

1984

Morningstar  
2014  
Shareholders'  
Meeting

2

MORNINGSTAR®

2

1985

9

8

1

2

1

0

0

2

1988 1990

1991

2

5

1

2005

2007

2007

2013

Business of Annual Meeting

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Management Presentations

---

Break

---

Questions and Answers

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To send in a question for the Q&A session,  
please visit:

<http://morningstar.socialqa.com>

**Today's presentations contain forward-looking statements. All statements made that are not historical facts are subject to a number of risks and uncertainties, and actual results may differ materially. Please refer to our most recent earnings release and our most recent Form 10-Q or 10-K for more information on the factors that could cause actual results to differ.**

**Today's presentations also contain non-GAAP financial measures. Please refer to the slides at the end of the presentations for a reconciliation to the applicable GAAP measures.**

# Morningstar Update

Joe Mansueto

Chairman and Chief Executive Officer

Mission & Strategy

---

Industry Landscape

---

2013 Highlights

---

2014 Update

---

# Mission & Strategy

Our mission is to create  
great products that  
help investors reach their  
financial goals.

# Widening the Moat

## Moat Sources

Brand/  
Intangible Assets

Switching Costs

Network Effect

# Key Objectives



Develop the next-generation software for our investment research platforms with an elegant and intuitive user experience for our customers



Deliver the most effective investment data, research, and ratings to help investors reach their financial goals



Be a world-class investment management organization based on our proprietary research

# Our Strategy

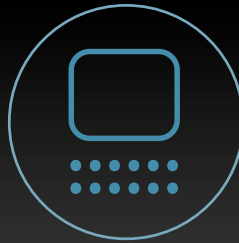
Goal: Widen  
Economic Moat

Brand/  
Intangible Assets

Switching Costs

Network Effect

Key Objectives



Major Customer  
Groups

Advisor

Asset  
Management

Retirement

Individual  
Investor

# Four Major Customer Groups

Advisor

Asset  
Management

Retirement

Individual  
Investor

# Four Major Customer Groups

Advisor

Asset  
Management

Retirement

Individual  
Investor

260,000

financial advisors

# Four Major Customer Groups

Advisor

Asset  
Management

Retirement

Individual  
Investor

260,000

financial advisors

1,500

asset management  
firms

# Four Major Customer Groups

Advisor

Asset  
Management

Retirement

Individual  
Investor

260,000

financial advisors

1,500

asset management  
firms

26

plan providers

237,000

plan sponsors

24 million

plan participants

# Four Major Customer Groups

Advisor

Asset  
Management

Retirement

Individual  
Investor

**260,000**

financial advisors

**1,500**

asset management  
firms

**26**

plan providers

**237,000**

plan sponsors

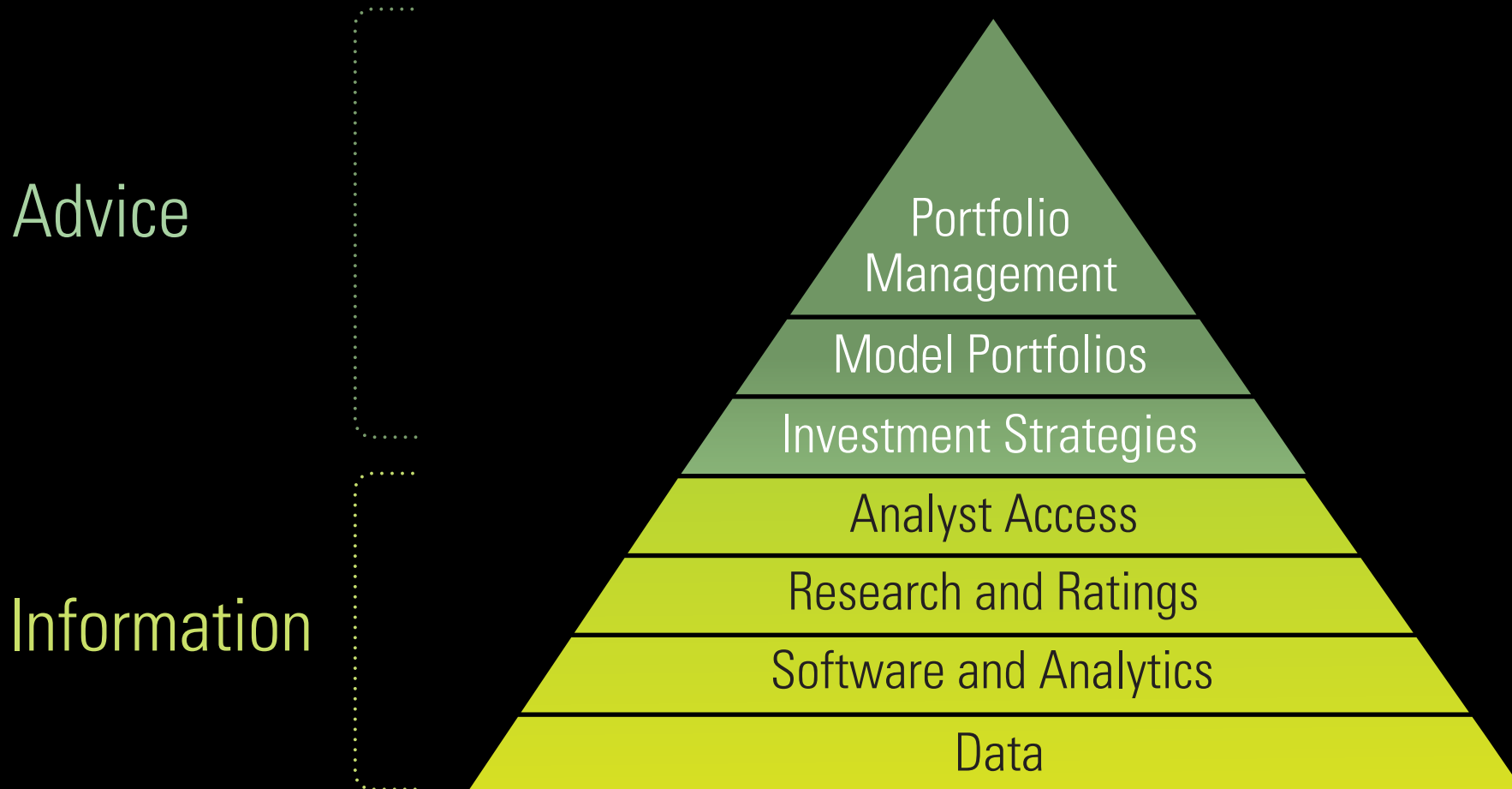
**24 million**

plan participants

**9.3 million**

individual investors

# Morningstar's Business Model



# Top Five Products 2013

Morningstar Data	Morningstar Advisor Workstation	Morningstar Direct	Investment Advisory Services	Morningstar.com
------------------	---------------------------------	--------------------	------------------------------	-----------------

18.5%

13.3%

11.3%

8.5%

8.0%

% of Consolidated Revenue

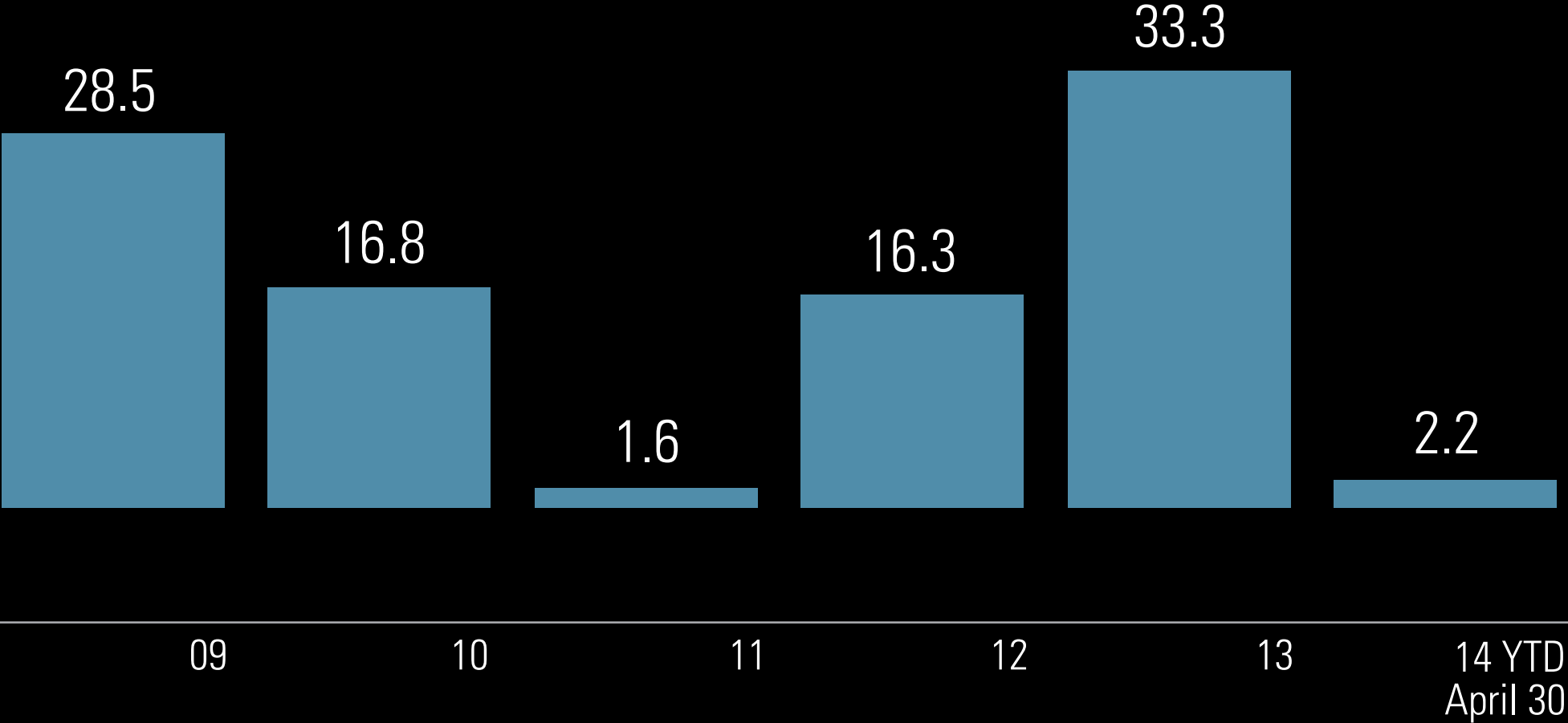
# Countries



# Industry Landscape

# Generally Strong Equity Markets

Total Returns %



Source: Morningstar U.S. Market Index

# Estimated Net Flows (\$bil)



Source: Morningstar Direct

# Estimated Net Flows (\$bil)

## Open End Funds and ETFs

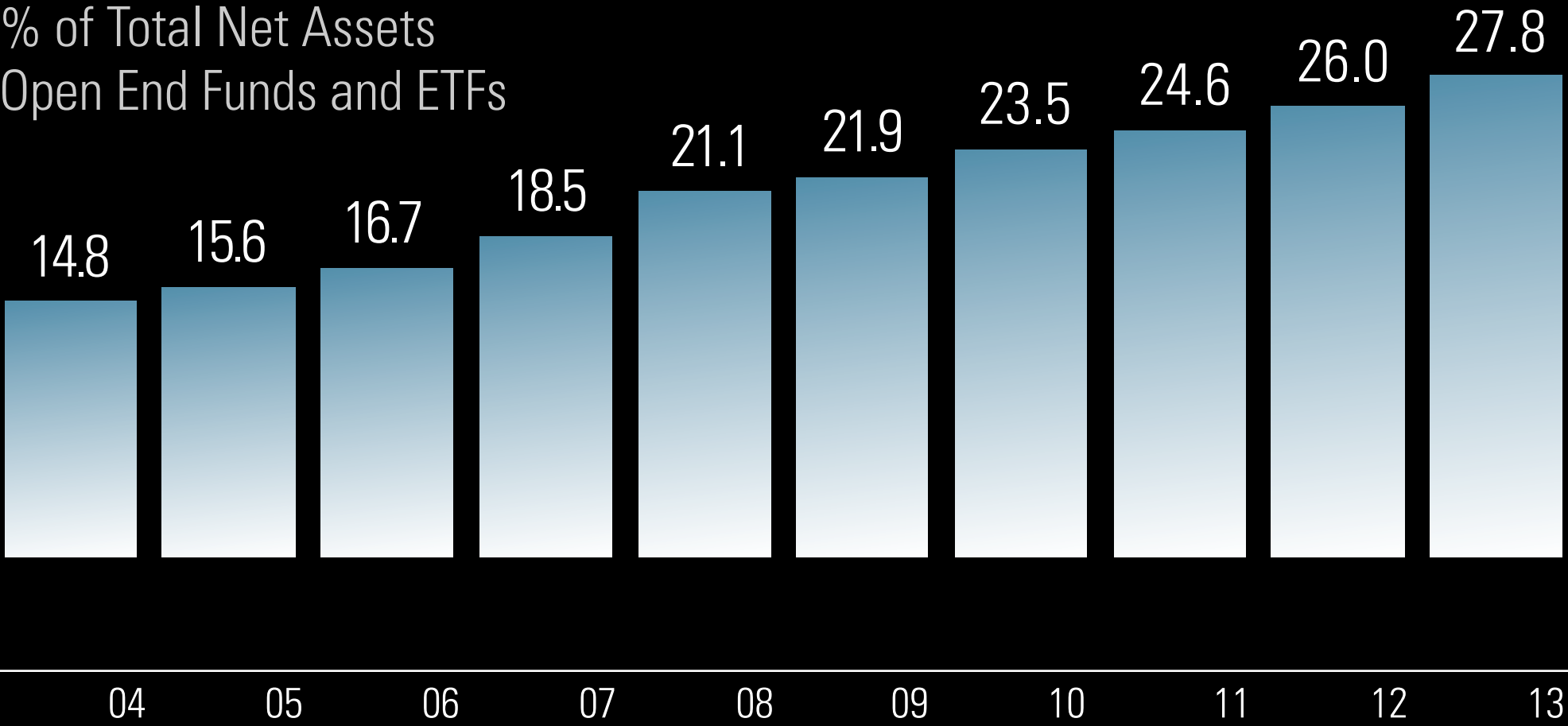


- Actively managed
- Passively managed

Source: Morningstar Direct

# Passive Management Continues Gaining Share

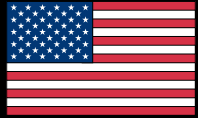
% of Total Net Assets  
Open End Funds and ETFs



Source: Morningstar Direct

# Client Regulatory Pressures Increasing

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Dodd-Frank

---



Solvency II

---



UCITS IV

---



Future of Financial Advice

---



MiFID II

---



Retail Distribution Review

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# Increasing Investor Engagement

