Morningstar 2015 Annual Shareholders' Meeting Transcript

Joe Mansueto: Okay. Good morning everyone. I think we're going to go ahead and get started. I'm Joe Mansueto, and I want to welcome everyone to our 2015 Annual Shareholders' Meeting. It's my pleasure to call this meeting to order.

I'm delighted to see you all here today. This marks our tenth year as a public company, and we always look forward to seeing our shareholders in person and taking your questions.

Like last year, we're also broadcasting a live webcast of the meeting for those of you who are unable to make the meeting in person, so welcome to all of you who are tuning in on the webcast.

So our meeting today has three parts. First is the official business of the meeting, which I don't anticipate will take too long. Secondly, our management presentations, and then we will take a short break, and we'll come back and for what to me the most interesting part of the meeting, the Q&A session. We'll do that last.

But let me begin with the official business of today's meeting. 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 two items of business on today's agenda: the Election of Directors and the ratification and appointment of KPMG as our independent auditors for this year.

Now 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. First, Don Phillips, Cheryl Francis, Steve Kaplan, Gail Landis, Bill Lyons, Jack Noonan, Paul Sturm, and Hugh Zentmyer. Our Board has been a really terrific resource for us throughout the year, and I'd like to thank them all for their contributions and guidance to Morningstar over the past year, so please, a round of applause.

Now I'd like to introduce our executive officers. Stéphane Biehler, our CFO; Bevin Desmond, Head of Global Markets and Human Resources; Greg Goff, our Chief Technology Officer; Kunal Kapoor, Head of Global Products and Solutions; Haywood Kelly, the Head of Global Research; Cathy Odelbo, Head of Corporate Strategy and Partnerships; Rob Pinkerton, our Chief Marketing Officer; Rich Robbins, our General Counsel and Corporate Secretary; Jim Tanner, our Head of Global Business Development and Sales; David Williams, Head of Design; and last is Daniel Needham, the President of Morningstar Investment Management. But Daniel is at our Morningstar Investment Conference in London today and not able to attend. So thank you all for all of your work right here.

I'd also like to take this opportunity to introduce Kurt Gabouer with KPMG, our auditors for 2015. Kurt, would you or any of your colleagues like to make a statement at this time?

Kurt Gabouer: (indiscernible).

Joe Mansueto: Okay. Thank you, Kurt. Any questions for Kurt from anyone? If there are no questions for Kurt, I'd like to get started with the official business of the meeting. To act as an Inspector of Election, I appoint Greg Malatia, a representative of Broadridge Financial Services. Rich Robbins, our General Counsel and Corporate Secretary, and Greg will help us with the counting of the proxies and ballots.

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

Richard Robbins: Thank you, Joe. We are holding this meeting pursuant to a notice that was mailed on April 2 of this year to each shareholder of record on March 13. 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 a quorum for the conduct of business at the meeting.

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 2016 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 the ratification of the appointment of KPMG as our independent auditors for 2015.

The Board recommends a vote for each of the director nominees and the ratification of KPMG as our independent auditors for 2015. Because there are no other proposals to come before this meeting, I declare that the polls are now open. If you've submitted a proxy, you do not need to 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. As I mentioned, there will be a Q&A session later in the meeting, so at this time, we will only take questions that are related to the proposals. Any questions about the proposals?

I now declare that the polls are closed. Rich, would you 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 this meeting has been voted for each of the director nominees listed in our proxy statement and to ratify the appointment of KPMG. We will file an 8-K with more details on voting results within four business days of the meeting.

Joe Mansueto: Thank you very much, Rich.

Okay, now we're going to move on to the management presentations. I'm going to start by taking a look at the past 10 years and talk about some recent company highlights and our strategic direction. I'll be followed by Kunal Kapoor, Head of our Global Products and Solutions, who will give an update on our five key growth initiatives. After that Stéphane Biehler, our CFO, will talk about our financial results and capital allocation. And afterwards, as I mentioned, we'll take a short break, and then we'll open up the floor to your questions. In addition, we've set up a link that lets people send in questions to us at real time. And if you would like to do that, you can go to this page, Morningstar.socialqa.com and type in your question.

Okay. So first take a moment to read this disclosure statement. And I'm going to begin with my part of the management presentations. I'm going to do four things in my part. First, I'm going to talk about the 10 years since we've been public. It's our 10th year as a public company. Secondly, I'm going to talk about innovation. This is an area we've been investing a lot at Morningstar over the past year. Next, I'm going to talk about the impact that we're seeing in our business as a result of this innovation. And then finally, we’ll take a look forward to tell you where we're headed, talk about our strategic direction.

So, as I mentioned, this is our 10th year as a public company. For those of you who were here last year, we celebrated our 30th year in business, this year we're celebrating our 10th year as a public company. We like to celebrate things, but it's been a really terrific experience being public, and I just want to take a look back to see where we were 10 years ago and where we are today.

So, here are some of the metrics. Ten years ago, 2005, we had 1,000 employees. Today we have 3,750 people. If you look at revenue and market cap, they have each grown about 4X over the past 10 years. Ten years ago, when we went public, we were at $191 million at the end of '05; last year we did $768 million. And our market cap has also appreciated quite nicely from $771 million to $3.3 billion.

I'd also note that all of this growth was achieved without issuing new equity or new debt. It was done from existing cash flow. So, even when we went public, we didn't raise new capital. We merely had a secondary of a strategic investor and swapped this strategic investor for the public, but we didn't raise new capital. Similarly, on the debt side, we really haven't issued new debt. We took out a small credit line over the past year, but really all of this growth was achieved from the existing cash flow of the business.

Additionally, above and beyond that, we returned $620 million to shareholders in terms of dividends and share buybacks. We try and run the company in a very investor-friendly manner, and I think this is evidence of that.

It's also fun to take a look at the stats in terms of share price. That's something we talk a lot about at Morningstar. Our mentality is about creating great products and help investors reach their goals, and it's our belief if we do that the financial results will follow. But I just want to take a look at where we were. We went public at $18.50 10 years ago. We closed at $75 on May 5. So, if you do the math, that's a compound return of about 14.5% per annum, which compares favorably to the 6% return of the S&P500. It's also gratifying to see that a number of shareholders who bought in at the IPO are still shareholders today, and those are the kind of partners we love to have, who want to invest with Morningstar for the long term, who like the business we're in, and I think that's where you're going to see the best results if you hang on and think long term and you show ownership just as we do in running the business.

So, again, a quick look back, 10 years of being a public company, it's been a really terrific experience, I think for Morningstar and for me personally. I've really enjoyed it.

Now let me talk a little about innovation. For those of you who were here last year, we talked a lot about the investments we're making back into the business. As you may know, we let our expense growth run faster than our revenue growth last year as we invested more into the business, and most of these investments were concentrated. I think under the broad heading I would characterize it as innovation—innovation to keep our products current and relevant; innovation to make sure that we're responding to changes in the investment industry, changes in technology, to make sure that we have the very best products out there that really help drive better shareholder and better investor outcomes and keep us at the forefront of our industry.

So let me talk about some of those investments and innovation that we've been making. I would say broadly they were in three areas: Research, Technology, and Design. These are what we think of as our core skills at Morningstar. We don't outsource these functions. We do these internally at the company.

So, first, Research. This is really the core of Morningstar. At our essence, we are an investment research firm, so we always have to be investing in research, again to drive better investor returns. And one of the things we love to invest in is our proprietary analytics and methodologies. We call these our signature assets. We've invested a lot over the past year to expand these methodologies, to surface them in our products. These are a few examples of our signature assets, there's more in our annual report, but just to give you an idea what I'm talking about, human capital. This is an area where we have a patent on this in terms of asset allocation but looking at somebody's discounted future earnings, so-called human capital, as well as financial capital, we think both of these are important in coming up with an appropriate asset allocation for an investor.

Our analyst ratings, we developed these a few years ago. These are forward-looking qualitative assessments of a fund. Our star ratings, as you may know, are backward looks at performance, risk, and cost. So these take our ratings to the next level using the Olympic theme of Gold, Silver, and Bronze.

Our equity work, we've done a ton of work around valuation of equities; our moat methodology has been very well received, but a lot of investment in that area.

And then our portfolio X-ray capability; nobody has better holdings data than Morningstar. So we're in a unique position to evaluate an investor's portfolio that's composed of stocks and funds and really combine everything and get a true look at an investor's exposure to geography, sectors, and other portfolio statistics. Again these are some of the examples of our signature assets. Again, take a look at the annual report and you'll see more examples.

Another thing that we've been doing is leveraging our intellectual property, our investment in our analyst research team. So, for example, we have 100 manager research analysts at the company, and one of the things that we've done is we've introduced an institutional Manager Research Service. This is what we've done for many years on the equity side. So for institutional equity clients like yourself, you can retain Morningstar, you can call up our analysts, look at their models, spend time with them. We pioneered a parallel service on the Manager Research side. So institutional investors who are doing diligence on funds, constructing portfolios, doing the monitoring, can retain us and talk to our fund analysts, our Manager Research analysts, about the funds that they cover in more depth. We're pretty excited about that. Again, it's a way to leverage an investment that we already have in a terrific Manager Research team.

