Morningstar Annual Meeting of Shareholders 2018

Contents

Opening Comments – Joe Mansueto

Joe Mansueto, Executive Chairman, Morningstar: Hey, why don't we go ahead and get started? Good morning, everyone. It's great to see everybody. I'm Joe Mansueto, Chairman of the Board of Morningstar. That's me. And it's my pleasure to call the meeting to order.

It's great to see everybody here. We especially are thankful of you who allocate so much time to the meeting. I know many of you have travelled across the country to be with us. And we really always enjoy seeing you in person, our shareholders, analysts, getting your feedback, taking your questions and giving you an update on our business.

Like the last few years, we're also streaming this meeting live. So, if you're tuning in over the live stream, welcome to you as well.

Agenda

So, our meeting today has three parts. Fourth includes the break. First is the Business of the Annual Meeting, which will not take very long. Secondly, we've got four Management Presentations, which I think you'll really enjoy and find very informative. And I'll tell you more about those in a moment. Then we'll take a short break and come back for the Q&A session.

And this is really an important part of the meeting. As you know, this is the one opportunity you have to ask us questions live, the management team, about what's going on at the business. Beyond that, we say, if you have a question, please put it in writing and we take all those questions, we answer them every month, post the answers on our website, file an 8-K. We view you as our partners. And so, we really want to make sure that we answer your questions and keep you informed about our business. So, if you have questions, I would really encourage you to take advantage of one of those two avenues; either come to the meeting, ask questions; or send in a question, and we will get that answered.

Official Business of the Meeting

So, let's get started. 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 will bring copies to you.

There are two items of business on our agenda today. It's pretty straightforward. We need to elect our directors and ratify the appointment of KPMG as our independent auditors for this year.

Before we get started though, I'd like to introduce our directors, all of whom are in attendance. As I call your name, if you could stand and face the audience. Robin Diamonte, Cheryl Francis, Steve Kaplan, Kunal Kapoor, Gail Landis, Bill Lyons, Jack Noonan, Caroline Tsay and Hugh Zentmyer.

You know, we have a very strong and independent board and I want to thank each of you for all of your valuable counsel and guidance to Morningstar throughout the year.

Next, I'd like to introduce our executive officers. Kunal Kapoor, our Chief Executive Officer; Bevin Desmond, our Head of Talent and Culture; Jason Dubinsky, our Chief Financial Officer; Danny Dunn, our Chief Revenue Officer; Haywood Kelly, Head of Research; Pat Maloney, our General Counsel; Daniel Needham, Head of Investment Management; and Tricia Rothschild, our Chief Product Officer. Thank you, all. You are a great team, and thanks for all your hard work during the year.

Now, I'd like to take this opportunity to introduce Kurt Gabouer with KPMG, our auditors for 2018. Kurt, would you or any of your colleagues like to make a comment at this time?

Kurt Gabouer, KPMG: Joe, no prepared remarks, but we would be happy to answer any questions that you may have.

Joe Mansueto: Any questions for Kurt? Thanks, Kurt. You know, we've been public 13 years, and no one has ever asked a question of our auditors. Maybe one day, Kurt, we'll get a question for you.

Now, I'd like to get started with the official business of the meeting. Greg Malatia, a representative of Broadridge Financial Services, is the Inspector of Elections. Heidi Miller, our Corporate Secretary, will now report on the voting, the mailing of the notice of this meeting and the number of shares represented at today's meeting.

Heidi Miller, Corporate Secretary: We are holding this meeting pursuant to a notice mailed on April 06 to each shareholder of record on March 19. A certified copy of the list of shareholders of record has been available at our office 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: Thanks, Heidi. As I mentioned, the first item of business today is the Election of our Directors. We'll elect 10 directors at today's meeting. The directors elected today will hold office until the 2019 Annual Shareholder Meeting or until their successors, if any, are elected or appointed.

The nominees for director are Robin Diamonte, Cheryl Francis, Steve Kaplan, Kunal Kapoor, Gail Landis, Bill Lyons, Jack Noonan, Caroline Tsay, Hugh Zentmyer and myself, Joe Mansueto.

The second item of business is the ratification of the appointment of KPMG as our independent auditors for 2018.

The Board recommends a vote for each of these proposals.

I now declare that the polls are open. If you would like a ballot, please raise your hand and one will be brought to you. Anyone need a ballot? Please remember that if you've already sent in your proxy or voted by internet or telephone, your shares have been voted accordingly. You do not need to vote today unless you are voting for the first time or you wish to change your vote.

If anyone has a question related to any of the proposals, please raise your hand and we'd be happy to address that. There is also a Q&A session later in the meeting for other questions. But if there's any questions related to these two proposals, we're happy to take those at this time.

I don't see any hands. So, I now declare that the polls are closed. Heidi, do you want to report on the voting results?

Heidi Miller: Sure. 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 the proxy statement and to ratify the appointment of KPMG. We will file an 8-K with more detailed voting results within the next four days.

Joe Mansueto: Thank you, Heidi. So, that concludes the official business of the meeting. See, I told you, it won't take long. And now, we're going to move on to the management presentations.

As I mentioned, we have four management presentations. I think you'll enjoy these. First, Kunal Kapoor, our CEO, will start by talking about recent Company highlights, mission strategy and our five key investment areas. Then Jason Dubinsky, our Chief Financial Officer, will talk about our financial results.

And then one of the things we try and do at this meeting is rotate through different parts of our business, expose you to different members of our senior leadership team. If you were here last year, you may remember Tricia Rothschild, our Chief Product Officer, presented. This year, we have two of our senior leaders presenting.

Daniel Needham; Daniel is Head of our Investment Management business, who will be talking about his business. Daniel is a terrific investor. He comes from Sydney. You'll notice it that he is Australian by his accent. Terrific guy. I think you'll enjoy getting to know Daniel, learning about managed portfolios and the strategy for our Investment Management business.

Next, we have John Gabbert. John is the Founder and Leader of PitchBook. This is a company we purchased about a year-and-a-half ago and has been doing fabulously. John is one of the most outstanding entrepreneurs I've ever met. He has taken PitchBook from an idea in his head to an organization today that employs over 500 people based in Seattle and has certainly created the premier private company database. I think you'll enjoy listening to John and learning more about PitchBook, which has been a key driver of our results.