Aggregate data for finance/investment sites in 2013

+9%

Page views

+11%

Unique users

+17%

Average pages viewed  
per visit

+21%

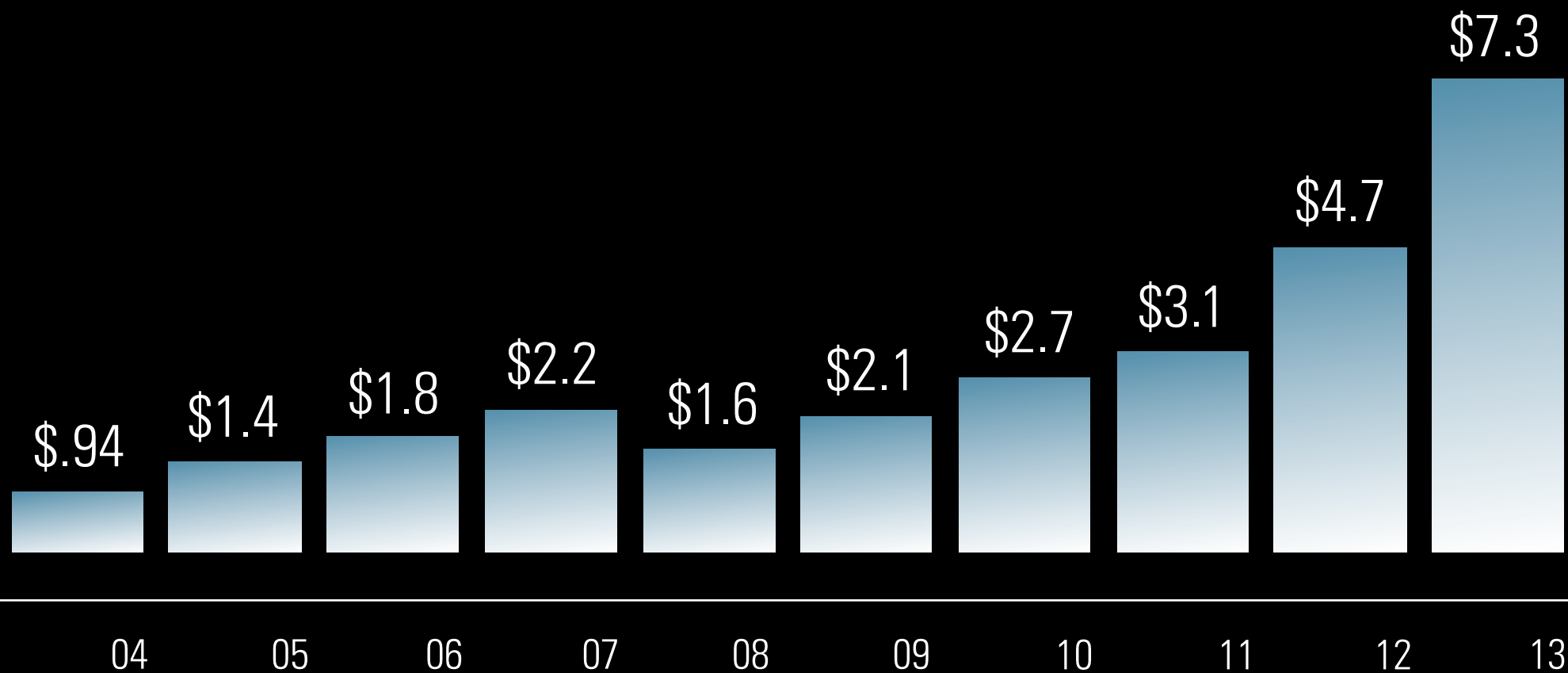
Average time spent  
per visit

# 2013 Highlights: Accomplishments

# Morningstar Managed Portfolios

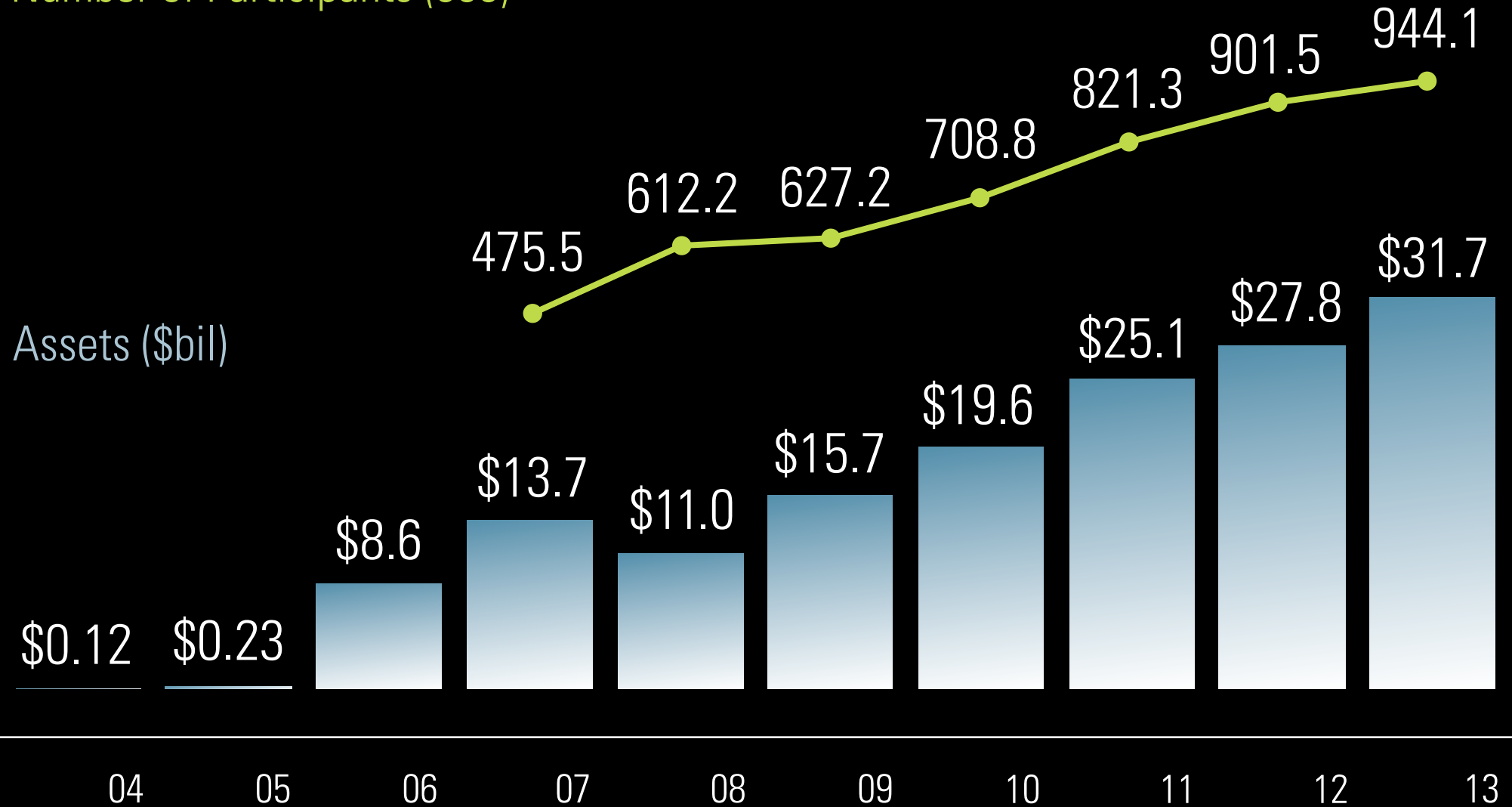
+55.3% in 2013

Assets (\$bil)



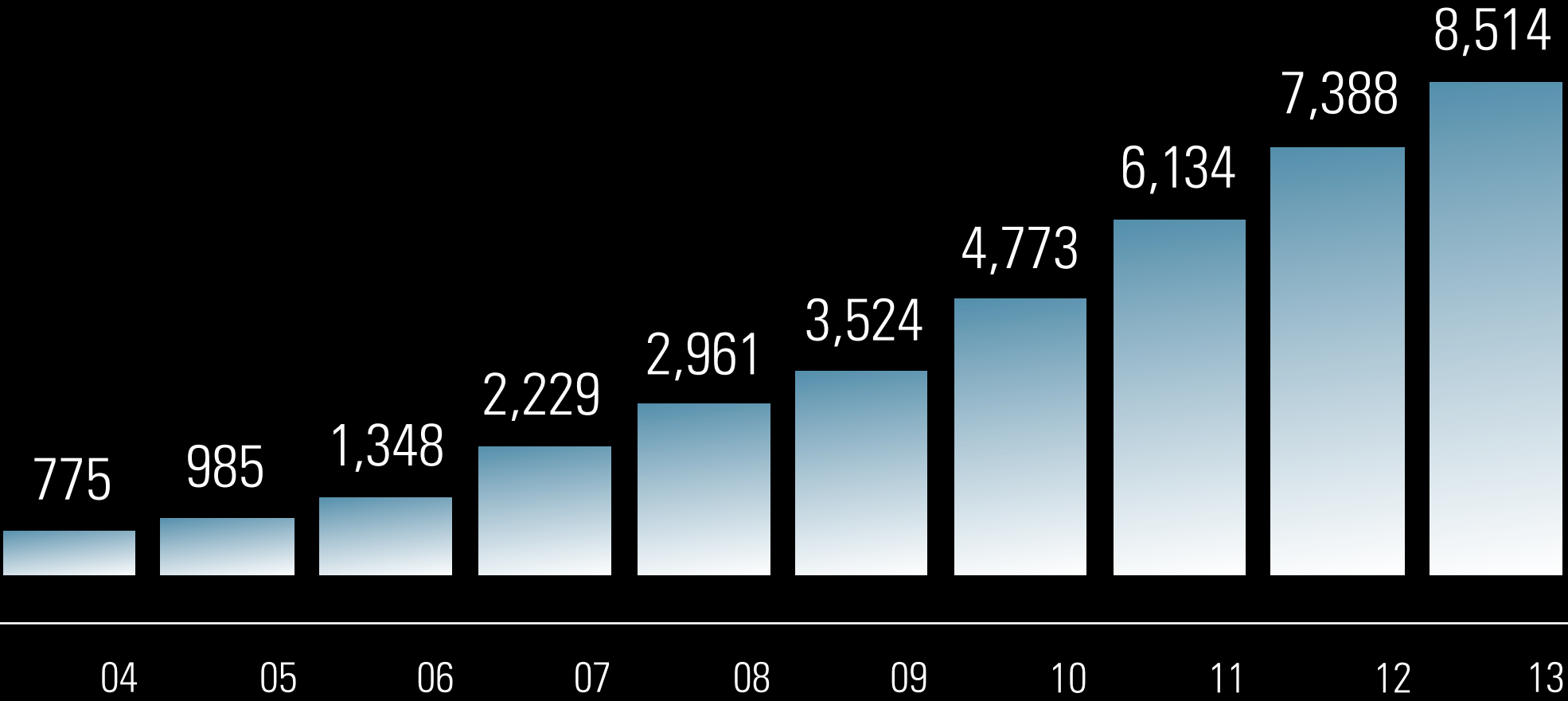
# Managed Retirement Accounts

Number of Participants (000)



# Morningstar Direct Licenses

+15.2% in 2013

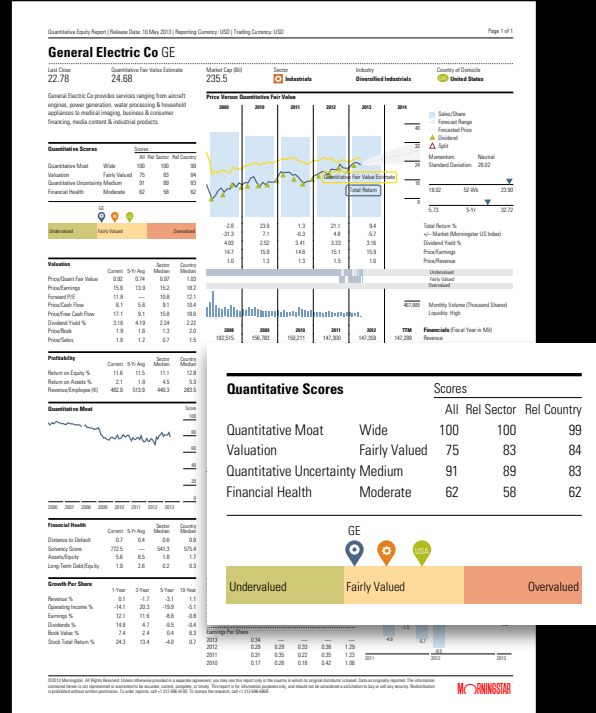


# New iPad App



# Research Innovation

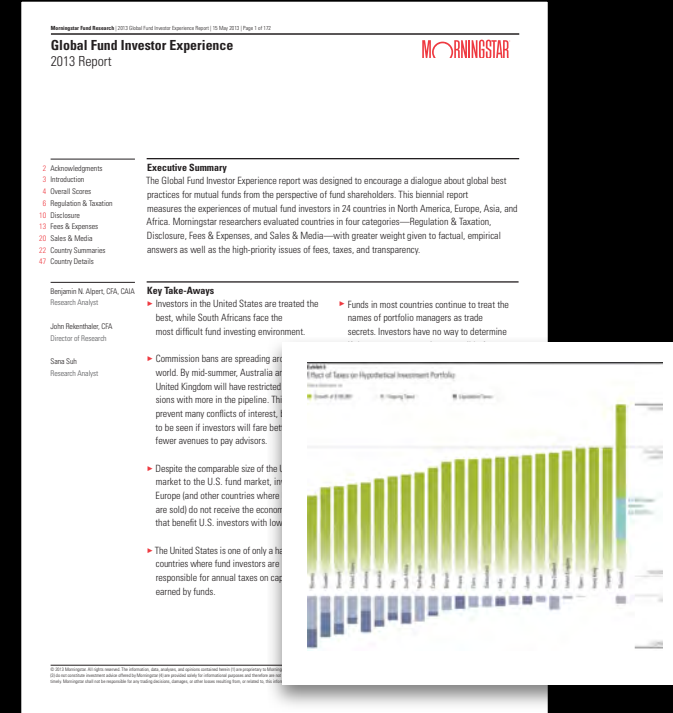
## Quantitative Ratings



## Target-Date Report



## Global Fund Investor Experience



TOP STORIES IN U.S.

1 of 12



🔑 Pentagon Drops Plan to Mothball Aircraft...

2 of 12

🔑 U.S. Adds 113,000 Jobs; Unemployment at...



JR: BEST ON THE STREET

## The Secret Behind Morningstar's Success

By RUSSELL ADAMS

May 8, 2013 3:54 p.m. ET

In the world of stock picking, Morningstar Inc. stands alone.

Analysts at the Chicago-based firm received 13 top-three finishes in their sectors in The Wall Street Journal's latest Best on the Street survey. That means nearly one out of every 10 finalists in the survey is employed by Morningstar, about twice as many as for

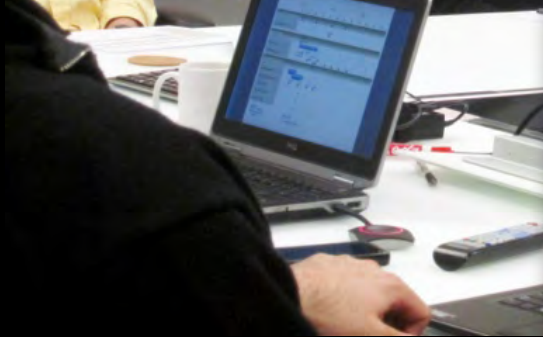
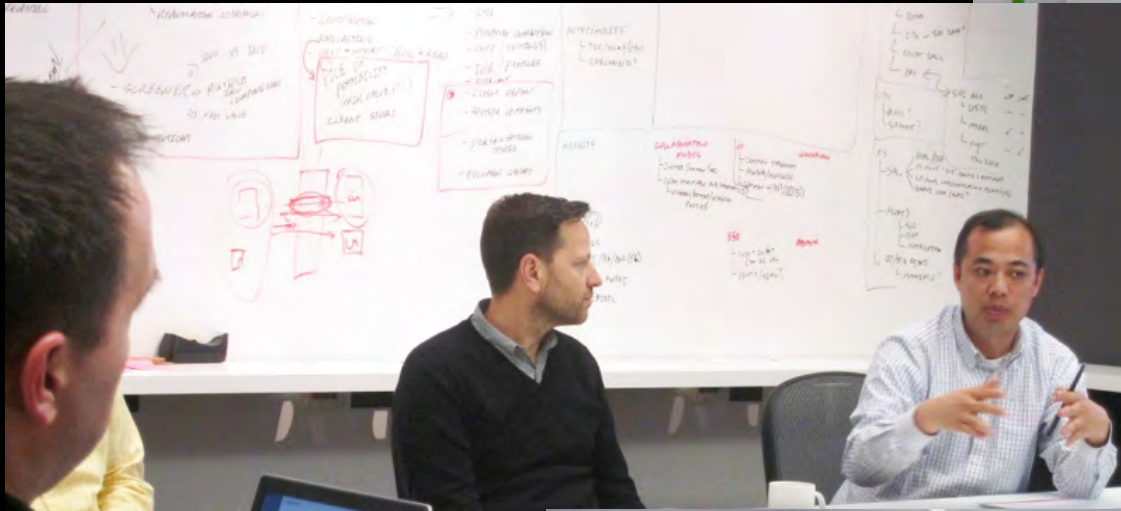
The Wall Street Journal

The Wall Street Journal

every 10 finalists in the survey is employed by Morningstar, about twice as many as for The Wall Street Journal's latest Best on the Street survey. That means nearly one out of every 10 analysts at the Chicago-based firm received 13 top-three finishes in their sectors in The

