Morningstar Annual Shareholder Meeting 2016

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Opening Comments – Joe Mansueto

Okay. Good morning, everybody. We're going to go ahead and get started. If everybody could grab a seat.

Good morning. I am Joe Mansueto, and it's my pleasure to welcome everyone to our 2016 Annual Shareholder Meeting. It's my pleasure to call our meeting to order. I'm really delighted to see all of you here today, especially all of you who come year-after-year. It's really an honor for us to host all of you this morning.

This marks our 11th year as a public company and we always look forward to this meeting and a chance to talk you and answer your questions in person. We really have an outstanding group of shareholders and really, again, honored and privileged to be in partnership with all of you.

This year, we're also providing a webcast of the meeting for those of you who aren't able to attend in person. So, welcome to all of you tuning in on the webcast.

Agenda

So, our meeting today has three main parts. First is the Business of the Annual Meeting which I don't expect will take too long. And then secondly, Management Presentations. Then we're going to take a short break, 10 minutes or so. We'll come back and have a Q&A session and we very much like to hear what's on your mind.

So, now, let's get started with the official business of the meeting. You should have received a copy of the agenda and rules of procedure. If you did not receive copies, please raise your hand and we'll bring copies to you.

There are three items of business on today's agenda. The election of Directors, the re-approval of the performance measures included in the Morningstar 2011 Stock Incentive Plan and the ratification of the appointment of KPMG as our independent auditor for the year.

But before we get started, I'd like to introduce our Directors. As I call your name, I'd like each of you to stand and face the audience. First is Robin Diamonte. Robin is our newest director. Cheryl Francis, Steve Kaplan, Gail Landis, Bill Lyons, Jack Noonan, Paul Sturm, Hugh Zentmyer and Don Phillips is travelling today. His son is actually graduating from college on the West Coast, so he could not be with us today. But our Board has been just a great resource for us throughout the year and I want to thank each of you for all of your contributions and guidance to Morningstar over the past year.

So, now, I'd like to introduce our executive officers. First Stéphane Biehler, our Chief Financial Officer; Bevin Desmond is the Head of Global Markets and Human Resources is not with us today. She is in Australia as a good global markets head should be. Kunal Kapoor is our

President; Haywood Kelly, our Head of Global Research; Daniel Needham is the President of our Investment Management Group; Cathy Odelbo is the Head of our Strategy and Partnerships; Rob Pinkerton is our Head of Marketing. Rob came to us via HelloWallet. Jim Tanner is our Head of Global Business Development and Sales, the tallest among our executive team and David Williams, the Head of our Design. He is waiving in the back there. Hi, David. So, thank you all.

Now, I'd like to take this opportunity to introduce Kurt Gabouer with KPMG, our auditors for 2016. Kurt, would you or any of your colleagues like to make a statement at this time?

Kurt Gabouer: Joe, no statements at this time.

Joe Mansueto: Okay. Any questions for Kurt? Well, if there aren't any questions for Kurt, I'd like to get started with the official business of the meeting.

To act as the Inspector of Election, I appoint Greg Malatia, a representative of Broadridge Financial Services. Heidi Miller, our Corporate Secretary, and Greg will help us with the counting the proxies and the ballots.

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

Heidi Miller: Thanks you, Joe. We are holding this meeting pursuant to a notice mailed on April 1, 2016 to each shareholder of record on March 14th. A certified copy of the list of shareholders has been available at our offices for the last 10 days. I'd like to report that we have established a quorum for the conduct of business at the meeting.

Joe Mansueto: Thank you, Heidi.

So, the first item of business today is the Election of Directors. We will elect 10 directors at today's meeting. The directors elected today will hold office until the 2017 Annual Shareholders' Meeting or until their successors, if any, are elected or appointed.

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

Then the second item of business is the re-approval of the performance measures included in the Morningstar 2011 Stock Incentive Plan.

Then the third item of business is the ratification of appointment of KPMG as our independent auditors for 2016. And the Board recommends a vote for each of these proposals. Because there are no other proposals to come before the meeting, I declare that the polls are now open. If you've submitted a proxy, you do not need to vote now unless you wish to change your vote. To vote your shares in person, please raise your hand and we'll give a ballot to you.

If anyone has a question or a statement related to the proposals, please raise your hand and wait to be recognized. Any questions about our proposals? There will also be a Q&A session later in the meeting. So, at this time, we'll only take questions related to proposals. But they don't too controversial, so I will now declare that the polls are closed.

Heidi, would you please report on the voting results.

Heidi Miller: The Inspector of Election has advised me more than a majority of 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, to reapprove the performance measures included in the 2011 Stock Incentive Plan and to ratify the appointment of KPMG as our auditors for this year. We'll file an 8-K with more detailed voting results within four business days of this meeting.

Presentation – Joe Mansueto

Great. Thank you, Heidi.

Okay. So, we're going to move on now to the management presentations.

Mission & Strategy

I'm going to begin by giving an overview of our strategy and key investment areas. After me Kunal Kapoor will come up and talk in detail about our five key investment areas and then Stéphane will follow and talk about our financials.

As I mentioned, afterwards, we'll take a short break and then we're going to open up the floor to your questions. If you are watching via the webcast, we have set up a page where you can submit questions, morningstar.socialqa.com. You can type in your questions there.

Okay. So, let me turn now to my part of the presentation. As I mentioned, I'm going to cover three things. I'm going to talk about our mission and strategy, talk about some of the highlights of last year. I think it was a very good year for Morningstar. And then talk about investing in the core of our business.

Mission

So, first Mission. If you've noticed in a while, you know that we're an extremely mission-driven company. We take a lot of pride in our mission.

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

What really excites us at Morningstar is solving investor problems, try and understand is this a good or bad company and why? Who is it right for? Is this a good or bad fund? Why and who is it right for? How do you assemble these securities in a portfolio to meet a goal? These are really fun challenging problems and this overarching goal really permeates deep into the core of who we are as a company. I think great companies really have a sense of identity, who they are and this mission really provides that for Morningstar, really gives us a strong sense of identity.

Strategy

This is our strategy. This has not changed from last year, if you were here last year. A strategy really shouldn't change a lot. It's a very straight forward strategy. It fits on one slide.

So, it begins in the middle. We invest a lot to have the industry's best investment data, research and ratings and at a core, we're an investment research firm. Research really drives everything that we do and then we monetize that in two ways. First, on the left, through decision support software; Morningstar Direct is our flagship there. And then we also build world-class investment solutions from our research IP. And then we target four audiences; advisors, asset managers, workplace or retirement and then the individual investor.

So we're not trying to do too many things. It's a very focused strategy. These three key objectives, focused on these audience segments and it's really the intersection of those that really defines what we're trying to do as a firm.

Our strategy, as I mentioned, doesn't change much. The initiatives underlying it may change year-to year, but this strategy should be pretty consistent year-over-year.

We also have very broad reach in the investment industry. I think Morningstar is unique in this in terms of the reach. I don't know another firm that has a reach like we do. We work with 250,000 financial advisors, so about one out of four advisors globally. Nearly, all the advisors in the United States.

We have a relationship with nearly all the world's asset managers, about 1,300 firms. A very deep penetration into the retirement space, the workplace in the United States. We work with 28 plan providers who in turn give us reach to 300,000 sponsors or companies where we have relationships, in turn, working with over 1 million plan participants. So, very deep reach in the retirement/workplace segment.

And then on the individual investor side, we have over 10 million investors where we have a direct relationship. Additionally, we reach literally hundreds of millions of other investors through our redistributor and media relationships. So, if you think of Google, MSN, Yahoo, The Financial Times, they all carry Morningstar data and really extend the reach of what we do and this actually creates a nice network effect.

The fact that we have a big audience of individuals and advisors makes us more relevant to asset managers. Why? Because there end clients use our metrics to make their decision. So, as we add a client in any one of those four columns, it reinforces really all four of the areas.

Strategy: Two Big Market Needs

Now, this strategy really addresses two big market needs. As I mentioned, we invest a lot in our core research, but really more broadly, all of our capabilities, our brand. And then we are focused on two big market needs. One is decision support for investors who are do-it-yourself investors; they want to make their own decisions, but they need some help in making those decisions. We've got great solutions that will help them do that. Or for the investor who wants to outsource their investment management. They don't have time, the interest and skill, to do it. They want an independent third-party to do that. So, our solutions target each of these areas.

