of funds investment management, increasingly people doing equity management with our buy-side solutions or doing credit research with our credit ratings and research business. So, there's a lot of opportunity among different parts of large asset management firms that we address.

Also, the Retirement area is another large opportunity for Morningstar. We've got very broad reach in the retirement market today. We work with 26 plan providers, the people who set up retirement plans at companies, and they in turn have 237,000 plans sponsors or companies that we work with, so very broad reach among companies and that in turn extends our reach to 24 million plan participants or individuals who have access to our advice and guidance tools.

But this is just a very large opportunity for Morningstar. I think we all know that there is a significant retirement crisis or issue that people have around the world in terms of saving for their retirement. The average 401(k) balance is $85,000 approximately. People are ill-equipped to save for their retirement and managing those assets while they are in retirement. It is a big global opportunity for Morningstar, we've got a sizable business there today, but we think that can be much larger in the future.

Then finally the Individual customer group. We work with our close to 10 million, 9.3 million individual investors we have relationships with around the world. This is not a particularly large market in terms of dollar size. But it's very important in terms of branding, extending our reach, popularizing our metrics and our tools, and it helps drive the growth in the other businesses. We also reach this directly through our solutions, we also reach it indirectly through a lot of the media relationships we have which extends our reach to literally hundreds of millions of other individual investors.

This is a slide we call our pyramid diagram, I think it nicely explains why we have all the businesses that we do at Morningstar. Beginning with the databases on large number of securities. We add value at every step of the way. So, software, analytics who interpret the data, large security analyst staff, 250 analysts who analyze the data, up to discretionary portfolio management up at the top. The difference in the shading: the top of the pyramid is our registered investment advisor. That's a regulated business, we're giving specific advice. At the bottom of the pyramid is more general research that is available to anyone in a non-regulated part of our business.

To give you a better sense of our business, these are our top five products. These represent about 60% of our revenue. Morningstar Data is our largest product. We compile our own databases so we can license that data in form of data feeds to the clients. It's about 18% of our revenue. Secondly is Advisor Workstation, addressing this large advisor opportunity, it's about 13% of our revenue. Morningstar Direct is our institutional platform, where you get everything from Morningstar, all of our data, all of our research for one simple price. Investment Advisory is creating funds of funds solutions. This is within our Investment Management Group. It's about 8% of our revenue. And then finally, Morningstar.com, our retail websites around the world is about 8% as well.

We have a global footprint at Morningstar. We're in 27 countries around the world. The idea is to follow wherever investors are. We think we can provide help to those investors. So we look at market size where there is a robust equity and fund market. If you look at our revenue, we've got about close to 30% of our revenue outside the U.S. If you look at investable assets, it's about 50-50 between U.S., non-U.S. We think over time that should approximate our revenue mix. So we think we've got a large opportunity to grow internationally in the coming years.

Let me now turn and talk a little about what we see going on in the industry. As you may know, the last five years since the downturn in '08, '09 have been very strong equity markets. You can see largely double-digit returns over the last five years; positive this year, last year was particularly strong, over 30% return for the equity markets.

This in turn has led to flows back into equities. Last year it went from negative in '12 to positive in '13. So it's nice if you can see the orange is the equity flows. But it also illustrates part of the problem is that many investors moved to the sidelines after '08, '09 and they missed those really strong years of equity performance. This makes me think we've got a large opportunity at Morningstar to help correct that behavior, improve the asset allocation of investors. But in any case, it's good to see investors finally coming back to equities, moving off the sidelines, out of cash, out of fixed income.

At the same time we've seen flows into passive products continue their strong run. Active has seen flows the last few years, but passive has outdistanced active. So you can see last year passive is in the light green. It was over $300 billion of flows compared about $160 billion for active management.

Consequently, passive investment continues its almost inexorable march upwards, 150 basis points a year. This is open-end and ETFs combined as a percentage of the industry in terms of passive. It's about 27.8% of the industry as of last year.

Another thing we see going on is a lot of regulatory change which is putting pressure on our clients to comply with these changes. We all know about Dodd-Frank in the U.S., but the ones outside the U.S. you may be less familiar with and also these probably touch more directly to investment management firms than does Dodd-Frank in the U.S., which is more oriented towards commercial banks and investment banks and maybe not so much centered on investment management firms, but a broad things like the Future of Financial Advice in Australia, the Retail Distribution Review in the U.K., really affect investment management firms very much; things like banning commissions, this move to fee-based advice. So, this is taking time and attention away from other matters for our clients and having to focus on this and installing these solutions. We've created solutions around some of these, but again, it's one of the things we see happening in the marketplace.

One positive and a corollary to the increased flows into the equity part of the market, is investors are becoming engaged again in the markets after becoming disengaged after '08, '09. This is data from ComScore, a tracker of traffic to consumer websites. And you can see page views, unique users, average pages per visit, average time spent per visit – all up nicely over the past year. And Morningstar.com has also seen increased engagement on our site, but this is a nice positive trend in the industry.

Let me now turn to last year, some of the highlights on challenges. First, Morningstar Managed Portfolios is a real star among our lineup. It grew 55% last year, a combination of rising equity markets, as well as increased flows. It was $7.3 billion at the end of last year. If you look at our Q1 results, it's $7.8 billion at the end of Q1. So it's continued its very strong growth. This speaks to that trend that we see in advisor marketplace; advisors wanting to outsource the portfolio management function. We've got a great solution that really helps them with that. So they can focus on other parts of their practice. And this is really resonating with financial advisors, this solution.

Similarly, in the retirement marketplace, our Managed Retirement Account service is just going gangbusters. You can see the growth. We're up to nearly 1 million participants, managing $31.7 billion of 401(k) assets in the U.S. This also speaks the need of people wanting to outsource the portfolio management function. They don't want to do it themselves. We've got a really terrific solution here. We think this has a really bright future ahead of it, but again, another bright spot for last year.

Direct. This is again our institutional platform, continues to grow very solidly, up 15% last year to 8,500 seats, 8,800 seats at the end of Q1. We think Direct has a wonderful future. We're a leader in managed product information, research, and ratings and that's really showcased well in Morningstar Direct.

We're also getting very aggressive with our mobile. Last year we launched two mobile offerings. One is our StockInvestor Newsletter, that's available on an iPad; and then also an individual offering, a complement to Morningstar.com. So I'd encourage you to download those, but we're very excited to launch the iPad application for both of these products last year.

Also, research innovation. I think our research innovation is alive and well at Morningstar. Again, this is really what drives our growth. Some of the things that we've done lately; our quantitative ratings, which extends the work of our equity analysts. We have over 100 equity analysts who do wonderful work covering 1,500 companies. But we've reversed engineered our ratings so we can extend that to a larger number of companies and now we have ratings on about 30,000 companies, identifying the same characteristics of wide moat companies, selling at discounts to fair value, but using quantitative techniques to do that.

Target-date, a rapidly growing part of the investment industry. We are one of the thought leaders in target-date research, issued a major study on that, Global Investor Experience report. Since we're in 27 countries, we can comment on the investor friendliness of each of the markets. So we issued a major report on that. And in Q1 of this year, we released a terrific report on stewardship; looking at the stewardship of fund companies that I'd encourage you to take a look at. So, a lot of good things going on in our research area.

Also, our equity analysts continue to win accolades. This is a story from The Wall Street Journal's Best on the Street report of last year, where they looked at all the sell-side firms, the independent firms and we came out on top, and that's just by a little bit, by a wide margin, in terms of having the most analysts rated in the top three of their sectors. I like the first line of this. In the world of stock-picking, Morningstar, Inc. stands alone. So we're really excited about what we're doing on the equity research side. Our equity research continues to gain a lot of traction, not only in the U.S., but abroad, among some really key leading asset management firms.