I mentioned, afterwards we're going to take a short break. We'll come back for the Q&A session. By the way, if you do have a question and you're watching via the live stream, you can send in a question to this address, morningstar.socialqa.com. I suppose if you're in the audience, you don't want to raise your hand, you could also send in a question that way. And so, again, we encourage and really welcome your questions. So, please take advantage of that.

So, now, I'd like to introduce Kunal Kapoor, the first of the management presentations. Kunal, as you may know, has been CEO a relatively short time, about a year-and-a-half, but he is doing a terrific job. You can see by our results. Organic growth rates have ticked up, profitability is up, we're making great progress on our key initiatives and he is off to a flying start. But you know, even though he is relatively new to the CEO role, he is a Morningstar veteran. He has worked here 21 years. He started in 1997. He has worked in most parts of our organization at one time or another, excelled in all of those roles. And therefore, he has got a very in-depth and comprehensive knowledge at Morningstar. He is an avid investor himself. He is highly engaged and just a terrific leader for the Company.

So, I'm going to call him up and I'm going to play a short video as he comes up that I think you'll enjoy.

[Video]

Morningstar Update – Kunal Kapoor

Kunal Kapoor, CEO, Morningstar: I feel such a pride whenever I see that video. It's such a nice video. Welcome everybody. I want to join Joe in welcoming you to our annual meeting. It's great to have you here and I want to thank many of you who make the trip out to Chicago. I know many of you have been doing it year-in and year-out and we really do love having you here. I also just want to start by also joining Joe in just acknowledging the great work done by our leadership team. We have a fantastic culture here at Morningstar, but it starts with all the folks who are largely scattered up here. And all the good results that you've been experiencing over the past year are in large part due to their efforts. So, thank you all for all of that. And again, welcome.

Safe Harbor Statement

Before I kick off my presentation, I want to take a second here just to put up our Safe Harbor statement. So, if you don't mind taking a moment to read it, we will then kick off the presentation.

Mission

No presentation at Morningstar begins without our mission statement. We are at our core a very mission driven company. And I hope this morning if you had a chance to stop by the kiosks, you noticed that right at the center we had our Talent and Culture kiosk. We really are focused here on doing the right thing for investors.

I can remember in my 20-years-plus at Morningstar that there have been many times when people have questioned whether you can build a successful business, while continuing to do things by putting the investor first. I think we live in a time today globally pretty much in all the markets that we operate in, where there is no doubt as to what the answer to that question is. The answer simply is, you can't build a business anymore if you don't put the investor first. And so, we're so glad that we've always done this. It's at the core of what we do, and it continues to be the true north that we at Morningstar have ourselves and one that we share with many of the clients that we serve.

And as I said, it has led to spectacular growth over time. We are a mission-driven company, but we're also entrepreneurial, we believe in financial success. And so, we think that while the chapters that we've written for Morningstar thus far – actually, Morningstar turned 34 this week – have been quite wonderful that the path ahead is also going to be quite dynamic and exciting.

Achievements 2017

In fact, if I look back on the last year here at Morningstar, we've had a really busy year with a lot of wonderful achievements during the year and we will be spending some time today talking about a lot of those achievements. But if I had to call out a few things that I think are of particular interest to us and I think would be of interest to you as well, we've been expanding our efforts in ESG. You've been hearing a lot about that from us and we really see this as a big opportunity.

PitchBook launched a new platform midway through the year. And the interesting thing about that that I'd like to point out is we got very few client complaints, which is a great thing and it just shows how wonderfully the platform was transferred over. When you make such big switches, they are not easy and if anything, the NPS scores have gone up even further.

We're starting to explore, taking our retirement business and bringing it closer to the financial advisor who we serve so successfully as financial advisors get more and more involved in the retirement business. And I invite you if you haven't already to take a look at Morningstar Plan Advantage, which we are showcasing out here and which will be available for you to view during the break as well.

So, lots of good and exciting things going on at Morningstar. I fear whenever I do one of these slides that I'm going to get an email afterwards saying; hey, you didn't highlight what I was working on. So, apologies to my colleagues if I have skipped something; but hopefully, I just want to give you a flavor of all the good things that we have going on here.

Three Core Capabilities

It begins, of course, with research, technology and design. In the past couple of years, the word FinTech has particularly started to catch on. You can't go anywhere these days without hearing the word FinTech. And often, FinTechs are talking about technology and design and in some instances, research being core to what they want to do or what they are. And I'd like to point out that if that's the case then Morningstar is the original FinTech, and the way we've built our moat is very much around these capabilities.

Research Offerings

So, if you think about just the research side of the house and what we're doing. Every year we try to give you a flavor of how we're investing in this part of our business and hopefully, you notice that every year we keep adding more and more to what we are doing here.

Just to give you a quick sense of things, we're really beginning to invest, for example, in Collective Investment Trust and Separate Account databases. And you might wonder why are you doing that. Well, increasingly in the investment world, we see a future where investors and asset managers are vehicle agnostic. They want to take a strategy and deliver it through multiple channels. Morningstar is going to be in a position to allow an investor to do that type of analysis both within our software and our data because we are building out capabilities like that.

You're going to hear from John Gabbert later on about what we're doing within PitchBook, where not only are we building out our private equity database, you can see we've got more than 900,000 private equities, but we are taking our public equities data, which has been an underutilized asset at Morningstar up to this point and putting it into PitchBook.

So, lots of exciting things going on. Maybe on the previous slide you'll recall HSAs there. Morningstar is starting to work on the HSA front too as more and more Americans begin to use the HSA as a savings vehicle. So, we are starting to think about how do we help investors with that part of their financial life as well.

So, there is a lot of opportunities. We remain focused on the key segments that we want to serve, and we are excited about what our research does to widen our moat every year.

Technology Coverage

Our technology coverage is also pretty vast. Sometimes I bristle a little bit when folks think about Morningstar purely from the lens of being a mutual fund data and ratings firm. It's super-important to us, we are really good at doing that and we plan to continue to be really good at doing that. But we are increasingly doing things at a really big scale in many other parts of our business and our technology organization is a fantastic reflection of the scale that we are increasingly starting to see. And this is a theme that you're going to keep hearing through the presentations today. How do we scale Morningstar to being a business that's larger than $1 billion and beyond in the years ahead? And our technology infrastructure and the things we're doing on that front are a big part of our future.