And they are both very sizable opportunities. If you look at decision support, it's a $27 billion market and then you can see our solutions that are decked against that below it. Outsourced investment management is about a $4 trillion AUM opportunity according to Cerulli data and then you can see below our solutions workplace, managed portfolios that we have decked against the outsourced investment management opportunity. So, two broad needs, two set of solutions focused on these.

Now, what's interesting is that these are coming together. Investors tend not to be wholly decision support or wholly outsourced, but a lot do both. And so, we want to create solutions that enable them to take advantage of those capabilities that we have on one platform. So, we're bringing our solutions together to help meet that need and let them do their job a little more efficiently.

So, that's just a quick rundown on mission strategy. Again, these don't change a lot year-to-year, but it's good to level set so everyone is on the same page.

2015 Highlights – Accomplishments

Revenue Growth in Five Key Investment Areas

Let me now turn to last year. As I mentioned, I think last year was a really good year for Morningstar. We made a lot of progress in a number of fronts. Let me touch on a few of the things.

One is our revenue growth in our five key investment areas. So, we've done a lot of work over the last few years on the strategy side to really identify big media opportunities for Morningstar. These are opportunities that are at least $100 million in revenue and an opportunity where we can win in the marketplace, where we have a competitive solution and some of these are many more than $100 million. So, we have identified these five areas and we're trying to focus our resources on these areas.

So, quickly, one is the workplace/retirement area, which is a big opportunity as workers head into the retirement phase of their life. Secondly, is decision support Morningstar Direct. So, investors are looking for a cloud-based solution to handle all of their research needs, a comprehensive research solution, and we have that in Morningstar Direct.

Thirdly, is Morningstar Managed Portfolios. This is our outsourced investment management service for financial advisors. And with recent regulations, that I'll touch on in a moment, we see a really bright future for this. As more advisors need to be fiduciaries, more of them are turning to an outsourced solution to help discharge that responsibility.

The Credit Ratings business; we got into the credit rating business in the wake of the '08-'09 financial crisis. We thought there was a need for an independent voice and so we stepped into the marketplace at that time.

Then finally Morningstar Indexes. As the world moves to more passive investments, we have a whole line of beta indexes, equity, fixed income, commodity, fund of funds that can help passive investors, and then especially as the passive world moves to smart or strategic beta, we can combine our research with these beta indexes for smart strategic beta solutions.

So, the accomplishment last year was really getting a traction in these areas. We talked about these a year ago.

But if you look at our results from last year, we grew in this area, $29 million of incremental revenue or 13% growth. So, this is about 2x the growth we had in our overall business where we had about 7% organic growth. So, it's a real nice validation of our strategy to see nice growth in the areas that we're really focused on. Kunal Kapoor, our President, will come up after me and go through these five areas in more depth.

Next-Generation Software Platforms

We also had a lot of great wins and progress on the development side. We talked a couple of years ago about the investments we were making in our development area, moving our solutions to the cloud and last year, a lot of these efforts came to fruition. So, you can see on this slide our three key platforms.

So, on the left is the new version of Morningstar.com; in the middle is a new cloud version of Morningstar Direct, which launched last year; and then on the far right is the new version of Morningstar Retirement Manager, which has our managed retirement solution. But you can see, these are all very visual, engaging UIs, user interfaces. They are all cloud-based. So, we're really excited to have all of these launched and now using agile development process we can iterate on these platforms and improve them rapidly in the coming years. So, a lot of progress to get these solutions up into the marketplace.

Advisor Workflow Capabilities

Also on the advisor's side, a lot of progress there. This is our total advisor workflow. So, we've mapped out all of the functions that an advisor performs on this wheel and we want to have solutions that pertain to the functions, so that we're ever more essential and relevant to financial advisors.

So, a couple of things that we did over the past few years. We added last year a rebalancing capability, an essential feature for advisors to make them more productive. We acquired a firm on the West Coast called Total Rebalance Expert, which has won accolades and reviews in terms of a solution. And then two years ago, we acquired on the far right, HelloWallet, which adds financial wellness, helping people with their spending and saving needs, so that they can become investors. And then ByAllAccounts is an aggregation service, which has become a must-have for financial advisors to aggregate all of your different accounts into one holistic portfolio.

Additionally, at the bottom of the wheel, we've integrated with a large number of firms, firms that do CRM, financial planning, other capabilities to bring even more capabilities to our advisor clients. Again, we want to be more relevant and bring a bigger bundle of capabilities to advisors. So, a lot of progress over the past year in filling out our workflow for advisors.

Challenges

Market Volatility

So, there's a lot more accomplishments. I could go on and on, but maybe I should pause in the spirit of candor and talk about some of the challenges that we face. And there are certainly challenges in our business. One is just the market volatility has been fairly extreme over the past couple of years.

This is a chart of the VIX, the CBOE measure of investor sentiment and market volatility. Levels of the VIX of 25 and more 30, I think show investor unease and anxiety. But you can see in the first quarter, the VIX spiked up and even though the first quarter was flat in terms of performance up 1%, in the first five days of the month the market fell 6%. By February, it was down 11%. So, even though the quarter was flat, in between it was a very volatile period. And even for all of 2015, the market was flat, maybe up a percent, but the VIX was over 40 in August-September. So, really volatile periods, which caused investors to move to the sidelines, which caused our clients to pause with their spending plans.

Ongoing Shift to Passive Investment Management

The ongoing shift to passive investment management is another challenge. This is nothing new. We've talked about this at prior meetings. This is a chart over the last 10 years. And you can see that the passive share over the last decade was marched up 100 to 200 basis points a year. This shows the flows into active and passive funds, both open-end and ETF. And then again, the bottom row is the passive share, but it has gone from 16.9% in '06, doubling to 32% at the end of last year.

So, this presents a challenge for us as our active management clients, if they are seeing outflows, they are going to pull in their spending. So, again, this presents a challenge. But again, it's nothing new. We've seen this for a decade, but I think last year was an especially strong year for passive investments. You see the outflows at nearly $200 billion for active.

If you look at the indexes, it was a very large-cap-centric year. And even among the large-cap, it was a few number of names. So, if you compare that to the fund average, which has a more small-cap bias, active funds certainly don't good in that environment. But for a lot of reasons, there was a lot of outflow in the active sector, and so passive picked up about 200 basis points of share.

If you look at the open-end share, it's about 22; this is open-end and ETFs.

Lower Issuance Volume in Commercial Mortgage-Backed Securities

Another challenge we face is in our credit ratings business. Although, the credit ratings business was a star performer for us last year, the picture changed pretty markedly in Q1 of this year. Our credit ratings business is very focused on the structured part of the market, and specifically, CMBS, commercial mortgage-backed securities, and there we have seen a real drop-off in issuance in Q1.

Spreads in the corporate market widened last year towards the second half of the year, especially in Q4. There was a bit of a lag with the CMBS spreads. But as spreads widened and were volatile, issuers pulled back from CMBS, went to other sources, insurance companies, banks. So, consequently, issuance fell off.

This is a chart over the last 10 years. You can see pre-crisis issuance was over $200 billion of CMBS. It fell dramatically during the financial crisis to $12 billion. Then it's marched up, recovered almost $100 billion over the last couple of years.

CMBS Issuance Trends

But again, in Q1, we've seen a change in that trend. The market dropped about 40% from $26 billion to $18 billion of issuance. And our credit ratings business was similarly affected.

So, there are a few of the challenges we face.

Investing in the Core

Let me now turn and talk about something different and that's investing in the core of our business. The five key investment areas are areas more product solutions focused, but we also invest in the foundation for our business, which is investment data and research. And really, that drives everything that we do.

All of the five solutions really benefit from stronger data and investment research. There is a lot of things I could talk about that we are doing here on the research side. If you go to Morningstar.com, our corporate site, you will see a long list of studies that we've done; target-date, active/passive barometer, Global Investing Experience Report. There is a whole lot of research that we brought out last year. But let me just touch on a couple of things.

New Sustainability Rating

One is, we're really proud of our new Sustainability Rating, ESG ratings. These ratings encompass environmental, social, and governance factors. So, we're working with a firm out of Europe, called Sustainalytics, where they have ratings on each of the companies and then we roll those up at the portfolio level to have an overall Sustainability Rating on a fund. We were first to market with Sustainability Rating. So, we are very excited about that.