So those were few of the bright spots, but 2013 was not without its challenges. One is the next generation of software. I think when we were here last year we told you we hoped to get out of this next generation of software in 2013. It's taken a little longer than we thought. It's a complex undertaking. It won't come out this year. We'll have the beta launched over the summer, a soft launch later this year and the full formal launch in the first quarter of next year, but we want to get it right. We want to take our time. We don't want to rush it to market, but I really like the way this is developing.

We're looking at live builds of the software. This is the team, part of the team working on this next generation of software. But this is moving our software to the cloud off the desktop, a better user experience, mobile-friendly. We're also

consolidating a lot of our databases on the backend, so that you'll be able to do more in terms of analyzing investments.

So, for example, moving away from a vehicle, look at an investment fund, an ETF, variable annuity, our closed-end fund, but looking at the manager, so being able to consolidate all of that and look at a manager view. So, we're enabling some major changes and how the data is viewed with this software. So, again, it's complicated, but I really like the direction.

This shows you the working model of the homepage. Again, this is cloud-based. You can get a rough idea of what we're trying to achieve; funds, equities, markets, research, portfolio, but behind this there is a lot of institutional rigor in terms of data, analytics, research. So, very easy to use, but a lot of depth behind it.

Also last year, we spent a lot of time implementing a new organizational structure. This took time and effort; effort that wasn't spent in front of clients. But this came from client requests. You can see on this chart, this is how we used to be organized, multiple sales groups calling on clients. What we heard from clients is we love working with you, we like your products, but you're a little hard to navigate, can you make it easier for us? And so that's what we did with the new organizational structure; one point of contact for our clients, easier to work with.

So the impetus for this organizational structure was not cost savings, not that we're opposed to saving money, but it was really from our clients wanting it to be easier to work with and also consistency. So we could offer consistent solutions in terms of research, technology, design across the world.

This is what the new structure looks like. One global sales organization led by Jim Tanner; Global Products and Solutions led by Kunal Kapoor; Global Investment Management led by Tom Idzorek; and Global Research led by Haywood Kelly. And the idea is one Morningstar globally; it's one P&L, consistency across the world.

Another headwind, and we've talked about this in prior meetings, was our Investment Advisory business. Low interest rates have put a lot of pressure on variable annuity clients. Variable annuities typically offer future benefits to their shareholders and when interest rates are low, the value of those liabilities goes way up. So on a low rate environment, VA firms are under a lot of pressure. Consequently, they've cut costs pretty dramatically and they've typically brought the investment management back in-house.

So we've seen a headwind in this business. You can see the revenue and the assets falling about 10%. We think we've bottomed out. Rates have been low for quite a period of time. The worst is behind us, but this was still a drag on our results for last year.

Operating expense growth was another challenge. We see a lot of opportunity and we're investing for the future. You can see that in our Q1 results as well. But this is really a time of investment; replatforming our business, bringing out new products. So you can see our expenses moved up a bit in Q4 as well as Q1 of this year. But managing through that was another challenge for 2013.

And at the same time, clients remain cautious on spending. This is data from Burton-Taylor, a tracker of the industry. Looking at the data analytics and tool spend in our industry, rose about 1% to about $25.9 billion. This largely affects the large terminal providers, the Bloombergs, the Thomsons, but it's a backdrop of the industry that we operate in. We're still relatively small compared to this number, so we think we've got room to grow, but again, this is the backdrop of the industry that we face today.

So that's looking backwards. Now let me shift and look forward to 2014. We're really excited that we made an acquisition, our first one really in three years. ByAllAccounts is a leading firm that does account aggregation. So investors typically have accounts at multiple places and this capability allows the individual to pull those accounts and look at them in one portfolio. This is a core capability that we need at Morningstar in multiple segments; Individual, Retirement, Advisor, so that we can provide holistic advice. You can't advice only on one sleeve of an investor's portfolio, but you need look at it holistically.

So, ByAllAccounts is really the leading firm in the wealth space to aggregate accounts. Other firms may do it with credit cards or bank information, but ByAllAccounts is really the best firm in terms of transaction level information, true portfolio management in terms of giving a holistic advice. So, super excited to have made this acquisition. The integration has gone very well. And again, we see this as a core capability that will feed multiple segments of our business.

At the same time, as I mentioned, we remain very excited about our future, so we're investing in the future. You can see our headcount rose about 6% over – this is through the end of first quarter to 3,645 people. So a little slower than our revenue growth rate, but I think it speaks to the investment we want to make to pursue the opportunities that we see.

You can see where the hires are coming; a lot of people in our data manufacturing area. Clients look to us to have comprehensive, accurate, reliable data. So we're investing a lot to expand our data content and improve the quality. A lot in technology, whether it's on the back-end to consolidate data or in the front-end to create new software applications, as well as operations, product management, and research.

We're also replatforming our major software platforms for individuals, advisors, and the institutional market, as well as the retirement marketplace, so a lot of

replatforming going on. So heavy investment to make our platforms; again, mobile-friendly, cloud-based, better design, better experience, so a lot of effort right now.

And as I look back on our history, there's been these inflection points of moving from DOS to Windows, from the desktop to the Internet, and now from the Internet to the cloud and to mobile, and we're kind of in another one of these transitions, so we're investing to make sure that we make that transition and we're really not left behind. So, a lot of investments to replatform our major products.

A lot of investments in mobile. As I mentioned, last year we brought out two mobile applications. This year, we'll bring out seven applications – mobile applications, and we're particularly excited about our Advisor iPad application. I mentioned, last year we introduced one for the individual market. This year, a big focus is our iPad app for advisors, again, a big segment for Morningstar, so a lot of effort around that one, but there's a six other ones in terms of smartphones and other newsletters that we'll be bringing out during the course of 2014.

A lot of work around data aggregation and integration. So I spoke to the ByAllAccounts, the importance of data aggregation in terms of providing holistic advice, looking at an investor's portfolio holistically, but also integration. So, you can see all these different types of accounts investors want to aggregate, but we're also seeing a lot of demands for clients who want to integrate their own data into our applications. So, maybe an institutional client who has their own separate account platform and they want to integrate that into Morningstar Direct, we will do that kind of integration. So they like our data, but they want to integrate their own private data into our application. So, a lot around this aggregation/integration theme.

There is a lot of work going on in terms of investment around database and platform infrastructure. So reworking our collection systems; our data storage systems; calculations, a lot of our calculations have been done at the product level, now we're doing those at the database level, so they will be more consistent across our offerings; and a lot of really good work around data governance, delivery, support, dissemination, so really getting scale on how we do this globally, consolidating these into kind of world-class capabilities around each of these functions.

I talked a little about the rise that we've seen in passive investing. So one of the ways that we're responding to that is investing a lot in strategic beta. If you're not familiar with this concept what it is, is you know what passive investing is, so indexes based on market capitalization, active management, a portfolio manager picking active – their own stocks to outperform. In the middle is the strategic beta where they intersect is creating an index but basing the weightings on something other than market capitalization. So, factors such as value, growth, dividend,

yield, companies that are buying back shares in an attempt to outperform the market.

So you might think of it as semi-active investing, but it's rules-based typically in the form of an index. This is a large and growing part of the passive industry. It's about 20% of the assets of the passive segment, but it accounted for about 30% of the flows last year. And the assets and strategic beta rose 50% year-over-year, so it's a sizable and the fastest-growing part of this passive part of the marketplace.

So, we're investing a lot to become thought leaders in strategic beta, our analysts in terms of how these are classified, speaking out on the topic, building the research into our offerings. We're building indexes, our index group, a lot of growth around building indexes that reflect strategic beta. And this is where our proprietary research comes into play. We can take our research analysts' views, incorporate them into an index and create smart beta products. So, we're really well-positioned to address this in the marketplace.