# 2013 Challenges

# Next-Generation Software



# Next-Generation Software

**MORNINGSTAR**

Search for Funds, Stocks, etc

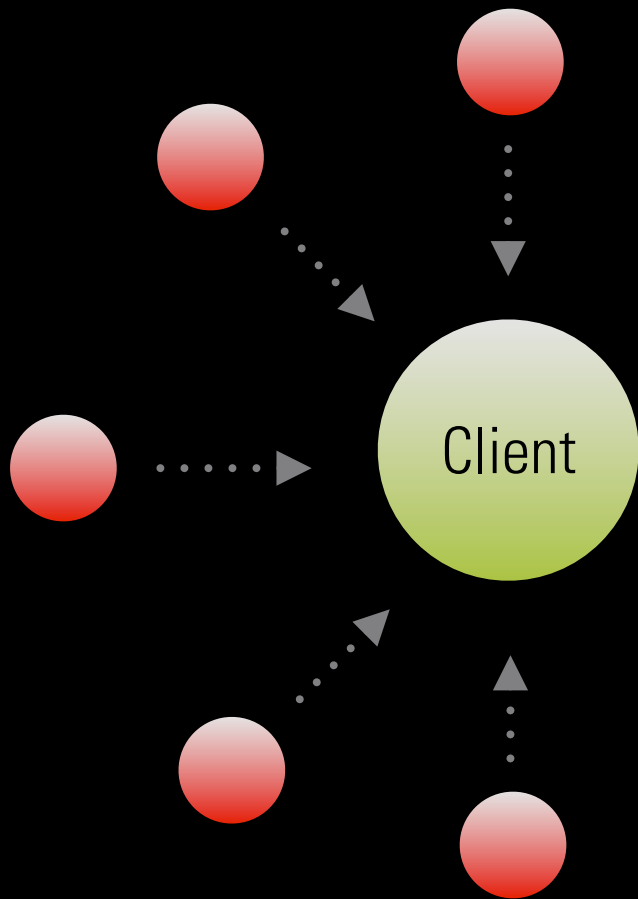
Sort by Role

- Funds**
  - Open-End Funds
  - Exchange Traded Funds
  - Closed-End
  - Separate Accounts
  - Variable Annuities
  - Asset Flows
  - Filings
- Equities**
  - United States (Local)
  - Global
  - Canada
  - Europe
  - Asia
  - Australia/New Zealand
  - Mid-East/Africa
  - Latin America
  - UK
  - Developed Mkts
  - Emerging Mkts
- Markets**
  - Quotespeed
- Research**
  - Funds
  - Equities
  - Credit
- Portfolio**
  - Asset Allocation
  - Analytics
  - Attribution
- Tools**
  - Mstar Doc Lib
  - Data Download
  - API Center
  - Excel Plug-in
  - Charts
  - Time Series
  - Scatter
  - Create
  - List
  - Column Set
- My Files**
  - Investment Lists
  - Static
  - Screens
  - Column Sets
- Support**
  - 24/7 Client Support
  - Support@morningstar.com
  - 800 222 2222
  - Getting Started
  - Data Point Definitions
  - Training

John Smith

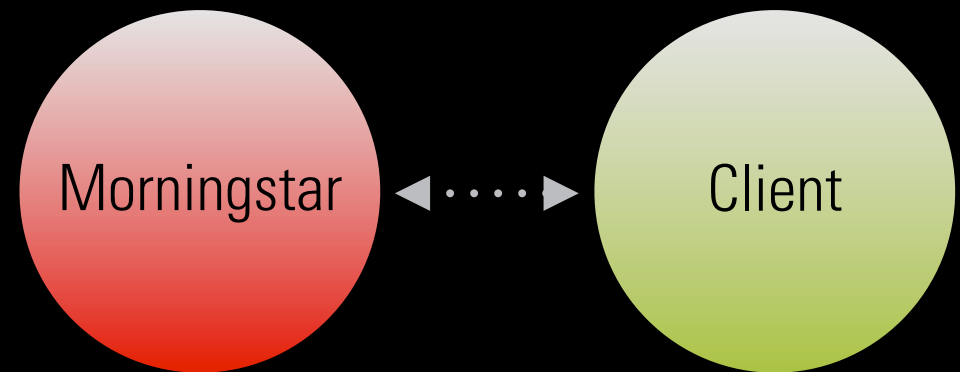
# New Organizational Structure

Multiple points of contact for multiple capabilities



**vs.**

All of our capabilities represented in one point of contact



# New Organizational Structure

Sales

Solutions

Products & Services

Research

**Jim Tanner**

Business  
Dev. & Sales

**Kunal Kapoor**

Client Solutions

**Kunal Kapoor**

Information  
Products

**Tom Idzorek**

Investment  
Management

**Haywood Kelly**

Research

↓ \$7.2 mil

-10.8%

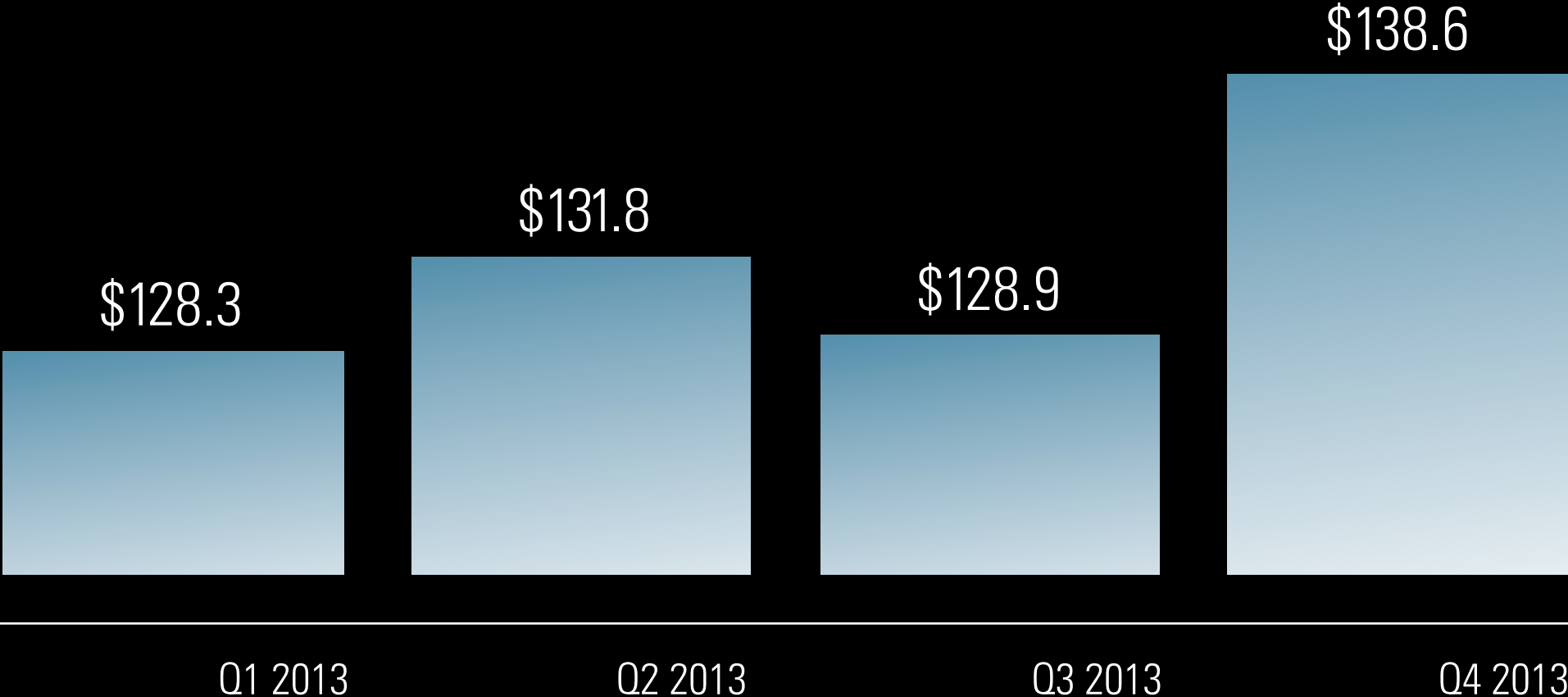
Revenue 2013 vs. 2012

↓ \$10.8 bil

-11.5%

AUA 2013 vs. 2012

# Operating Expense Growth (\$mil)



# Clients Remain Cautious on Spending

↑ 1.1%  
\$25.9 bil

2013 global spend on market data/analysis in 2013

# 2014 Update

ByAllAccounts Acquisition

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by**all**accounts

data for smart decisions

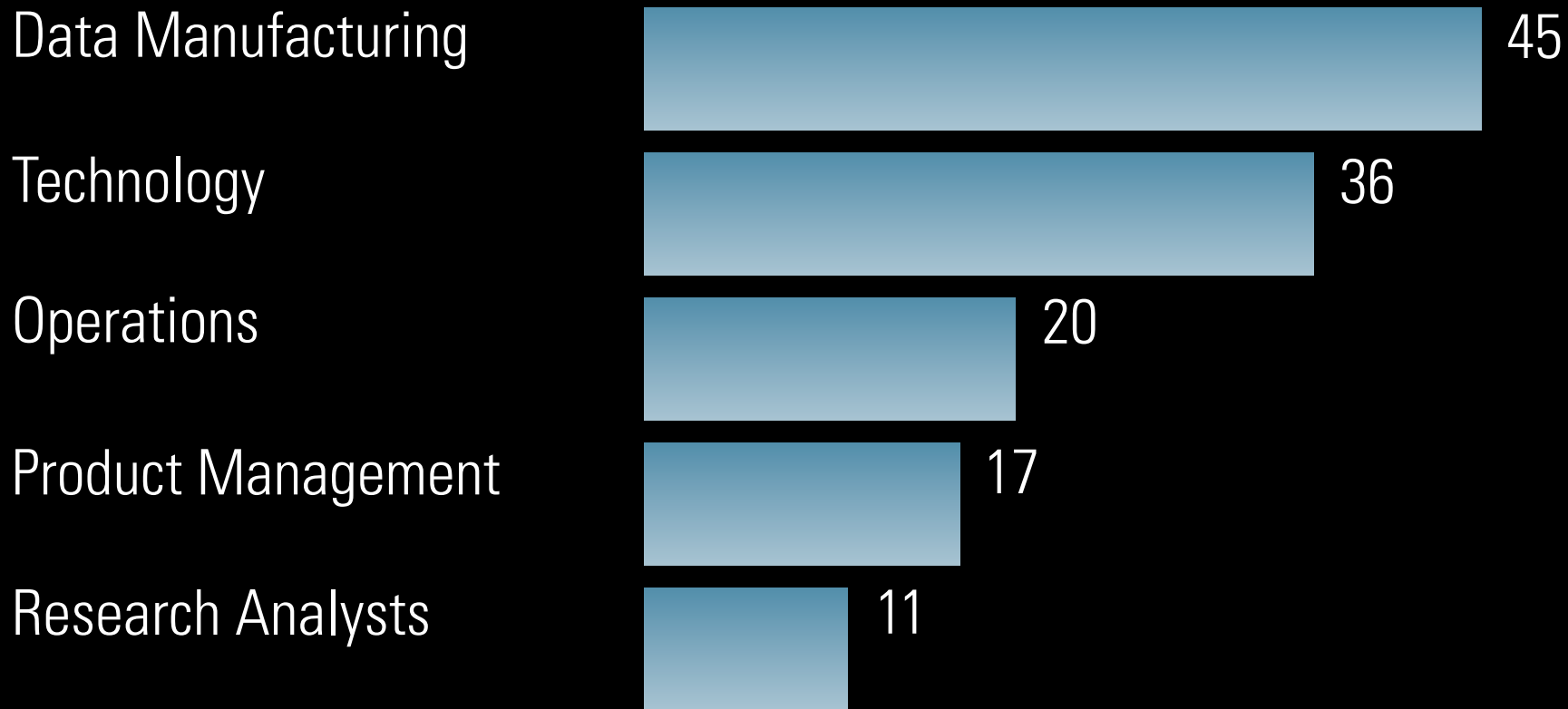
# Investing for the Future

3,645

+5.8%

Morningstar Employees

# Investing for the Future / Recent Hiring Activity\*



\*Graph shows net new hires by job function for six months ended March 31, 2014

# Investing for the Future / Major Initiative Themes

The image displays a collage of screenshots from the Morningstar website and a browser window. The central focus is a grid of colorful tiles for 'Funds', 'Equities', 'Markets', 'Research', 'Portfolio', 'Tools', 'My Files', and 'Support'. The background includes a 'Practice Summary' page with a message from the President and Chief Investment Officer, and a browser window showing a 'Fund Spy' tool with a 'Market Barometer' and 'Market Index' chart.

**Practice Summary**

Total AUM \$  
Funded Accounts \$  
Average Account \$  
Awaiting Funding 0

**A Message from our President and Chief Investment Officer**

When markets are volatile, it's critical to have a long term in place and stick to it. Click [here](#) to learn more about how to invest.

**Search for Funds, Stocks, etc.**

**Funds**  
Open-End Funds  
Exchange Traded Funds  
Closed-End  
Separate Accounts  
Variable Annuities  
Asset Flows  
Filings

**Equities**  
United States (Local)  
Global  
Canada  
Europe  
Asia  
Australia/New Zealand  
Mid-East/Africa  
Latin America  
UK  
Developed Mkts

**Markets**  
Quantspeed

**Research**  
Funds  
Equities  
Credit

**Portfolio**  
Asset Allocation  
Analytics  
Attribution

**Tools**  
Mstar Doc Lib  
Data Download  
API Center  
Excel Plug-in  
Charts  
Time Series  
Scatter  
Create  
List  
Followed Set

**My Files**  
Investment Lists  
Static  
Screens  
Column Sets

**Support**  
24/7 Client Support  
Support@morningstar.com  
800.222.2222  
Getting Started  
Data Point Definitions  
Training

**Market Barometer**

Day Return  
+1.25%  
Mid 0  
3m +1.25%

Value-Growth  
10% 10% 10% 10% 10% 10% 10% 10% 10% 10%

**Market Index**

U.S.	Morningstar	Asian	European
DIA	16,973	21.9	0.1%
S&P 500	1,878	0.8	0.0%
NASDAQ	4,064	12.7	0.1%
Morningstar	4,736	3.5	0.1%

**U.S. Market**  
SP500 2:11 PM  
100 100 100 100 100 100 100 100 100 100

**Top Securities**

Rank	Name	Tot. R.	Tot. Ret.	Tot. #
1	AIM Decathlon Aggressive T...	0.79	1.47	3 Mo.
2	US OE Small Blend	-3.08	1.28	1
3	AAM ACT Outwater Income...	1.38	0.57	1
4	Columbia Intermediate Multi...	3.18	1.41	1
5	Columbia Select Large Cap...	-3.94	-4.71	1
6	Generali IS Equity Italy FX	16.01	13.13	1
7	Motorola Solutions Inc	0.28	4.78	1
8	Aberdeen Asia Pac ex-Japan	4.71	9.39	1
9	US OE Aggressive Allocation	1.54	3.52	1