Design

And there is design. Even the wonderful auditorium you are sitting in, it's a part of our DNA. And we take design very, very seriously at Morningstar because part of what we want to do is bring complex concepts to life in a way that investors can understand the concepts that we are trying to get across to them and in a way that makes them uniquely Morningstar. So, whether it's something that you are familiar with like the Style Box or some of the things that we are working on, say, with our risk model, you will see that there is a unique design element and David Williams and his team continue to do fantastic job for us.

One of the things that I want to highlight here with the video I'm going to show you here in two seconds is really that we are trying to take different artifacts from our design engine and slowly build different components so that regardless of where you live in a Morningstar product or solution, the look and feel of it continues to be very, very familiar.

[Video]

There it is indeed. It's such an important part of what we do and it's something that we at Morningstar really believe is the core of the value that we offer to investors.

Industry Landscape

So, of course, we have our core strengths and we operate in an industry that's forever changing. I imagine some of these themes around the industry landscape look very, very familiar to you. Across the board we see declining fees, we see the rise of best interest advice and we see digitization sweeping the financial services industry. All of these are opportunities and challenges for Morningstar and just about any organization today. Our goal, as you listen to the presentations today, is to leave you with a strong sense of how we are approaching all three.

For instance, while it's true that declining fees do hurt many of our asset management clients, it's also the case that many of them are looking to consolidate the partners they work with or they are looking to do new things on the indexing front or perhaps if you are a financial advisor looking to lower your costs, maybe you are starting to outsource portfolios or maybe you are starting to look at the private markets. So, we are finding that even in a declining fee environment there is lots of things that people are coming to Morningstar for and we continue to work at that.

In terms of best interest advice, one of the reasons Morningstar did as well as it did last year is because around the world there was a big movement to ensure that financial advisors act in the best interest of their clients. And regardless of whether regulation goes one way or the other, it's been our belief that the market is going to move in that direction. And so, many of the tools that we are building these days are essentially there to help financial advisors ensure that they can document and provide best interest advice regardless of what the headline regulations may be. That's how they are going to win.

Then there is digitization. There is more sophistication in the way advisors, for instance, and their clients want to interact with each other. There is more sophistication in the way asset managers want to use our information and we are responding most recently with the launch of Morningstar Office, which is our high-end offering for financial advisors, which has basically got all our advice capabilities including aggregation which we purchased via our ByAllAccounts acquisition a few years ago.

So, lots of good things going on on this front, but I think for us it means that there are more and more opportunities that we have a chance to take advantage of.

We like to put this information up every year as well. Just to give you a sense of the two areas that we are focusing our business on and how they are growing. I also just like to remind everybody that regardless of the growth in both decision support and outsourced investment management, we remain today a fairly small piece of the pie.

So, as you think about how we are thinking about our future and the markets that we address, one of the reasons we are optimistic is because the end markets that we address are so much larger than what Morningstar is today, and many of the competitors that we increasingly find ourselves taking share from are also larger. And so, this is an exciting development for us, and I think it portends very well for our future.

Strategy

It's also the outgrowth and the base through which we've developed our strategy. This as well should look very familiar to you. And perhaps the only difference in the last three, four years in the way we've presented this to you is that with the acquisition of PitchBook we now think of PitchBook as well as one of our key platforms for that institutional investor, and we're certainly seeing terrific growth on that side of the house.

Key Investment Areas

These are our key investment areas. I think many of you who have been Morningstar shareholders for many years have come to know them well. We've added PitchBook as a standalone investment area because it's certainly a larger and growing part of our business, and we want to draw attention to it, so you can better understand what it is we hope to achieve with PitchBook.

I'm going to go through these each relatively quickly, and then I'm happy to answer more questions in the Q&A. But both Daniel and John will spend some time, as Joe said, particularly on Managed Portfolios and PitchBook.

Morningstar Data

Our largest business at Morningstar is Morningstar Data. I showed you the earlier slide around our research capabilities. In many ways, that is what underpins the power of our data. I've often heard folks say that data can be a commodity, and my response is that, you only believe that if you don't actually understand data. Data is about quality, it's about timeliness, it's about depth, it's about breadth, and facets like that, and we think we do it as well as anybody. And the amount we invest in data year-in and year-out is key part of how we think about growing our business.

Most recently, we are particularly excited about the fact that we think our Indexes business is beginning to reach a certain scale where it can really start to continue to grow in a meaningful way. Last year, we talked to you about our Open Indexes initiative, where we basically are making our indexes, our beta indexes, available at no cost for benchmarking purposes for asset managers and we're making these indexes also available at minimal cost for the purposes of product creation. Most recently, JPMorgan Chase and Company announced that they are going to be using our indexes for the launch of some new ETFs.

On the innovation side, that's really where we see the larger financial opportunity and that's where we marry together our index creation capability with our research capability to come up with unique strategic beta indexes that we then think we can monetize through products. I think many of you are most familiar with our moat series of indexes. There is a domestic moat and an international moat. Both continue to do well, and we have made that available in more markets globally that we operate in over the past couple of years with our partner VanEck.

So, I think, the Indexes business is one you will continue to hear a lot about and Sanjay Arya and his team do a really nice job with this business.

ESG

ESG is the other piece on the data side that I would like to highlight today. I think there's a lot of debate often in the press around whether ESG is real or not. And our belief is that it's real, that it's different from socially responsible investing. But we also believe that it's going to take a little while before the financial opportunity plays out.

What we do know for certain, though, is that there's a massive wealth transfer taking place in most developed economies around the globe, and as that wealth transfer is taking place, the data shows that the folks inheriting the wealth are far more likely to care about ESG than the people that they have inherited that wealth from.

You're also seeing a massive shift in institutions, particularly in the U.S., beginning to adopt ESG at a much faster pace than what used to be the case. ESG was an European phenomenon for the most part. No longer is that case. And so, with our partner, Sustainalytics, which Morningstar owns 40% of, we have continued to push on, on this front and we are seeing really big adoption. And what we are particularly focused on is educating advisors on how to help their clients understand this and how to talk to clients about this. We see that as the biggest gating factor today is that most advisors, while well-intentioned, still don't know how to talk about ESG with their clients.