We've been expanding our methodologies, as I mentioned. This is a wonderful paper that David Blanchett and Philip Straehl wrote, called No Portfolio is an Island, that expands the work of the financial capital and human capital in what we call our total wealth approach. So, adding two other asset types looking at retirement assets, pension assets, Social Security, as well as housing, which is depicted on this chart that you probably can't read, but we think all four of these asset types are important in coming up with a true holistic look at somebody's total wealth, and that is the basis for providing sound asset allocation.

So, again investment to expand our methodologies and our total wealth approach with these four asset types is a real differentiator for Morningstar in the marketplace, and we're incorporating this into our tools, such as our Wealth Forecasting Engine.

Also on the Technology side, we've been extremely busy. Over the past year, we've made investments in nearly all of our major platforms. We've been re-platforming them to move everything to the cloud. So our clients have easy access to it. So from left to right what you're looking at on this screen is Morningstar.com, which is our platform for individual investors. The middle one is Morningstar Direct, our institutional software platform. That's the cloud version that we released a few months ago. And then on the far right is Morningstar Retirement Manager, which is our platform for retirement plan participants. We've moved all of these to the cloud, we've improved the interfaces, but not only that we've also completely redone the backend.

So here's a quick chart that summarizes that from data collection to data storage. We want to make everything available via APIs. So we've had to rework our platforms, have one golden copy, and we've also moved the calculations down from the product level, down into the database, and then with data governance and then on to dissemination, but this is important because now we can rapidly expand the data coverage in all of our products. We can also open up the hood and let clients access our data as well as analytics directly via APIs. Moreover we've got out a more robust, resilient, stable platform infrastructure that I think is going to serve Morningstar very well for many years to come. So, a lot of investments around security, redundancy, as well as moving things up into the cloud, have it accessible via APIs.

So this has also enabled us to move a little quicker on the product development side. We introduced, for example, a new advisor iPad app in January of this year, and it's been extremely well received by our advisor clients. If you go to the App Store on Apple, it gets five stars. Advisors are rating it quite highly. We've taken some of the functionality of Advisor Workstation and Office, our advisor solution, put them on a tablet. Advisors are very mobile. They're often in their client premises. They want to demonstrate their value. So having that functionality on a tablet is huge for our advisor clients. Again, it has been very well received.

We also introduced a blank screen here. So a few weeks ago, we introduced an application, a market monitoring application for Apple's Watch, a new watch product, which I think just exemplifies our skill in product development and trying to harness the latest technologies for the benefit of investors. But it gives you an idea of what we're doing on the product development side and how nimble and agile we are to kind of get an application out pretty quickly, but it's a pretty slick little application, has our market barometer on it, but again just an example of the product development emanating from Morningstar.

And then finally Design innovation, which may be a surprise in terms of probably most financial firms don't talk about this, but design is a hallmark of Morningstar. We put a lot of emphasis on design. We've got 70 designers at the company. Our Head of Design, David Williams, reports to me. It's a hugely important thing and it's just not simply making things look attractive but it's about information architecture, how do you take all this complex financial data and make it digestible for investors, so a lot of emphasis on design.

One of things, as I mentioned, we've reworked all of our major platforms. This is again the new version of Retirement Manager that will go into beta next month, come out later this year, but you can see it's more visual, more engaging, friendlier than the previous version.

This is the new version of Morningstar Direct Cloud that we launched a few months ago. You can see we've surfaced the functionality in a more easily accessible manner. You can also hit a button and have it arrange the functionality by workflow depending on your persona, your work type, whether you're a marketer or an investment professional, for example, so much more friendly, much more engaging design.

This is a new version of Morningstar.com that will launch later this year. It's a much cleaner design, and importantly this is now built on a new platform. So, it's much easier to change. It's not hard coded. So, we can drag and drop the features on this page and change it very, very quickly. So we're doing a lot of test and learn throughout our product organization, and so we can listen to our users and be very, I'd say, agile and nimble in adjusting our content in ways that are our most agreeable to our client base.

In another way we showcase our design, we have a Morningstar magazine. If you haven't seen this, we've got copies out in the lobby. But you should take a look at it. It's a great way for us to highlight the latest in our investment research. Here are a couple covers from the last few issues, but one of the things we also like to do with this publication is showcase some of our signature assets. This is another example of a signature asset that's in development. We call it the Morningstar Global Valuation Lens. So, remember that we have 100 stock analysts valuing companies. We can roll up those valuations, and we can do a lot of interesting things with them.

This is a display that shows the valuations by geography, and so the brownish color are countries where according to our fair values that countries are overvalued and then the bluish color are countries where the markets are undervalued in the opinions of our analysts based on these roll-ups – bottoms-up roll-ups, and so very quickly you can hone in on countries you may want to do more research either for buying or selling, but it's a way to extract more value at one visual glance from our research rather than having to cobble together piece by piece all the research. You can take a look at one display and extract more value from it, but these are the kind of signature assets that we'd love to develop at Morningstar.

So, those are just kind of a quick rundown of some of the investments that we've been making in our business. It's again is why our expense growth was a bit above average last year as we thought it is important to invest back into the business, again to keep our products current, relevant, respond to changes in the marketplace. But now as a result of those investments, I think we're seeing increased impact, increased momentum in our business, and let me tell you about that.

First as a refresh, we target four major customer groups at Morningstar. Our mission is to create great products that help all investors, but all investors is a pretty big term. So, we segment the investor audience into these four major customer groups. The first is the advisor customer group. It's actually our largest customer group. We have 250,000 financial advisors as clients, which is about one out of four advisors globally, about one out of three in the United States.

On the asset management side, we work with virtually all of the major asset managers globally, about 1,700 asset management firms. The retirement market is a lot more complex. It's a multi-tiered structure. We work with 24 plan providers or record keepers of retirement plans who in turn work with 290,000 plan sponsors or employers who in turn work with 24.4 million plan participants or employees. And so we work with all these levels. It's one of the reasons working in the retirement business is a little tricky. You have to navigate the structure.

And then on the individual side, we have 9.9 million users of our products, so very broad reach among individual investors. Additionally, our reach is hundreds of millions of other investors through our redistributor and media relationships. So MSN, Google, Yahoo really extend the reach of our research and analytics to hundreds of millions of other investors.

So let me talk again about the momentum, the impact we're seeing among these – within these groups. One of the areas we're seeing momentum is within an area that we call – is called portfolio aggregation. So, aggregating client accounts, so you have holistic look at an investor's portfolio. And this has really gone from a nice-to-have to a must-have for financial advisors in running their practice.

On the left you see the old world where a client may have multiple accounts, multiple custodians, and it’s very hard for the advisor to pull in all of that data on his or her own from all of those custodians, aggregate them to get one pie, one holistic asset allocation. What we do with our ByAllAccounts capability, is we can aggregate all of those for the advisor and then send one feed, one pipe into the advisor, so that they can easily do their asset allocation and advice work.

So we are now aggregating $1 trillion of client assets on a daily basis—pretty staggering number and from 20,000 data sources, custodians. When we purchased ByAllAccounts about a year ago, it was clearly the leader in investment information – investment data, portfolio data. What it didn't have was the spending side, the credit cards, and so we've added that to the data source roster, so now we are 20,000 – so now we have both the investment side and the spending side to do really terrific and we think world-class portfolio aggregation.

We have what's called a TAMP, a Turnkey Asset Management Platform called Morningstar Managed Portfolios that lets advisors outsource all or part of their portfolio management responsibilities. And this has grown very, very strongly. You can see it has grown from $6 billion in 2010 to $12.8 billion at the end of the first quarter. We work with about 5,700 advisors in the United States who use this service, and they are extremely happy with the service. I met with one yesterday, who just raved about the quality of the service he was getting from Morningstar and the reports and how much better our performance was than what he was previously doing. So advisors love this.

It also is in tune with the trends in the industry where there are increased fiduciary responsibilities for advisors, you may have seen the White House proposal for advisors to be fiduciaries if they advise on retirement plans. So as fiduciary concerns are heightened among regulators and advisors, more advisors are choosing to outsource their portfolio management responsibilities to a third party such as Morningstar, and we've clearly been a beneficiary of that trend.

Morningstar Direct is also one of our key growth drivers over the past five years. You can see the number of licenses has gone from 4,700 to over 10,000 at the end of last year, a real milestone. And we think this is just the beginning. We think Direct has enormous potential as we expand the data, the functionality of Direct, but this is really the premier platform. If you are doing manager research, Direct has the world's leading global database on managers, terrific functionality, it will save you time, money, and it's really a must-have if you deal with any kind of managed portfolio. But you can see that in the numbers. We sell the same product around the world. And now with the new cloud version coming out, we think we're going to open up even much more potential for Direct.

Clients are extremely happy with Direct. This is the net promoter score at the end of last year, 37. I wish to put this in some context. This is a terrific number for a net promoter score, people who recommend the product or service to a friend. Net promoter scores can range from plus 100 to minus 100. And you take the promoters, subtract the detractors, and throw out the passives. So we have a lot of people who are very enthusiastic promoters of Morningstar Direct. And again, I think it speaks to the value in the service that we provide to our clients.

We're also getting traction on the equity research side. This is an example. Charles Schwab signed on recently to carry our equity research for all of their clients. I met with Walt Bettinger, the CEO of Schwab last week, and he told me that the reception to Morningstar Research on Schwab's platform has been extremely, extremely positive. He couldn't say enough good things. He said our reports are the single most downloaded reports on Schwab's platform for all of their third-party providers. So, really great reception from Schwab, which is typical I think of the client reactions we've gotten to our equity research.