Re-platforming major software products

# Investing for the Future / Major Initiative Themes



Mobile

# Investing for the Future / Major Initiative Themes

529s

403(b)s

Annuities

401(k)s

IRAs



Advisor

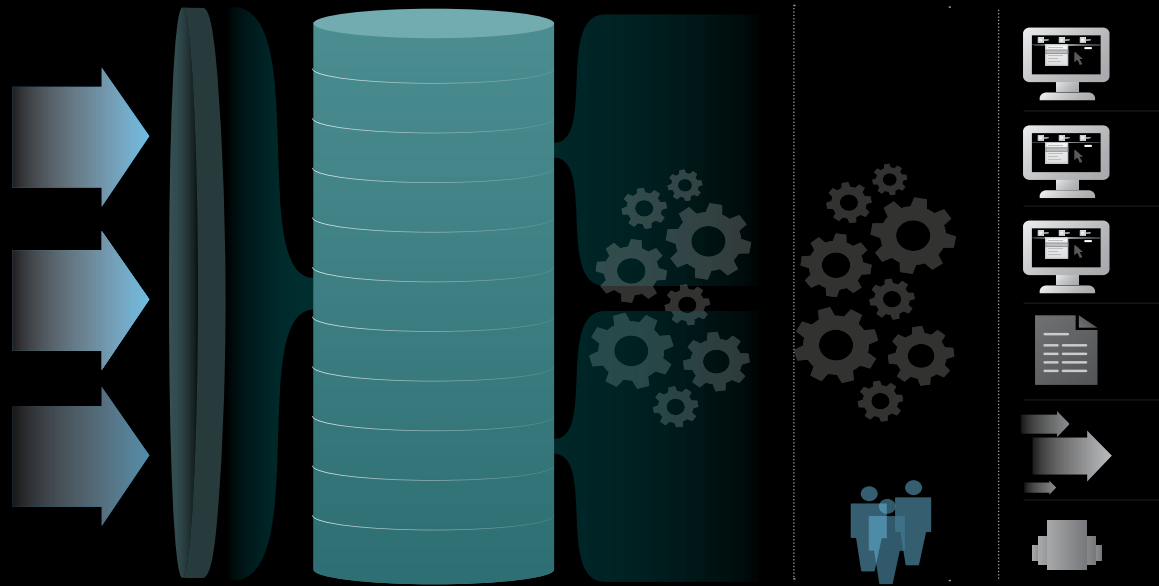
Asset  
Management

Retirement

Individual  
Investor

Data aggregation/integration

# Investing for the Future / Major Initiative Themes



Data Collection

Data Storage

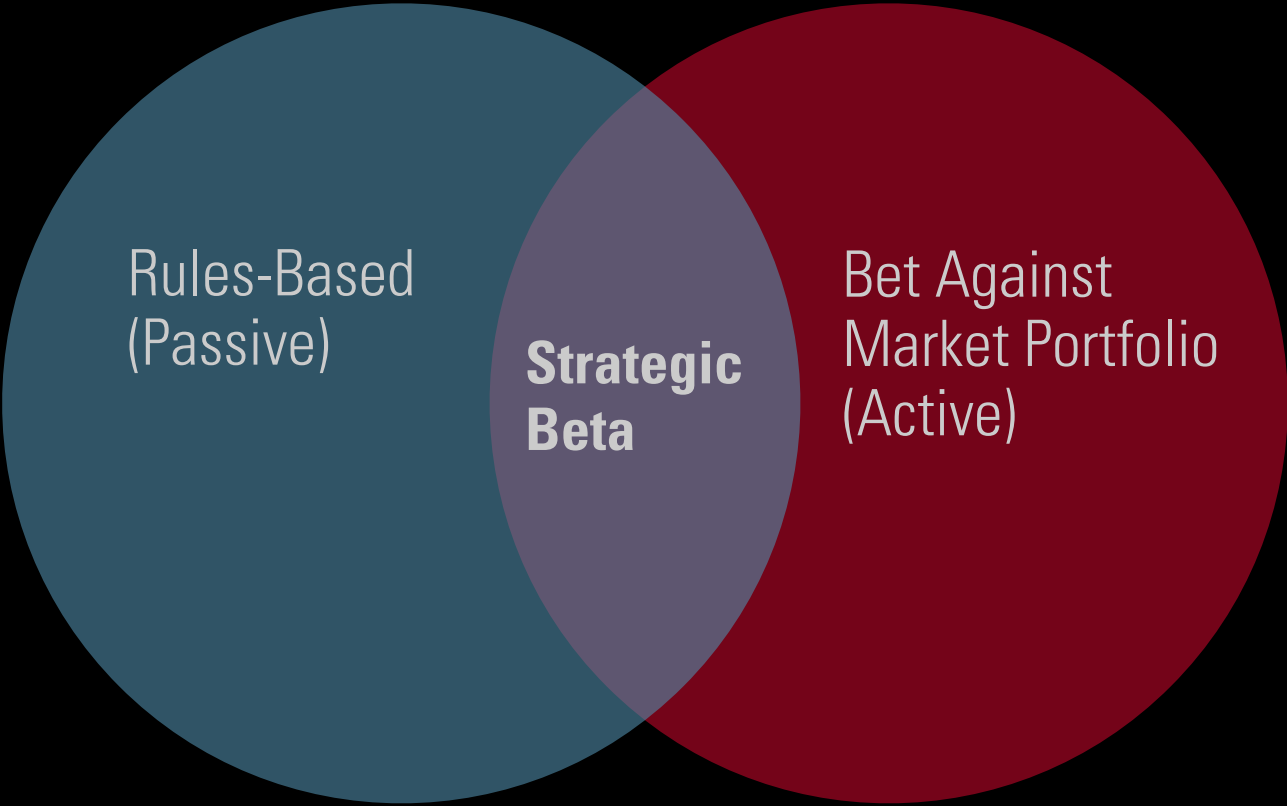
Calculations  
& Services

Data Governance,  
Delivery & Support

Dissemination

Database and platform infrastructure

# Investing for the Future / Major Initiative Themes



Strategic beta

# Investing for the Future / Major Initiative Themes

Strategies:  
Investment Research

## Wide-Moat Deals Down Under

By David Ellis

Strong earnings and improving balance sheets make these Australian banks attractive.

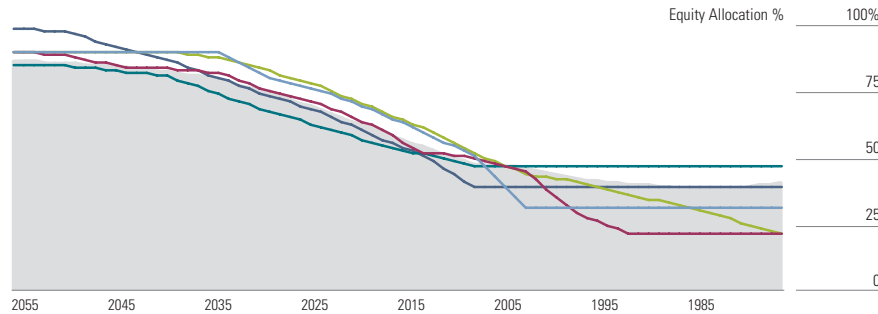
Financial-services firms have been a hard sell since they found themselves at the center of the 2008 downturn and embroiled in other messes, such as Europe's sovereign debt crisis. Slowly, though, the world's banks have been improving their balance sheets and getting control of troubled loans. Investors have noticed the progress. Shares of J.P. Morgan

labor market credit growth  
We prefer Group ASX:NAB ASX:WBC highly pr

**Exhibit 11**  
Selected Target-Date Series Glide Paths

Data through 12/31/2012.  
Source: Morningstar, Inc.

- Vanguard
- Fidelity
- T. Rowe Price
- American Century
- BlackRock LifePath
- Industry Average, All



## International Business Machines Corp IBM | ★★★

Add to Portfolio Get E-mail Alerts Print This Page PDF Report Data Question

Quote Chart Stock Analysis Performance Key Ratios Financials Valuation Insiders Ownership Transcripts new Filings Bonds

Company Profile Industry Peers

Day Change  
\$ 189.30 ↑ 0.37 | 0.20%

Open Price \$ 189.34 Day Range 186.93-190.30 52-Week Range 172.19-211.98 Yield 2.00% Market Cap 191.6 bil

Volume 3.8 mil Avg Vol. 5.2 mil Forward P/E 9.4 Price/Book 11.6 Price/Sales 2.1 Price/Cash Flow 12.3

Price IBM



News & Events IBM

HeadLines Morningstar Commentary Press Release

UPDATE: Warren Buffett is a mutual fund  
MarketsWatch, 05-05-14

Google, Microsoft among early tech decliners  
MarketsWatch, 05-05-14

Warren Buffett is a mutual fund  
MarketsWatch, 05-05-14

SAP's Vishal Sikka resigns for personal reasons  
MarketsWatch, 05-05-14

Buffett Defends Coca-Cola Abstention at Berkshire Meeting -- Update

More...

04/29/2014

05/07/2014

Dividend Amount 1.1000

2.00%

2.32%

Type Amount

Cash Dividends 1.1000

Cash Dividends 0.9500

Cash Dividends 0.9500

Cash Dividends 0.9500

Analyst research and other proprietary tools/content

# Illuminating Investing Worldwide

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# 2014 Initiatives

Kunal Kapoor  
Head of Information Products  
and Client Solutions

# Major Customer Groups

Advisor

Asset  
Management

Retirement

Individual  
Investor

# Advisor: Key Initiatives

**Advisor**

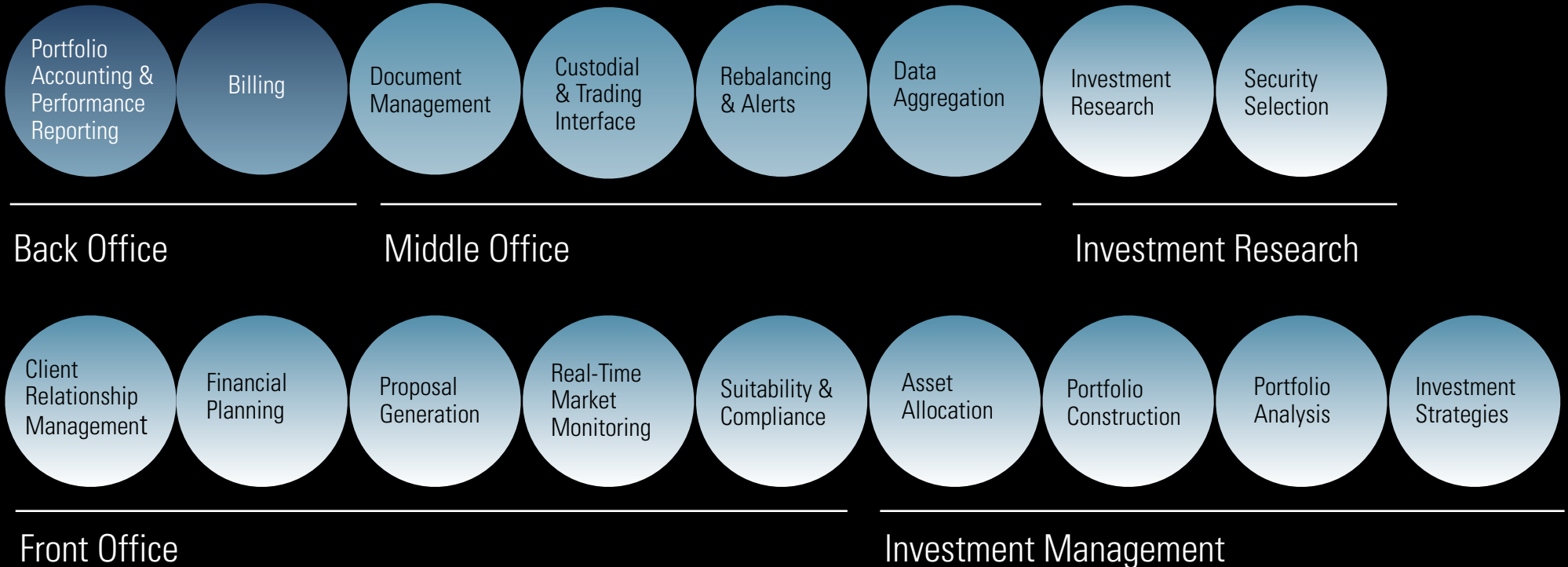
Asset  
Management

Retirement

Individual  
Investor

# Advisor: Key Initiatives

## Advisor Workflow



Integrate client data, products,  
third-party apps

# Advisor: Key Initiatives

The screenshot shows the ByAllAccounts website header with the logo and tagline "data for smart decisions". Navigation links include "Live Sales Rep", "Schedule a Call", "Contact Us", and "(781) 376-0801". A secondary navigation bar contains "who we help", "data and system connections", "how to buy", "resources", "learn about us", and "blog". The main content area is titled "data and system connections > data connectivity".

The diagram illustrates two scenarios of data connectivity. On the left, a complex web of connections between multiple financial institution icons (green and black) and a person icon is shown. A dashed line points to a pie chart with the text "Inaccessible | Insufficient staff | Incompatible". On the right, a single person icon is connected to a central hub, which is then connected to a single pie chart, representing a simplified and accessible data aggregation process.

ByAllAccounts provides connectivity to thousands of Financial Institutions (e.g., Fidelity) and data sources (e.g., Fidelity Net Benefits).

data sources (e.g., Fidelity Net Benefits).

ByAllAccounts provides connectivity to thousands of financial institutions (e.g., Fidelity) and