We are using the iconography as globes. We use stars for our performance and risk measures. But here we are using globes and it's just done on a bell curve, much like our star ratings.

And this is really in line with trends in the industry. This is a chart that shows assets being managed with a sustainability mandate.

You can see Europe leads the way over $13 trillion of assets managed with a sustainability mandate, but the U.S. $6 trillion and then it's growing quite rapidly. So, we've had a tremendous amount of interest in our Sustainability Ratings. And so, bringing this out keeps our research cutting-edge, and it's really in line with where the industry is moving.

Data APIs

We've also been investing a lot in our core data area making that available via the cloud through data APIs, application programming interfaces. Morningstar is a Big Data company. You hear a lot about Big Data. We have huge financial databases, but we need to make them available to our clients via the cloud through APIs. So we have launched over the past few years API Centers for our equity data, our fund data and we have a lot more to do on this, because we want clients to be able to access our data in ways that they want.

Microsoft was in this week. We have a big relationship with Microsoft. One of the things they asked for was more API. They like our APIs. They use it. They consume our data this way, but they encouraged us to do a lot more on this front.

I included a quote from Eric Schmidt, the Chairman of Google, "Well-done platform APIs are the key to everything."

So we got to be very careful about how we partition our data, partition our components, so clients can access what they want and they can reuse and combine things. So, a lot of effort has been put into this and you will see more of this in the future of our data and components available via cloud solutions. But this is the key to enabling that.

Responding to Regulatory Change (DOL/MiFID II)

Regulatory change; this is a huge topic. I think many of you are aware of the regulations going on not only in the U.S. but around the world. In the U.S., we have the DOL regulation, which requires advisors to be a fiduciary if they are advising on retirement assets. But there is also a similar legislation in Europe, MiFID II, requiring advisors to be fiduciaries; same in Australia, Canada. And in essence, what's happening is that as advisors are becoming fiduciaries, where they have to put the client interest first ahead of their own interest, any kind of revenue sharing at the fund or vehicle level is really going away.

So, in the U.S. we have 12b-1 fees, other types of revenue sharing. The fees are going to really move from the vehicle, the fund level, to the portfolio level. So it is going to really accelerate the movement to fee-based advice away from commissions. So that's been happening already. But this legislation will really accelerate that.

So, long-term, this is really good for Morningstar. We are very aligned with the spirit of these regulations. Our first value is, "investors come first." So, we wholeheartedly agree with what these regulations are trying to achieve. And people are going to need our data and our research to help document their processes, justify why they are putting a client in one investment over another, why they are putting a fund on their platform, why they are taking it off. So, long-term, very good for Morningstar.

Short-term, it is very operationally disruptive for our clients. I had a lunch couple of weeks ago with the heads of one of the largest asset management firms in the U.S. and they have a world-class compliance department. So, I asked them about the DOL rule, and they kind of shook their heads and said they are still trying to get their arms around it.

It's a rule that's over 1,000 pages. I've tried to read it myself. And it's a rule only a lawyer could love. It's not exactly in plain English. So, it's a very complex rule.

This client told me that even their world-class compliance staff can't agree on what everything means in this rule. Ultimately, a lot of practices may have to go to the courts for a final judgment on what is permissible. So, our clients are trying to digest this. If you've read any of the first quarter transcripts of broker-dealers, asset managers, you can see they are still trying to get their arms around what this means.

Meanwhile, we are out in the marketplace. We have six solutions. We've talked and had conversations with over 100 RIAs, broker-dealers, clearing firms. We have six solutions that help our clients comply with these regulations.

So, long-term, good; but short term, a bit operationally disruptive and very distracting for our clients.

One client I know, he said, our shop is all DOL all the time. So this is kind of what they are focused on and consuming a lot of their bandwidth at the moment.

Data and Research Expansion

We also have been investing a lot in our equity coverage. You know, as for our fund covers managed products, we also have a very robust equity database, cover 42,000 companies around the world. If you don't use it, you should. Nearly any company you want to look at, we've got it in our database. We cover 98% of the world's market cap. Last year, we spent a lot of time both increasing the breadth of our coverage, adding a lot of emerging markets. We added Bangladesh, Nepal. So, broadening out the reach, but also going deeper, enhancing our segment data, free-float data, some other things. So, we've got a world-class equity capability that we are very proud of and continuing to work on that.

Same story on the managed product side; a lot of work done there. I think it's widely accepted that we have the premier managed investment product database in the world in terms of comprehensiveness, accuracy, timeliness. We have a great managed product database. But we don't want to rest on our laurels. We want to continue to widen that gap, and so a lot of effort to cleanse and refine that data. Last year, we spent time expanding this in terms of ETFs, building up the ETF database, collective investment trusts, so some of these more ancillary databases around our core mutual fund area.

Then also on the analyst side, in addition to data, we have the large independent analyst staff, over 300 analysts who interpret the data, and this is really a differentiator for Morningstar. Other firms have data software. No one else has this large staff of independent equity fund and credit analysts as Morningstar does. And so, we've been increasing this staff, building up our Asian equity analyst staff over the past year in response to client demand for greater coverage of Asian equities.

You may be surprised of the credit analysts number of 86, but that speaks to this investment in the credit ratings space. So, a growing capability around analyzing credit instruments.

Summary

So, with that, just in summary, just a quick look at our mission, our strategy. Hopefully, it's a very straightforward strategy that is understandable to you, but also very focused in terms of where we're investing and some very large opportunities, both in the core of our business, as well as five specific areas that Kunal Kapoor is going to talk about in more detail. So, I'm going to be back at the end to wrap up.

Transition

So, without further ado, I'm going to introduce Kunal Kapoor. Kunal will actually celebrate his 19th anniversary with Morningstar next week. So, you can congratulate him when you see him. But he has been with Morningstar a long time. He is in a new position as President. Previously, he headed up our Global Products & Solutions. He did such a great job there that we decided to give him more. And so, we also gave him Sales & Marketing. So, he has really all of the product creation and go-to-market responsibilities.

So, I mentioned, he has been here 19 years. He is a Morningstar veteran and a really terrific person on top of that. So, please join me in welcoming Kunal Kapoor.

Presentation – Kunal Kapoor

Good morning, everybody. I want to join Joe in welcoming you to Chicago and our Annual Shareholder Meeting. I'm going to take some time, as Joe indicated, to walk you through some of our key investments areas.

As Joe was alluding to, Cathy Odelbo and our strategy team have done a lot of work to help the overall business really drive some focus in these areas, and we think that these five areas represent large individual opportunities for Morningstar. Joe used the $100 million figure. We think each of them incrementally can add $100 million easily. And I think, most importantly, the addressable market in each of these instances is fairly sizable, and that's why we have the confidence that if we execute in the way that we'd like to, we're going to be able to realize the potential.

Five Key Investment Areas

I'll also just add that in almost all these instances, there is some level of disruption and change going on in these areas. And we love to be in areas where there is disruption and change going on because we see opportunity, and we also see alignment with our mission through those opportunities around disruption and change.

Now, as I dive a little bit into each of these, one of the themes that you're going to hear a little bit about is that we have essentially been remaking and upgrading our software platforms. And so, before I dive in, I wanted to just spend a minute talking to you about what that has meant at Morningstar, because it's fairly critical to the way we're thinking about building software.

We have an initiative here at Morningstar that we call Building Software Users Love. And the underlying notion of that is that we really want to put the user, the worker, the investor, the consumer, at the center of what we're building. And we have adopted Agile development practices across our product organization and beyond. So, if you actually walk around the halls, you'll see lots of charts, lots of teams huddle around different boards, and the idea is to really iterate, get things out faster to clients and even to start experimenting and putting things out there that maybe we do in what we call Innovation Sprint. So, I'll show you something later on when the screenshot from Direct is up there, but the idea is just to start delighting and bringing things to market quickly.

There used to be a time where we'd have one or two big releases a year. I can tell you the whole technology team stayed up all night trying to get it out and it was not an easy exercise. Nowadays, it's like a train. It's going out. You put your stuff on the train and it keeps coming around every two weeks, every four weeks. And I quote two weeks and four weeks because we talk a lot about speed as well, the notion of how can we be faster. And it's really a measure of how we are getting faster. Our release cycles are coming down. Most of our teams on software side are now between two to four weeks in terms of when they do releases with the goal of trying to get all the teams down to two weeks; and some teams are even essentially aiming to do releases as things are ready. So just constantly iterating, not even waiting for two weeks. So, that's our goal and that's how we're trying to sort of imbue our software development practices across Morningstar.