Morningstar Direct

Then comes Morningstar Direct, which is run by Dermot O'Mahony and his team and Direct is one of our favorites. Year-in and year-out, a good performer for Morningstar, and we love it because we take everything we have, and we put it in one platform and we make it available globally. So, whether you are sitting in Hong Kong or Mumbai or Dubai or Milan, Toronto or Chicago, you're looking at the same platform and you're able to get all of what we've built into it. And it's continued to grow very nicely for us. We like to talk about the fact that this is a market that will continue to expand, and we see many, many opportunities.

Most recently, we've been focused on trying to take advantage of situations, where some of our clients who wanted to consolidate the partners that they work with, as well we are trying to increasingly concentrate on the wealth management space, most recently highlighted by the fact that we've launched Direct for wealth management which, quite simply, you can think of as a platform for higher-end financial advisors, who continue to want to do a lot of the research themselves, quite different from the business that Daniel oversees and is going to talk about.

PitchBook

We have also got PitchBook now in the Morningstar family. And in case, you haven't noticed, it has been growing quite nicely, doing really, really well. Obviously, many of you had questions last year at this meeting about our plans for PitchBook. And so, we have put John on the hot seat this year and he will talk you through what's driving that growth. But it's an exciting story. And we see the runway for PitchBook to be very, very significant.

I think back to the time when John and I were meeting once, and it was a board meeting at PitchBook back when it was still private. And I remember looking at the audiences we were trying to serve at that time and we didn't even think that corporate clients were going to be a big part at that time. It was sort of there on the sheet, but not an area of focus. Today, if you think about even corporate clients, almost every company is thinking about the venture capital space and at least keeping an eye on all the firms that might be competing with them. And so, that in and of itself has opened up an entirely new group of users that we could be serving. And so, I think the opportunity for PitchBook is only just beginning to emerge.

John will get into this in a little bit more detail, but we are starting to take our fundamental equity data capability and feed it into PitchBook with the intent that over time PitchBook becomes a platform for the buyside where both private and public equities live side-by-side. And many of you attending here are already in the portfolios you oversee beginning to mix in some private equity to the extent that it's allowed. We think that that's going to continue. We are hearing from more and more high-end advisors that they are starting to dabble in private equity and want it included in portfolios. And the reality is, many, many companies that once would have come public at the size they are, think Uber, think Lyft, are now choosing to stay private a lot longer. And so, having the premier database on the private side, I believe, puts Morningstar in a very, very strong position to be able to tell that story through the PitchBook platform.

Morningstar Managed Portfolios

And then there's Morningstar Managed Portfolios. We refocus this part of our business, our Investment Management business, on financial advisors, and the results are really starting to pay off. This is a secular growth story. It's a terrific opportunity for Morningstar and we find that in most markets globally, where there is an independent financial advisor network, we have a terrific opportunity to bring Morningstar Managed Portfolios to them.

So, while this remains a business that's largely U.S.-focused, today you will see that much of the growth is also starting to come now from outside the U.S. And Daniel and his team have built an investment management capability that is global in nature, so as the opportunities emerge, we are ready to serve that opportunity and take advantage of it.

Just a quick slide highlighting that mix I was talking about, where the business so largely remains U.S.-focused. But you can see that the growth is beginning to accelerate elsewhere as well.

Workplace Solutions/Retirement

Our Workplace Solutions business is one that's, I think, near and dear to many at Morningstar, because we feel like from a mission perspective, it's exactly where we want to be. We have a real retirement crisis in the U.S. and we feel like we have a fantastic solution to offer investors. And while the term robo-advice has become quite chic these days, I'd like to point out that our robo-advisor is actually quite large relative to many of the robo-advisors that get a lot of the press. And we are very proud of the research backing and the fundamental research that drive our retirement offering here.

If you notice in our results, too, we have two other pieces that are a part of our retirement – or two of the significant pieces today that are part of our retirement offering, custom models and fiduciary services, those continue to grow as well. And I would just add that we have a CIT that is coming up on three-year record in June that we are very excited about. It's incredibly important. Many of you know to have a three-year track record when you have a CIT to kind of get past the consultant gatekeepers. And so, we are hoping that the three-year record will allow us to do that. And finally, I referenced Morningstar Plan Advantage, which is an offering that we are rolling out for advisors who want to participate in the retirement space. I think you will be hearing a lot more about that from us in the years to come as we try to build that capability out.

I think one of the underappreciated assets of our retirement business is the pipes and plumbing that this business has and the connections that it has to many of the recordkeepers and the value that that brings us in that retirement ecosystem.

Morningstar Credit Ratings

Finally, Morningstar Credit Ratings. This is a business run by Brian Grow, who reports into Haywood. Brian just took over this business earlier this year. He is doing a terrific job. I think that part I want to leave you with here most importantly is that when I stood up here last year and talked to you about this, we talked a lot about the importance of continuing to diversify this business and we have continued to do that. And you will see from the statistics that over time the shift is starting to take place where this business is not necessarily dependent to the degree it used to be on just one asset class. And in the past year, in particular, we've had a lot of success in the asset-backed securities space having some really good market share and providing some really good research there. It's really been a sign of the type of thing that we can do as we continue to grow in this business.

Talent & Culture

The final note I want to end on is that at the end of the day, Morningstar is a special place that it is because of the talent and the culture that Bevin and her team ensure persists at Morningstar. Joe built a very special place and one of the key things that I focus on is to make sure it stays that way. I spend a lot of time thinking about it. I can tell you our senior leaders spend a lot of time thinking about it, and I'm often asked the question what is the one thing that keeps you up at night. And my answer invariably is that it's about talent and ensuring that the next person who comes into Morningstar – we have almost 5,000 people now – that the next person who comes into Morningstar understands what it takes to make us special and the importance of acting in that ethical investor-first way that we hold in such high esteem.