## Incorporate aggregation capabilities from ByAllAccounts

# Advisor: Key Initiatives

Monitor  
the markets

1

Check the  
pulse on the  
practice

2

Review  
clients

3

Review  
portfolios

4

Access  
reports

5

Present  
reports

6

Launch iPad app for advisors

# Asset Management: Key Initiatives

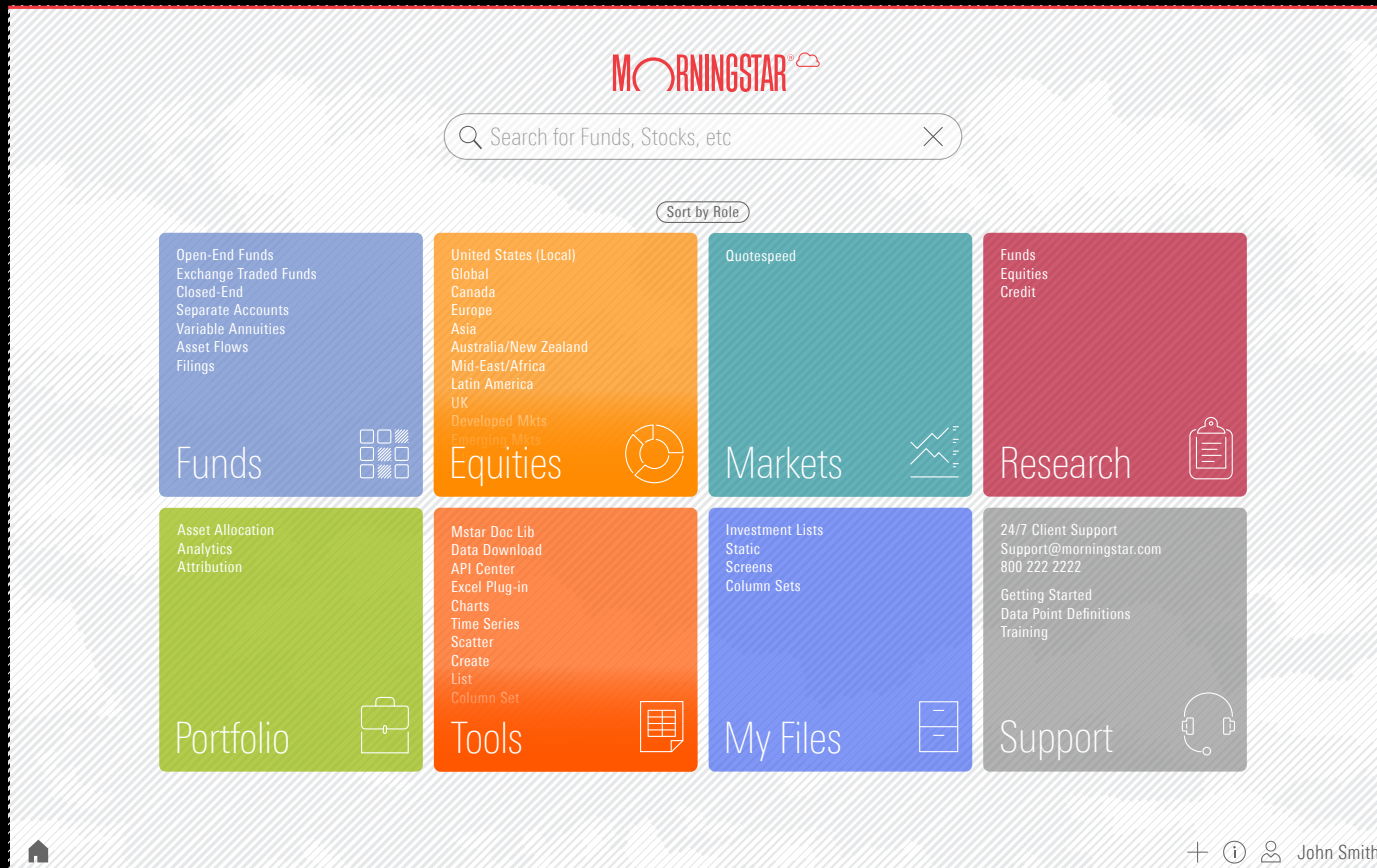
Advisor

**Asset  
Management**

Retirement

Individual  
Investor

# Asset Management: Key Initiatives

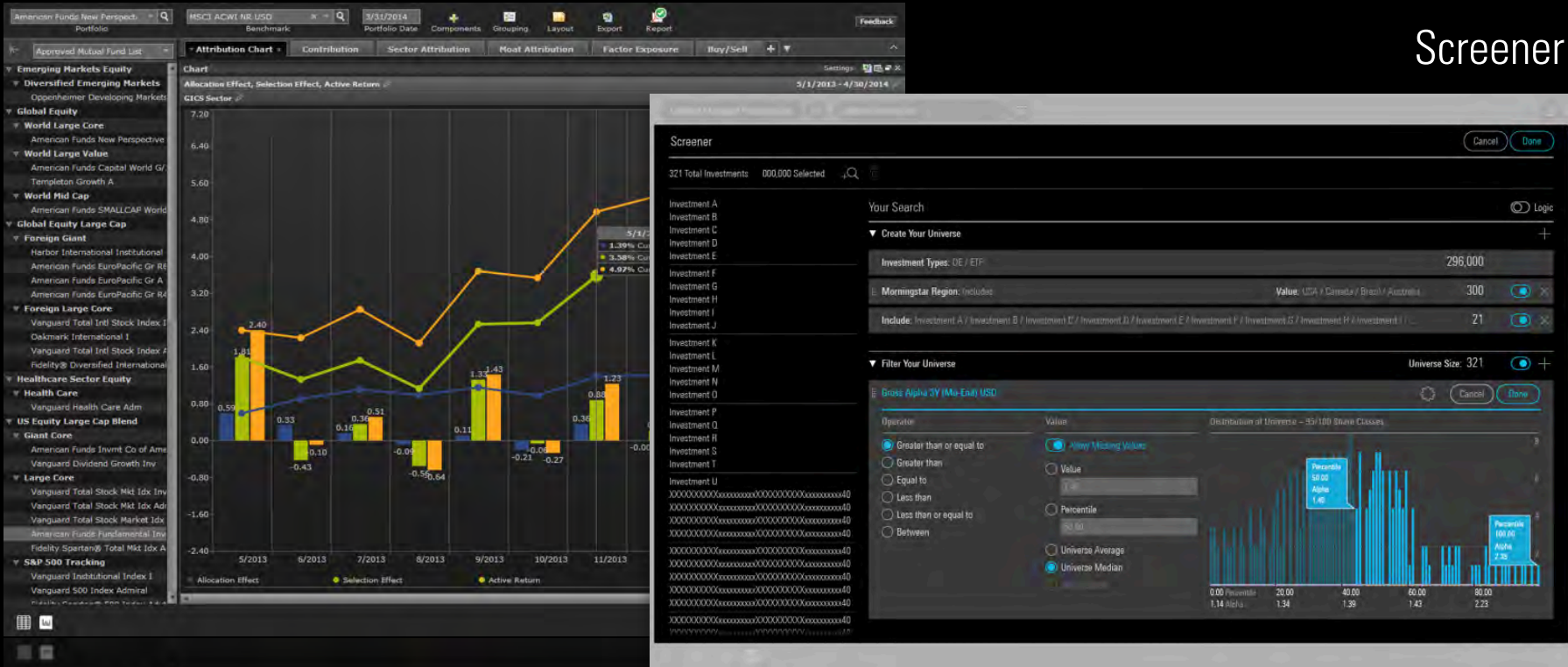


Launch Direct 4.0 and map out user workflows

# Asset Management: Key Initiatives

## Portfolio Analysis

Screeners



Launch Direct 4.0 and map out user workflows

# Asset Management: Key Initiatives

Spotlight



## Being Smart About Strategic Beta

By Alex Bryan

Even if a strategy is theoretically sound, not all funds that purport to harness it are.

Disenchanted with high fees and unreliable performance from professional security selectors, investors have increasingly adopted index funds over the years. But because most assets in the investing world are still actively managed, it is clear that many

researchers may also include a small-cap strategy in this group, the small-cap premium has diminished in recent decades and is unreliable at best. However, a small-cap tilt may still be useful when combined with another strategy.

PowerShares S&P 500 High Quality SPHQ. The exchange-traded fund targets stocks in the S&P 500 Index with above-average growth and stability of earnings and dividends per share over the most recent trailing 10 years. It assigns its holdings one of three quality grades. Those

# Strategic Beta

# Asset Management: Key Initiatives

The screenshot shows the 'funds europe' website. At the top, there is a navigation bar with links for HOME, FUND MANAGEMENT, ASSET SERVICING, KNOWLEDGE BANK, FUNDS GLOBAL, FE AWARDS, and ABOUT US. Below this is a secondary navigation bar with links for NEWS, ROUNDTABLES, EXECUTIVE INTERVIEWS, SPONSORED ARTICLES, MAGAZINE BY ISSUE, SUPPLEMENTS, MEDIA PACK, and FORWARD FEATURES. The main content area features a news article titled 'UBS AND MORNINGSTAR OFFER SOLVENCY II SERVICE FOR FUNDS' dated 22 APRIL 2014. The article includes a diagram of risk management strategies (AVOID, REDUCE, TRANSFER) and a quote from Connor Sloman, head of asset management solutions at Morningstar. To the right of the article is a 'LATEST NEWS' section with several headlines and a 'STOCK PRICES' section showing a line chart and a table of stock prices, including UKX E6BL09 at +28.84 (0.43%).

## funds europe

Username Password LOG IN  
Create account Forgotten username? Forgotten password?

Available on the App Store

HOME FUND MANAGEMENT ASSET SERVICING KNOWLEDGE BANK FUNDS GLOBAL FE AWARDS ABOUT US search...

NEWS ROUNDTABLES EXECUTIVE INTERVIEWS SPONSORED ARTICLES MAGAZINE BY ISSUE SUPPLEMENTS MEDIA PACK FORWARD FEATURES

### UBS AND MORNINGSTAR OFFER SOLVENCY II SERVICE FOR FUNDS

22 APRIL 2014

A unit of UBS is collaborating with research firm Morningstar to help asset managers calculate solvency capital requirements (SCRs) under the Solvency II regime at the fund level.

UBS Delta, part of the investor client services division at UBS Investment Bank, will provide SCR calculations based on risk analytics and Morningstar data.

"By including the SCR calculation in their client reporting, asset managers can communicate the indicative risk breakdown of their funds' portfolios to insurance clients using the language and methodology of the Solvency II Standard Model," says Connor Sloman, head of asset management solutions, Europe, Middle East and Africa, Morningstar.

"As a result, asset managers will be better able to support their insurance clients by providing an additional level of transparency on their funds' portfolios."

From January 2016, the Solvency II regime will require insurance companies to calculate a market risk SCR for their

#### LATEST NEWS

- UBS's former ETF trader banned
- Global multi-asset and diverse mandates most sought-after
- Automation rates increase in Luxembourg and Ireland
- Asset managers prepare for Fatca deadline
- BNP Paribas in Spanish depo bank deal with Banco Popular

#### STOCK PRICES

10am	12pm	2pm	4pm
UKX E6BL09			+28.84 (0.43%)
UKX			+18.96 (0.43%)

Expand regulatory thought leadership

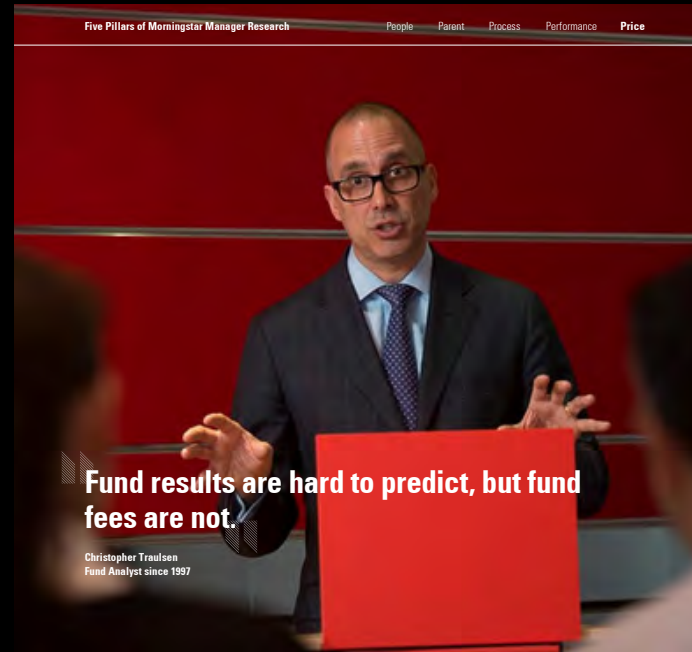
# Asset Management: Key Initiatives

Analysts per region



Expand equity and credit research business

# Asset Management: Key Initiatives




## Morningstar wants investors to pay fair prices.

Of all the factors that determine a fund's performance, its cost is the only one that's certain. That is why "price" is the most measurable of Morningstar's five pillars of fund analysis. Expense ratios shouldn't be an adviser's sole focus, but they are a strong predictor of fund performance, and poor fee structures can negate any benefits that active fund management can provide. Understanding price gives advisers a measure of control over their outcomes.

Morningstar analysts dig into the fee structure of every fund they rate to identify which are significantly cheaper or more expensive than their peers. If performance fees are charged, we investigate whether these charges support the investment process or if they enrich the management team at investors' expense.

This research combines with four other pillars to form the comprehensive framework of the Morningstar® Analyst Rating™

and Report. Advisers use this report to see the true cost of investing and find funds that are truly suitable for a client's objectives.

 Hear more from our analysts and download a research report [global.morningstar.com/UKPrice](http://global.morningstar.com/UKPrice)



Build awareness of manager research globally

# Asset Management: Key Initiatives



The screenshot shows a webpage with a navigation bar at the top containing the title 'Five Pillars of Morningstar Manager Research' and menu items: 'People', 'Parent', 'Process', 'Performance', and 'Process'. The main visual is a photograph of Jackie Beard, a woman in a dark blazer, standing in a modern office environment. A large red square is overlaid on the image. Below the image, the text reads: 'We like fund managers who never forget that their fund's money comes from investors.' Below this is a caption: 'Jackie Beard Fund Analyst since 1999'. The lower section of the page features the headline 'Morningstar knows the people behind every fund we rate.' followed by three columns of text. The first column discusses the importance of confidence in the fund management team. The second column describes how analysts' deep knowledge of managers and team members provides insight into their performance. The third column mentions that Morningstar has one of the largest, most experienced fund analyst teams in the industry. To the right of the text is a call to action: 'Hear more from our analysts and download a research report' with a link to 'global.morningstar.com/UKPeople'. The Morningstar logo is visible at the bottom right of the text area.

Five Pillars of Morningstar Manager Research

People Parent Process Performance Process

We like fund managers who never forget that their fund's money comes from investors.

Jackie Beard  
Fund Analyst since 1999

Morningstar knows the people behind every fund we rate.

In order to have conviction in a fund's future performance, you have to be confident in the fund management team running the money. That is why "people" is one of the five pillars of Morningstar's approach to fund analysis. It is at the core of a consistent process which leads to clear opinions on the funds we cover.

Morningstar has one of the largest, most experienced fund analyst teams in the industry. Our analysts get to know

the people behind the funds through regular face-to-face meetings. When managers move firms, our analysts' deep knowledge of the managers and team members involved lends insight into how they might thrive (or struggle) within the new environment.

This research into the people running a fund combines with four other pillars to form the comprehensive framework of the Morningstar<sup>®</sup> Analyst Rating<sup>™</sup> and

Report. Advisers use this report to look at what's behind our analyst ratings and really understand why a fund may be more or less suitable for a client.

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# Asset Management: Key Initiatives



Five Pillars of Morningstar Manager Research

People Parent Process Performance Price

**If you have a great fund offered by a bad fund house, the fund will ultimately suffer.**

Oliver Kettlewell  
Fund Analyst since 2008

Morningstar believes investors deserve funds with good parents.

A fund can have the best managers and researchers but still falter if the firm offering the fund doesn't properly support it. That's why "parent" is one of the five pillars of Morningstar's approach to fund analysis. Good corporate parents know that successful funds can flourish when corporate interests are aligned with those of end investors.

It is easy for investors to overlook neglectful parent firms if a fund is doing well, but good short-term performance can conceal deep structural problems. Morningstar's global team of fund analysts examine whether a firm's corporate culture is conducive to long-term success, and if succession plans are in place when managers move firms.

This research into a fund's parent firm combines with four other pillars to form the comprehensive framework of the Morningstar<sup>®</sup> Analyst Rating<sup>™</sup> and Report.

Advisers use this report to look at how a fund's parent firm may change whether a fund may be more or less suitable for a client.

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# Asset Management: Key Initiatives



Five Pillars of Morningstar Manager Research

People Parent Process **Performance** Price

**A fund's outperformance can be just as concerning as its underperformance.**

Muna Abu-Habba  
Fund Analyst since 2006

Morningstar investigates the 'why' behind performance.

Short-term bursts of fund outperformance may look good, but numbers are ultimately meaningless if investors can't rely upon them. That's why "performance" is one of the five pillars of Morningstar's approach to fund analysis. We believe a fund's gains and losses should predict how market conditions will affect its returns in the future.

investment process to provide clear, forward-looking guidance. They sift through the numbers to help investors understand whether a fund's past performance shows signs of a repeatable strategy, if market conditions belie the fund's true volatility, or if its size has hindered or helped long-term returns.

Morningstar® Analyst Rating™ and Report. Advisers use this report to look past the performance numbers to find a fund that's truly suitable to meet a client's objectives.

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Our research into a fund's performance combines with four other pillars to form the comprehensive framework of the

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# Asset Management: Key Initiatives

Five Pillars of Morningstar Manager Research    People    Parent    **Process**    Performance    Price

**Fund managers should be able to justify every transaction in a portfolio.**

Karine Nowak  
Fund Analyst since 2011

Morningstar favours a clear process over fickle profits.

If a fund's holdings don't match its strategy, then it's nearly impossible to have reasonable expectations for long-term performance. That's why "process" is one of the five pillars of Morningstar's approach to fund analysis. Investors deserve to know how a fund fits within a diversified investment portfolio.

Through face-to-face meetings with fund management teams, Morningstar's global analyst team scrutinise the processes behind every fund covered. We want to know what managers are trying to accomplish, why they hold investments and how much risk is involved. Through this analysis we gain a clear understanding of whether a strategy is repeatable and how it might perform in a variety of market conditions.

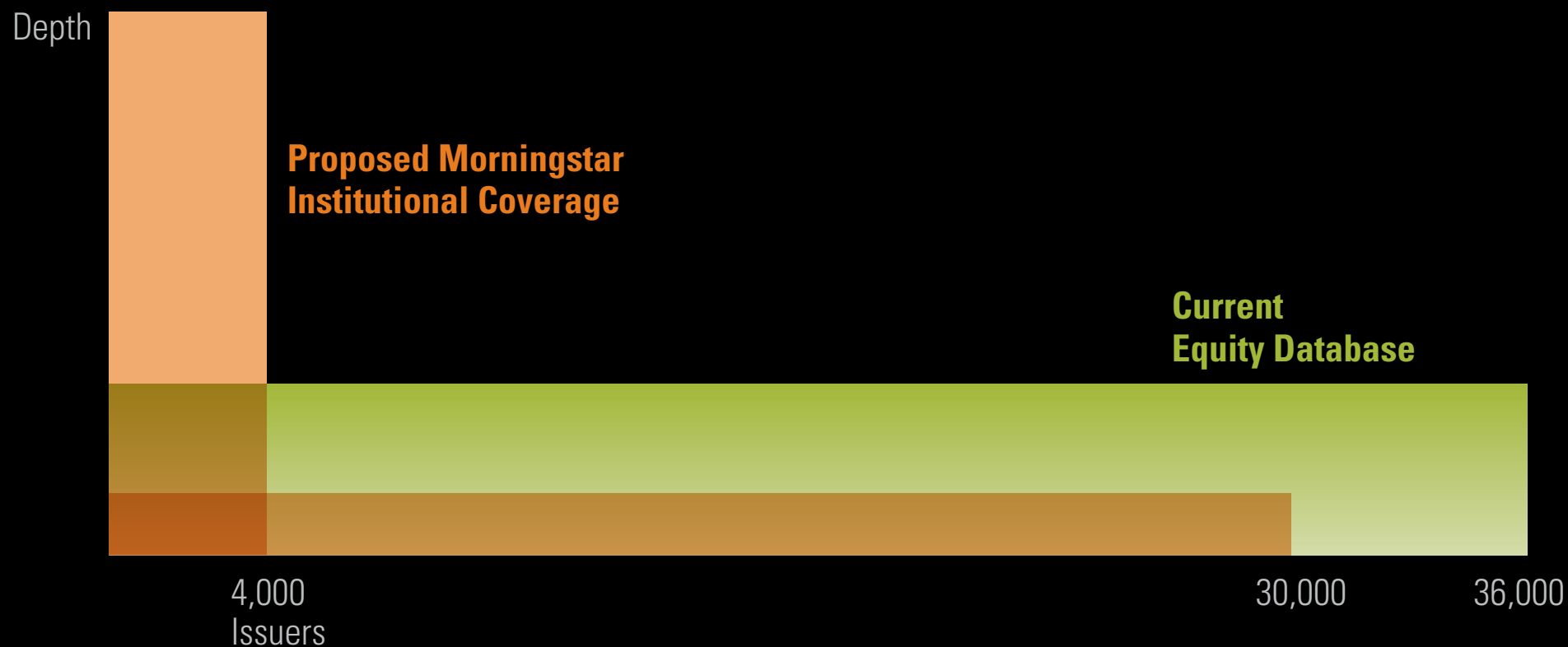
This research into a fund's investment process combines with four other pillars to form the comprehensive framework of the Morningstar® Analyst Rating™ and Report. Advisers use this report to look at how a portfolio manager's process may make a fund suitable for a client.