#1: Workplace Solutions/Retirement

So, I'll start by first introducing our Workplace business to you. There are three legs that we particularly are focused on in this area. Just to give you a flavor for how the business has been built up, managed retirement accounts, custom models and plan sponsor advice. We see the largest opportunity with managed retirement accounts and that's why that one in particular is where we're focused with Morningstar Retirement Manager.

As Joe showed you, this is our new interface for Morningstar Retirement Manager. We have more than 1 million workers today who participate and are using this service. And it really is a critical service that we think investors around the globe are going to need eventually. If you step back and think about one of the most important challenges that exists in the marketplace today, it's that individuals, workers, retirees, investors are unprepared for retirement. So, we see a huge mission-aligned opportunity here to help those people get to where they need to be. This is right up Morningstar's ally. It's also a great business opportunity and that's why we've been so focused on trying to do a great job here.

Now, you see a really nice interface, but I would be remiss if I did not also mention that we have a lot of great IP behind the scenes working. So Daniel and his team and Haywood and his team, all contribute to this. We have something called the Wealth Forecasting Engine, that is a key component of how we run this tool and make it available to folks. So, as simple as it looks and that's our goal that the experience should be simple, behind the scenes, there is a lot of good intellectual capital being put into making sure that this is a highly differentiated and useful offering.

We started to roll this out to clients. Charles Schwab is the first client that we're working with. We're rolling it out to plans where we are partnered with Schwab and we hope in the next year to basically go partner by partner and ensure that we roll this out across the board.

The metric that we're most focused on when it comes to this part of our business is the adoption rate of managed accounts. This is what Rob Pinkerton and I talk about. This is what we're focused on. This is where we want to move the needle, because we think we have really good distribution already built up for this service, and now it's a question of really making the adoption more meaningful year-in and year-out. That really is going to move the needle for us and also for all the folks who have access to this service.

You might wonder how we think about HelloWallet in this context. And there is a very simple answer. One of the realities that I think many of us at Morningstar have come to terms with since HelloWallet became part of Morningstar is that they have really proven to us that while we at Morningstar always like to think about the fact that it was always the investor, the investor, the investor, you also have to think about the saver and the spender because you're not going to be a successful investor unless you get the saving and spending down well as well, right, because the first time there is ever a problem, people tend to draw on their retirement accounts and we want to change that behavior. And we think HelloWallet is a great way to help workers solve some of the spending and saving issues that they have that prevent them from being successful investors. So, we want to use this service to drive adoption of managed accounts and for investors to be more successful as a result.

Remember that I talked to you about three key pieces that we're doing on the retirement side. Well, there is actually a fourth piece that I wanted to introduce today, and we're really, really excited about this. Late last year, UBS launched a series of collective investment trusts based on Morningstar's Lifetime Allocation Indexes. These are available to qualified retirement plans and we think they are going to disruptive. Fees are low; the IP we've put into them is compelling and we also just think that the market is right for product like this.

Joe talked about the DOL. It's likely draw even more interest in CITs. If you look at the market share of CIT, that's rising fast, and we think we have a really unique and differentiated opportunity and we're doing a lot to make sure that this becomes part of our core message in the marketplace.

The interesting story here is we actually got a call from what then became our pilot client or UBS's pilot client, called us and said we like your indexes, it would be great if you had something that would actually make them investible and accessible to retirees and so we've gone ahead and done that. We're very, very proud of this offering and you will be hearing more about it in the years ahead.

#2: Morningstar Direct

Second up is Morningstar Direct. We've been very, very focused on continuing to move capabilities to the cloud. This is as, everyone likes to say, "Everything Morningstar." We've tried to put all our capabilities in one place and we essentially charged one price for it.

Now, you'll see that we're starting to introduce capabilities that did not exist in the old version of Direct in particular. Equities is starting to get more prominence and our research is starting to get more prominence. I personally think and I think Joe agrees with me that the breakthrough here is going to be when we get more portfolio capabilities into Direct Cloud later on this year, that's when we feel like we're really going to have an experience that feels like a true upgrade for our clients who have been using the current version of Direct. So, really, really focused on making sure that this continues to be, "a can't live without" type of tool for our clients.

And if there is any type of themes that I'd kind of talk about here, it's that we're focused on helping our clients achieve efficiencies in their business, achieve more automation in their business and then finally, helping them ensure that they get good outcomes for the investors that they're serving as well.

I'll point out here that I was talking about Agile developments a little while ago and you'll see in the equities area, the WhyTool beta. If you have access to Direct Cloud, one of our teams actually got together for an Innovation Sprint over a week and developed this tool. Essentially, if you go into it, it will show you what's going on in the market on any day and shows you the stocks that are moving more or less than you would expect based on historical returns and you can click through and actually figure out what's going on in the market. It's a really cool tool. If you've got access to Direct Cloud, I'd really encourage you just to play around with it. It's the type of thing that we want to start encouraging our teams to do a lot more of.

Now, one of our most successful teams as it pertains, or squads as we call them, to Direct Cloud is the research team that's sort of been working on bringing our research to life. In the past year or so, we've basically moved all our research capabilities into Direct Cloud. And so, any client of ours who is accessing Direct now has a full view into all our research capabilities, whether they be text-based, video-based, whether they'd be equities, ETFs, what have you. We want everyone to see our best research, to see our best data and to know that we are increasingly trying to meet their needs as a multi-asset class tool. That's the future of Direct. It's not just about equities and fixed income. We're also focused on derivatives and things like that because they are being used more and more by portfolio managers and we need to be all over it to help demystify investing for our clients.

This gives you a quick snapshot as to what Direct looks like. It's truly a global product, as you can see, we've packaged it in there, and we can essentially make it available to all our clients globally. No matter where we go, we always sort of hear from our clients that they really appreciate that they have the ability to go and pull in the stuff that matters most to them even though there's all of these capabilities behind it, should they need them. But nice growth for

Direct, both internally in the U.S. and outside the U.S. and we continue to be very pleased with the way it has been performing.

#3: Morningstar Managed Portfolios

Third is Morningstar Managed Portfolios. This is our offering that we have made available to financial advisors. I think in past meetings we've talked about it as a TAMP. But really it's more than a TAMP. It is our solution to help advisors, who are increasingly morphing their business, to a decision outsourcing model. And a lot of advisors are beginning to do this.

There's reasons for doing it. One of course, the latest being is the DOL, right? It becomes a lot easier if you just pass it out to a third-party. But there's also just a reality that a lot of advisors are thinking about where do they add value and many of them are coming to the conclusion that where they add the most value is in the relationship with the client and almost to the point of being life coaches for their clients. So, they don't want to spend all that time answering the clients' questions around, why is the market down 4% today and what are doing for me. And many of them are choosing to outsource the investment management and really work on other pieces with their clients.

So, we see a really nice runway for this service both here in the U.S. and outside the U.S. That's probably the most meaningful change. We've rolled this out elsewhere as well. It's available in Australia; it's available in the United Kingdom, South Africa and we also hope to make it available in India in the near future. So, continuing to move along in that space.

You will see here as well, the assets under management, and these are slightly higher than what you saw in the Q1 earnings report, and that's because we are also including now Strategist and third-party platform assets that are part of this service that we previously did not include. So, previously, you were just seeing assets on our TAMP. This now includes the entire picture.

#4: Morningstar Credit Ratings

Number four is Credit Ratings. This is of course the business that Joe talked about. We have actually just recently moved into our new offices in New York at 4 World Trade Center, that's where the business is headquartered.

We're very excited about what potential this business has for Morningstar. I think, as you know, the big three have obviously owned this marketplace and we think we have a superior solution to what's out there. So, as we look in the future, the key thing we want to do here is really expand beyond the structured space. So, our key focus right now is to get into corporates and we think we'll have a particularly unique solution when it comes to corporates and the reason being we have an opportunity to take our equity research, all that methodology we've developed around moats and the importance of moats and bring that to the credit side for the first time as well and really provide some differentiated research.