Here is another one: “I just want to tell you guys that the quality of your service and your research is 10 times better than anything we ever got from Competitor X. Our advisors absolutely love your research, and we've not gotten a single complaint.” Which again this is indicative of the kind of response we're getting to our equity research, it really resonates with advisors, individual investors. We've got incredibly high levels of service that go around this. We deliver it in technology-friendly ways. And so terrific reaction to our equity research.

Another growth driver: we are seeing increased momentum on the retirement side. We crossed a milestone last year. We now work with 1 million plan participants in managing their 401(k), 403(b) accounts. This is, again, what we call our managed retirement account service. You may have heard of the term robo-advisor for individual investors as it has got a lot of press, really automated advice.

We are a robo-advisor in the retirement space. It's certainly one of the largest, if not the largest in terms of the number of accounts. So, we've been doing this for a decade, providing automated advice to help over a million people better plan for and prepare for retirement.

So we are pretty proud of that, helping a lot of people without a lot of means, lower average account balance, average account balance is probably under $40,000. So, people who normally can't afford advice can get great advice via our managed retirement account service.

Here are some of the stats in terms of momentum in our retirement business. We are unique in this space and providing a broad range of solutions for our sponsors and providers. It's not just one solution, we have a multitude. Here are the three key offerings; in total, we are managing or advising on $76 billion of client assets; actually, it was $82 billion at the end of the first quarter. And for all three of these services we receive basis points.

So the first one is managed retirement accounts. As I mentioned at the end of last year, that was $36 billion and $38 billion at the end of Q1. Custom models, this is coming up with customized glide paths for DC target date fund for large companies, which we customize based on plan demographics and other attributes of the plan.

And then, finally, plan sponsor advice, what we call fiduciary services, is coming up with 401(k) lineups. So most plans have thousands of choices, it's very hard for sponsors or participants to know what funds to choose, so we whittled that down to lineups of the best funds that make sense based on plan characteristics, and that is a very popular service.

We also made another acquisition last year: HelloWallet, which is focused on a category called financial wellness, which may be a new term to some of you. HelloWallet has this terrific metaphor called the financial ladder. So you want to move up the ladder to financial wellness.

Typically, Morningstar has dealt with the top rung of this ladder, investments. With HelloWallet, we are moving down the ladder and helping people become investors. So we're helping them –

first, if you look at the bottom rung, with their spending needs; aggregating their spending, giving them spending advice, how to rationalize their spending.

Secondly, coming up with a personalized emergency savings plan, and this is a big deal, because a big problem in 401(k) plans is that people withdraw prematurely from their retirement plan for emergency expenses. So they undercut their retirement funding. And so our counsel is to, before you invest in a retirement plan, develop an emergency savings plan for minor emergencies, major emergencies, job losses so that you don't have to tap into your 401(k) plan. So, get that done. And then move up to guidance coming up with a plan; move up to benefits, maximizing all of your benefit, HSA, health, other benefits that you have at your place of employment; and then, on up to investing.

So HelloWallet has a high engagement model to help people move up working with companies such as Walmart and Google. This is sold through the employer, so it's free of charge to the employee, but a really wonderful reaction among plan sponsors to HelloWallet. We are seeing a lot of traction.

This is interesting, if you look at a survey from Aon-Hewitt, the percentage of companies planning to focus on financial wellness. In 2012 about a third, 32% of employers were saying they were going to focus on financial wellness, making it a priority, this year, 93%. If you went back prior to 2012, it wasn't even on the map.

So this is becoming a must-have, a top priority for benefit managers, employers to help their employees with financial wellness because they know that they are not prepared adequately for retirement, average 401(k) balances are low. This is a way to help them have a more secure or higher probability of a more secure retirement.

The credit rating side is also pretty exciting. We are increasingly seen as an accepted provider of credit ratings, which is, as you know, a huge market. These are some stats on the CMBS new-issue ratings for Morningstar for the last five years. CMBS is commercial mortgage-backed securities. We've gone from rating five deals in 2010 to 52 for all of last year; and from $3 billion of new issue ratings in terms of assets up to $33 billion for all of 2014, and this has continued into Q1. In Q1 we rated a little over $10 billion of transactions, so you can see the momentum has continued.

Again, we’re increasingly seen as a provider of credit ratings. We've expanded also into RMBS, residential mortgage-backed securities, as well as ABS, asset-backed securities. The vision is to be a full-service credit rating firm, but we want to expand very methodically. But you can see the evidence here. Again, we're increasingly seen and accepted as a provider of credit ratings, which is really exciting. We have a terrific team in Pennsylvania and in New York overseeing this business for us.

We're also stepping up our marketing efforts. We have a new Chief Marketing Officer who I introduced earlier, Rob Pinkerton, who comes to us from HelloWallet. We liked Rob so much we promoted him, made him CMO for all of Morningstar. And Rob is focused on increasing our digital as well as print marketing efforts. We think we've got a great story to tell, great capabilities, and we want to get the word out in a stronger fashion.

This is an example of a campaign that we've been running in *Barron's*; you may read *Barron's*. This is an ad for Morningstar Direct, Everything Morningstar, an ad for our research capabilities. This is Morningstar Managed Portfolios, our TAMP, service for advisors. Our Index business, another one we're quite excited about; as well as our retirement capabilities. So those are some examples of the marketing efforts.

Let me end this section with a quote. This is from Brandon Noll, a financial advisor, “Without Morningstar, we can't effectively manage money.” Which I think speaks to the deep partnership that we have with, I would say, most investors, but certainly financial advisors. We really are their key partner in running their practice. They depend on us, especially the independent advisors. Again this one quote I think nicely illustrates that partnership we have with advisors.

So, again, a quick look at some of the investments we've been making in innovation. The traction, the momentum we're seeing in our business is a result of that.

Now let me shift gears and look forward about where we're headed. While we like the past, I think the most exciting thing is what we're going to be doing. So just as a reminder, this is our strategy. It's very simple, it's very clear, I think easy to understand. We invest a lot in core capabilities. So primarily our proprietary research, our investment analyst staff, all of those signature assets, proprietary analytics, the frameworks, the brand. And then once we've made that investment, we want to leverage that.

So, we leverage it in two primary ways, for two primary types of investors. First, the investor who wants to do it themselves, and for the do-it-yourself investor, we offer decision support software. Other investors want it done for them. So for investors who want Morningstar to do-it-for-me, we have outsourced investment management solutions. So those are two broad investor types; do-it-yourself, do-it-for-me, and we have solutions for both of these audiences.

These are two quite large market sizes based on the capabilities that we have today. Decision support is about a $26 billion opportunity for Morningstar. Outsourced investment management is approximately $4.1 trillion of opportunity, again based on the services that we have today.

And then we've lined up the products that fall under each of these categories. So under decision support, and these are ranked by size of product; Morningstar Direct, our institutional software platform; Morningstar Data, we originate our data, so we can license that in terms of data feeds to our clients; our advisor solutions, Morningstar Advisor Workstation; Morningstar.com, our platform for individuals; Enterprise Components, we can take our platforms and we can unbundle them and sell the component parts to institutions, advisory platforms to incorporate into their solutions, that's quite a large business for us. Morningstar Research, people just want to take a research feed of our qualitative research; the Credit Ratings business; and then Morningstar Indexes. On the decision support side is licensing our indexes largely for benchmark use by investors.

On the other side; outsourced investment management, the leading solution there is all the Retirement Solutions, which I described; followed by Morningstar Investment Advisory, these are co-branded solutions, we're the Intel Inside of someone else's offering, so typically we're a portfolio consultant, a sub-advisor helping with portfolio construction, monitoring, or manager research, but it's somebody else's solution; Morningstar Managed Portfolios is again our TAMP, the outsourced advisor solution; and then Morningstar Indexes is also a solution in this area for product creators. If you create ETFs, you can license our index, create an ETF around that and that's also an important business for Morningstar.

Now one of the things we're doing that you may find interesting, is that these aren't two siloed worlds, what we're doing is bringing them together. And why is that? Because investors don't fall so neatly into only two categories, many investors want to do both. They want to do some of their own research, but they also want to use some of our outsourced management solutions.

So, for example, financial advisors, they maybe want to do their own research, but they may want to outsource the asset allocation or they may want to outsource the fund selection. And so we want to bring these solutions together, so that our clients can go seamlessly from decision support over and tap into our outsourced investment management solutions, if that's what they want to do. And this is important because now, our outsourced investment management solutions can take advantage of the large audience that we have on the decision support side and these become potential clients for our outsourced investment management. So, increasingly as we move these platforms to the cloud, we're bringing these solutions together, and investors can move more seamlessly, and that's where we're headed in the future.

Now let me quickly talk about five key growth areas. We've done a lot of strategic work over the past year, about where we see the biggest opportunity for Morningstar over the next decade. And these are opportunities that are large, they are each over $100 million, some significantly more, and there are also opportunities where we're uniquely qualified to win. So large markets where we can win, we have identified five that we are focusing our investments on. I'm just going to tee them up here now. I'm going to be followed by Kunal Kapoor, Head of Global Products and Solutions, who will walk through these five in more depth and show you some examples.