And our Investment Management Group also is building strategies and solutions around this. So, a whole lot going on at Morningstar around strategic beta.

We're also investing a lot in our research capability. As I mentioned this is what drives everything at Morningstar. So, we're building up an equity analyst team in Europe. We're also building up our fund analyst capability in the U.K. We're building up our credit ratings business. We've hired Vickie Tillman. We're very excited to have Vickie who is ex-S&P, but a real veteran in the credit rating business to lead our credit ratings initiative. We've hired a head of ABS, asset-backed securities. We're investing a lot in what we call signature assets, things that really differentiate Morningstar. Don Phillips is spending a large part of his time thinking about these signature assets.

So, a lot of investments around analyst research, growing that capability, so that we can then surface that in our Investment products, in our Software products, and in our Investment Management solutions.

And then finally, this year marks our 30th year in business. It's hard to believe, but it's been 30 years. And for 30 years, we've been focused on a singular mission of really driving better investment outcomes. What we've tried to do in a very, very measured way is starting with a single research need of investors, a mutual fund research need is to expand to adjacent needs, closed-end funds, variable annuities, equities, hedge funds, and then to expand by audience from individuals to advisors, to institutions, and to expand globally. So, again a very measured growth over 30 years, and at the same time in the context of that we've tried to build this wide moat business. So, again all those moat sources that I talked about, building up the database, the proprietary metrics, the brand, the

reputation, make it harder to switch from Morningstar, and so building up a wide moat business.

And now as we look to the future, the mindset is very much – to use a phrase from Jim Collins, Built to Last. We have this long-term view of how we run the business, so we're making investments in getting the right organizational structure that will scale in the coming years. We're making the right investments in terms of our data infrastructure, our products, our research capabilities, all because we think we've got a tremendous opportunity to help investors for many, many years to come, but providing them with better and impartial, independent investment advice.

So we remain very excited about our future. And with that I'm going to call up Kunal Kapoor who is going to talk more about our initiatives, give you a little more depth and give you some other information around those. Kunal is a Morningstar veteran. Kunal, as I mentioned, heads up Global Solutions and Products in the Information Products side, but he has been at Morningstar for 17 years. He started in data, went over to the fund analyst side, headed up Morningstar Mutual Funds where he was the Editor, headed up the fund analyst group. He has done so many things at Morningstar. He went over – ran Morningstar.com, ran Morningstar Managed Portfolios, the mutual fund advisory program for advisors, worked in International, and now he is heading up Global Solutions and Products. So, please welcome Kunal Kapoor.

Kunal Kapoor: Good morning, everyone and thanks Joe. I am going to take a few minutes now just to dive into some of the initiatives that were focused on this year at Morningstar. I think Joe has already given you a bit of a flavor for some of the things that we're working on, and I'll just try to maybe provide you with a little bit more of a granular view on some of the key initiatives. I'm going to do this by essentially moving through some of our major customer groups and then Tom Idzorek, my colleague, is going to do the same as well when it comes to sort of talking about the Investment Management piece.

I'll start in the Advisor area, where I'd say the theme this year for us is making the life of the advisor a lot easier and to, sort of, make sure that the workflow that they're involved in is a lot smoother for them, so that they can actually recruit clients, do their work, all that type of stuff, and it really starts by trying to understand what the Advisor workflow looks like.

So, what we've been doing at Morningstar is really thinking about what are the key capabilities we need to have to serve the advisor. If you look at this workflow, historically Morningstar has had strength in what I would call the front office area and the investment research and management piece, but over time we started to build our capabilities in the back office and the middle office, and the thing we want to start doing is start connecting those capabilities in a way that it makes it easier for the advisor to complete their work.

So, today if you go talk to many advisors, you'll find that they often use different platforms, different providers, and one of the challenges is that they will do part of their work in one solution and then they have to log out of that and go do some of their work in another part of their office. And so what we want to do is either kind of connect those pieces up ourselves or where appropriate even partner with third-party firms to kind of provide a more seamless experience to the advisor. So, examples of where we might partner, might include the CRM area, where we're partnering with a firm called [Red Hat] (sic) [Redtail] or in the financial planning area where we're working with a firm called eMoney. So we're going to try to do more of these types of integrations so that the experience for the advisor is a lot more seamless and that we address sort of the workflow needs across the board.

An example to where we could really make this work really well is related to our ByAllAccounts acquisition. If you think about it, if you put yourself in the advisor's shoes, one of the challenges many advisors face is that they don't have the full view of all their clients' assets. So, a client may come to an advisor and maybe allow them to manage a certain part of their portfolio. But from the advisor's perspective that's less than ideal because they don't have the full view. ByAllAccounts allows the advisor to work with that client to essentially start pulling in all the accounts, so the advisor can gain that full view that perhaps they lacked prior to that.

So that does two things. One, it obviously allows the advisor to serve the client more efficiently, but also from the advisor's perspective as they start managing more of the clients' assets, it also helps the fees that they can generate for their own practice. So it's a win-win from that perspective for the advisor and the client.

We're also very, very excited about the iPad app that we're working on for advisors. Put yourself again in the advisor's shoes for a minute. Today, most advisors work in their offices, generate the reports that they need to have for clients and often what they do is they'll print those reports, put them in their briefcase and go offsite to meet with the client. So, that image of the advisor walking into a meeting with a briefcase or something like that is not that farfetched from the truth, and that's because they're often carrying a lot of materials with them to make the case as to why a client should work with them or to update a client on a portfolio. So that's all very well and good, but because of the development of mobile devices, we now have an opportunity to make that experience a lot more easier.

So think about a scenario where the advisor could work in their office on their desktop, generate the reports that they need, store them in cloud and then leave that briefcase in the office, just take perhaps their mobile device, iPad with them to the client's office or to wherever they're meeting the client and then access

those reports on their iPad via the cloud where they stored them, pull in what they need. And then think about it from the client's perspective, it's a far more interactive experience, far richer experience, and hopefully kind of leads to a relationship that's stronger and more secure and leads to better outcomes for both the advisor and the client. So we hope to launch this in Q4 of this year and we're very excited about some of the work being done there.

Finally, I'll move now to the Asset Management area, and what I want to focus on the asset management piece – where I want to focus in the Asset Management piece initially is on Morningstar Direct. Joe sort of showed you the screenshot of what our working homepage currently looks like. But I also wanted to sort of start sharing with you some of the actual screenshots of the portfolio analysis and screener that we're working on. What's really nice about this is it starts providing investors with a seamless experience in terms of moving between different investment vehicles and asset types. I also want to point out that the technology that we're using here is new technology to Morningstar, but also really some of the best technology that we've ever used. We really think that the performance and the experience that investors are going to get when they use this is really going to be really, really superior to anything that we've done before.

Also spending a lot of time on design as you can see, this looks very different from what Morningstar Direct currently looks like for those of you who are familiar with it. But we think it provides again a very rich and intuitive experience and one which we think will really go over well with our clients. So, as Joe said, we hope that the beta version is going to be out later on this year and we expect that we'll have the full live launch in Q1 of next year.

We talked a little bit about strategic beta as well. And I want to point out that when it comes to strategic beta, it's not just about building the indexes, but it's also making sure that those investors who come to us to learn about strategic beta can either do that through our research or that we provide them with the data and tools through our software products, our beta products that allow them to make decisions around finding the right strategic beta investments for them. In case you haven't already, we recently had a issue of Morningstar magazine that focused exclusively on strategic beta and you're seeing a screenshot from that. I'd recommend you give it a look, it's really a good tutorial I think on strategic beta and some of the opportunities available to investors.