So, all of us in the senior team are really committed to this and you will be surprised that the amount of time that we all take to participate in interviews including for those who are coming out of college, our Morningstar Development Program, all the senior team participates in those interviews. Joe used to do it too when he was running the company. And we're just trying to make sure that we're all involved to make sure that culture stays and persist in the way that we so desire, so we can continue to do as well as we have because we certainly are in an environment where people can pick where they want to go to work and having a great workplace is an important way that you can get people to come and work here.

Whenever I talk about slides like this, I'm reminded of a quote of Warren Buffett's that I very much appreciate which is that, you know, Warren says that he likes to invest in easy-to-understand businesses with good growth prospects that are run by ethical competent people. And in many ways, that’s maybe an oversimplification, but I think that's something that we really try to aspire to with the things that we try to do at Morningstar.

So, I'm going to now pass it over to my partner, Jason Dubinsky, our new CFO. This is Jason's first visit to our Annual Shareholder Meeting. Jason and I actually met for the first time last year prior to our Annual Shareholder Meeting. And we actually just met here on the eighth floor and it was the process we were going through to select our CFO. And I very quickly knew that Jason had all the skills that we were looking for and subsequent interviews with other senior members of our team confirmed that as well. But then we spent three, four months from the time when we first started talking to each other to when Jason joined Morningstar just getting to know each other and figuring out how we would work with each other, what our philosophy was. And we spent that much time on it because when we add senior folks whether it's Jason or Danny, a big part of it is about ensuring that we have the trust to work well together and we are all on the same page in terms of how we are going to drive this business forward.

So, I'm really thrilled that Jason has come onboard and he is exactly doing that exceeding our expectations in many ways. And I hope, too, that it's a sign to you that as we add talented folks to our team from the outside like Jason or Danny or John Gabbert joining management team, it's a sign to you that we are really thinking about how Morningstar can thrive even as a larger business. So, we have a lot of good people here at Morningstar who like me have built their careers here, but we want to be thoughtful of making sure that we complement that with the right skills sets of folks who can bring additional perspective as long as they are comfortable in thriving in our culture, and Jason has done just that. So, please join me in welcoming to his first shareholder meeting, Jason Dubinsky.

Financial Highlights – Jason Dubinsky

Jason Dubinsky, CFO, Morningstar: Thank you. Well, good morning, everyone. This is my first shareholder meeting and it's great to be here in front of all of you. It was actually great to meet many of you for the first time outside before the meeting and I look forward to maintaining and sustaining long relationships with our shareholders and most of you here. Kunal, thank you for the kind opening remarks. I could say that Kunal and his vision and his leadership were a big reason why I joined the company and spending time with him ahead of joining here was important for me in establishing an important decision that I was going to make in my career and I'm proud to be part of Morningstar and part of an incredible leadership team here.

I'm relatively new here both by the leadership team and by Morningstar standards, but I thought I'd share some of the reasons why I joined Morningstar aside from my remarks about Kunal and his strong leadership. We have an incredible brand here and purpose-driven mission that resonated with me and continues to resonate and is powerful in the marketplace for our clients and customers and investors. Kunal mentioned talent and culture, which is really important and differentiating here and I think very much is a competitive advantage for us vis-à-vis our competition in the marketplace and others in the market when we are searching and trying to retain talent. And then finally, I strongly believe we have a great strategy and a wealth of opportunities ahead of us to continue to drive the business forward, grow and create sustainable shareholder value, which I'll talk about in some of my presentation.

So, I'll cover a few things today. I'll go through a bit of our financial results, talk about capital allocation and close with some final thoughts on value creation.

Financial Results

Morningstar Values

So many of you who are long time shareholders at Morningstar hopefully are familiar with our core values. But for me as CFO it's fantastic that we've got Financial Success rooted in our core values here at Morningstar and something that I'm very focused on.

Financial Success

And here is how we define it and you can read this, but I'll offer kind of a little bit different perspective on it. I view financial success for us as very much a win-win. Meaning, if we can stay true to our mission and purpose, continue to innovate and deliver great products to investors in the marketplace in a responsible way, we have the opportunity to grow in a sustainable way and create shareholder value.

Foundation for Financial Success

For any company, it's critical to make sure you've got a strong foundation of financial success to set yourself up for future growth and profitability, and we've got tremendous pillars here and a very strong foundation to continue to grow from. I mentioned the first three as the reason why I joined Morningstar and our strategy and competitive position and the economic moat that we've created; our unique culture and talent that's differentiating, and our brand and mission.

But focusing a bit more on the bottom row, we've got incredible products and intellectual property here. It's the core data, research, technology, design that Kunal was mentioning. It's the pipeline that we've got and the innovations that we continue to bring to market to serve diverse constituents across the globe. We've got a diverse business across products and geography that's scalable, that provides inherent operating leverage in our ability to grow the business and generate profit. And finally, we have an incredibly strong balance sheet and create sustainable cash flow generation, which provides us with significant financial flexibility to continue to make the right capital allocation decisions for the future.

Historical Performance: Revenue vs. Operating Income Growth

So, I thought we'd focus a bit on historical operating performance and this chart shows the difference between our revenue growth on a reported basis over the past five years as well as our operating income growth. And by any measures looking at this chart, you can see that we've had some mix performance over the past few years and there are stories to each year including some of the investments that we've made in the business that were strategic to drive growth and you can see where we ended up in 2017. But I would tell you that me and Kunal and our leadership team is very focused on getting back to a pattern of a more sustainable growth over the long-term in both revenue and operating income.

Historical Performance: Operating Margin

We do get a lot of questions on our operating margin and these are the results on the chart that you saw before. And I'd tell you that I think our operating margin generally has been in a relatively tight band over the past five years. 2014 was impacted by a litigation settlement. So, if we adjust for that, we were close to about 22% operating margin. And then last year, if we strip out the impact of an impairment charge we took in the fourth quarter, as well as, the impact of PitchBook in its first year, our margins were closer to 21%. So, I do believe that over time, we do have opportunity to continue to increase our margin in a responsible way. But I would say that we are going to continue to make the right trade-offs in the short-term and the long-term to invest in the business to drive long-term growth and return.

2017 Reported Performance

So, I joined at the end of last year and by many measures 2017 was a very successful year, getting the business back on solid footing and creating strong momentum across products and geography. So, we topped over $900 million in revenue. We grew the business at over 14%. And then on the cash flow side, we were up close to 22%, close to a record year in free cash flow, showing that growth in excess of revenue as our performance improved and our cash flow generation and conversion improved as well. I'll get into operating income in a bit because there's a bit of a story there, but overall, very strong performance in 2017.