But just quickly, managed retirement accounts/financial wellness we think is our single biggest opportunity, as people move into their retirement years, not only in the U.S., but around the world. We think we've got great capabilities to help with that challenge.

Secondly is Morningstar Direct, as I mentioned, large opportunities, especially as we move into the cloud, add more functionality. We also are bringing the advisor workflow into this, so we want to have one great platform for institutions and advisors, both audiences.

Third is our Managed Portfolios. Again, the outsourced investment management solutions; advisors are busy, they are doing a lot of things. And being able to tap into Morningstar is I think a key thing that they find attractive and helps them with fiduciary responsibilities as well.

In Credit Ratings, we’re a very small player, but we think we can leverage our reputation and our research capabilities to really succeed in this marketplace. We've chosen a few areas to start and we think there is a lot more room, a long runway of growth here for us, in the Credit Rating space. And then the Index space as well, both for benchmarking, as well as for the creation of investment products.

So a lot of opportunity, we're quite excited about these, a lot of strategic work has gone into this. This has been a focus of our investments.

And now I'm going to call up Kunal Kapoor to talk about these. I'm going to come back and wrap up at the conclusion of the management presentations. But let me introduce Kunal. Kunal is a Morningstar veteran. He has been at Morningstar 18 years. He has worked in most areas of the Company. He started as a Data Analyst and moved up the data ranks, he went over – was a fund analyst, oversaw the fund analyst team, and led Morningstar Mutual Funds. Went over to MIS, our Managed Portfolios Service, and ran that, did a stint internationally, ran Morningstar.com, and now he is Head of our Global Products. So he has seen most parts of the organization.

But importantly, not only is he a terrific manager, he thinks like an investor. And he is unerringly creating products that really serve investors' best interest and create better investor outcomes. So we couldn't have a better person overseeing our Global Products and Solutions.

So please give a warm welcome to Kunal Kapoor.

Kunal Kapoor: Good morning, everybody. Thanks, Joe for the kind introduction. As Joe indicated, I'm going to spend a few moments today walking you through in some detail about our key investment areas. And I'm going to start by just mentioning and reiterating what Joe said, that we've chosen these areas because we see that they're all large addressable markets, but equally importantly because we have some unique capabilities that we can offer to these markets that give us a particularly strong chance of success.

We also think that in all these areas, we're going to help investors get to better outcomes. And as Joe has mentioned throughout his presentation that's our true north to make sure that whatever we're doing at the end of the day, the investor is the winner.

I'll start with our retirement offering. We've been talking I think to you at least in the past 18 months about how we are investing in our platforms and Retirement Manager is one of those beneficiaries. We are investing in this initiative more so in 2015 than in any of our five initiatives at Morningstar.

What you're seeing here is our next generation interface of Morningstar Retirement Manager. As you can see, it has a much cleaner look and feel than what exists today. And we're also doing things such as introducing responsive design and essentially rebuilding the underlying infrastructure as well. So it's a really nice interface. And most importantly, it really helps us get to our goal of helping really build software that our users are going to love and respond to in a positive fashion.

As you know, robo-advice, what Joe touched on earlier, has been getting a lot of attention of late. We ventured into automated advice more than decade ago, and one of the things that we came to find is that key to success in the automated advice space is driving up adoption rates. A lot of individuals have the right goal—they want to save for retirement. But for whatever reason, they sometimes cannot meet that goal, as well as they would like to. And so we've been focused on adoption rates.

And as you'll see the adoption rate for managed accounts has continued to grow quite nicely in the past three or four years, and we think that it can grow higher. And so as we think about this business, our new platform and what we want to do with it, we definitely want to focus on the adoption rate and get it up even higher than what it is today.

One way that we think we can do this is by combining our retirement offering with HelloWallet's financial wellness offering, and so we're trying to build a more holistic retirement offering than what exists today. And we think that if we can do this and help people with saving and spending issues that ultimately their retirement outcomes are going to be a lot better than what they are today.

As you may be well aware a lot of people start out saving for retirement, but when they switch jobs, they start withdrawing money or there are emergencies, and they tap their 401(k) as a first resort as opposed to a last resort. We want to try to help change that behavior a little bit so that the outcome is a lot more successful for folks than what it is today.

Very positively we've been talking to a number of our clients about this offering and there is a lot of interest in it. So Joe mentioned the facts that next month we'll be rolling out our new Retirement Manager in beta and we are already talking to a number of our clients both about taking that offering and making it available to their participants as well as then talking to some about combining these two capabilities, and there is a lot of interest. The market is certainly ready for that as well.

Second on the list is Morningstar Direct. You've been hearing a lot about Direct and this is our new home page, as we like to call it, for Direct. We've been rolling out the next generation of Direct in recent months, and our vision is to have a single cloud-based platform for institutional investors and others who conduct their own research.

What you're looking at now is a short video of some of the capability that we've built into Direct. Obviously, it's cloud-based, as we've been saying, and this is really important because it eliminates the need for time-consuming software installations and upgrades. That's something the older platform had required, and we are doing away with that, of course.

Greg and his team have worked really hard on the underlying software architecture. It's probably not the most exciting thing to talk about when you're talking about a software platform, but it's so critical to the way it works and our ability to kind of roll out new features and add new things to it.

And then equally importantly if not more importantly, we really want Direct to showcase the best of our research capabilities. We think we have a great opportunity to take all the research we do and surface it in a way that's more useful and relevant to users and in a way that fits in a lot more closely with the workflows that they're trying to do.

So today, we have a number of capabilities built into Direct, but in the future we want to take those capabilities and basically build out workflows for the different personas who use Direct. So we are very, very excited about what's going on there and what we're trying to build, and the feedback from clients who have been interacting with the latest versions has been very, very positive. If anything, they just want to see more and they want us to go even faster which is something that we aspire to.

Joe referenced the fact that we also want to build many of our core capabilities into Morningstar Direct including our solutions for advisors. Last year, we really started to see a trend where number of advisors, particularly high-end RIAs, began to sign up for Morningstar Direct, and we think that this is a trend that will continue to gain momentum.

We think the advisor customer group that we serve already has a lot of capabilities that they need within Morningstar, and our vision for the future is to connect those capabilities in a manner where they are a little bit more seamless than they might be today.

Key to that vision is two things; one, is we want to continue to drive the usage of our aggregation capability. We find that whenever advisors sign up for our ByAllAccounts service, their assets under advisement immediately begin to rise because they get a look through to all the client’s assets, and they are more effective in the way that they can work with their client.

Secondly, it's definitely the case that different advisors work differently. The higher-end RIAs and some other advisors tend to want to do a lot of the research themselves, and we think we can serve them very ably through our do-it-yourself platforms such as Direct and Advisor Workstation.

There is also a growing number of advisors who want to outsource the investment management piece of the business, and this is not necessarily a trend that's unique to the U.S. We're seeing it happen globally, and we want to serve those advisors as well. And so we've done that through our Morningstar Managed Portfolios service, and what this chart demonstrates is just the industry-wide growth in those assets, and we've certainly been a participant in that trend and anticipate that we will continue to play a major role here for those advisors who want to outsource the investment management piece to us.

Something, I'm particularly excited about is our Strategist line of portfolios, which we've built into Morningstar Managed Portfolios. That line of portfolios is tethered to our own equity research, and it already has a sizable amount of assets in it, and we think that's something that's really unique and different that we can bring to the marketplace, and we intend to continue pushing on that front.

Number four, on our list of areas we're investing in in 2015, is our Credit Ratings business. We're applying to the Securities and Exchange Commission to expand our NRSRO license and—you can say that with me—the Nationally Recognized Statistical Ratings Organization license. So by doing that, we're going to be able to include credit ratings for corporate bonds and financial institutions.

So, it really kind of helps with the goal that Joe was talking about, about reaching a wider audience and bringing more transparency to the market. Unfortunately, we can't help with all the acronyms, but we're definitely working on other fronts as well.

So the biggest part of the business today is CMBS, or commercial mortgage-backed securities, and we are adding new ratings for single-family rental securities, and we've actually rated every transaction in this emerging asset class. So that's a really nice feat and achievement and shows the acceptance that we've gained in that marketplace. We've also launched asset-backed security ratings, and with the NRSRO expansion, we're going to add credit ratings for corporate bond issuers and financial institutions. So this has been a big area of focus for us and continues to be one that we're very excited about.

I'm also personally very excited about our Index business. We've been nurturing this business for years now, and I really feel like it's beginning to hit its stride. And I think of this business in two ways; the first is in this traditional sense of indexes where you have the beta indexes. So these are indexes that often are used for market monitoring or performance benchmarking, and we try to serve that marketplace with a series of about 300 investment indexes that you can use, and it includes a new family of global equity indexes that we launched in 2014.

If you haven't looked at these indexes I'd encourage you to take a look at them. I think you will find that they are extremely useful and easy to work with and definitely want to make sure that we get the word out in terms of the benefits we can bring there.

The second piece is strategic beta, some people call it smart beta, but we like to call it strategic beta. And strategic beta is part active and part passive, as you may know. The primary objective of a strategic beta index is to improve the performance relative to a traditional benchmark either through a risk adjustment or some other kind of factor. So it will tend to deviate from a traditional benchmark in a rules-based transparent manner and usually with low cost. And so we think this is a great way for us to differentiate our indexes offering, and in fact it's a place where we are doing so by leveraging our equity research. An example that we are particularly proud about here is our MOAT Index.