On the regulatory front, we are finding that it also helps to work with other firms and over in Europe, while we're working with UBS to actually enhance our Solvency II solution that we're bringing to market, this is an important part of what regulators are asking a lot of asset managers to comply with in Europe, and the interesting thing that we're finding with some of these regulations is that once they take hold in one location, they tend to get ported over into other locations as well. So, while I can confirm that none of our clients are going to say that they love regulation, the reality is that they do need to deal with them and we want to

partner with them and make sure that they're in compliance and that we're helping them get over any of the headaches associated with being in compliance.

On the research front, we now have what we believe to be the largest independent research staff globally, and we've certainly taken the opportunity not only to kind of grow our staff but where some of our competitors such as S&P have retrenched, we've stepped in and tried to fill the void very meaningfully.

An example of that is over in Europe, where S&P has begun or S&P has actually curtailed the use of their ratings, qualitative ratings in fund research and we are now building awareness of our offering there and actually expanding some of the work we do on the research front in Europe. So, you're looking at an ad campaign that our team has put together over in Europe around this capability, which we're very excited about.

In past meetings, we've also talked about our equity data capability and the fact that that has been a growing capability. If you step back and think about how many people view equity data, it's often a question of the breadth of equity data that you cover, the number of securities that you cover. So, many of the firms out in the marketplace often will talk about that; but then you think about Morningstar a little bit and how we think about data. It's not just about the breadth of the data that we cover, but also the depth.

So, on the mutual fund side, what we've done is, not only have we got all the data, but we overlay that with unique Morningstar metrics and unique Morningstar data points and we want to do the same thing on the equity data side. So, while we expect that we're going to have the breadth of coverage as well, we really want to focus on providing unique data points to a certain subset of that data and, if you will, Morningstarizing, that data set.

So, in the equity side, we might take concepts such as our economic moat concept and run that through our database or we might look at doing things such as working on a scrubbed EPS number for a certain set of companies, which is of course different from the typical EPS number that you get, in that it normalizes some of the extraneous events that tend to sort of provide some of the noise in the regular EPS numbers. We really want to add value in that way.

Retirement is an area that sort of permeates all the work we do at Morningstar. It's a really nice opportunity across our segments. I'm going to skip over it here, because Tom will focus on that a little bit more and I'll move quickly onto Individual Investor.

What I'm showing you here is a snapshot of our current homepage on Morningstar.com. Those of you who are familiar with it, and I imagine many of you are active investors probably really enjoy using it and have come to love it, in the time that we've had this page up.

As we thought about what the next generation of this page ought to look like though, we often hear that the page works really well for very highly engaged investors. They love it, they're very experienced, they know what to find and they want the depth of information. But if you go one level down, to folks who have an interest in investing but perhaps they don't have the time as yet or perhaps they don't have the experience as yet, they say they struggle a little bit to find the answers that they need. So, as we start to envision what the next generation of our website looks like, we really have started to think about it from the perspective of a jobs to be done approach and we started to identify jobs that people may want to do on the website.

So, you're seeing here some examples of the types of jobs people are looking to do, and our goal is to set up our next generation website in a way that kind of gives people the answers very quickly to the jobs that they're looking to do.

A simple example might be, for instance, finding out about what Morningstar thinks about a certain security. In this case, you're looking at our signature page, the current signature page for Apple. Now, a very experienced investor who's familiar with Morningstar, knows some of the things we work on will very quickly, at the top of the page, see our three-star rating on that security and actually a little bit lower in the fold that you can see here, will also see our fair value, where you should be buying the stock, selling the stock. So, it works really well for an investor like that. But when you put a less sophisticated investor on a page like this and ask them to react to what Morningstar thinks about the security, we get often mixed answers. And so what we want to do is we want to simplify it even further and get those folks to an answer that might make sense.

So what you're seeing now are some concepts that we're working on as it pertains to our upcoming version of the signature page and the idea here is very quickly to get folks to the answer of what does Morningstar think about an individual investment. I'd particularly draw your attention to the middle panel, which is the valuation detail page. We have there something called a valuation capsule and very quickly in that valuation capsule, you can see what Morningstar's fair value for that stock is, where we think you should buy it, where we think you should sell it and also the current price. So, very sort of simple, easy way to kind of get to those answers for folks who maybe aren't willing to invest a whole lot of time in their investing, but want to start learning a little bit about it. So, very excited about the work we're doing here and, again, as Joe alluded to, there's a lot of replatforming involved even on Morningstar.com as we look to roll out some changes later this year.

So, very excited about some of the things that we're working on and as I pass it on to Tom here, one of the things I'll point out is that we're doing more and more to find ways to connect our information products capabilities with our investment

management capabilities as we go forward and we really see an opportunity of doing more of that in the future.

So I'll hand it over to Tom and he'll walk you through some examples on the Investment Management side.

Tom Idzorek: Thank you, Kunal. So, I plan to elaborate on three initiatives that pertain directly to the Morningstar Investment Management area. Similar to Kunal, I'll refer to our various customer groups that we're targeting and beginning with kind of the Advisor customer group.

One of our very successful services that Joe elaborated on was our Morningstar Managed Portfolios. Over the last five years, the AUM in this service has tripled. We now serve over 4,500 different advisors and we're trying to enhance the platform that these advisors are interacting with.

Moments ago, Kunal spoke about one of the desires when we're working with advisors is to make the workflow that they're going through easier to use and that certainly is the case with the platform here. If you're using our platform today and an advisor's interacting with our website, for each portfolio that they want to eventually use, they have to generate one proposal per portfolio and it's very much kind of this one-to-one relationship and so, it's often that an advisor might have to run multiple proposals to map an individual into the set of portfolios that they'd like to use, and we'd like to enhance the workflow associated with our platform that really makes this easier for the advisor. So, this key initiative here is that we're trying to take this household view where an advisor will be able to generate one proposal that will lead that individual into potentially multiple different portfolios or strategies that we use.

Along with this initiative, probably more perhaps bleeding into next year is also we want to develop kind of what's referred to as a unified managed account capability. So, today, within our separate accounts; one, the account can only hold a single, kind of legal structure of investments. So, you either are in an all-mutual fund portfolio or an all-ETF portfolio. One of the very popular strategies that we have within our system is an active/passive strategy. Today, that's only available in a pure mutual fund form where the passive portion of that is implemented with passive mutual funds and then active mutual funds. Once we have that unified managed account capability, we'll also have the ability to blend together ETFs and mutual funds into one separate account.

Next, kind of moving into the Asset Management area and to talk a little bit about a key initiative of really strengthening our index capabilities. Earlier, when Joe was talking about some of the key trends, one of the things that you noticed that, as it relates to fund flows over the last three years, flows into passive investment vehicles have trumped those going into active investment vehicles. Likewise, both Joe and Kunal elaborated on the growing excitement around strategic beta,

sometimes referred to as smart beta, and we see both of these trends as being very beneficial to our index business and we're investing heavily to increase our capabilities in that space. Today, we have slightly less than 300 different indexes within our index capability and if we were to kind of paint them from a broad brush stroke, what we'd see is that there, most of our capabilities are U.S.-centric from this perspective. What we'd like to really be able to do is globalize our index capabilities, building, enhancing kind of our team of people, our database, the underlying data, which will increase our ability to really build out a family of indexes that could at some point in time exceed over a thousand different indexes and it would be very well positioned to take advantage of the growing trend toward passive investing and towards strategic beta, which we see is a way to really take a lot of the wonderful Morningstar investment IP that we have and combine that into strategic beta indices moving forward.

Moving onto the Retirement area, another very fast growing area for all of Morningstar. Within our retirement managed accounts service, over the last five years, the AUM invested in that service has more than doubled. And the services that we have that make up our retirement management services, to some degree have grown through acquisition; many years ago there was the mPower acquisition, there was the Ibbotson acquisition, and over the last few years, we've been trying to consolidate various features of that.