Hear more from our analysts and download a research report  
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# Asset Management: Key Initiatives



Deepen data set on top global equities

# Retirement: Key Initiatives

Advisor

Asset  
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**Retirement**

Individual  
Investor

# Individual Investor: Key Initiatives

Advisor

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# Individual Investor: Key Initiatives

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Membership Home Portfolio Stocks Bonds Funds ETFs CEFs Markets Tools Real Life Finance Discuss

EDIT Nasdaq 4103.54 29.14(0.72%) S&P 500 1878.33 8.90(0.48%) DJIA 16535.37 86.63(0.53%) Gold 1295.10 -3.60(-0.28%) Light Crude 101.02 0.18(0.18%) [In New Personal Finance Centers](#)

**Tuesday, April 29, 2014**

**REKENTHALER REPORT**  
**There Is No Rebalancing Debate**  
The dispute that isn't.  
  

- Dear SEC
- 5 Lessons From the Investor Gap
- What to Think About Fund Company Mergers

**FUND SPY BY RUSS KINNEL**  
**How Bloated Is Your Fund?**  
Sign of the times: Funds are struggling with huge asset bases.  
  

- 3 Medalist Funds That Just Got Cheaper
- 4 Funds for the Fearful
- The Year's Biggest Fee Cuts and Hikes

**RATIONAL INVESTING**  
**A Come-to-Buffett Moment**  
Eugene Fama and Kenneth French's new five-factor model buries the value factor. What does it suggest about market efficiency?  
  

- Yield Sucker Bet
- Understanding Intrinsic Value

**Market Barometer**  
Lg Day Return +1.25%  
Md 0  
Sm -1.25%  
Value—Growth  
1Wk 1Mo 3Mo 1Yr 3Yr

**Market Indexes**  
U.S. Morningstar Asian European  
**DJIA** 16,535 86.6 0.5%  
4/28/2014 3:12 PM  
More  
S&P 500 1,878 8.9 0.5%  
NASDAQ 4,104 29.1 0.7%  
Morningstar U.S. Market 4,741 23.8 0.5%  
Morningstar Small Cap 7,269 26.3 0.4%

**Stocks Higher After Data, Earnings**  
**Home Price Gains Cooled in February**  
**U.S. Consumer Confidence Dips Slightly in April**  
**Treasuries Fall as Market Makes Room for Supply**

**Stock News**  
Apple Sells \$12 Billion in Corporate Debt Offering  
Merck Shares Rise After Profit Beats Forecast

**Portfolio** Gainers, Losers, Actives Morningstar Screen  
**Create a Portfolio**  
Start by entering a name...

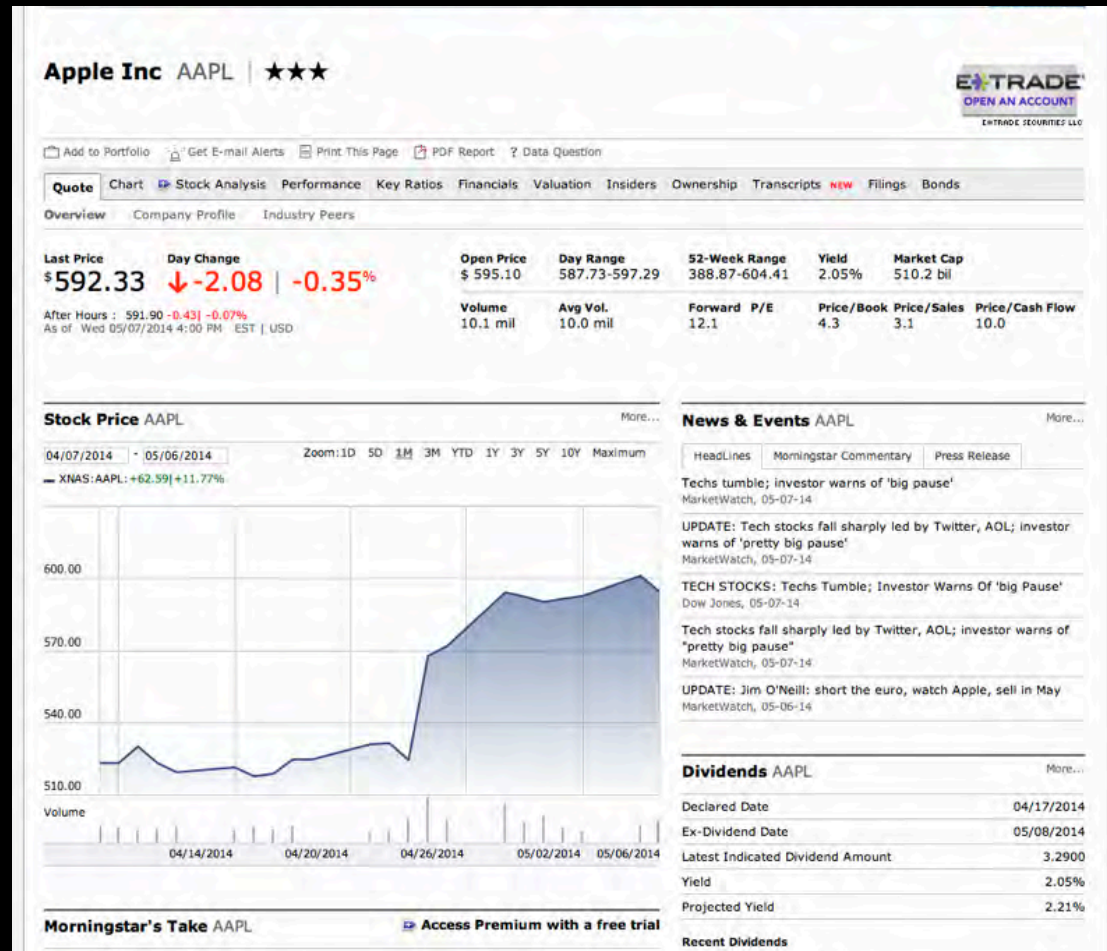
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# Individual Investor: Key Initiatives



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# Individual Investor: Key Initiatives



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# Individual Investor: Key Initiatives

## New Stock Overview Concept

### Apple Inc AAPL | ★★★★★

Strength **Most** Valuation **Fair Value** Price **Latest Price**

Most Trend Stewardship

Price: \$570.00 (Fair Value) | \$527.21 (Latest Price) | Day Change: -3.94 | -0.74%

Forward P/E: 11.0 | Price/Book: 3.7 | Price/Sales: 2.9 | Price/Cash Flow: 9.4 | Yield: 2.27% | Market Cap: 479.4 bil | Open Price: \$539.76 | S2-Week Range: 395.10 - 575.14 | Day Range: 535.12 - 541.50 | Today's Volume: 7.9 mil | Avg Volume: 11.3 mil

#### Morningstar Analysis

**Apple will have to fend off increased competition from Android-based competitors in the years ahead.**

We believe Apple's strength lies in its experience and expertise in integrating hardware, software, services, and third-party applications into differentiated devices that allow Apple to capture a premium on hardware sales. Although Apple has a sterling brand, robust product pipeline, and ample opportunity to gain share in...

by Brian Coletta, CPA

#### Company Profile

Apple Inc designs, manufactures, and markets personal computers, mobile communication devices, media devices personal computers, and portable digital music players, and sells various related software, services, peripherals and networking solutions.

Sector	Industry	Stock Style
Technology	Consumer Electronics	Large Core

Stock Type	Employees	Fiscal Year Ends
Cyclical	64,400	2013-09-28

#### Financials

	2013/09	2012/09	2011/09	2010/12	2009/12
Revenue	170,910	156,508	108,240	53,594	54,512
Operating Income	48,989	55,241	33,790	17,463	17,210
Net Income	37,037	41,733	25,922	13,072	13,078
Earnings Per Share	36.75	44.15	27.68	14.50	13.81
Shares Outstanding	832	945	937	901	947

#### Key Stats

	Stock	Industry Avg.
Price/Earnings TTM	13.3	13.7
Price/Book	3.7	2.8
Price/Sales	2.9	1.7
Revenue Growth (3yr avg)	37.9	9.9
Net Income Growth (3yr avg)	38.3	24.3
Operating Margin % TTM	28.3	18.8
Net Margin % TTM	21.3	12.1
ROA TTM	17.6	9.0
ROE TTM	28.8	20.9
Debt/Equity	0.1	0.2

#### Dividends

Declared Date	01/27/2014
Ex-Dividend Date	02/06/2014

## Valuation detail page

### Apple Inc AAPL | ★★★★★

Is this stock cheap or expensive right now?

Fairly Valued

Our Fair Value Estimate for Apple is \$570 per share. After a successful launch, follow-up sales of new devices in the March 2014 quarter were below our expectations. Apple has taken the strategy of maintaining premium pricing, which may support gross margins but also weigh on future revenue growth.

**Fair Value**

\$570.00

Consider Buy: \$342.00 or below

Consider Sell: \$883.50 or above

**Latest Price**

\$527.21

Day Change: -3.94 | -0.74%

S2-Week Range: \$395.10 - \$575.14

Label Price: \$575.14

**Fair Value Estimate**

For each company we cover, we forecast future sales growth, margins, and cash flows to calculate a present Fair Value Estimate (FVE) for the stock. Calculating FVE is not an exact science, so we won't rate a stock as Undervalued or Overvalued until the market price falls below or rises above our fair value estimate by a specific amount, determined by our Valuation Uncertainty rating.

**Valuation Uncertainty**

This rating indicates our analysts' level of certainty about the Fair Value Estimate and considers the following factors: The firm's Economic Moat rating, sales predictability, operating leverage, financial leverage, and exposure to contingent events.

Low Medium High Very High Extreme

#### Price To Earnings

Ratio	Apple TTM	Industry TTM
Price/Earnings	13.1	13.7
Price/Book	3.7	2.8
Price/Sales	2.9	1.7
Revenue Growth (3yr avg)	37.9	9.9
Net Income Growth (3yr avg)	38.3	24.3
Operating Margin % TTM	28.3	18.8
Net Margin % TTM	21.3	12.1
ROA TTM	17.6	9.0
ROE TTM	28.8	20.9
Debt/Equity	0.1	0.2

## Strength detail page

### Apple Inc AAPL | ★★★★★

How strong is this company?

Strong and Stable

Three analyst-driven ratings determine the fundamental, sustainable strength of a business, in our view:

- > Economic Moat, or the strength of its long-term (20+ years) competitive advantages, if any
- > Moat Trend, which explains whether the competitive position is improving or deteriorating
- > Stewardship, which measures the quality of management.

**Most Narrow** **Most Trend Stable** **Stewardship Good**

Most Stable: Most Trend: Stewardship:

We believe Apple has a narrow economic moat based on modest, but not insurmountable, customer switching costs. Companies with narrow economic moats have strong competitive positions, but we don't expect their advantages to last as long as those of wide-moat companies.

Apple's Most Trend is Stable. The most trend rating describes how a company's competitive position is changing over time, and can be either "positive," indicating the competitive position is strengthening; "negative," indicating the competitive position is weakening; or "stable."

We view Apple as a good steward of shareholder capital. The firm maintains sterling brand recognition and has hundreds of millions of loyal followers, but it has made a couple of mistakes under CEO Tim Cook that, some would argue, would have never happened under Steve Jobs.

#### Key Measures

AA- Morningstar Corporate Credit Rating	374 Gross Margin %	25.3 Return on Invested Capital %	28.3 Operating Margin %
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129.7 USD M6 New to Date

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# 2014 Initiatives

Tom Idzorek

President, Morningstar Investment Management

# Advisor: Key Initiatives

**Advisor**

Asset  
Management

Retirement

Individual  
Investor

# Advisor: Key Initiatives

The screenshot shows the Morningstar Managed Portfolios website. At the top, the Morningstar logo is on the left, and 'MANAGED PORTFOLIOS' is in the center. On the right, there are links for 'PROFILE' and 'LOG OUT', and the date 'Tuesday, October 16, 2012'. Below the logo is a navigation bar with tabs for 'Home', 'Accounts', 'Proposal | Application', 'Performance', 'Forms', 'Communication', 'Tools', and 'Contact Us'. The main content area is divided into several sections: 'Practice Summary' with a 'A Message from our President and Chief Investment Officer' section; 'Market Barometer' with a 'Value-Growth' chart and a table of market indices; 'How to Reach Us' with contact information; 'Proposals | Applications' table; 'Account Activity' table; and 'Investment Insights' section with 'Market Commentary' articles. A 'Create Proposal For New Client' button is prominently displayed on the right side.

**Morningstar** MANAGED PORTFOLIOS PROFILE LOG OUT Tuesday, October 16, 2012

Home Accounts Proposal | Application Performance Forms Communication Tools Contact Us

**Practice Summary**

Total AUM \$  
Funded Accounts  
Average Account \$  
Awaiting Funding 0

**A Message from our President and Chief Investment Officer**

**A Message from our President and Chief Investment Officer**

When markets are volatile, it's critical to have a long term plan in place and stick to it. Click [here](#) to learn more about how we invest.