As you know, this is an index that tracks a group of companies that offer both a sustainable competitive advantage and an attractive stock price according to our analysts, and we have popularized this methodology in our equity research and built an index around it.

We've partnered with Van Eck and they launched the Market Vectors Morningstar Wide Moat ETF. And if you haven't taken a look at it, I'd encourage you to. It's got more than $900 million in assets, and we think it's a great offering for investors with a long-term horizon. So we're excited about what that brings to the marketplace and we're likely to continue focusing on this capability going forward.

So, hopefully, that gives you a good sense of some of the things that we're investing in at Morningstar and some of the things that we're excited about. There is obviously a lot of opportunity, but we think we've settled on five areas this year that we really think can drive our business, and we are focused on executing in those areas and delivering a good outcome for investors.

So with that, I'd like to introduce my colleague, Stéphane Biehler. This is Stéphane's second shareholder meeting. I think Stéphane was relatively new to Morningstar last year, but since then has been in the role and become a fixture here. So Stéphane is a great partner to all of us on the business side, and I think you will really enjoy some of the insights and humor he brings to this presentation.

So, Stéphane, welcome.

Stéphane Biehler: Thank you so much. Good morning, everyone. So we're going to do two things this morning; we're going to recap our financial results for the last year as well as the first quarter of 2015 and then we'll take a look at our capital allocation strategy.

So, starting with financial results; the first thing I wanted to show you is the industry landscape. According to Burton-Taylor, the industry we're in grew by 4.1% last year. If you look at the results of Morningstar, we grew our revenue by 8.9% last year on a reported basis, and even if you exclude the impact of the acquisitions of HelloWallet and ByAllAccounts as well as the foreign currency translations' impact on our revenue, we grew our revenue by 7.6% last year. So, in a sense, our revenue growth trajectory outpaced the industry's trajectory.

So 2014 key metrics, we delivered revenue growth of 8.9%, as I just outlined. As far as operating profitability and free cash flows are concerned, as you know we settled our litigation with Business Logic last year which had a $61 million pre-tax impact on the operating profitability and free cash flow. On the net income basis, the hit to the bottom line was around $38 million, and that translates into $0.85 per share.

So the dotted line that you see above the green bar chart for operating income and free cash flow is what our operating income and free cash flow would have been, absent the $61 million settlement.

So fairly comparable to 2013, we invested pretty heavily in the business, as Joe outlined in his presentation, in the earlier part of 2014, which added to our cost base, and that's reflected in this operating income number here. You also know that – I mean you may know that in 2013 we had a large capital expenditure in the back end of 2013 that we paid in the earlier part of 2014, which had an $11 million impact on our free cash flow in addition to this settlement.

So, quarterly revenue trends grew steadily. Last year for the four quarters in 2014, you saw that our revenue in the first quarter of 2015 was slightly lower and was impacted pretty heavily by the strong U.S. dollar, which in turn sort of shrinks our results on a U.S. dollar-denominated basis when we translate roughly 25% of our revenues that are denominated in foreign currencies.

So if you take 2015 first quarter revenue of roughly $190 million and you translate it back at the first quarter of 2014 exchange rates, we would have reported $6.5 million of revenue above and beyond the $190 million that you see here.

So looking at organic growth where we try to neutralize the impact of acquisitions, divestitures, and foreign currency translations, you see that our reported growth is on top and our organic growth is at the bottom. We will reconcile it for you here, and you see that last year as I said, on average we grew our revenue by 7.6%, and in the first quarter this year, on a reported basis, we grew our revenue by 4.8%, but if you neutralize particularly the impact of foreign currency translation, we grew it by 6.6%.

If you focus just on 25% percent of revenues that we generate outside of the United States, on a reported basis in the first quarter in 2015, the revenue looked down 4.5%, but if you neutralize the $6.5 million of FX impact that I just mentioned to you, in fact our revenue in foreign countries in the first quarter of 2015 was up 8.2%, so a very significant swing. So I would encourage you to focus on organic growth so that we neutralize the impact of this very strong U.S. dollar that we've experienced lately.

This is an important chart that shows our renewal rates for our contract-based products. North of 80% of our products are contract-based including Data, Direct, Investment Advisory Services, Advisor Workstation, etc. We used to provide a range of renewal rates in our previous annual reports, and in 2014 we decided to, so it looked like 90% to 95% or 85% to 90%, we used to provide a range like this. Now we are providing you with a detailed renewal rate that shows you that we've made steady progress over the last few years, and it's sort of a testament to the stickiness of the revenues of Morningstar's contract-based products and our ability to retain the clients that we acquired in the past.

In addition to this a smaller part of our business is subscription-based and that's for Morningstar.com Premium service as well as online newsletters. The retention rates for those other products is around 70%, and it's pretty consistent over the over the last five years around 70%.

So here is the revenue in 2014 for our top five products as well as the percentage change versus 2013. So you saw that we grew our revenue nicely in all of our top five product categories. Morningstar Direct again had a marquee year with 10,000 users globally, and the revenue grew by 15.7% to almost $92 million. You see that compared to 2013, we have one new category of products here which is Retirement Solutions as our number five here with $57 million of revenue and a growth of 25.7% including the revenue we reported from the acquisition of HelloWallet.

Here are the top five products for the first quarter of 2015. As you can see Morningstar Direct and Retirement Solutions continue to be growth engines for Morningstar. This is on a reported basis so the U.S. dollar plays a significant role. If you look at Morningstar Data, it looks down 2.9% versus the same quarter a year ago, in reality it was up 2.5% when you neutralize the currency. So, the dollar has created a significant drag on our revenue as reported in U.S. dollars.

Looking at quarterly operating income, you see the investment we made in the business earlier in 2014 in the first and second quarters where our expense growth was outpacing our revenue growth, and we experienced some margin contraction. Since then, we've balanced our expense growth and our revenue growth and you've seen that in the first quarter of 2015. We've actually done a pretty good job managing our costs while continuing to invest in the business, and our operating margin was 23.5% of revenue.

We have a very strong balance sheet. At the end of March this year, we had $243 million of cash and cash equivalents as well as short-term financial investments. We also established a credit facility last year to essentially enable us to manage our operating cash needs between the U.S. and our foreign subsidiaries where a majority of our cash is located outside of the United States. So it's a facility that provides us with the ability to manage our day-to-day cash needs in the U.S.

Switching to capital allocation, a topic that we are talking about quite a lot internally. As you know, we generate quite a bit of free cash flow, and we have a lot of cash on hand, so it's a topic that's dear to our heart. It enables us to, one, fuel our growth by investing in some of these initiatives that Kunal and Joe outlined, and we've done quite a bit of that in 2014. It provides us with the ability to do acquisitions, and we've done a couple in 2014 with ByAllAccounts and HelloWallet. We maintain a stock buyback program, as well as pay a dividend, as you know.

So focusing on dividends and share repurchases, here is the money we returned to shareholders over the last five years. You see that in 2014 we bought about roughly $77 million of shares, that's roughly 1.1 million shares that were repurchased last year, and we paid $30.5 million in dividends.

The number of shares outstanding has been decreasing over the last three years on a compounded basis if you add 2012, '13, and '14, we repurchased roughly 12% of our shares outstanding. And any time we're in the marketplace buying our shares, essentially existing shareholders own a slightly larger piece of Morningstar, and we are keen on continuing to buy back our stock. At the end of March, we had $170 million left in the current authorization from our board.

We tend to favor buyback a little bit over dividends in the sense that we give the shareholders the ability to, the discretion to, trigger the taxes on their shares whenever they sell them, as far as the buyback is concerned versus imposing the tax event on the shareholder when we pay a dividend. So we tend to slightly favor buybacks over dividends and also the buybacks are a way for us to acquire stakes in a business that we know really well, which is Morningstar.

I'm required to show you some reconciliation of the non-GAAP measures that I used in this presentation. So here is a reconciliation of free cash flow to cash provided by operating activities for the last couple of years. Here is the reconciliation of our operating income excluding the litigation settlement to the operating loss we generated in the second quarter when including the settlements. Here is the reconciliation of our organic revenue to our consolidated revenue for the last nine quarters.

This concludes my presentation. I will turn it over to Joe for some final remarks.

Joe Mansueto: Thank you Stéphane. Okay, just to wrap up in summary. Our goal at Morningstar is to create a great enduring business that really helps investors achieve superior outcomes, really that's our mentality. We think we have a terrific business, and it's characterized by industry-leading investment databases, proprietary analytics that sit atop those databases, a world-class investment analyst team to interpret that data, a terrific set of products and investment management services that sit atop that, and then all capped with an incredibly strong brand that's very well known around the world, an experienced management team. Well indeed all 3,700 people at Morningstar are a very experienced group of people overseeing all of this. So we couldn't be more excited about our future.

But our vision and the way we think is very long term, and we think about creating a great business first, and it's our belief if we do that good results will follow. That's indeed been the case over the past 10 years. As you saw at the outset when I showed you the numbers that really has been true since our inception 31 years ago. We've always tried to do the right thing for investors, and then the financial results have flowed from that.