2017 Organic and Adjusted Performance

So, we look at the business in a little bit of a different way, too, to unpack some of that performance in organic revenue and adjusted operating income. So, organic revenue strips out the impact of currency as well as M&A and adjusted operating income last year stripped out the impact of PitchBook. So, organic revenue last year was about 7.6% and we saw good growth across product lines and revenue categories. And our adjusted operating income was down 1.1%. If you adjust for that impairment charge, as I mentioned before, it was up closer to 1.2% versus the negative 1.1%.

But I think for me the important takeaway from last year, we have to look at it on an annual basis,but you saw the momentum that was building in the business as we progressed throughout the year, especially in the back half of the year, where our strong sales performance in the first half translated into strong performance in our license business and we saw positive performance in our transactional revenues as well that helped generate growth and provide good momentum heading into this year, which is exactly what we've seen.

First Quarter 2018 Performance

So, for those of you that looked at our first quarter, we had very strong performance across the board. It was a very positive quarter, broad-based growth across products, across geography. 16% revenue growth, closer to 14% on an organic basis. We grew operating margins almost 600 basis points, and you see 67% operating income growth and our free cash flow momentum continued. And while it's only one quarter, we are very pleased with the performance and actually shows the potential of the business when things are all moving in the right direction and the inherent operating leverage that we can create when we can drive revenue significantly in excess of our expenses.

So, we did mention in our earnings release that were some factors in the first quarter which will impact the shape of the year, namely, the timing of advertising and marketing expenses, how we've been capitalizing software and that we were lapping from last year, as well as, certain items in salary and compensation expense. We're very pleased with the start of the year, but we're also focused on delivering a strong year in 2018.

Drivers of Growth: Key Investment Areas

So, Kunal mentioned our key investment areas at the start, where we've been heavily focused over the last three years and repositioning our capital allocation in these areas. I thought I'd unpack that a little for you and get a sense of how have these areas performed in relation to the rest of Morningstar.

So, if you look over the past few years, our key investment areas have outperformed the rest of Morningstar and you can see the basis points spread both with and without PitchBook. If you look across these three-year periods, our Direct business is growing in double-digits; Data high-single-digits; Investment Management high-single-digits and the same for our Workplace business. Our Credit Ratings area has been relatively flat over the last few years, but we've worked very hard, as Kunal said, to reposition that area, focus more on diversification and you've seen that come through in the numbers last year and we're pleased with the building of that foundation and setting up our Credit Ratings business for future growth and opportunity.

And a very similar position in 2018 with that spread in our key investment areas versus the rest of Morningstar. So, today, roughly 60% of our revenue is generated from these key investment areas. And I think you will see that our focus is paying off and we hope to continue to drive outsized returns in these areas going forward.

Drivers of Growth: Diversification

The other way we look at the business is the diversification that we have across product and geography. So, our product area is divided between licensed revenue, asset-based revenue, as well as, transactional revenue. And you can see the pie, today about three quarters of the business today is license-based. So, that's the core data, software offerings that we offer to provide significant leverage to the business and are scalable and ultimately, present a great opportunity that you see for recurring revenue in our license-based products. That was up 15.6% last year, in the 7% to 8% range excluding PitchBook.

Our asset-based areas were up 10% given the strong net flows in both Investment Management and Workplace that Kunal showed earlier and we are pleased with the growth momentum in both of those areas. And then our transactional revenue; so, for those who follow us that represents our advertising sales on Morningstar.com as well as our Credit Ratings area. And we do see fluctuation from quarter-to-quarter, so it's ultimately important to look at this on an annual basis and you see double-digit growth here. And especially, when these are moving in the right direction, as you saw in the first quarter of this year, that revenue tends to drop directly to the bottom line and profit and we're pleased with our performance in our transactional businesses in the first quarter.

Turning to geography, about 80% of our revenue today is in the Americas, which is primarily the U.S. I mean, very strong growth in the U.S. last year. And then we had single-digit growth in both Asia-Pacific and EMEA regions last year, high to mid-single-digit growth in both of those regions. There will continue to be a core focus of Morningstar in these areas, in the markets that we serve. We continue to believe we have considerable opportunity to grow outside the U.S. in areas where we can scale and generate outsized profit margin and return. And a lot of the results in EMEA and especially, APAC last year were self-inflicted, and we got out of things that were very customized, especially our Investment Management business to these regions, focusing on more scalable, profitable solutions.

Capital Allocation

Cash Flow Generation

So, I'll turn to capital allocation. We're fortunate to be in a business that generates a significant amount of cash flow that tends to be very stable and secure. So, if you look at over the last five years, you can see that pattern. 2014, again, was impacted by that litigation settlement. But 2017 was close to a record year in free cash flow. It was a record year in operating cash flow. We generated $250 million and again, that provides us with significant flexibility for capital allocation.

The one thing that I would note that we mentioned in our fourth quarter earnings release is the impact of tax reform. So, on an ongoing basis given the rate change in the U.S. being lower, we do think over time we are going to have about $10 million to $15 million positive benefit in cash flow, all things being equal, in business mix as a result of tax reform. We should start to see some of that as we progress through this year.

Capital Allocation & Deployment

So, what have we been doing with our cash? If I look at our performance over the past five years, and hopefully, you see this in the chart, I think we've got a pretty balanced approach to capital allocation. Our first priority is going to continue to be to invest in the business, organic opportunities that we have. And you can see the level of CapEx over the past three years has been relatively consistent and this is the core development activity that we have in our core products and bring innovation to market.

But second, we will continue to look at M&A and we view that as very complimentary to our organic growth profile and PitchBook is a great example of that and John will talk soon. We're very pleased with the performance so far of the PitchBook acquisition, which is exceeding our expectations. But we are going to do transactions at the right price, at the right value, when they are complimentary to the business and where we can extract a return, and we'll continue to focus there. But I think what you've also seen this year is we've divested out of a couple areas, in HelloWallet late in last year and our 15(c) board reporting business at the beginning of this year. And we'll continue to look at that, where we think things become non-core, where we think we can extract value.