So, this is a fund business, one with a lot of opportunity for us obviously and as much as there has been some short-term turbulence, we really sort of see that there's a lot of potential in the years ahead. And once we have the approval to roll out corporate ratings, we certainly intend to take a look at that.

#5: Morningstar Indexes

Number five is Morningstar Indexes. We've got a great index capability and this picture really shows you how we've developed it over the years. We sort of started with what were the Morningstar style indexes and then since then we've really expanded it to the Lifetime Allocation Indexes that I talked about earlier to the point today where we have more than 300 global indexes available to you; beta, strategic beta. They're really terrific and we think they do a really good job. The beta indexes, for example, are very comparable to any other beta indexes that are available and maybe slightly better known in the marketplace as well at this point.

So, to change that we have launched what we call the Morningstar Open Indexes initiative. Now, if you're an asset manager, for example, you probably are paying a lot just for pure benchmarking purposes. When you have to report your performance or the like, you use a benchmark and you're probably paying a lot for that and we're inviting asset managers, broker/dealers and others to join us in what we call the open index initiative. The idea being that we will make our indexes, our beta indexes, available at no cost to those who want to use them for benchmarking purposes. We've talking to our clients about this. There's a lot of excitement and we hope that here in the next few weeks, we'll have a more formal announcement around the launch of this program.

Now, whenever we talk about this, the client will often look straight back at us and say there's got to be a catch. Why are you giving it away at no cost to us? And the reason for it is, we think ultimately in the beta side that we're not adding a whole lot of value for investors. Beta indexes are comparable as I said, all the studies prove that as well and we think where we really add value is on the strategic beta side. So, we went to grow and monetize our indexes business through the strategic beta side by developing those indexes, using them ourselves or even partnering with third parties to launch ETFs and products like that.

So, probably the most well-known product we have out there is the VanEck Morningstar Moat ETF, ticker is actually MOAT. If you take a look at it, it's been a strong performer both in an absolute and risk-adjusted basis and we are certainly trying to take a franchise like that and make it available to investors globally. So, we started by launching it in the U.S. and we've rolled it out in other markets as well with VanEck. So, that's sort of how we think about growing this part of the business and certainly, there's a lot of interest and demand for strategic beta and what we can do there.

Strategy

So, all of this kind of comes back together. Joe's first slide is my final one in terms of our strategy and how we think about it. We really want to produce essentially the most effective investment data, research and ratings that can then power our solutions and provide investors, retirees, workers with a really terrific solution to power them ahead. Certainly, the world is changing regulations, as Joe talk about, technology, there is a lot going on, but Morningstar is certainly putting itself in a place where we continue to think we have terrific solutions to serve investors even amidst some of these changing tides.

Transition

So, with that, I'd like to introduce my colleague, Stéphane Biehler, I believe this is Stéphane 's third shareholder meeting. So, Stéphane is up here at stage. He is usually very concise and to the point. So, I'll turn it over to him and will be back later on for questions.

Presentation - Stéphane Biehler

Thank you, Kunal. Good morning, everyone. So, this is the part of the presentation where we're going to see what Joe and Kunal describe turn into numbers and we had a good year in 2015 and you'll see that in our financial results today. So, we will talk about two things; the financial results for 2015, and we'll touch on the first quarter of 2016 as well, and then we'll talk about capital allocation, which is a topic that's very important to us as we generate good cash flows and think about the future of our firm.

Financial Results: Industry Landscape

So, turning to financial results first, the industry landscape according to Burton-Taylor last year, global spend on market data and analysis was at $27 billion market and it grew by 1.2%.

2015 Key Metrics

As far as our share of that market, you saw our revenue get close to $790 million and we grew the top-line by 3.8%. The U.S. dollar changed fairly significantly from a foreign exchange standpoint against most of the currencies we're in as far as our global markets are concerned, and that had a very large impact on our results in 2015 and you'll see that when I talk about organic growth. So, that's the growth when we neutralize the impact of acquisitions, divestitures and the impact of foreign currency translation. Had the foreign-exchange rates of 2014 persisted in 2015 we would have reported $27 million of additional revenue on top of the $789 million that you see here. So, we'd have been in the $812 million, $813 million territory. So, we would have been a much larger revenue growth.

As far as operating income and free cash flow, these are very impressive percentage growths, but you should remember that in 2014 we settled a litigation for $61 million. So, if you add that back, it provides you with a more comparable apple-to-apple type basis. But even if you add $61 million to the $74 million of free cash flow that had in 2014, you see that we grew our cash flows to almost $50 million from 2014 to 2015 and that's a 35% growth. So, it was a really good year from a cash flow generation standpoint.

Quarterly Revenue

Here is a quarterly revenue for the last five quarters. So, as Joe and Kunal alluded to, we had very volatile markets in the first part of 2016 as well as a very shattered credit rating picture with particularly in CMBS, where we saw the market come down by 40%. Our first quarter results were slightly impacted as part of our cyclical businesses.

Contributors to Revenue Growth

The contributors to our revenue growth over the last five years are displayed here. You see that in 2015 the 3.8% reported growth of revenue is on top. And as we reconcile it to neutralize the effect of acquisitions, divestitures and foreign currency translation, you see that our actual organic growth was closer to 7% in 2015.

Major Product Drivers - 2015

So, this is a new slide that I wanted to show you. It's an interesting slide because it shows you the organic change in revenue from 2014 to 2015 by product and we split the products in three main revenue categories, the license-based business; the asset-based fees, which is the part of our business where we earn basis points on assets under management and advisement; and transaction-based, which is the one-time/non-recurring revenue.

So, as you see, in 2015, we added $51.5 million of organic revenue to our top line. Our main product offerings in license-based area did very, very well with high-single digit or double digit percentage growth; Data and Direct, Research being very strong growth engines for the company.

And if you take all of the asset-based and transaction-based revenue generators and you add them together, we saw that these lines added approximately $23 million, $24 million of revenue last year, so a very favorable environment for us from that standpoint.

Major Product Drivers – Q1 2016

In contrast, if you look at the first quarter of 2016, while Data, Direct, Investment Profiles continued to be very strong engines for the firm, you saw that because of the volatile markets and the shattered credit rating markets, if you add the lines that are in blue and purple here, the bottom of the page, we lost approximately $4 million of revenue. So, a very different picture and you see that the impact of the cyclical, or some of the cyclical businesses that we have on our results in a very short period of time like this.

Quarterly Operating Income

That being said, when you look at our operating income, while the operating income as a percentage of revenue was slightly down in the first quarter, it wasn't that dramatic of an impact because of the very solid franchise we have in our license-based businesses. And you saw that from an operating income generation standpoint in dollar terms we had a slight decrease in the first quarter, but it wasn't that dramatic.

Balance Sheet

We have a pristine balance sheet and we are very proud of it. At the end of March, we had $227 million of cash and cash equivalents. We had $75 million of short-term debt. That relates to a credit facility that we have in the United States to just manage our operating cash needs in the U.S. and we are very proud of the balance sheet that we are showing you here.

ROIC: Return on Invested Capital

So, this is new as well. This is return on invested capital. It's a measure that our equity analysts look at to identify companies that may have a wide moat and we're keen on showing you what it is at Morningstar.

You see that in 2014 because of the litigation settlement that I alluded, the $61 million expense and related cash outflow, our return on invested capital was negatively impacted. But when you think about us as a firm that has a cost of capital of maybe 9% or 10%, by returning 19.4% in 2015 we were returning roughly double our cost of capital, which is a good measure.

Capital Allocation

Potential Uses of Cash

Capital allocation, as I said, this is something very important. We talk a lot about it internally and with our Board. We have a strong balance sheet and therefore, we can invest in the business in various ways organically by just enhancing our product offering, through acquisitions and we done some of that, primarily bolt-on acquisitions in last few years. We have a stock buyback program. So, we have a $1 billion stock buyback program underway and we have roughly $350 million left under the current authorization of the Board of Directors. We pay $0.22 a share every quarter of dividend and in 2015 our payout ratio was around 27%.

Dividends and Share Repurchases

Here it is the trend. Over the last five years and the first quarter, you see our dividends, how much we paid and you see the stock repurchases. So, in 2015, we repurchased approximately 1.2 million shares and in the first quarter of 2016 we repurchased approximately 0.5 million shares.