Let me conclude with a quote from James Montier, who is a part of GMO and works with Jeremy Grantham. He does a lot of work on asset allocation, and he wrote a paper last year that you may have read on shareholder value. Here's a quote that I like from that paper: “Only by focusing on being a good business are you likely to end up delivering decent returns to shareholders”, and that really resonated with me, because that's again how we run Morningstar.

Let's take care of our clients first. Make sure we've got happy clients and customers, service them relentlessly, and run the business well. If we do that, good financial results will follow, and it's not the reverse trying to financial engineer our way to success. It's about really delivering effective solutions to our audiences, and if we can do, that I think shareholders like yourself will be very happy.

So with that I'm going to stop. We're going to take a short break now, about 10 minutes or so. We've got refreshments out there. You can get a copy of the *Morningstar* magazine or our annual report if you’d like, and then we'll come back here in 10 minutes and take your questions. So, thank you all very much.

Q&A***

A: Joe Mansueto: So now is actually my favorite part of the meeting, the Q&A part, and we very much want to hear your questions. We've a couple of folks with microphones on my left and right. So just please raise your hand, and if you could identify yourself when you ask your question, that would be great. Your name and what firm, if any, you are affiliated with. And then please just ask one question if you have a long list. We'll circle around and we'll get back to you and make sure we get everyone. But rather than ask 10 questions, if you could ask one question at a time, that would be terrific.

So, I'm joined, as you know, by Kunal Kapoor on my left, Head of our—your right—Head of our Global Products and Solutions, and Stéphane Biehler, our CFO. So we'd be happy to take questions on any aspect of the company.

So who would like to begin? Just raise your hand and we'll get a microphone to you. Okay, meeting adjourned. Here's a gentleman.

Q: Eugene Krishnan: Hi. My name is Eugene Krishnan from Lazard Asset Management.

A: Joe Mansueto: Yes.

Q: Eugene Krishnan: And just maybe an open-based question on pricing in your industry. I mean, I think about the financial services industry in general and it feels like there's pricing pressure everywhere. Maybe you could talk about what sort of pricing trends you're seeing, both in your Retirement Solutions business and more of your Direct business or your institutional (NRE) business?

A: Joe Mansueto: Yeah. I mean, there is certainly pricing pressure in our business. It's very near and dear to our clients' hearts. And I'm not sure, though, that it's dramatically different than last year. I would have given the same answer last year and the year before. But I do think it has heightened due to regulatory pressures on our clients' budgets; they've got mandatory regulatory spends. Low interest rates affect a lot of our clients. When I met with Walt Bettinger last week at Schwab, that was top of mind for him. He said when rates come up, we can spend a little more, but rates are low, they've got a spread business. So interest rates are certainly a factor in a lot of our clients' business. If you look at fund flows, flows to passive, a lot of active managers are pressured as flows have moved away from some of them.

And so, I think all of those things combined produced a pretty tough picture for many of our clients. So that translates to all their partners or vendors, and so we really have to demonstrate on a daily basis the value that we bring. And so I think we've got a great story to tell in terms of value. We try and do a lot with bundling other capabilities, demonstrating our value on the service side. We've been stepping up our service to demonstrate our value. So we're monitoring client activity. If we see dips in activity, we're on it. But, yeah, I think pricing pressure is still there and that has not changed. Kunal, you are in front of a lot of clients.

A: Kunal Kapoor: I would just add two things probably. One is, first of all, I agree with Joe, but I would add that pricing pressure in some places creates opportunity for us. So we see clients coming to us where they are maybe working with another firm, and they see an opportunity to maybe bundle with us. So, there are some opportunities that are coming up that are fairly significant as a result of people wanting to bundle and then consolidate who they're working with.

I'd also add that you saw a lot up here earlier about our Signature Assets and the things that we're unique at, and that's a big focus of what we talk to clients about and how we try to withstand pricing pressure. We try to come up with things that people absolutely have to have, and that's the goal of what we're trying to do. And so, I think when we're in front of clients, that's the story we try to tell, and overall it's pretty well-received I think.

A: Joe Mansueto: Yeah. One of the things that we do, I think on the pricing side is, we try and have a long-term partnership with our clients. So as opposed to being very heavy handed and jacking up prices even though they couldn't rip us out if they wanted to, in the short term, we try not to use that weapon or that lever. We want to work with our clients. And so to the extent that they're under pressure, where I think some of our competitors are a bit more heavy-handed about that, and they've alienated some clients, and I think we benefit from that. And so having that sensitivity around their situation and trying to work with them little bit collaboratively, the creative solutions, they want to consolidate vendors; again, there's opportunity, but we try not to alienate our clients in that type of environment.

Q: Elliott Schlang: First, a comment and then two related questions if I may. One, congratulations, after 10 years of making money for the shareholders with a very consistent growth in earnings during that period, which we appreciate. My two questions, with $200 million on the balance sheet, where is that invested and what are your plans for? And secondly, related to that, any thoughts with low interest rates of moving into the debt market to have some extra fat on your bones? And I forgot to introduce myself; Elliott Schlang at Great Lakes Review.

A: Joe Mansueto: Thank you, Elliot, for that nice comment. Stéphane, do you want to start with where the cash is? I have been wondering.

A: Stéphane Biehler: It is on the balance sheet. So at the end of March, we had roughly $243 million of cash and cash equivalents in short-term financial investments. Our investment policy is extremely conservative. So, none of this cash is invested in anything that's not sort of bullet-proof-type investments. We have roughly 60% of this cash and the short-term financial investments in our foreign subsidiaries, and 40% of which was sitting in the U.S. And as you saw, we established a credit facility to enable us to breathe on a day-to-day basis depending on what our operating cash needs are.

As far as what are we going to do with this cash, it all ties back to the capital allocation discussion we had a little bit earlier, I believe. And you've seen us do a mix of investing in the business to fuel organic growth, occasional acquisitions, continuing to conduct our buyback program and pay dividends. So I think there's no single answer to your question. It's a mix of opportunities, but it's been a little bit of all of the above, if I may say.

A: Joe Mansueto: Yeah. From a business perspective, Morningstar is just a wonderful business in that we generate a lot of free cash flow. So I would separate the income statement and the balance sheet. On the balance sheet, we've got a fair amount of cash. On the income statement, we're nicely profitable. So when we reinvest back into the business, it's a matter of determining where we want our operating margin to be, because we're investing with expense dollars largely, we capitalize some things, but we largely were using expense dollars.

And so if we want to invest more in the business, as we did last year, expenses are going to run a bit higher, the margin will come down a bit. We're not tapping into the balance sheet. We could let our margin dip, dip, dip, and we have couple hundred million of cash flow that we could potentially tap into to fund organic initiatives. We're nowhere near that level. So we're always going to generate cash flow. And then we already have a couple hundred million. We've got recurring revenue. We're generating cash. So the big question for us is, as you say, what are we going to do with that capital? And Stéphane had the slide and lately, we've been looking at buybacks and dividends, but primarily buybacks.

But they are may be opportunistic acquisitions; we did two last year. Could we do more? We're not out pounding the pavement, knocking on doors looking for acquisitions. Our strategy is not predicated on acquisitions. We think we've got tons of organic growth, which I think is the healthiest kind for a business, but it's nice to have some dry powder, because you never know what might be presented to you. So it's nice to have some financial wherewithal, but we've got a couple hundred million of cash on the balance sheet.

Would we go beyond that, tap the debt markets? We don't have a plan for that $200 million; much less to add to it even though rates are low, and it's somewhat tempting. I think if we saw some big great idea, we could consider that, but we like to run the company conservatively from a financial perspective. We don't want to get close to the edge. It was a comfort during '08, '09 not to have debt on the balance sheet. There're a lot of companies including GE, as strong as GE that got into trouble. They couldn't rollover their commercial paper during the crisis, and so you never know in terms of the black swan events.

And so having some, you know, financially, a balance sheet, a fortress-strength balance sheet is a comforting thing if you have a long-term perspective as we do when running the business.

Q: William Crowley: Bill Crowley from Ashe Capital Partners. Could you talk a little bit more about the impact that robo-advisors are having both on your advisor customer base and then your ability to go after that business more directly than you're doing? You mentioned on the retirement side, but could you go after that directly? Does that make sense? Would that be channel conflict?

A: Joe Mansueto: Sure. Maybe I'll start and then I will let Kunal talk about the individual piece of that. I think at every investment conference gathering of clients that we've had over the past year or two, the main topics have been robo-advisors and what's going on in that space. So everybody in the industry is looking at it and watching with great interest. My perspective is that it's very good for investors. A lot of investors without a lot of capital don't have means to go to a financial advisor. A lot of advisors have trouble dealing with small account balances. A lot of broker-dealers don't want small account balances. You need higher and higher minimums. So a lot of people, millennials, young people, have nowhere to turn, and so getting automated advice is a really, really nice solution, and the cost points are coming down. The solutions, the interfaces are engaging, and I think they've really pushed the industry forward. A lot of the interfaces were a bit stodgy, and I think the Silicon Valley firms have kind of embraced good design, other ways of reaching out, bringing costs down, you know all good thing for investors. So I think it's a good thing.