On the user interface side, we, really at this point in time, are supporting two different user interfaces. One of our goals with this initiative is to somewhat sunset those legacy user interfaces and move to a much more modern mobile, tablet-friendly user interface that is capable of driving engagement. Likewise, we have kind of our core advice engine that drives these various retirement services and we are working to continue to enhance that to offer better and more complete financial planning type advice within that service. Then finally, as it relates to the portfolio construction piece, because we are, again, have grown through acquisition, within this space, we have a couple of different portfolio construction optimizers hiding behind the scenes that are building portfolios, and we really want to combine that into a single best practices system that is of course much more scalable and will ultimately result in better outcomes for our investors.

With that, I'm going to actually invite Joe back up to introduce Stéphane Biehler, our new CFO. Thank you.

Joe Mansueto: Thank you, Tom. Well, it's my pleasure to introduce our new CFO, Stéphane Biehler. As you may recall, Scott Cooley, our former CFO, a long-tenured Morningstar employee, decided to step down and pursue a career in academia. So, while we're disappointed to see Scott go, we're very excited to have found Stéphane. Stéphane was formerly the Chief Accounting Officer and Controller of the New York's NYSE Euronext. He became available when that firm was acquired by ICE, the IntercontinentalExchange. Before NYSE Euronext, Stéphane was the – held a similar role at Archipelago, the electronic exchange

based here in Chicago. So we're thrilled to have Stéphane, he's been here six months, so please give him a warm welcome. Stéphane?

Stéphane Biehler: (indiscernible) financial highlights for 2013 as well as our first quarter of 2014 and we'll talk about a topic that is an important topic that we discuss at Morningstar given our financial flexibility, which is capital allocation.

So turning back to 2013, as far as key metrics are concerned you're seeing here that our revenue was up 6.1% in 2013 compared to 2012. The revenue was up $40 million, $29.5 million in our Investment Information Products and $10.5 million in our Investment Management arm.

As far as operating income, you see that our operating income in 2013 was $170.7 million, an increase of 13.3% over the previous year. You saw our free cash flows which is essentially the firm's ability to generate cash flows from operations, net of what we are reinvesting in the business in the form of capital expenditures grow to $153 million last year.

So, for the last five years, on a compounded basis, our revenue has been growing 6.8%, and you can think about this as the – since the financial crisis. If you add the five years which preceded the financial crisis, our compounded growth rate when it comes to revenue has been 17.5%.

Turning onto our key products and Joe, Kunal, and Tom indirectly or directly touched on this already. You see here that the biggest contributor to our revenue growth in 2013 was Morningstar Direct. Morningstar Direct alone added $14 million of revenue in 2013 as compared to 2012. The second largest contributor was Morningstar Data, and the third largest contributor was Advisor Workstation, which is something that we refer to often as Office for the most part. Joe touched on the Investment Advisory challenges in our Investment Management businesses. This is where you've seen some of these variable annuity firms bringing some of their fund of fund portfolios in-house as a result of the low interest rate that we're experiencing these days.

So the revenue by region, you see that we're generating three quarters of our revenue in North America. Out of that 76% in North America, 70% is the U.S. and Canada is 5%. In Europe and the Middle East, 18% of our revenue is generated and that's split pretty much 50-50 between the U.K. and Continental Europe. And as far as Asia is concerned, our largest operations in Asia are in Australia, where we generate 5% of our consolidated revenues.

Operating margins; you've seen our margin expand in 2013 to 24.4%. That's a 150 basis point improvement. Now starting it, we've reached 25.7% margin in the third quarter last year and following our reorganization we've been investing in the business, you've seen our margin go down to 23.4% in the fourth quarter last year and, we'll talk in a few minutes about the first quarter where our margin went

down to 21.3%, as our operating expense growth outpaced our revenue growth as we invested in the business.

First quarter 2014, a similar slide then what I showed you a few minutes ago to describe our 2013 annual results. You see that our revenue has been growing at more than 7% – at a pace of more than 7% over the first quarter last year, and you saw that our operating income and profitability has gone down. As I just mentioned, we've been investing pretty heavily in the business in the last couple of quarters. And you've seen our free cash flows being actually negative in the first quarter as we – typically in the first quarter, we also pay bonuses, so it's a pretty slow quarter from a cash flow generation standpoint, this year we paid $40 million of bonuses is February, March around the globe.

Our balance sheet is extremely solid. As you can see, at the end of March we had $264 million of cash and cash equivalents on hand. The next morning on April 1 we spent $28 million to acquire ByAllAccounts, and Joe mentioned that – talked about that acquisition and the strategy behind this acquisition. From a working capital standpoint, we were pretty steady at $177 million and you see that we don't have any long-term debt, which provides us with a lot of flexibility and, I guess, that's a good segue into the last topic that I'll touch on which is our capital allocation.

So, as far as our capital allocation is concerned – and I am going to take care of – I'm going to speak about that slide first before I speak about the previous slide. We are in a very strong financial position, which provides us with a lot of flexibility to fuel our organic growth, make acquisitions, repurchase our stock or pay dividends or all of the above and you've seen us do a combination of these things.

So, going back to the previous slide – here we go – as far as acquisitions are concerned, you've seen us be very acquisitive in 2009 and 2010 where we pretty much spent all of our free cash flows or a large majority of our free cash flows acquiring businesses. In 2011 and in 2012, we integrated some of these acquisitions and we did not acquire any business in last year. We owned 24% of Morningstar Sweden at the beginning of last year and we decided to acquire the remaining 76% for $11 million to make Morningstar Sweden a wholly-owned subsidiary, and again, you've seen us just recently acquire ByAllAccounts.

So skipping ahead as far as dividends and share repurchases are concerned, you see here that we've been very active in repurchasing our stock and you've seen us pay increasing dividends. We've recently increased our quarterly dividend to $0.17 a share and we are poised to pay approximately $30 million of dividends in 2014 on an annual basis.

This is a recap of our share repurchases. Through the end of 2013, we had repurchased approximately $450 million of our stock and we repurchased $21.7 million in the first four months of 2014.

So what this means is that as far as the number of shares outstanding is concerned, it's been steadily going down, and since – if you've been holding the stock since 2012, you just by the mere attrition of our shares outstanding, you own 11% more of the company than you did when you acquired your shares.

I'm required to provide you with a reconciliation of free cash flows to the most comparable GAAP measure as free cash flow is not a recognized measure. So, here it is for each of the periods that I touched on.

So, we're going to make a 10-minute break. We'll be back for the Q&A session. If you have any questions, please feel free to use this address to ask your questions. We have 30th Anniversary cookies outside. So we'll take a 10-minute break. Enjoy the cookies and we'll be back for the Q&A session. Thank you.

Joe Mansueto: Okay. We're going to ahead and get started. We've got some official business to wrap up. Rich, will you please report on the voting results?

Richard Robbins: So, the Inspector of Election has advised me that more than a majority of the shares represented in person or by proxy and entitled to vote at the meeting has been voted for each of the director nominees listed in the proxy statement, also to approve the performance measures under the Morningstar, Inc. Incentive Plan, to approve our executive comp, and to ratify the appointment of KPMG. Thanks, Joe.

Joe Mansueto: Okay, thank you, Rich. Now we're going to move to the Q&A part of the meeting. A couple of announcements before we do that. One, Kunal asked me to make a correction that he mentioned a firm, he meant to say Redtail, he said Red Hat. So we're integrating with a firm called Redtail, not Red Hat, which I believe is a firm owned by ITW, as I recall. But Redtail was the firm he meant to say.

And secondly, if you do have a question and you are here in the audience, you don't have to use the web channel to ask your question, we'll have a microphone and you can ask it live. If you are outside the auditorium and you want to ask a question then use the web address and we'll get to those questions as well.