**Market Barometer**

Day Return +1.25%  
0  
-1.25%

Value-Growth

	Lg	Md	Sm
01:37 PM CDT	%	Value	
▲ Morningstar	+0.87	3,630.2	
▲ Dow	+0.85	13,538.5	
▲ S&P 500	+0.89	1,453.0	
▲ Nasdaq	+1.08	3,097.2	

How to Reach Us

+1 877-626-3227  
Monday-Friday  
8:30 am-7:00 pm EST  
mp@morningstar.com

**Create Proposal For New Client** →

Give us Your Feedback

**Proposals | Applications** View All

Client Name	Proposal Name	Proposal	Application
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**Account Activity**

Client Name	Account No.	Transaction Type	Amount \$	Date
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**Investment Insights** View All

**Market Commentary**

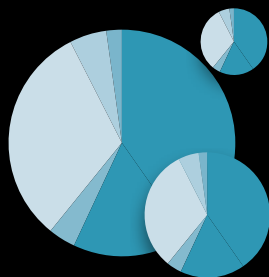
Ibbotson Economic Outlook: October 2012	10-11-2012
Tactical Viewpoint: October 2012	10-10-2012
Outlook and Positioning: October 2012	10-10-2012
Focus On Equities: October 2012	10-02-2012
Market Perspective: October 2012	10-02-2012
Will November's Election Roil the Markets?	09-20-2012
Time to Ditch Diversification?	08-30-2012
Fund Expenses Through the Decades	08-10-2012
Lessons from the 2012 Morningstar Investment	07-30-2012

Enhance Morningstar Managed Portfolios platform

# Advisor: Key Initiatives



One proposal



Multiple strategies



One account



One report

Enhance Morningstar Managed  
Portfolios platform

# Asset Management: Key Initiatives

Advisor

**Asset  
Management**

Retirement

Individual  
Investor

# Asset Management: Key Initiatives

**Now**



Global Markets



Analyst  
Advantage



Factor-Based



Multi-Asset

Expand Index business

# Asset Management: Key Initiatives

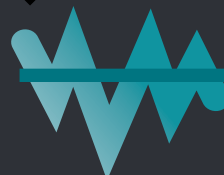
**Future**



Global Markets



Analyst  
Advantage



Volatility



Factor-Based



Multi-Asset

Expand Index business

# Retirement: Key Initiatives

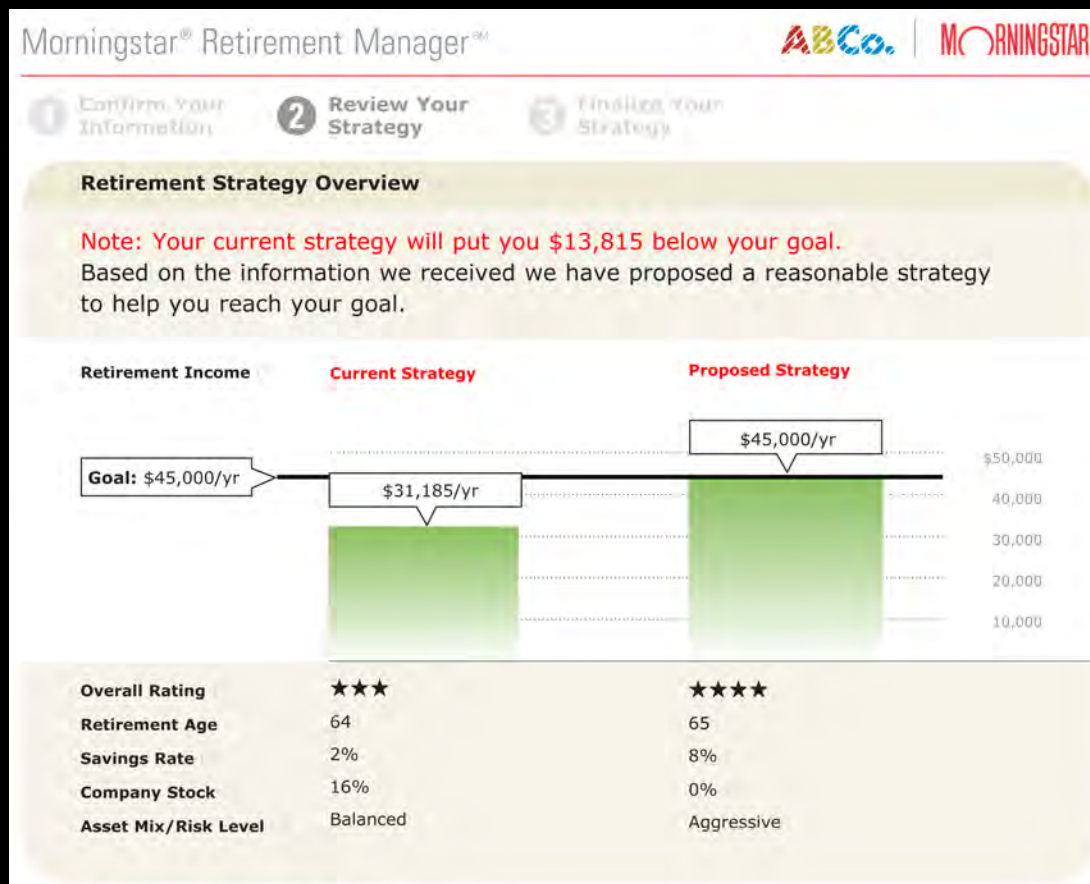
Advisor

Asset  
Management

**Retirement**

Individual  
Investor

# Retirement: Key Initiatives



Update Managed Accounts platform

# Retirement: Key Initiatives



User interface



Advice engine



Portfolio construction

Update Managed Accounts platform

# Financial Highlights

Stéphane Biehler  
Chief Financial Officer

2013 Highlights

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First-Quarter 2014

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Capital Allocation

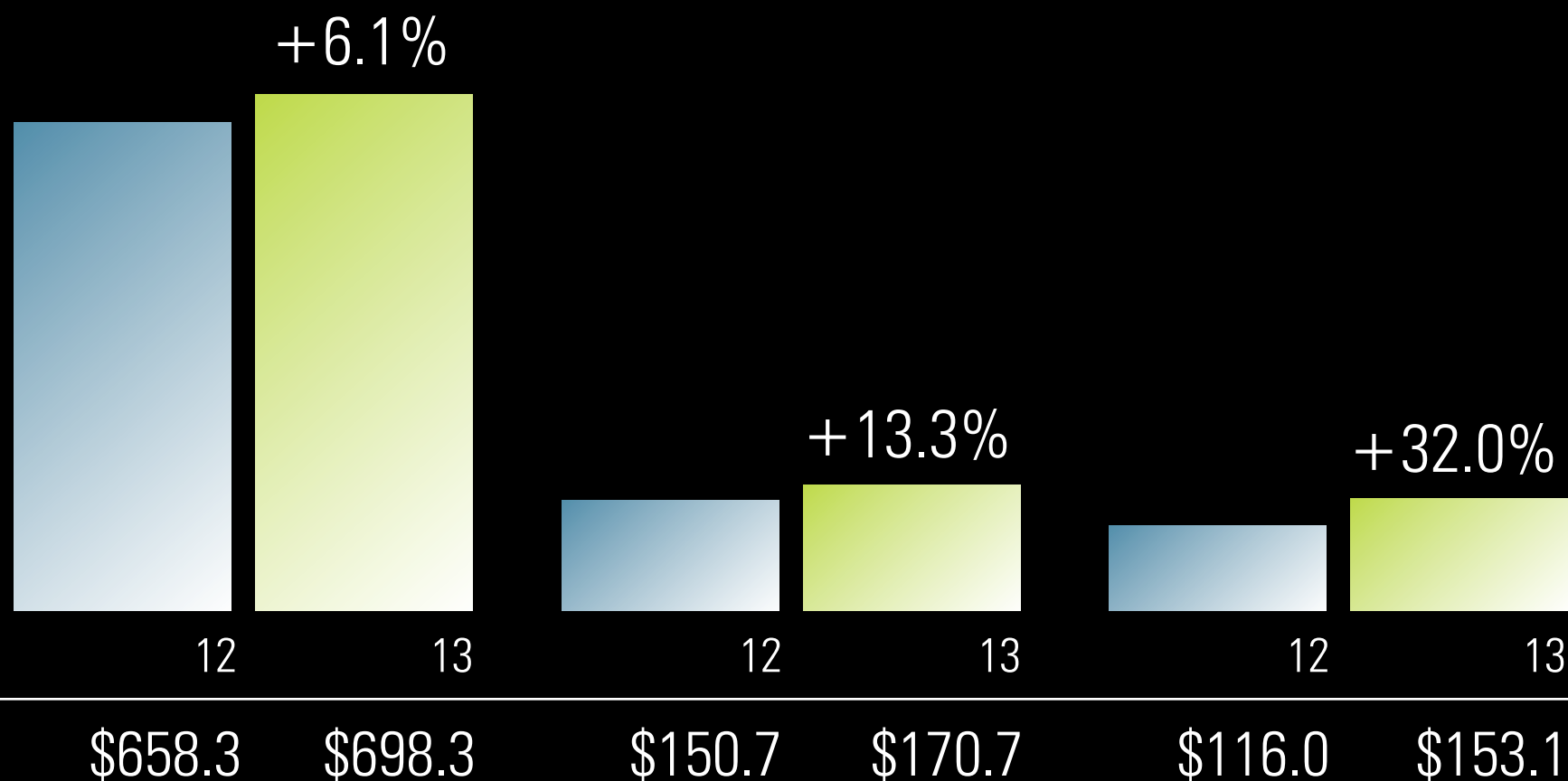
# 2013 Highlights

# 2013 Key Metrics (\$mil)

Revenue

Operating Income

Free Cash Flow\*

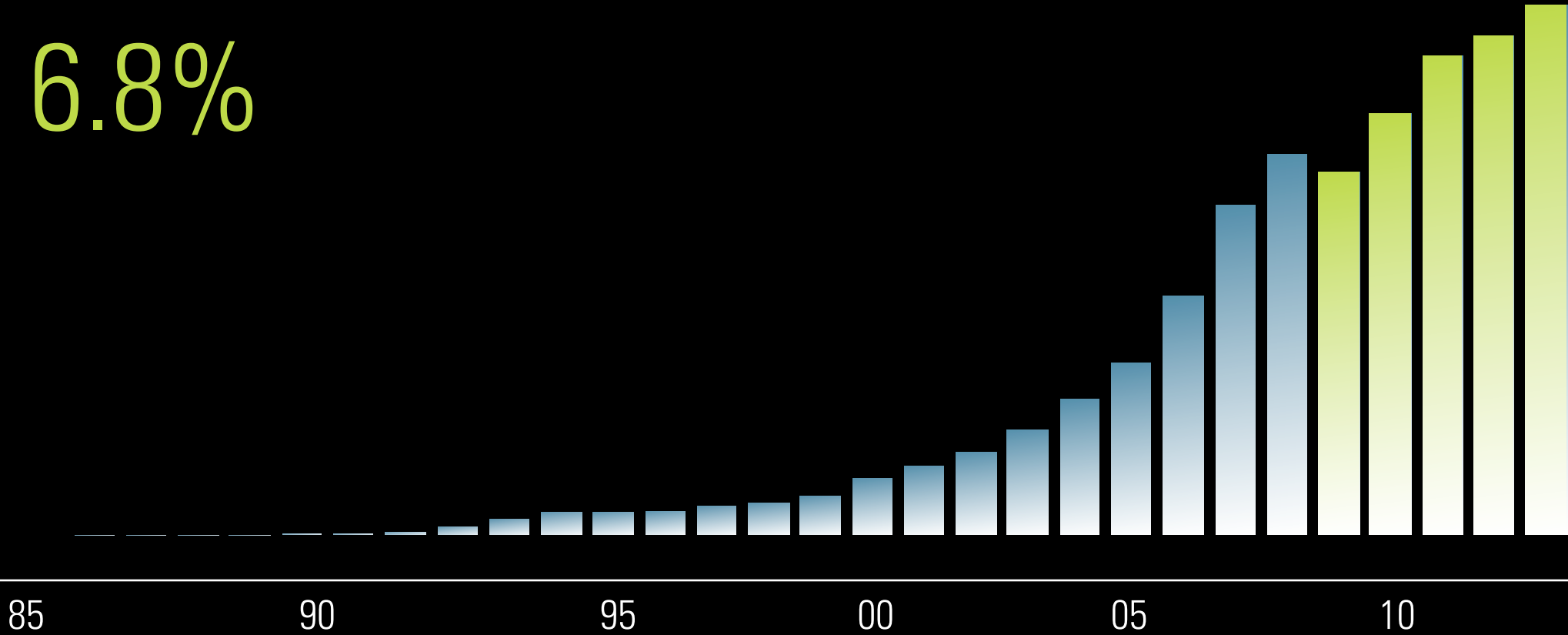


\*Free Cash Flow is considered a non-GAAP financial measure under SEC regulations.