The big players are now starting to enter the market. So you may have seen Schwab introduced Intelligent Portfolios at zero fees, but it's using underlying Schwab funds as the solution. Vanguard introduced a solution as well. And so it reminds me a bit—I've used this analogy before of online banking in the '90s. So when online banking started to happen as the Internet came on stream in the '90s, a lot of small firms sprouted up, but who dominates online banking today? It’s Citi, Chase, it's the big players, and the little firms kind of went away. So, it's very possible the robo-advice space will play out that way, too, where the Schwabs, the Vanguards, Fidelitys will be key players. We are a big robo-advisor as I pointed out in the retirement channel. We have all the capabilities. We've got a very robust capability. We can license that tool to other people who want to offer robo-advice. We can do it ourselves as we do, and we can also begin to redirect that engine to other audiences. And so, maybe I'll let Kunal talk about ways we might do that in other parts of our business, as we've certainly talked about that.

A: Kunal Kapoor: I would just point out you had asked the question specific to financial advisors. And I think if I think back to a year ago, the prevailing wisdom was robo-advisors are antagonistic towards financial advisors, and they are going to put them out of business and/or financial advisors are never going to touch them. Here you are a year later, and they're the greatest thing to happen to financial advisors ever because financial advisors can now offer them to the clients with lower balances and the like. And so, there's a lot of noise, I think, associated with exactly how good it is and how valuable it will be. I share Joe's opinion that in general it's forcing everybody to up their game, and I think that that's a good thing. We'll see what happens in the next bear market and how a lot of the folks who are buying into these portfolios do.

From our perspective, we have not made plans obviously to have the robo-advisor offering. We have automated advice in the retirement space, but we certainly have all the capabilities that could power a robo-advice engine, and I think the way we have approached it so far is to really work with our partners and to arm them appropriately, so that they can do the things they need to do to serve investors in the way that they'd like to. But it's a lively debate and we certainly are thinking continuously about what our strategy ought to be in terms of both working with partners and how we reach individuals ourselves.

A: Joe Mansueto: I'm not sure any of those firms are making much money today. I mean, they've raised a ton of capital. We've talked to some firms that have invested with these firms, and one of the comments one of the firms made was that all the money went into marketing and behind the curtain there's only a couple guys on our computer doing the advice but they're great marketing engines. And so, we'll see, I mean the price points are coming way down. Again Schwab is at zero, and so how big a market is it ultimately going to be is a good question.

One positive aspect is that it's bringing that next generation of investors into the fold. Getting people out of cash and becoming investors, helping them participate in the markets and then if we can arm robo-advisors with data, tools, I think we're a beneficiary. And again, I think we're looking at the market. We're not convinced at this juncture just how big it's going to be, and maybe an advisor solution may make more sense. We have the capability. We can turn it on. It's interesting—even in our Managed Portfolios Service that we sell through advisors, we have a little mention in one of our newsletter about this service, and that's garnered a large number of assets, more than $1 billion; just for little ad in our *StockInvestor* newsletter has generated $1 billion of that $12 billion.

So, we're thinking of putting a little mention on Morningstar.com about our Managed Portfolios Service. So we're kind of looking at that but in terms of ramping up a big marketing effort and going at this trying to compete with firms that are spending a lot in an Internet era-level of spending, I don't think we want to play that game and get into that kind of a marketing war. If we did it, I think it would be a little more efficient and savvy.

Q: Ralph Wanger: Ralph Wanger, old friend of Joe's. I think you have a problem trying to sell something that people really need. If we all invested in things that people really need, we'd have most of our money in Scott Paper, and it's not been a great business. And we're facing a war which I think might bring down capitalism if we don't get on the right side of it. The war I'm seeing is that on one side is the ATM network. Your RoboCop advising can easily be button number seven on your ATM machine, and if you push button seven it will charge you $0.50 and give you a great market forecast. And that way is death by entropy. Things just get more and more and a world with increasing entropy—entropy is almost the same thing as boredom—doesn’t carry you fast but it gets you eventually.

And if you do that, the animal spirits upon which all the civilization depend rather turns into vegetable spirits and you don't get very far. The opposition I think is Jim Cramer. Now we all know Jim Cramer on CNBC or at least have seen him, and how many people think he is a ridiculous clown?

A: Joe Mansueto: Fair amount of hands.

Q: Ralph Wanger: He is a ridiculous clown. But he is the last of the stock pickers. He is the last face of the desire to make investing fun, interesting, exciting. Life without taking a chance and gambling and doing something, it's a risk. Every good decision you've ever made in your life has involved enormous risk, getting married being one of them.

But the fact it's risky doesn't mean it's a bad idea. So anyway you got—you guys—we got to get away to get—the only way Morningstar is going to go as well, basically as well as a mutual fund business and the real—and the excitement—and you got to do something which has excitement in it or people are just going to be more toilet paper and robo forecasts and so are we going to do that? That's not—I think that's a speech rather than a question. So I am disqualifying myself, but how are we going to get excitement and interest back in investing, and if we don't do that, Morningstar is going to be an ATM network.

A: Joe Mansueto: Okay.

Q: Ralph Wanger: I want yes or no.

A: Kunal Kapoor: I think the question was, are we acquiring the toilet paper…?

A: Joe Mansueto: Announcing our diversification strategy. Just a little background, I did work with Ralph. He was humble in his introduction, but Ralph—before Morningstar, I worked at Harris Associates as a stock analyst and I had the pleasure of working with Ralph who started and ran the Acorn Fund for many, many years and started Wanger Asset Management, and Ralph was notorious for talking to company management, drawing airplanes, not saying anything, and he'd raise his hand and asked the zinger question at the end. And so we appreciate you being here, Ralph, and your question and comment.

But I think what you referenced is maybe a broad industry trend, maybe not unique to Morningstar, but a broad trend of maybe investing going out of vogue a bit, especially among younger people. It's certainly very different. If I look at my career, 31 years in the business at Morningstar and even before that at Harris Associates, there was a lot more excitement around investing. I got started in the business in '82, right when the bull market started, and *Money* magazine and the financial media were really kind of cheerleading people to get involved in investing, whether it was stocks or with funds. Now one of the dark sides of the Internet is a lot of print publications have waned, the financial journalists have left and you've got a few blogs and scattered Internet sites and you don't have that strong presence, even the *Journal* has kind of withered and doesn't really address investing.

So this next generation doesn't have that financial media kind of cheerleading them, at the same time the markets—it's been—there was the last decade, the early 2000s, the financial crisis, very difficult times for many investors. It's really been only in the last probably five years since '08, '09 that the markets have really been strong and so maybe that begins to fuel some enthusiasm.

Fur funds, for stocks, we've seen fund flows on the equity side become positive after being negative on equities for many years. It was all into bonds. Now they flipped and we see positive equity flows. Three years ago, I think it was about $200 billion net inflows in the long-term funds; two years ago, a little under that; and last year, a little under $100 billion, so at least the flows are positive for funds, maybe not as strong as they were in the late '90s, early 2000s.

I think at Morningstar, we're trying to do all we can to kind of get people excited about it. So whether it's on Morningstar.com, all of our platforms are kind of championing the merits for getting involved in investing. As people think about retirement, they are going to need to grapple with that. The sooner they can start the better.

I think HelloWallet, the acquisition we did is phenomenal because it reaches down to the people who aren't yet investors. Again helps them rationalize their spending, moves them up the ladder to become investors, but we certainly have our work to do. At a lot of industry conferences that I go to this is a topic. Firms like BlackRock have been out there trying to get people excited about investing with print campaigns, maybe without much success. So, it is something that we all in this industry have to confront. Again, we're trying to do all we can through our education.

Part of it is trying to also have—we talk about this, too, in lot of our industry gatherings, our client gatherings, is how do we engage millennials? Brock Johnson, Head of our Retirement business, has done a lot of work on this in the retirement space about how to get people engaged. The auto default into 401(k) plans is a good start. People become investors right when they start and so they begin to think about their investing, but for most millennials it's not on their radar screen and they think of the big bad investment banks, they think of the crash. They have had just negative headlines and so they've retreated from risk, from exposure to the markets. Hopefully, as we get more distance from '08-'09, that scar is left behind. Rising equity markets are certainly going to help. It's funny. When we go around the world, it's a little different attitude, especially within equities. I was in Singapore, for example, last June meeting with all the heads of the large private banks, and rather than invest in funds, they are investing in equities directly. In Asia, there is more of an enthusiasm for investing directly in equities even without Jim Cramer. And so, globally, a lot of investors are becoming part of the investment class. People in India and China who didn't have any means for many generations now have means for becoming investors, and they need products and services like the ones we offer. So it's a broader global phenomenon, and I think there is opportunity.

Countries like Australia, there is superannuation you have to put in. They just raised it. I believe it's 14% of your paycheck into a retirement account. So, there's a lot of opportunities around the world. We think we've focused on some pockets of the investment industry that are still growing at nice double-digit rates. But, yeah, it is a bit of a headwind on the individual segment that people tune out of investing.

Kunal, I don't know, you deal a lot with investors, any comment?

A: Kunal Kapoor: I mean, I think you covered most of it, Joe.

A: Joe Mansueto: Okay. But I hear you, and we feel your pain and any ideas you have to get people more enthusiastic about investing, we'd love to see it because again the earlier you start saving, the better off you're going to be and so getting that next generation excited is a challenge for the whole industry.