Shares Outstanding

As a result, the number of shares outstanding has been steadily going down since 2012. So, as you look at these numbers, we now have less than 43 million shares outstanding and if you owned the stock in 2015, the number of shares outstanding has gone down by roughly 15%. So, if you think about it, you own 15% more of the company than you did five years ago if you held to your stock.

Morningstar Performance

This is also new. We wanted to show you an annual per share growth rate looking at one year, three years, five and 10 year horizons. You see that the operating income – we backed out here the litigation settlements to provide you more apple-for-apple basis. So, on a one-year basis, we had good income generation and free cash flows were growing faster than operating income. That's primarily due to the fact that the depreciation and amortization expense that we carry in the form of a non-cash expense in the P&L has been growing faster and it doesn't weigh on free cash flows. So, free cash flows had been growing faster. And our total return was up to 25.6% over one-year.

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

I'm required to show you the reconciliation of non-GAAP measures to the nearest comparable measure here. So, we are computing free cash flows for you. It's the cash we are generating in regular course of our business, net of our capital expenditures, which is the reinvestment we make in the business in the form of software development, purchasing of IT and building offices.

And here is the reconciliation of the return on invested capital. It's a little complicated. So, I'm not going to go over every line.

And that concludes my presentation. I will turn it back over to Joe.

Summary by Joe Mansueto

Joe Mansueto: Well done. Thank you, Stéphane. So, just to summarize before we head into break. Morningstar is a very focused mission-driven company. I hope you feel that. Again, it permeates every part of our organization. We're really inspired and very proud of our mission.

And that in turn has led to a very strong reputation and brand that Morningstar represents. I think we've got an unusual degree of trust among investors. That's pretty rare in the financial industry.

At the core of our business, the foundation, we've got very extensive proprietary databases and analytics that sit atop those databases, many of which have become industry standards.

Then we have this unique reach. Again, I don't know if any other company that has this reach among individuals, advisors, institutions in the U.S. and around the world. Again, we have this network effect where strength in one audience creates strength in other audiences.

And this is important. For example, when we released our new ratings on sustainability, all of a sudden, they are on the desktops of millions of individuals, hundreds of thousands of financial advisors. So, our sustainability ratings become the industry standard. So, it really gives us a leg up on competition to have this broad-based distribution.

We've got a very focused strategy. Again, we've looked at the investment landscape. We've found five areas that we think have great potential for Morningstar. We're really excited about them and these are opportunities, again, where we think we can win with our solutions in the marketplace.

Then finally, as Stéphane touched on, we try to run the Company conservatively from a financial perspective. We've got a solid balance sheet. We've got a nice margin of profit. We're pretty disciplined in how we run the Company. Whatever money that's coming in, we spend less. We want to make sure we're around. It's a marathon; it's not a sprint. So, we run the Company in a way that ensures that we're going to be around for a very, very long time.

Especially, I like the long-term charts Stéphane had of our performance, over one, three, five, 10 years. And you can see this very steady growth has led to good returns I think for shareholders over long periods of time.

So, with that, I hope you come away as excited and knowledgeable about our business as we are. Even though we've been around for 30 years we feel like we're still just getting started. We still have terrific opportunities. We've got a great team and really excited about our future.

So, with that, we're going to take a short break. Why don't we break for about 10 minutes or so? We'll have some refreshments out in the cafe outside the auditorium and then we will come back and we'd very much love to hear what's on your mind. Thank you.

Q&A

Joe Mansueto: Okay. So, I hope everybody enjoyed the presentations. Hope that all made sense and you're better informed about the Company and where we're headed. But now is the time we'd like to open up the floor to your questions and hear what's on your mind. As you know, we have a fairly unusual IR policy, where we don't meet except once a year in person to answer your questions in the interim.

If you have a question, we ask that you put it in writing, submit it, and we dutifully answer every question we get every month and post it on our website, file an 8-K. So, we very much want your questions throughout the year, but we'll only answer them in writing. But now is the one time that we do, do that in person.

So, with that, I invite any questions anyone has.

So, do also want to identify your name and yourself and your affiliation? Wait for the microphone, yes. Sorry.

Michael Shearn: Michael Shearn, Compound Money Fund. My question is about your five strategic initiatives. I just kind of want to know a little bit more about the thinking that went behind that on how you chose those five and how that kind of evolves over time, but how you kind of see it and kind of just how you go about thinking through that and building that?

Joe Mansueto: So we have a Strategy Council at Morningstar. Actually, we have a fairly defined strategic process. We do Blue Sky Meetings at the front of the year. We meet with our Board over the summer for a full day offsite on strategy. But we have a Strategy Council that meets regularly. So, part of this, Cathy Odelbo, who is here waving her hand, leads our Strategy Council. And so, these really emanated from that group. So, we started to look at areas where we thought we had potential, and then we created working groups around areas that we thought had potential and they built plans around these areas. And there were more than five that we looked at, and we are always looking at new ones. But we set out the parameters that it needs to be at least $100 million, as Kunal said, in incremental revenue, and it has to be an area where we have a solution where we can win.

Then we do the hard work, kind of, the bottoms-up, counting all the heads, how many customers are there that would buy this, and we build up a plan and put together a P&L and a discounted cash flow model and kind of look at it that way. Then we widen the circle. We talk about at the Strategy Council. We have a meeting we do every October. We bring our global team together, about 80 people. We present it to that group, kind of get their feedback, and then we present it to our Board. In July, we walked through it with our Board a couple of years ago, got their input and that was the basic process to determine the five. It's not a set in stone where like we are going to wait 10 years and look at it again. The Strategy Council is always meeting, looking at new opportunities and updating these plans, is what we thought two years ago, still consistent with today's reality.

Also, if you're watching via the webcast, there is a page with the morningstar.socialqa.com where you can enter a question. Please.

Eugene Krishnan: Eugene Krishnan from Lazard Asset Management. I've got a few a questions, but I will start with one now. The Credit Ratings business, you talked about wanting to address the corporate market and as you mentioned, there's two or three players that are very dominant there. You've mentioned you're going to take a unique approach. I don't know if you could elaborate on that a little bit more, timing, how you build a niche for yourself, how would you evaluate your experience in the CMBS market? Outside of the volatility, do you feel like you've built a position and product that's really differentiated itself? And lastly, just the effect this business is having on the volatility of your margins in the business. And I'm only taking that is I'm assuming a lot of Q1 was the drop in that business.

Joe Mansueto: A lot in that question, but I'll start and my colleagues can chime in. But as we touched on – the vision is to be a full-service credit rating provider. It's not to be a niche provider in only one area. So, we started with the structured space. We made an acquisition a number of years ago a firm called Realpoint, which had a surveillance product in the CMBS, commercial mortgage-backed, space that we liked a lot; it was bought by and still is bought by the buy side; differentiated in that, we're going out and visiting the properties and underwriting the properties. So, instead of a top-down model, we're visiting the properties and it had gained a lot of credibility with the buy side. Then we moved that business to the new issue side and that was the base that we started with, became an NRSRO. So we had the government imprimatur to provide credit ratings and then started to expand, ABS, asset-backed securities; RMBS.

And on the corporate market, the timing is a bit uncertain and I'm almost embarrassed to say, I think a year ago we said we were waiting for approval from the SEC. We put in our application that came back with some questions. We've answered those and so we feel it should be any day that we hear from the SEC that we've been approved to be an official rater of corporate debt instruments, but we've not heard yet. Once the application goes to the staff then there is a 90-day clock, but we've not been recommended to the staff yet. So, we are waiting for that. But we feel we've got a strong application. It's taking a little longer than we thought, but we're still hopeful that that will happen soon.

So, we do feel we've got a differentiated solution with this in the structured area. On the corporate areas, as Kunal mentioned, we have a moat framework that we use on the equity analysis side. I assume you are familiar with that. Kind of the Warrant Buffet concept of sustainable competitive advantages, which has implications for cash flows. If you are doing a DCF model over 10 years, to the extent that a company has a got a wide moat, you have more confidence in those cash flows than if it has a narrow or no moat.

So, we can apply some of this thinking to how we rate corporate debt instruments. And actually, we were doing that pre the acquisition of Realpoint, the NRSRO firm, under Haywood Kelly and our equity group. So, then we've moved our corporate credit rating team under Vickie Tillman, who runs our overall credit rating business out of New York. So, we've got the capability; we just need the go-ahead.