Okay. So I'm going to move over here. And you know, most of the folks seated beside me, except the one to my right Haywood Kelly. Haywood is our Global Head of Research. Don Phillips stepped down over the past year. We were sorry to see Don do that. Don remains with Morningstar very engaged. Don wanted a little more flexibility in his schedule. Haywood is a Morningstar veteran. He's worked in the research area for a couple of decades, knows it extremely well and

we're very excited. I'm pleased that Hayward stepped up to lead our research effort. So, Stéphane on finance, Haywood, and then Tom and Kunal in their respective areas.

So, now we'd very much love to hear your questions, about anything we talked or anything else that is on your mind. No one wants to be the first, but I see a gentlemen in the back, could you also identify yourself, before you ask the question?

Q&A***

Q: Martin Hargrave: Marty Hargrave with Abbot Downing. When you talk about the next generation software programs coming out, how do you think about the impact on revenue? Will it make clients stickier? Will you get new business? Will you be able to increase prices?

A: Joe Mansueto: I think, nearly all those things. With Morningstar Direct, our strategy is not so much price, it's to add more value to it each year. So, I don't expect a bump up in price as we release this; but I do think we'll get new clients. Hopefully you can see in some of the screen shots, much more intuitive, easier to use. We're also trying to build in some capabilities to address other segments. So, for example, more buy side capability on the equity side; that really wasn't surfaced as strongly, previously in Morningstar Direct; but it will make it also I think stickier, the renewal rates will go up. So, all of those things, in my view should have a very positive impact on revenue. Kunal, I don't know, do you have any view on it?

A: Kunal Kapoor: No, I think you covered all of it, Joe.

Q: Greg Halter: Hello, Greg Halter, Great Lakes Review. Given the history of the company going back a few years when the revenue growth was very strong, 20% would be common year-over-year increases on an annual basis. Just wondering if you ever see those days coming back again and if so, how you look at the expense control side of things, and if not, how you look at the expense side of things for the company?

A: Joe Mansueto: That's a good question, Greg. As I look at the past, keep in mind that a chunk of that revenue growth of 20% was from acquisitions. That was not 100% organic growth. So, as we've dialed down the acquisitions, the top line revenue growth is less; but even back then, when it was 20%, the organic growth was perhaps half of that number. I think a lot depends on the market, what happens to the market as we get bigger. I think our growth is going to reflect more how the markets do, how the global spend on information plays out. If we get into a period of robust equity markets, robust fund flows, I think you'll see greater spend.

If that spend has impact in terms of – if asset management firms can spend and raise assets, I think they're more likely to invest in kind of research capabilities, kind of that they can show active management does well. We did go through this period where it was the last decade of equity returns, I think active management as a whole was pretty challenged. So, there was not a lot of reason maybe to do a lot of active research. There was less reason to do it. So it kind of lessened the demand; but I think that'll change. I don't think the game is over for active management by any stretch, that there's a cyclical element to this in a period of low returns. Passive is going to look better as you have stronger equity returns. I think that comparison is going to be tougher for passive. So, again, I think as active comes back, that should benefit us more.

In terms of spend, we do calibrate our spending to the growth that we see. I think this period is a bit unusual, because we are going through this investment period that Stéphane talked about and I did in terms of replatforming, bringing out new products that are cloud-based, mobile friendly and so we're going through this period just like moving things to the Internet or to windows kind of a heavy investment period; but ultimately if you look at our history, we calibrate our expense growth to the revenue growth. So historically, we've not let expenses grow faster than revenue very often and if we do that, it's done very consciously for reasons. It's not something we expect to persist longer term.

Q: Greg Halter: Relative to the competitive area, who do you find or when your folks go out in the field, who do you find the most difficult to try and displace? Who's entrenched in there and you're trying to take some business from them?

A: Joe Mansueto: I probably won't name specific names, but I would say that switching costs in general are one of our biggest obstacles. We think we've got great solutions and the hardest part no matter who it is; A, B, or C firm, just getting a firm to invest the time and energy to switch, is our biggest impediment. They typically like what we're doing better than an incumbent if we're going head-to-head, but it's getting the firm to take that first step to invest the resources. So, just as we have switching costs, which are part of our moat, which protect us from competition, we also go up against that with our competitors. So, we may have a great real-time feed that's actually much more economical for a large firm, but getting them to invest the time and the resources to implement that feed, it can be challenging. So I would say switching cost is the biggest one, but I don't know, Tom or Kunal you want to be less diplomatic and name any names or comments on competitive situation?

A: Tom Idzorek: I guess, I'll try to be just as diplomatic and not name any names, but in the retirement space in our managed account offering there, where the integration that is required between the record keeper and our service is relatively significant. There's a large switching cost and hooking up cost if you will that a potential new client would incur, if they were moving from one of our competitors to us and again so it's very much in line with what you're saying.

A: Kunal Kapoor: I would just add that, I think, there are more and more opportunities as well to kind of partner with a lot of firms out there. I talked about that as it pertains to the advisor workflow; but we see other opportunities as well to do that, and I think that, that can help us. I'd also add that, we talked a little bit earlier about the Burton-Taylor report in terms of total spend; and Joe alluded to the fact that, that slowing down in spend probably impacts some of our larger competitors, more so than it impacts us and I actually think that we're seeing some opportunity there, because as some of the large asset managers for instance, are looking to kind of cut their costs, consolidate who they're using, that's often an opportunity to have a conversation about a switch that otherwise might not have been there. So I see a little bit of silver lining in that regard.

A: Joe Mansueto: Actually it's a really good point. I mean, we are seeing everyone want to cooperate among our competitive set. So ever since we started, we've had an open architecture philosophy. Again, we're very mission-driven, so we work with all comers, we sell to our competitors, have for a long time. We have a big redistribution business, where if clients don't want to come to us directly, we'll supply our data, our research, our tools to competitors, and they'll embed that in their solutions, but our competitors typically have not been as enlightened and a lot of firms have cut us off. They won't do business with us. That's fine, we can find other ways to get by, but recently, I would say in the last couple of years, just about every firm in our set wants to integrate with us. We have a meeting actually next Monday, where a bunch of us are going down to a very large firm that is typically we've competed head-to-head and a senior person there reached out and said, hey, we're getting a lot of requests for Morningstar data, why don't we see if we can sit down and kind of work together. So, again, it's kind of a sea change in this kind of slower-growth environment. It has caused a lot of people to change how they interact with us and how they compete with us. It's more of a world of co-opetition, I suppose.

Q: Greg Halter: Relative to the switching cost comment, has there any attempt been made either by you or you hear from your competitors or who you're going into, I mean, the potential customers, what that cost is? Is it a 10% or a 50% additional cost to what they're doing currently, any thoughts there, any numbers?

A: Joe Mansueto: You mean, the cost – the benefit to them or the cost that they would bear to switch?

Q: Greg Halter: That they would bear to switch. Is it a doubling of the cost or 50% or 10% or…?

A: Joe Mansueto: Greg, I think it's really hard to give a number on that percentage-wise, because it really varies what the application is; but I think it's typically high and it's typically – they've got a limited budget and it's probably a

shrinking budget and where do they want to put their development resources. So, they don't want to put it on something where it's maybe getting a slightly better solution because they've got these other top initiatives that they want to focus on. So, whether it's 20% or 30% probably doesn't matter, because they really want to pursue these initiatives with their limited headcount.

Q: Ralph Wanger: I am Ralph Wanger. The individual investor I think maybe has not been as active and lively as has been in previous markets. A, I want to know if you have any data on that and whether it would be something that goes on and I think – and second, would it be possible that a decline in the numbers of retail stock brokers and other people trying to get the individual excited have something to do with this and does this – how do we in the asset management business work on this problem?