A: Kunal Kapoor: In some ways, a lot of the discussion these days in the media is about why people shouldn't invest and why they are horrible investors as opposed to how they can become better investors. So one of the things that we try to spend a lot of time on is helping people answer that second question. And so even when we talk about robo-advisors and folks like that in some way they're attracting the millennials, but our gut feeling is as some of those folks age and their portfolios get larger into their '30s and they are going to want a financial advisor or they are going to want to find other ways to kind of grow their portfolio and so I think the opportunity is still there and that interest will not go away, but we need to kind of help people get the outcome that they're looking for versus kind of depress them with the outcome that they're not going to get, which I think is increasingly what you hear more about.

A: Joe Mansueto: I think it would also be helpful to have some really marquee high profile fund managers. I mean when I started in this business, Peter Lynch was terrific for the industry as kind of showcasing the attributes of a fund and there's been various star managers throughout my career. Most recently, Bill Gross who's had his side of challenges recently, but if we had a few more leading fund managers, who had terrific records and could really showcase the benefits of funds, that would help because now the real showcase is Vanguard and passive funds and maybe investing passively doesn't kind of get the animal juices going the way a Jim Cramer can for some folks.

Other questions, societal comments? This gentleman here…

Q: William Crowley: Thank you. Bill Crowley again. Can you talk about the credit rating business? When you expect to get approval on being able to rate corporate bonds? Then how do you penetrate that market and become accepted? We in the past weren't involved with an issue or where we felt sort of blocked by only having two rating agencies, and there was very little choice and when we tried to get the third some of the investors wouldn't accept them. So there was a limitation both in terms of the number that were qualified and those that were accepted by the investing community.

A: Joe Mansueto: Well, as Kunal mentioned, we have filed our application with the SEC to expand our NRSRO license to corporates and so it's with them and now I think we are awaiting comments, and there's a defined period where they have to get back to us, and so it's in process. Once that actually will get approved is hard to say. I would hope by the end of the year that we would get the nod. Our strategy is to be very methodical in this, kind of step by step. This is how we've grown Morningstar for 31 years, again from mutual funds to closed-end funds to variable annuities, so just keep going asset type by asset type.

It's a unique space. There's a lot of regulation around it, so we want to be very careful and mindful that we're following all of the required regulations and at same time we want to build our reputation among buyers of any kind of credit. And so it's a bit of trench warfare. I mean, there are a couple of impediments that we faced that we're still battling today. For example, the investment policy statements sometimes have hard written into them that the Big Three have to provide one of the ratings. So we've sent letters to all the heads of the asset management firms, could you change your investment guidelines? Either say, any NRSRO firm or if you want to name them, at least put Morningstar in there, and we've had some success. So we're kind of fighting that battle.

Also in terms of the indexes, there's an issue with making sure that indexes can use our securities that are rated by us for inclusion in their indices. So we have to talk to the index providers and we've made grounds there. We've made grounds with the insurance regulators, so that we're now approved for their assets to account for their insurance regulations. So we've got that one done.

So there's a bit of these roadblocks that we've had to kind of fight along the way. There's still some that we're continuing to battle, but to me the biggest thing that we're trying to accomplish and what I'd love to see is this – that's what we did with the other parts of our business is have this grassroots demand, where the buyers of credits ask the underwriters for a Morningstar rating on the deal. So instead of selling the underwriters, we sell the buyers and you guys have to say, hey, I want to see a Morningstar rating on this and then I'll maybe look to buy it and put that pressure on the underwriter and then that comes back to us.

So, for example, with our mutual fund business, we didn't go and target the fund companies first. We build up an audience of individuals and advisors. Once we did that, then the asset management firms wanted to work with us. Why? Because their end clients were asking for our metrics. So we'd like to have the same strategy in the credit space, where buyers of credits are asking for a Morningstar rating because they believe it has true independence, it's authoritative, they like the quality of our research, and so we are going out and evangelizing among buyers of credits the quality of what we're doing.

But that's a long-term process and so this is not a throw-a-lot-of-dollars at it, boom, big business, but as long as the growth rates are nice double-digits, if you continue to do that for a long period of time, we'll be big soon enough and so we can be patient. Again that's how we've grown for 31 years, just keep the growth rate up. We don't have to double next year, but just keep methodically growing, and we don't want to grow too fast. I want to keep the culture solid and make sure we're bringing in high-caliber people.

You've seen people or other firms in the credit space get into trouble. So we're very cognizant of that. We want to avoid that. So we want to make sure that we're keeping up the integrity and the quality that we're very well known for.

Other questions, comments? Elliott?

Q: Elliott Schlang: With more and more institutional and individual funds going into venture capital and private equity and so on, what is Morningstar doing in that sector and what more might you be doing?

A: Joe Mansueto: Yeah, Kunal, actually is on the board of an investment we've made in PitchBook, do you want to talk about that space?

A: Kunal Kapoor: Yeah, I think underlying what you're talking about is the trend that some of these investments strategies are starting to migrate from being purely institutional to being available to a retail audience as well. So one of the areas we're particularly focused on is as more of these strategies become available to retail audiences that we want to have the appropriate data and classification systems and ability that report and shine a light on the portfolios in a way that we do elsewhere on the long side. So that's one way of doing it.

The other, obviously, Joe referenced we have an investment in PitchBook data, which obviously collects and disseminates information about private equity firms and we will work with them a little bit and we will talk to them about in the future possibly carrying their database within Direct and things like that. But it has not sort of risen beyond that. We've not sort of had the organic demand as yet, I think, from our audience for that type of data.

A: Joe Mansueto: I'm not sure I understand your – was it – which part of that business were you talking about, the venture capitalist and alternatives kind of offering their strategies and fund formats?

Q: Elliott Schlang: The whole sector. Array of products (indiscernible) money and attention away from the individual investment format. Instead of buying stocks, so many managers are moving into private equity and other alternatives as we all know.

A: Joe Mansueto: That's right. I mean we've seen this barbelling in the investment industry kind of cheap beta or pay a lot for alpha in terms of alternative strategies, and that's been a real growth segment of the whole managed products space, be it mutual funds, separate accounts, whatever the vehicle is. So in response to that, we've reallocated a bit our resources, dialing up our passive coverage, but also dialing up our alternative coverage and coming up with categorizations around that, building up our analyst staff around alternative coverage and that's been very well received by our, let's say, our advisor clients, who increasingly look for something to differentiate their offering. And one of the ways you can do that, especially with their more high-net-worth clients is having some allocation to various institutional-type strategies, and so we've evolved our coverage in that manner.

A: Kunal Kapoor: Unfortunately a lot of these strategies were rolled out in the more retail format, just at the bottom of the market, and so they have also, in general, underperformed significantly. So kind of tying back to Ralph's earlier question that is the other sort of habit that the industry needs to possibly get out of, which is that they launch the wrong products at the wrong time, and investors get burned. And part of the story here, I think over the last five years, too, is so many people have missed out on the rebound in the markets, because they went into bonds or other asset classes than they would have been well served just staying the course.

In fact, if you look in the retirement space, where people have diversified portfolios, one of the outcomes is that those portfolios recovered a lot faster than sort of the broader swath of portfolios, partly because people stayed invested and generally had more diversified portfolios with the appropriate equity stakes and things like that versus chasing some of the hot new asset classes that don't necessarily have the performance to back up the hype.

A: Joe Mansueto: I think one nice thing about Morningstar is we have very broad coverage of the investment industry, and so wherever there's investor interest, we can reallocate our resources to focus on that and come at it with a skeptical eye and an independent eye and ask the question, is this good or bad for investors? So as alternatives have heated up, we can shift coverage to that area, and it's a real need that investors have. Is this good or bad? Should I buy these things? Should I listen to the marketing sizzle? Or is there a real legitimate reason to pay a higher fee? And so it's pretty exciting as we kind of look at some of these emerging areas and then we can opine on them for the benefit of investors. But it's again one of the strengths that we don't have a narrow focus to our business of only doing this segment of the market. But we cover A to Z and we can shift resources, again, wherever we see investor interest and certainly alternatives has been one area over the last three to four years.

Other questions, comments? I see a few people scratching their heads, but I don't think those are questions. If not – that's a good question. Anything come to us online? Okay, so if you're listening online, go to Morningstar.socialqa.com. This will be your, I think, last chance. It looks like we've exhausted the questions. So if there are no further questions, remember we do this once a year, but in the interim, if you do have a question, just shoot it to us in writing, send us an email. We answer every question that we get every month. We file an 8-K with it the answers, post the answers on our website. So we really love to hear from you. We want to make sure that all of your questions are answered. As you know, we have a somewhat unusual IR policy. So it's important for us to be available to you to make sure you get your questions answered, we try and have robust disclosure in our materials so that you can see how we're doing, properly value, according to your own methods, Morningstar. But for the rest of the time we like to keep the management team focused on what is going to make you happy, and that is growing the firm value.

So creating great products that satisfy investors, so that's where we keep the management team focused. We don't spend a lot of time on the Wall Street circuit or any time doing that game, and so again – we do want to be available to you at least once a year in person and then in the interim again via email we can answer all of your questions.

So, if there are no further questions, we will adjourn the meeting, and I want to thank everyone for attending. Thank you all very much.