Then finally, on returning cash to shareholders, last year we returned about $80 million in both dividends and share repurchase. And we're pleased at the end of last year to be able to announce an 8.7% increase to the dividend and a new $500 million share repurchase program. Returning cash to shareholders will still be an important part of our toolkit and we remain focused on that.

Then the other thing in 2017 is that you can see the purple bar up here, is we did focus some of our cash flow generation to delevering the balance sheet. So, when we acquired PitchBook, we took on about $250 million of debt and it was always intent to delever over time. And we put free cash flow towards debt repayment last year and at the beginning of this year and we're about $100 million below the peak debt level that we had at the PitchBook acquisition. And we're pleased with that as it continues to strengthen the balance sheet and provide flexibility for future opportunity.

Value Creation

ROIC: Return on Invested Capital

So, turning to value creation. Like you, we're all investors here at Morningstar and return driven and return focused. And we measure ROIC and we ask that you hold us accountable to that as well. So, over the past five years, we've been able to return – earn a return in excess of our cost of capital across some different periods of the business growth and investment. And you see all the peak in 2015 and 2016. And I think, especially in 2017, in the first year of PitchBook, when we incurred more debt, we were still able to earn a return in excess of our cost of capital. We'll continue to focus on this and measure this for you over time.

MORN Total Return

But ultimately, how is that translating into returns to shareholders in terms of share price, dividends? And here is the map of our performance against the Morningstar U.S. Total Market Return Index since the IPO. And you could see on the book ends, there is positive things to report here that since the IPO, and I know many of you here are long time shareholders of Morningstar, you know, we've outperformed our own index significantly. And then, obviously, in recent periods, 1-year, 3-year as well and the recent stock price performance has certainly helped that, but not as well in 5 and 10-year periods.

Morningstar Values

And I'll tell you that, we're focused there, but want to also focus on things that we can control, and I will come back to where I started in talking about Financial Success because I do believe that we have significant opportunity to continue to grow the business and create value. If we stay true to our brand, we stay true to our mission and ultimately the end investor that Kunal talked about. We do that in a responsible way to continue to drive innovation, to bring products to market and that in turn should provide us with opportunities to grow the business, to create cash flow, to invest back in the business to drive long-term shareholder value, and I can assure you that is what myself and the entire leadership team remain focused on.

So, I thank you for your time, and look forward to questions that you have after the presentation.

So, it's my pleasure to introduce Daniel Needham to the stage. Daniel is an incredible partner to me. He has been with Morningstar since 2009, as Joe mentioned. But he has been leading our Investment Management business since 2015 and a lot of the growth and success that you've seen over the last few years can be directly attributable to Daniel and his leadership.

So, I'd like to welcome Daniel up. You'll also notice that he has a much cooler accent than I do. So, with that look forward to Daniel and your remarks. Thanks, Dan.

Investment Management Strategy and Business Update – Daniel Needham

Daniel Needham, CIO, Morningstar Investment Management Group: Thanks, Jason. So, you can tell from my accent that it's South Side Chicago. It's a local accent. Look, just happy to be here and excited to talk about the business. So, I lead the Investment Management group. And firstly, I wanted to cover the assets under management for the business, how to think about the business, talk a bit about the strategy specifically, Managed Portfolios. How we're executing, our investment approach, and then also some of our new offerings that we're bringing to market.

Global Assets Under Management and Advisement Decomposition

So, firstly, the Assets under Advisement/Management around $200 billion and this is split into two main businesses. So, we have Workplace and Investment Management. And Brock Johnson leads Workplace, but the Investment Management team that I look after provides the investment services and research to those offerings. But I'm going to talk more about the Investment Management business, which is around $70 billion of assets under management.

So, it's really broken into three main offerings: Institutional Asset Management, Asset Allocation Services and Managed Portfolios. So, Kunal talked about the shift we've been making within the group.

Institutional Asset Management and Asset Allocation Services historically have been more customized or bespoke where a lot of the work we did was specific to the institution that we worked with, whereas Managed Portfolios has been much more built around our core investment strategies that are standardized, scalable and really reflect our best thinking.

Continued Transition from Customized Advisory to Managed Portfolios

So, when I took the group over in early 2015, I worked with Joe and the leadership team to really focus the business towards Managed Portfolio, so shifting the business towards Managed Portfolios and really away from the Customized Advisory business. Customized Advisory really was lower margin, it had higher client turnover, it was also facing some headwinds, especially in the variable annuity space and with the rising pressure on costs and the shift to passive that part of the market was under pressure. But more importantly, it didn't really represent our offerings. We couldn't control the investment outcome or the investor outcome. Whereas Managed Portfolios was higher margin, had better growth potential, there was less client retention risk, and more importantly, it reflected our best thinking where we could really influence the investor outcome.

So since 2015, we've seen good growth within the Managed Portfolios business, which Kunal covered. It's been growth in the U.S. and outside of the U.S. So since early 2015, we've had over 20% growth in assets in constant currency terms.

Focus on Advisors and Managed Portfolios

So, I'll spend a little bit of time on what Managed Portfolios are. So, they are effectively managed solutions that we provide, primarily to fee-based advisors that are seeking to outsource the investment management of their business. We offer these in core markets, so in the U.S., which is our largest market, as well as Australia, the U.K. and South Africa. So, these are areas where we see lot of opportunity, as Kunal mentioned, for more independent financial advisors. And the offering is sold through two main channels: direct to advisors with our sales team, and then direct to institutions via our portfolio specialist. Direct to advisor is primarily through banks, RIAs and broker dealers and direct to institution is through broker dealers, wirehouses and discount brokers. But all roads lead to investors through advisors for the Managed Portfolios business.

Now, as Kunal mentioned, there are some really powerful trends that are influencing the asset management and advisor space, so we have declining fees, we have the best interest standard and we also have digitization. And so, these are really driving a couple of forces in the advisor space that supports Managed Portfolios. So, we're seeing a shift from brokerage to fee-based, we're seeing outsourcing by advisors, we're also seeing the use of package products as opposed to individual securities and a shift from investment advice to financial planning. So, from CFA to CFP and these really support the Managed Portfolios business.