In terms of what this means to our financials, last year the corporate ratings business was about a $40 million business…

Stéphane Biehler: A little less.

Joe Mansueto: A little less, so maybe 5% of our revenues. So, you can maybe put that into some context in terms of the overall effect on revenues and profitability. But any other comment? Does that answer your question?

Eugene Krishnan: I mean, it's fair to say that the revenue decline would more or less be a 100% pass-through in terms of margins so you become susceptible to a market volatile business than any other part of your business field?

Joe Mansueto: I don't know if it's a 100% pass-through. I mean, there's probably some cost that we don't incur if we're not – and we try and use some outside firms that we can kind of scale up and scale down to kind of balance some of these flows. But you're right, I think there is more of a direct relationship to our operating income than some of our other businesses. Though, a lot of our businesses straight pass-through our data business. On the margin, it's extremely profitable. So that also kind of goes to profitability right away as well. But it does have a pretty big impact I think. But you saw the overall margin wasn't terrible.

Stéphane Biehler: But you're right in the fact that the volatility is maybe more pronounced in that particular part of our business than in other parts of our business where the revenue is stickier and the renewal rates are very high and we walk in the new year knowing – in a licensed-based business we know 95% of our revenue, whereas in credit ratings, you start from a blank slate.

Joe Mansueto: Yeah, we talk sometimes internally just how our business is getting, as we get bigger, more market sensitive. I think Stéphane's chart was nice where he divided the revenue types into buckets and as investment management with basis points, credit ratings or a small part of ad sales more dependent on the market, we are seeing ourselves in terms of our financial results more tied to the market, but there's a big ballast there in terms of the license revenue that is pretty steady.

Elliott Schlang: Elliott Schlang from Great Lakes Review. With your wonderful balance sheet, would you bring us up-to-date on what your thoughts are currently as to where that is invested and what strategic changes may take place in where it's invested, how it's invested and what currencies and so on and whether there is any thought on your part with more of your business becoming international as to whether you are hedging at all in the currency markets?

Stéphane Biehler: So, maybe I can take that question. So, Elliott, we are carrying a little more than $220 million of cash and cash equivalents on our balance sheet and 25% of that in the U.S. and 75% is currently in foreign countries and it's scattered around the globe in all of our 26 foreign locations. The way it's invested is ultraconservative. We have an investment policy with the Board of Directors and there is very little in terms of return on that particular type of cash that we invest, we are very, very conservative.

The only thing we do occasionally is when we have clients that are launching certain ETFs or certain things that are based on some of the strategies that we are building here at Morningstar, we may seed some of the portfolios and we spend a little bit of money doing that to sort of help some of the client offerings take off and we only do that from the U.S. And if you look at overall cash balance, that's probably around 10% of our overall cash balance. So, a lot of flexibility, a lot of diversity in terms of currencies, but we do not have any kind of hedging strategies.

We have some form of natural hedge in our operating model. When I presented earlier, I said that had the 2014 exchange rates continued in 2015, we would have reported $27 million of additional revenue. The flipside of that is that our operating expense went down by roughly $24 million in 2015 as result of that. So you shave $27 million of revenue; you shave $24 million of expenses, not a very large impact on our operating model due to the way we're set up internationally and where our operations are and the overall balance.

Joe Mansueto: That's interesting. Kunal and I were in Switzerland a couple of weeks ago visiting clients and we have, I believe, $10 million in the bank in our Swiss operation and interest rates are negative in Switzerland. So, if you save money, you get less back. And so, they've bought a U.S.-denominated currency there. But it is trickier. I mean, we've got this money, it doesn't earn anything just as all of your money funds and your personal savings and so we suffer along with everyone else in this low interest rate environment.

Nick Bothfeld: Nick Bothfeld, a private individual investor, but I also have an investment advisory business for families. Given the investment research industry that you're part of and there are some giants in there, how do you see yourself in the continuum of no moat and wide moat?

Joe Mansueto: So, we really like the investment research industry. We think our independent model, as I touched on, we've got 300 independent security analysts; equity, managed product, credit. I don't know of anybody who has an independent staff of that scale. At the same time, the sell-side is declining in terms of analysts as their model is challenged, as research has been separated from underwriting. And so, there's a void in terms of offering investment research on securities.

So, we think there's an ever greater demand as the sell-side cuts back, no one else is doing this, it's hard to get to the scale number that we're at. So, we think we've got a wide moat in this investment research area and it's only going to get better for us with the coming regulations, where you need to justify your recommendation as an advisor, so you can attach a piece of research to your recommendation and really document your decision.

And so, we've seen already conversations as a result of these regulations that we're having about firms that need to justify funds that go on their platform or other uses of independent research as a result of these regulations. So, I think we've got a really nice strong position there, a real differentiator in terms of our business strategy. So, we really like it and I think it's only going to get better as we continue to grow out our coverage.

Amy Arnott: We have a question from the QA platform. Capex as a percentage of revenue has steadily increased from 3% to 7% over the past five years. Will this normalize at some point or is the current level of spend closer to what we should expect going forward? Then the last part of the question is how much of the $57 million spent on capex in 2015 would you classify as maintenance versus growth?

Stéphane Biehler: So, I'll take that question. So, capex has grown in the last few years as we are overhauled some of our technology infrastructure. We also have a growing footprint as our business continues to grow itself. That being said, when you look at the $57 million of capex in 2015, I'm personally thinking as $60 million as our sort of run rate capex going forward. A lot of that is in software development as we enhance our products and push Morningstar.com, Direct and some of our retirement products, as you saw earlier in the presentation, we do a lot of development.

So, out of the $57 million of capex last year, there was roughly $25 million of internally developed software, so that's the time of our software developers that's being dedicated to enhancing our platforms and building new products and we do capitalize that. So the other half is more in technology infrastructure and building offices like the one we have in New York for our credit rating agency at the World Trade Center where we moved in at the end of last year. So, if you think about maintenance versus investment and if you look at the infrastructure and offices, technology infrastructure and offices being half of the capex and the other half being the software development, I would say the software development is where we invest and the rest is more like the maintenance.

Joe Mansueto: Yeah, I would agree with that. I think we've made a big push over the last five years in what's driving that capex number is in our infrastructure to automate. We were doing a lot of things manually. So, in terms of running production processes, we've automated a lot of that in the finance area, Oracle upgrade, we've added Salesforce to CRM. So, just trying to really elevate a quality and rigor in our processes, in our systems. Certainly, network security is a big area for any firm, especially as we move our business to the cloud. So, a lot of investments around making sure that we've got a reliable robust infrastructure. But I would agree, I think that ramp-up will probably I would think level off. It doesn't mean it will flatten. But I think we went through a period where as we moved our business to the cloud, invested in some of these major systems, that we're kind of over that hump. Again, it doesn't mean that we're going to not upgrade them, but a lot of that is behind us.

Eugene Krishnan: Hi, it's Eugene from Lazard again. I was hoping you could expand a bit more on your thoughts on DOL from a number of different angles. Number one, in your Managed Portfolio side, you talked about it being one of the biggest opportunities. How do you activate that opportunity with the financial advisors? And then on the – I don't know if you call it the risk side or the unknown side, more on the retirement solution side, where you guys also have AUM, where might you have conflicts of interest, how do you sort of address those? For example, if on the data side of your business, if you have funds that are paying you premiums for more detailed analysis to be published on them, does that now make it more difficult for you to use them in your retirement solutions, does it make it more difficult for you to recommend your own internal solutions? So if you could just…

Joe Mansueto: Sure. First of all, no one pays us for a more detailed analysis. Our research is totally independent. We create it first and then our model is to license it after we've created it. Funds don't pay us for a more detailed write-up--there is no model like that that we use. But in terms of the DOL and some of our solutions and what it means for them, yeah, as we touched on our Managed Portfolios, we think we will be a beneficiary of this. I think Kunal touched on this as advisors look to comply with these requirements and again, 1,000-page rule, a lot of advisors might throw up their hands and say, I'm not sure how am I going to do this and do all the work to document my solutions; I'd just use Morningstar and their solution to discharge my fiduciary responsibilities. They've already been embracing our solution. We have over $20 billion in that solution today. But I think with the regulations, it's only going to encourage more advisors to want to use that.