# Morningstar Revenue

5-YR Compound Annual Growth Rate

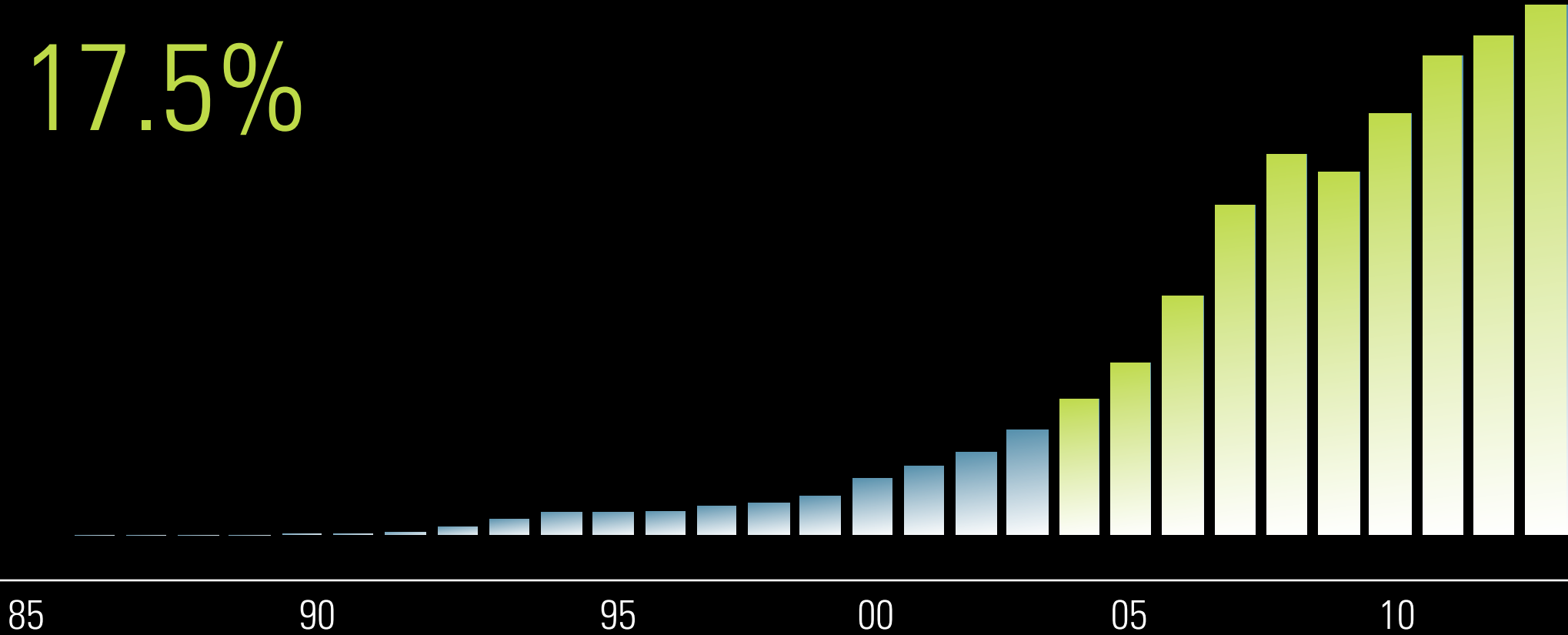
6.8%



# Morningstar Revenue

10-YR Compound Annual Growth Rate

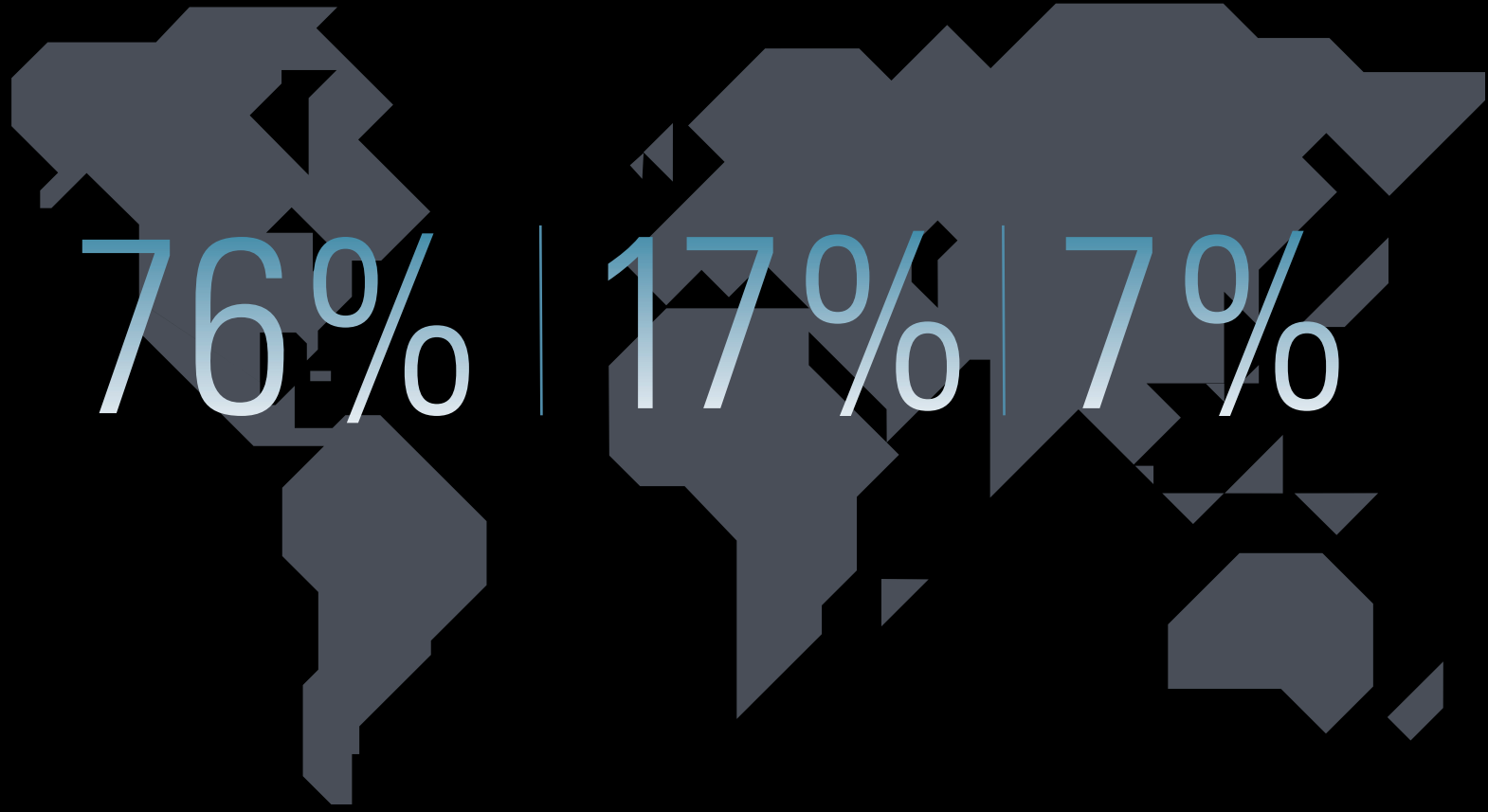
17.5%



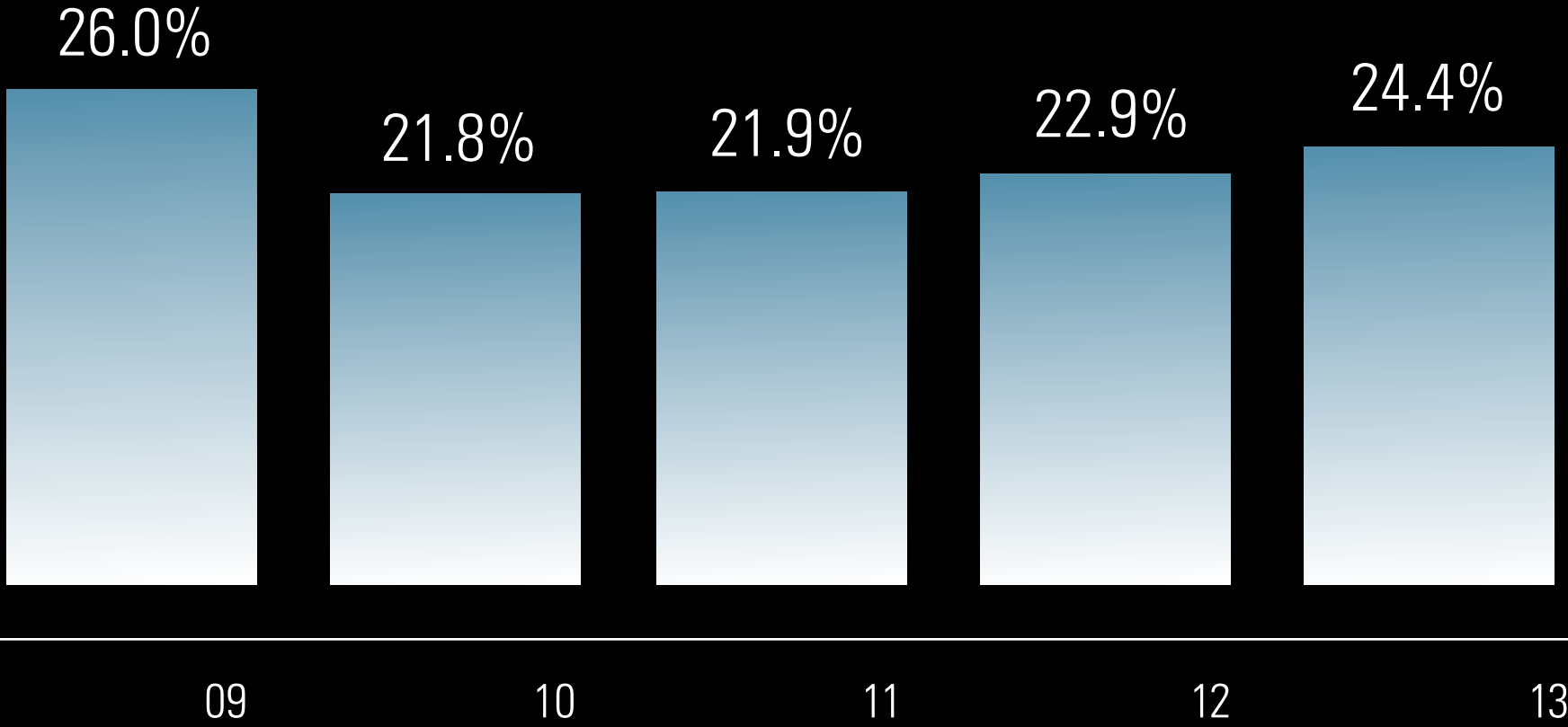
# Top Five Products

	2013 Revenue (\$000)	% Change
Morningstar Data	\$ 129,262	12.1%
Morningstar Advisor Workstation	\$ 93,059	8.1%
Morningstar Direct	\$ 79,358	21.6%
Investment Advisory	\$ 59,187	(10.8%)
Morningstar.com	\$ 55,637	3.7%

# Revenue by Region



# Operating Margin



First-Quarter 2014

# First Quarter 2014 Key Metrics (\$mil)

Revenue

Operating Income

Free Cash Flow\*



\*Free Cash Flow is considered a non-GAAP financial measure under SEC regulations.

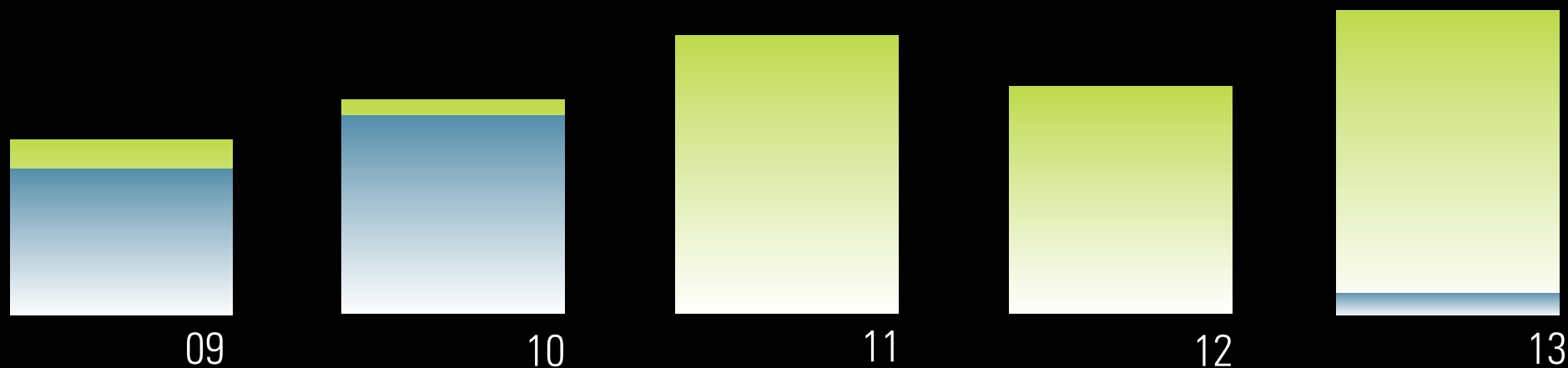
# First-Quarter 2014 Balance Sheet

(\$mil)	March 31 2014	December 31 2013
Cash, cash equivalents, and investments	\$ 264.0	\$ 298.6
Working capital	\$ 177.1	\$ 177.3
Total assets	\$ 1,007.4	\$ 1,030.7
Deferred revenue	\$ 159.6	\$ 149.2
Long-term liabilities	\$ 62.8	\$ 69.8
Total equity	\$ 696.7	\$ 691.3

# Capital Allocation

# Free Cash Flow\* and Acquisitions

Acquisition spending as a  
% of FCF (\$mil)



FCF	\$88.9	\$108.6	\$141.7	\$116.0	\$153.1
Acq.	\$74.2	\$102.3	\$—	\$—	\$11.1
%	83.5%	94.2%	N/A	N/A	7.2%

\*Free Cash Flow is considered a non-GAAP financial measure under SEC regulations.

# Potential Uses of Cash

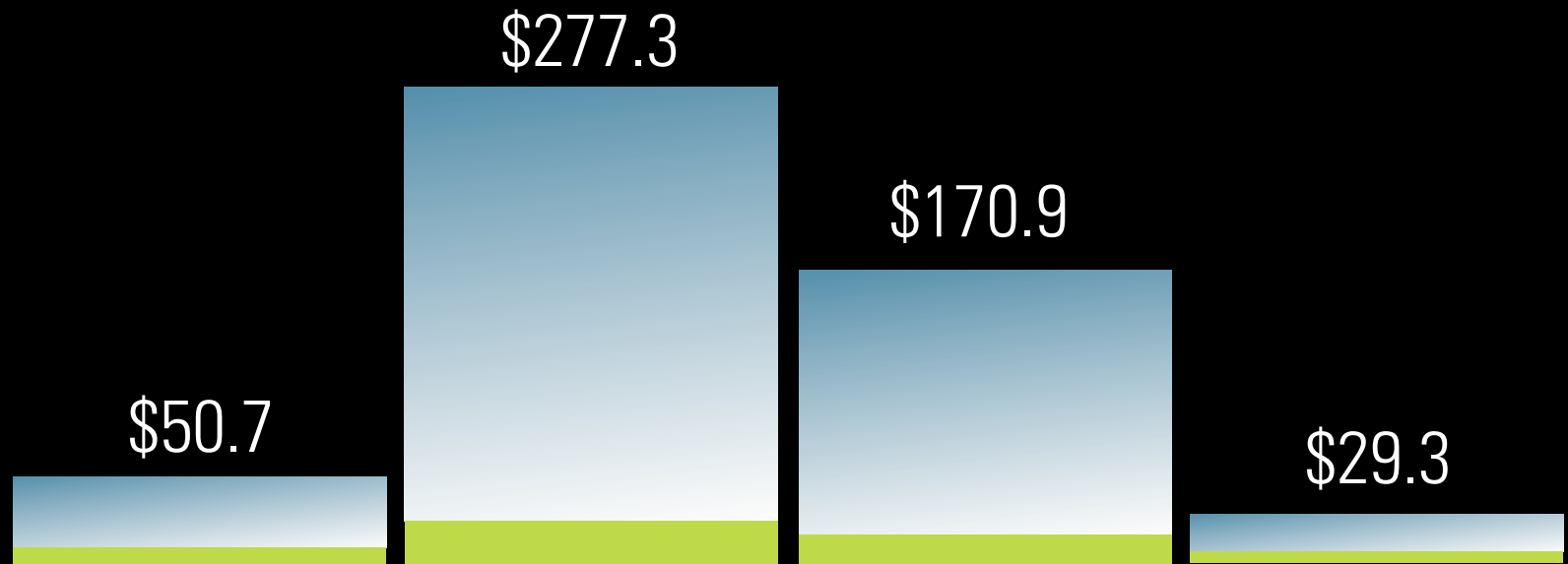


Balance sheet strength



- 
- organic expansion
  - acquisitions
  - stock buyback
  - dividend

# Dividends and Share Repurchases (\$mil)



11

12

13

Q1 14

● Share repurchases

\$40.7

\$251.8

\$153.5

\$21.7

● Dividends paid

\$10.0

\$25.5

\$17.4

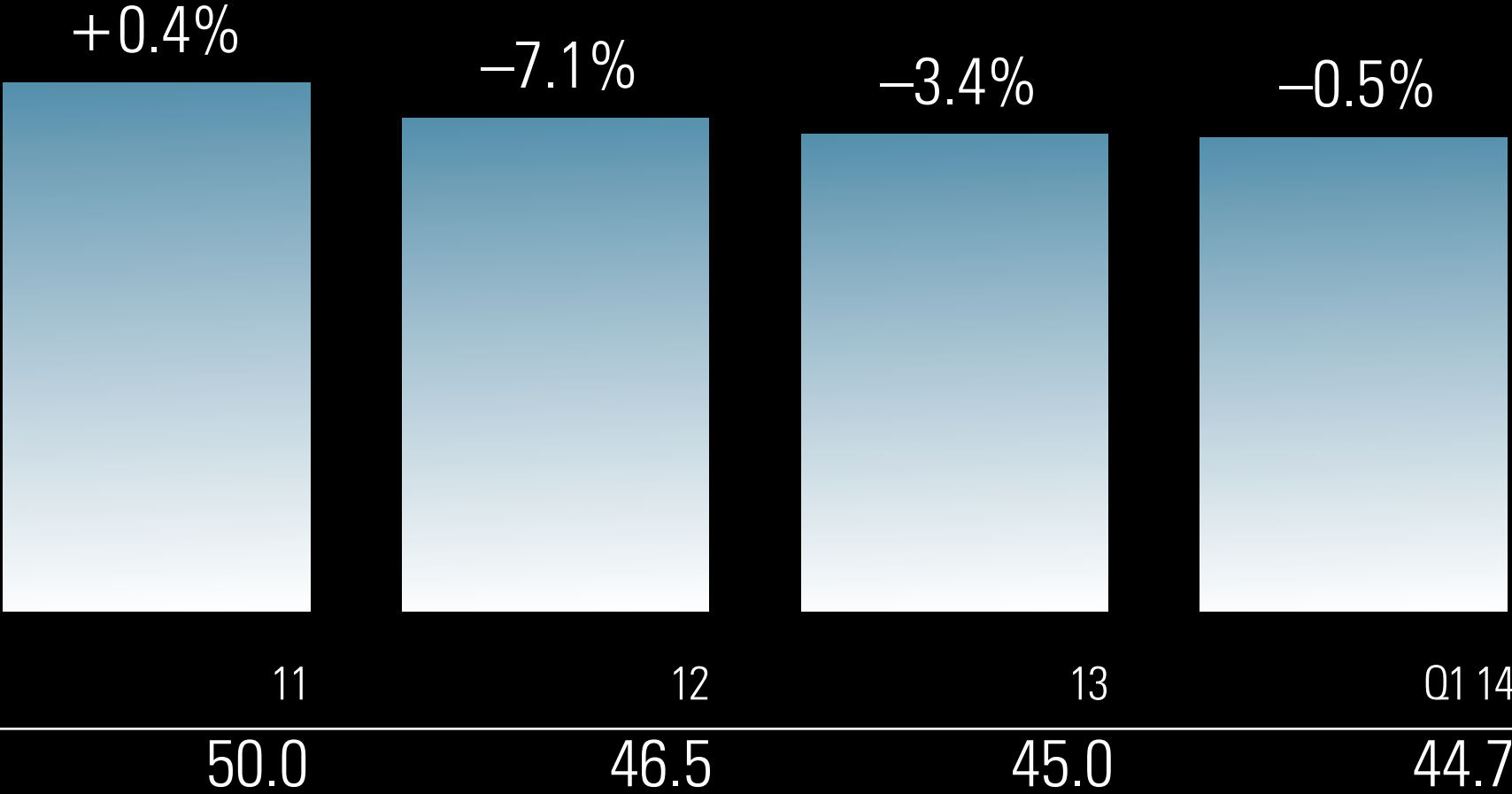
\$7.6

# Share Repurchases

---

Period	Total amount purchased	Average price per share
Through Dec. 31, 2013	\$ 449.8 mil	\$ 63.64
Year to date through April 30, 2014	\$ 21.7 mil	\$ 76.85

# Shares Outstanding (mil)



# Reconciliation of Non-GAAP Measure with the Nearest Comparable GAAP Measure

(\$mil)	2013	2012	March 31 2014	March 31 2013
Cash provided by operating activities	\$ 186.7	\$ 146.0	\$ 11.9	\$ 26.7
Less: capital expenditures	(\$ 33.6)	(\$ 30.0)	(\$ 20.8)	(\$ 9.1)
Free cash flow*	\$ 153.1	\$ 116.0	(\$ 8.9)	\$ 17.6

\*Free Cash Flow is considered a non-GAAP financial measure under SEC regulations.

To send in a question for the Q&A session,  
please visit:

<http://morningstar.socialqa.com>

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