A: Joe Mansueto: Yeah. Ralph, I think you hit the nail on the head. I think the challenge is getting individual excited about investing again. I think that excitement has been since '08, '09 kind of removed in large part from many individuals, and they've been – they moved to the sidelines. They saw it come down so much and so I feel like that's part of our role at Morningstar, it's part of the industry's role is to get out and I've talked to other heads of asset management firms, they feel the same way. What can we do to get individuals excited again?

And to see that they've got responsibility to save for their retirement and to engage in, especially young people in their 20s and 30s who see the big bad institutions that they want to – they don't want anything to do with that. They want to sit in cash and so it's not like it was 20 years ago where investing was cooler and younger people wanted to engage with it. So you've seen, if you look at a long period of time, whether it's decline in leadership at a money magazine or a lot of publications, I think, again, as I mentioned in my part of the presentation, we've seen over the past year, the numbers turn up a bit, but they're still, I don't think, where they were previously. So again, I feel like that's part of our role and you're right, when we started 30 years ago, there were stockbrokers. People really weren't called advisors. There was an emerging group of independent advisors, but the average person at a Merrill Lynch or a Dean Witter was a stockbroker, but now, no one uses the term stockbroker. They're all financial advisors. And so – but I think those numbers have held up fairly well in terms of financial advisors, and I don't think that's been on the decline to my knowledge. It's held up, and so – it's more, how do you get individuals excited about investing and thinking about retirement, because when they need to really address retirement, you can't wait till you're 55, you've got to start in your 20s and 30s, kind of get that compounding working for you. So, you guys probably have thoughts on this issue.

A: Kunal Kapoor: Yeah. I feel like the tables have turned here a little bit. I remember interviewing Ralph 15 years ago about his funds. So, the thing I would point to that I think is actually a positive in this regard is we hear particularly from financial advisors that they are increasingly thinking about goals-based investing and outcome-based investing. So that means that they may not be talking about the next hot dot stock or trying to sell a particular security, but they are sort of focusing on an individual's complete financial picture.

And I think that that creates new types of opportunities for us and others in this area. I mean, it's one reason why we potentially made the acquisition of ByAllAccounts. But I think that mentality of helping the individual kind of think about the outcome is actually going to be helpful in the long run and will probably lead to somewhat of a reengagement in the way that financial advisors are working with them. So I think that, that's important, and it's certainly a pivot that we are also aware of and thinking about as we design our own products.

A: Joe Mansueto: We're trying to be out there as much as we can to promote the merits of long-term investing, kind of using the Ibbotson numbers to show that over long periods of time, equities do better than bonds, bonds do better than cash and the importance of sticking with it. I mean, you saw in my chart of, kind of investors jumping back into equities after they've missed the run-up and we talk a lot about this investor returns and investors just aren't having that good experience that they should have because they're jumping in and out and so we're trying to do a lot of work around that on the research side. Maybe it's more of those outcome-based, so that people can reap more of that reward what the equity markets can deliver, and by our research, what, you lose 100 to 200 basis points per year, if you look at the gap between total return and what we call investor return or dollar weighted returns, this moving in and out creates a drag of a couple – 100 or 200 basis points depending on the category of investors mistiming the markets and really not getting the benefit. So, they're having a poorer experience than they otherwise could have had imagined somebody who came in at the last minute in '07 got the downturn then sold out at the bottom. That's a person that can be hard to reengage in the markets.

A: Haywood Kelly: A lot of work being done around signature assets which Don is working on is surfacing some of those tools on our individual site. For example, to help investors better gauge, say, the valuation of a security or a fund so that they don't sell at the wrong time, that they can – they're better educated to stick with it for the long-term.

Q: Matthew Spitznagle: Matt Spitznagle with Eagle Asset Management. I was wondering if you guys could talk about your capital deployment priorities over the next couple of years. You made one acquisition already. Is there still appetite for more? In what areas, what geographies, or is the stock buyback a higher priority right now?

A: Joe Mansueto: So, I think the real focus is organic growth. We think we've got a lot of exciting opportunities ahead of us. We've got a lot of great capabilities, but we need to stay focused on getting out this next generation of software, all the things that we talked about this morning. So that's the first priority.

Beyond that, to the extent that we have excess capital, Stéphane laid out all the options and this is something that our Board weighs and looks at regularly. If you look historically, we tend to favor repurchases over dividends to give shareholders the option of when to realize kind of that dividend. They can incur the tax when they choose to versus a dividend you get taxed on immediately.

So, if we can buy our stock back at fair value or below we think that's a really good place to use cash. So, I'd say organic, buying back shares, dividends and then acquisitions are there as well, but I would say the bar is fairly high on acquisitions and if we do buy something we want – we're not going to leave it standalone, we're going to integrate into this global organization.

So I think we're pretty measured about what types of things we would want, it would be a capability that could feed these solutions globally. We'd have a pretty clear integration plan, so I think the ByAllAccounts was just a model acquisition integration and it's a capability that you can see can feed a number of our segments and that's really, if we do see something that would add to our capability set; but I would say I think we've got a pretty complete roster of capabilities. Our issue isn't so much adding new capabilities as much as making the most of the capabilities we have. So better integrating those, getting those into this new software, getting them on a mobile platform, those are the things we need to work on versus adding lots of new capabilities.

So again, we're selective, if we come across something, we've got the financial resources to be opportunistic, but our strategy certainly is not predicated on acquisition.

Q: Amy Arnott: We have a question from the social Q&A platform. What controls are in place to safeguard against increasing costs of managing the technology infrastructure?

A: Joe Mansueto: Well, I would say – maybe I'll start and then I'll let Stéphane kind of chime in, that we look at our costs pretty rigorously. It's something we look at overall at the Company. There's a lot of scrutiny and so we're doing business reviews regularly, both at the segment level as well as vertically by the functional areas. So, I think we're scrutinizing our costs in a very disciplined manner. On the technology side, we've got a very strong Chief Technology Officer, Greg Goff here in the audience. He and his team, I think do a really strong job at looking, kind of at the spending there. I will say that Greg has been with us a few years, and he walked into a situation that needed some investment. We needed to consolidate our data into one golden copy, make it accessible to our products,

bringing the calculations into that, increasing our security reliability, up time, all of those measures look very strong now. So we, in a very thoughtful manner, thought that this was a – it made a lot of sense to put investments there, but it's something we review on a regular basis, both within the management team and at the Board level.

A: Stéphane Biehler: I mean, the only thing to add to this is this question might have been prompted by the relatively high number of capital expenditures in the first quarter. If you look at the free cash flow chart that I showed you earlier, you would have seen that in 2013, we spent approximately $35 million on capital expenditures. We had committed capital expenditures of slightly higher than that of $45 million. We did a lot of – we purchased a number of equipments late in the fourth quarter that were actually paid in the first quarter of 2014 and when you look at our capital expenditure number of $22 million approximately in the first quarter of '14, it includes some payments for some of the committed capital from last year, which may have triggered that question in terms of why is the number high. There's a little bit of a delay in the payments and the $22 million capital expenditure in the first quarter is certainly not the run rate we're looking at for the remainder of the year.

A: Joe Mansueto: Other questions, Greg?

Q: Greg Halter: I just wondered if you could speak to the – what you're seeing out there relative to last year. I know the same question came up with sales cycles and then what you see in terms of pricing from customers in terms of renewals and so forth?

A: Joe Mansueto: I think in this environment, I think there are probably longer sales cycles, more pricing pressure. It's never I guess been an easy environment for that, but I think ever since the downturn in '08, '09, there's been much more scrutiny on the part of our client firms, on costs. When flows are strong, markets are good pre-crisis, perhaps there's a little less scrutiny on those issues; but today, especially with many active managers, maybe they're seeing outflows, I think there's a lot of pressure that we have to combat, in the marketplace which, I think, puts all the more emphasis on having proprietary content, kind of must-have content that if you're a number two, number three or number four, it's pretty brutal; but a lot of what we do is kind of must-have. So, people need it, but, so there's a bit of pressure that a lot of firms, I think, exert in the context of that, what we're trying to do is we have a philosophy called Easy to do Business With, where we want to have some flexibility in our part, so we try and get creative and try and find a win-win to maybe provide more value to a client as opposed to taking a price decrease.