The flipside, it may drive advisors out of the business, maybe a downside. We've seen that in the U.K. with this regulation. RDR came into the U.K. and the number of advisors went down. So, some may leave the business, but I think the ones that do stay will be better, more fiduciary, but will use services like our managed portfolios.

And then in the retirement area, I think automated advice is a beneficiary of this regulation because everything is on an even playing field. The computer program is not choosing one over another based on any remuneration. It's based on the merits. One of the factors that goes into it is expenses. So, I think automated advice, robo advisors, are beneficiaries of this regulation. So, both managed portfolios, automated advice, I think will both benefit.

Kunal, do you have any comment on any of these things?

Kunal Kapoor: No, I think that's right, Joe.

Eugene Krishnan: Is there any place where you see conflict of interest in your business that needs to be addressed and how do you actually activate the opportunity you're going after?

Joe Mansueto: I don't see a conflict arising from this DOL rule. Again, I think we were country – before country was cool. We were kind of already espousing fiduciary things before these regulations, fiduciary ways of operating before the regulations came around. So, we've always tried to act and run our business in ways that are in the clients' best interest. So, to me, it's really in keeping with the spirit of Morningstar what these regulations are about. It will tend to push investors to cleaner share classes. So, any kind of share class that – any kind of revenue sharing is going to be suspect. When we look at funds, we're choosing funds based on their merits. We've written a lot about the merits of low fee investing. We've written a lot on – again, we just do a lot of – just a fee study on low-fee funds tend to outperform higher-fee funds. So, again, I don't really any conflicts that arise relative to these regulations.

Kunal Kapoor: In terms of activating the opportunity, Joe referenced earlier that we have multiple solutions and the way I think about it is, the absolute base solution is just a very simple data solution. You need some data to comply and we can certainly do that easily. But then you start building from there, and essentially starting to move from something that is more of a decision support type of solution to one that's got more of our capabilities and is more of a decision outsourcing type of solution. So, you start getting into, say, even automated lists that we can provide and the like. Jim has actually been working on that quite a bit.

So, when I think about it, the most meaningful change potentially for advisors is that I think they are consolidating where they buy from and the types of services that they buy from. And so, our response in that regard has really been to begin to bundle our various capabilities for advisors. So, you saw with the wheel that Joe had shown you, that we think we have a number of those capabilities. And so, in the past, we might have gone and taken a lot of those to market individually, but we are increasingly starting to offer them to advisors as a package and it's been quite well received, I would say, in terms of the initial efforts in that regard.

Joe Mansueto: I think one consequence of this, I think we're going to take a harder look at the data side in terms of new data points we may want to collect, especially in Europe, that might be required by some of the regulation. Haywood Kelly and team are kind of looking at kind of the data requirements that might help advisors comply with the regulation. It also may affect some of our software where we may have to have certain language inserted at certain parts of making a proposal from an advisor to a client. So, we need to be very in tune with these regulations. And again, more than any time I can ever remember, regulations are having a pretty big impact on the solutions we create and how we engage with our clients, and the kinds of things we are talking to our clients about.

Kunal Kapoor: Actually, on that trip to Switzerland that Joe had referenced earlier, we were sitting with someone and historically, when you think about an investment screener, you think about the fact that you are essentially trying to get down to choosing an investment. Instead, we were basically screening based on the regulations that the investor had to follow before they could even get to deciding what types of investment they could choose. So, you could have a vehicle that was available in Luxembourg and the fund manager is sitting in Germany and so, the person in Switzerland is not allowed to buy. It's all very complex. And so, this is all kind of happening and sort of changing the way that we might even have to kind of position our software because you almost have to start with that and then you can kind of actually get into the merits of the investment. It's sort of a big change in that regard.

Amy Arnott: We have another question from QA platform. The growth in the number of Morningstar Office licenses has decelerated meaningfully over the past four years and was down year-on-year in Q1. Can you please talk about what's behind this trend? It looks like the average pricing per license has increased at about 2% since 2006. Have you considered increasing price a bit more to offset the volume weakness?

Kunal Kapoor: I'll take that.

Joe Mansueto: Sure.

Kunal Kapoor: So, the way I think about it is, ultimately, we want Direct to be the home for all our capabilities, whether you're an advisor or whether you're an institutional investor. So, in the past year, year-and-a-half as we started to invest more heavily into bringing advisor capabilities into Direct, we're starting to see more and more of our Direct sales actual go to financial advisors. So, some of those advisors would have been candidates to purchase Office, but we are instead seeing them now purchase Direct.

As it pertains to Office itself, what we're trying to do is essentially come up with a plan through which we upgrade Office by adding some new capabilities such as aggregation, but then kind of create a path through which Office moves to the cloud and essentially then moves into Direct as well. So, our goal is ultimately to have that path for Office. So, in terms of where we're focused with Office, it's really to kind of upgrade the capabilities, move them to the cloud and then slowly converge them with what we have with Direct.

In the meantime, the other thing that I would point to again is the bundles that we're starting to sell to advisors and that includes Office, that includes our aggregation capabilities, includes our tRx capability for rebalancing that Joe was talking about, and then it might include some other services depending on what an advisor wants to package and they are including research and the like. So, the Office figures in and of themselves don't necessarily reflect fully what an advisor might be spending with us today.

Joe Mansueto: Other questions?

Eugene Krishnan: The Index business, can you talk a bit more – I mean, it seems very radical to be giving stuff away for free. It's like what Linux did in that business. Can you talk about what you expect to be the effect? How much further might you go beyond just the beta index market? Is this sort of more of a response to what the competitive environment is? You've got some really strong dominant ingrain players in there. Maybe just tell us more about how you're going to grow the profitable component of that business?

Joe Mansueto: Kunal, do you want to touch on that one?

Kunal Kapoor: Sure. So, I think, Eugene, your question was really around what are we trying to do in the index space and kind of how we see the path forward?

It certainly is the case that there are some entrenched competitors in the space. But when we look at it, part of it is also just simply a case of they are not adding necessarily value when it comes to benchmarking. It's a very expensive exercise. And you are right, the inspiration for this whole idea came from the notion of open source software as well where you really kind of have an ability to influence the product even if you are not necessarily sitting at the firm.

So, yeah, we see that as many of our clients have a lot of pressure on them from the fee perspective and things like that, that they in fact are wondering why they are spending as much as they are on indexes. We ourselves have actually gone through it and witnessed it first-hand because we make a lot of other indexes available through our products to clients. And it's interesting because the incumbents have continued to raise fees even as there has not been additional value added in to what they were providing. So, it's not just a question of adding a fee because you can access the index, but it's a question of, you have to pay for it here, you have to pay for it there, you have to pay for it there, you have to pay it there.

So, it's not like you can buy one license and you're done. So, certainly, it's a good business model for those who are in there. But when you, kind of, think ahead and think about where the market is going, that's not where the value is. So, we think we have an opportunity to be disruptive. And certainly, to the extent that we can use that as a platform to get our index business more visibility and get it to be better known, then it certainly helps the part of the business that we hope to use to kind of monetize our offering which is on the strategic beta side. And if you look in the marketplace, that's really where the growth is, that's also really where a lot of active managers are thinking about their future as well and thinking about bringing on strategies there. So, we think that that's the sweet spot. We think we have an edge there with our research team and what it can bring to the market, and we think we have a better solution for investors in that regard. So, that's why we're doing what we are in taking this bifurcated approach.

Eugene Krishnan: And just in terms of how far you might go with the open index idea, I mean, do you think you'll take a more direct attack on the big index players, maybe choose giving away for free, is something you can go with that?

Kunal Kapoor: So, in terms of whether we would have a direct attack, I guess, I don't really necessarily think about it in that way. But I feel like by essentially saying we will make our beta indexes available at no cost, we are challenging the business model on which they have built their businesses. So, if the question is, are we trying to be disruptive? The answer is yes.

Joe Mansueto: If you look at the correlation among these indexes and we have some academic papers that we show to prospective clients, and the correlation is super-high among all these beta categories. So there is not a lot of value by a lot of the incumbent players. So, if you're an asset manager, the big spend that you have to ask yourself, is this a good place to put my resources? We think we've got great indexes and so it's good for investors, it's good for our clients and hopefully, it will shake up things a little bit.

Okay. Are there questions? Going once. Going twice. Well, if there are no more questions, I want to thank you all for attending today and hope to see you all next year. Thank you very much.