So, we want to partner with our clients in a long-term manner. We got a lot of benefits out of this over the last few years. Jim Tanner's been a real leader in this, our Global Sales Head; but again trying to have some flexibility, creativity, and

not just try and force price increases, knowing that it's hard in the short term to extract Morningstar from a large enterprise, but in the long-term, perhaps, our substitutes, a lot of our competitors have played that high switching cost card, I think, to their detriment where they've created some ill will among the clients. We've not taken that route. So, I think clients typically like to engage with us and so then when they have that next opportunity they're more likely to call us, because they see us as a partner that's easy to do business with, a little more flexible. So, as I mentioned with Direct, the strategy isn't to kind of increase the prices as much as you increase the value and to be more and more engrained as part of the workflow take over more of the desktop, but to do that in a customer-friendly manner.

Q: Greg Halter: On the credit business on the research side just wondered if you can describe where you think you are in terms of a nine-inning game in that initiative and what your goals are in that regard in terms of credit.

A: Joe Mansueto: Maybe I'll start and let Haywood – Haywood do you want to start on this one?

A: Haywood Kelly: Yeah, we're very excited about the credit business, so, we've got a great core in CMBS, commercial mortgage-backed securities from our Realpoint acquisition in 2010. We've got a great buy-side business there. Basically, anybody who invests in CMBS is a subscriber to our service there. Issuance in CMBS was ramped up last year and this year, the market's pretty optimistic that issuance will continue. So, in that CMBS area we're very optimistic, we've been investing in that area, more analysts, more analytical capabilities. We recently hired, last year Vickie Tillman as Joe mentioned. We brought in a Chief Credit Rating Officer this year. We brought in Violet Diamant to look at – start our ABS effort.

As you know we have an RMBS team. We've started to rate single-family rental deals, which is kind of a new hybrid vehicle. It's kind of a sweet spot for us because on the CMBS side, we've rated multifamily housing issues for years, so we have an expertise there. These single-family rental deals on the RMBS side are akin to that, so we've been able to use our CMBS expertise to kind of weight it into the RMBS area, that way – and are continuing to build up that RMBS capability for when the RMBS market ramps up. So we feel very good about that structured area. There is investor interest in a new voice aside from the big three and also interest from the issuer communities for an alternative there. So, our long-term – I'd say we're in the early innings to answer your question, so we've got a lot of room to expand within structured, longer term our goal is to become a full-service rating agency, the full gamut; but right now our focus is really on that structured area, focus on CMBS, make sure we maintain our moat there, build out RMBS and ABS.

Q: Greg Halter: Joe, just looking at the Company, if you had to look out 5 or 10 years, and I know you don't have formal goals at least that I'm aware of for things like operating margins or return on invested capital or return on equity or whatever the case may be, but where would you like to see this Company go given your ownership position over time over the next 5 to 10 years?

A: Joe Mansueto: Upwards. You mean in terms of those metrics?

Q: Greg Halter: Any kind of metrics.

A: Joe Mansueto: Any kind of metrics. Well the way we run the business is with this long-term focus, so we want to build long-term value. So, I want to maximize the value. So, it's not so much hitting a number, it's just maximizing the value. I think we're meeting a real investor need that's large and growing globally. We've got some great assets. So, I just want to maximize that return over the long period. So, I think we're making the investments now to kind of do that. I will say that the structure that we've put in place, I think will scale very nicely in terms of profitability metrics. It would have been much harder had we persisted with a more decentralized structure and the embedded costs of the redundancy to do the things that we are doing today.

So in some senses, in terms of those financial metrics, it might be a step back to take two or three steps forward, and we're making the investments in the data consolidation, the replatforming, the organizational structure, kind of doing the hard heavy lifting today, that I think are going to pay off over the long term. So again, my view is just to maximize that long-term number and it's not so much hitting an arbitrary X operating margin or X ROIC or some other metric.

And you can see from our prior – our historical metrics. They've been very strong. We generate a lot of cash. Morningstar is a wonderful business. It earns a lot of free cash flow and very little tangible capital, and we have $100 million of property, plant, and equipment part of that's capitalized software, and on that we earned $170 million of operating profit. So there's a lot of return on little tangible capital. It's kind of a great business in a Warren Buffett sense.

Are there questions, gentleman in the back…?

Q: Unidentified Speaker: Are there any other countries that you're looking to get into? You're in 27 now, any staff being put in some countries to get the ball rolling?

A: Joe Mansueto: Well, the newest ones for us have been in the Middle East and in Latin America. So we're just kind of getting started in Dubai and Brazil and Chile and Mexico. So, it's not so much I think adding new countries, it's kind of bringing those markets to fruition, and we're very excited to have signed on the Kuwait Investment Authority for example in Dubai as a client for a service that

accesses our fund analysts. So, we see some other emerging opportunities in the Middle East and then Latin America, Brazil and Chile and Mexico, we just got a nice deal with the, I don't know if we've announced this, the Mexican Pension Authority in Mexico to help evaluate some fund managers for the Mexican government. So, we're starting to make inroads in these countries and get established, and so I think we've got a lot of room to grow there. So I don't think there's any kind of new countries that we're looking to add as much as maximizing the ones that we have a footprint in today; India, a lot of Southeast Asia still, you can see on Stéphane's chart still a very small part of our business, but I think have good growth opportunities. I'll be in Singapore in June and excited to learn more about that growing kind of wealth market in Singapore, where I think we should have a larger presence as well.

Other questions? Anything over the social Q&A line before we…?

Q: Niamh Alexander: This is Niamh Alexander from KBW. Sorry if I missed this earlier, but with regards to the investment fees and the replatforming. It's quite a detailed process and it's taken, I guess, you're two years into it now, but help me think about when do you see yourselves coming out of that, every business has to invest, I get that, but I'm just trying to understand where do you level out and start to kind of move forward with certain operating metrics and you feel you've got the comfortable cost base?

A: Joe Mansueto: Yeah, you heard us mention that Morningstar Direct will have the first iteration of this new platform beta over the summer, the first version in Q1 of next year. So that at least will be manifesting itself in the external marketplace and hopefully we'll be seeing benefit from that. Then, there's a long roadmap of continuing to improve that, migrating more of the capabilities of Direct over to this new platform. So, that's a multi-year journey. The same on the mobile side, I mean, it's not as if you release a mobile offering and you're done. I think you all have mobile applications you see the constant release stream. So there's going to be a constant release stream around all of these, but the hope is that the revenue will increase to justify that; that we won't always be in this heavy platforming mode.

So, I think it should abate over time and the revenues, the revenue growth, we'll get the revenue growth to [more] than the expense growth either through higher revenue or lower expense, but again, it won't persist forever; but again, as you look historically, we've run our business where revenue growth outpaces expense growth and that's how we've done it for many, many, many years and we'll continue that in the future. I don't think I'm going to give a specific timeframe when that will change, but it will change in the future; but I think once we get these newer efforts to market, again seven mobile apps coming in 2014, the new version of Direct coming early next year, I think the tide will begin to shift a bit, but we still have Morningstar.com, we have the advisor platforms, the retirement platforms. So there's still a fair amount that we want to address, but we try and do

this is in a fairly measured way. It's not kind of go crazy and throw hundreds and hundreds of people, but we want to maintain some discipline around pacing that.

Okay, any other questions? Anything over the – I'm glad we got one question over the Internet, so it's working. Well if not, I want to thank you all for attending our annual meeting and we look forward to seeing you all next year. Thank you all very much.