Drivers of Organic Growth

At the same time, it's a business that has good organic growth opportunities. And so, I wanted to just outline how we think about organic growth drivers in the business. So, we think there is really three key drivers: investor outcomes, market positioning and sales effectiveness. So, it's an asset-based business. So, growth comes from increasing assets under management, which are driven by investment returns as well as gross inflows and redemptions. Say, we want positive net inflows, and that's the real organic driver.

We think investor outcomes are by far the most important element. So, if you are an asset management business, you need to deliver investment results, you need to have trust and you need to have value for money service that includes an ease of use and quality of service. This is by far the most important for us. But we also need to make sure that we've got the offerings in the right markets, serving the right segments, really helping advisors and investors. So, we want to make sure we're focusing on positioning. At the same time, asset management businesses really have to be careful that the product side doesn't dominate the outcome side and I think at Morningstar, there is a very low risk of that happening because we care so much about the investor outcomes.

And finally, sales effectiveness, we want to make sure we've got efficient and effective deployment of our sales resources. So, these are things like having high-quality sales team, incentives as well as sensible territory structure. We're also investing in data, so more data-driven sales techniques as well as digital lead generation.

Investment Management Vision

So, overall, I think we're well-positioned. Again, it really comes down to having the right investment proposition. So, when I took the group over in 2015, one of the first things we did was put in place a vision that clearly stated that we're here to deliver good investment results, we want to be global and we also want to be aligned to our mission.

And any Investment Management business needs to have a clear investment philosophy, set of guiding principles.

Investment Principles

Alexander Hamilton said those who stand for nothing fall for anything. I would say it goes doubly well in Investment Management. And so, we put together seven guiding principles which reflect the heritage of Morningstar as well as successful principles that have been applied by investors for many decades. So, these seven principles which I won't go through, which I'm sure people will be happy about are applied across our group around the world. And whether you are managing a portfolio in Australia or the U.S. or in London, you're going to be applying these investment principles. So, we're primarily a multi-asset investment shop. We can buy an asset allocation, investment selection and portfolio construction leveraging Morningstar's proprietary data and research and packaging it up and delivering it to advisors.

Global Asset Class Teams

One of the most important capabilities that we have is asset allocation. With the trends that I talked about asset allocation is going to become an even more important part of what advisors need to support their clients. So, we have a long history of asset allocation at Morningstar including the acquisition of Ibbotson Associates in 2006, and we have a large investment team. So, we have 50 plus asset class team members around the world sitting in Chicago, London and Sydney primarily and we're organized into 12 asset class teams across equity and fixed income. So, this team covers 200 equity markets, 150 fixed income markets and 30 currency markets and we're able to produce valuation implied returns or 10-year forecast, contrarian indicators and any risks that allow us to develop convictions across all of these asset classes. That then powers our asset allocation offerings whether it's in the U.S., whether it's in Australia, whether it's in U.K. or South Africa.

Defining Goals-Based

Now, asset allocation is going to be one of the more important solutions that investors are going to need help with. So, goals-based investing is a very popular term. I'm sure everybody has heard a lot about. The good news is that it's not new. It's actually popular, but not new. I always find when I read Ben Graham's writings that actually he was ahead of time by many decades. But this is what he wrote in his last edition of The Intelligent Investor in the 1970s. The best way to measure your investing success is not by whether you're beating the market, but by whether you have put in place a financial plan and a behavioral discipline that are likely to get you where you want to go. That's a great definition of goals-based investing.

It really resonates with us not just because we're value investors, but also because it's more than just investment. It combines the financial plan as well as the behavioral discipline, and these are two areas we're investing in at Morningstar, both financial planning and behavioral science.

Taxanomy of Multi-Asset Strategies

Now, I think it's important to maybe provide a taxonomy of multi-asset because it can get a little confusing goals-based, outcome-based, objectives-based. And so, as always, we like to set the standard on defining things. So, benchmark-based in a multi-asset setting is the one that people are most familiar with. The idea is you want to outperform a benchmark in a risk-adjusted way, relative to a market cap benchmark. Normally determined by risk tolerance questionnaire, or a target-date glide path and it's a benchmark that's made up of strategic asset allocation.

Risk is actually underperforming. Then we have outcome-based, which is a newer strategy, which is more about delivering an investment outcome such as outperforming inflation, delivering a certain income yield or delivering a certain retirement drawdown. This is a newer area. The key difference between benchmark-based and outcome-based is that outcome-based will move the asset allocation around and success is not delivering an outcome as opposed to underperforming a benchmark.

And then finally goals-based, which is again what I referred to previously, it's more of a financial planning-based strategy. It includes more than just the asset allocation. It includes savings, spending, life expectancy, social security, pensions, outside assets, and it's geared towards goals, such as saving for college, retirement or maybe taking a holiday.

So, success here is failing to achieve the goals of the plan. Now you can build a goals-based strategy using benchmark-based or outcome-based, but the important thing is somebody has to be thinking about the full picture and that it's more than just the investment strategy. And so, we see this as a big opportunity for our business, and so we've been investing in outcome-based and we're also building out a lot of R&D around goals-based.

Morningstar's Outcome-Based Offerings

So, this is our outcome-based offering, which really sits across the different outcomes that we think are important for advisors to help investors and also to populate our goals-based plan. Firstly, real return, that's really beating inflation by a certain amount. We think that's going to be important for advisors.

Income, whether it's a retirement income, so drawing down a certain amount over a certain time period or multi-asset income where you want to deliver certain income yield, so that the capital maintains purchasing power over time.

And then, finally, absolute return is where investors want low market directionality, but a return that's better than cash. So, we think about that as absolute return. So, we've been building out these strategies and we think they're going to help advisors as they tackle goals-based solutions.

They are implemented using direct securities, ETFs, and mutual funds. And as Kunal point out, declining fees or costs is a real driver in the industry and so we've been working on that as well.

Morningstar Funds Trust

As I'm sure everybody here is aware, we've filed to register for mutual funds with the SEC. We're currently in the quiet period. So, there is not a lot we can actually say about it. But I can refer to things that are in the filing. And so, these are effectively mutual funds that are going to be replacing third-party mutual funds that we currently use within our Managed Portfolios, our multi-asset solutions. We're going to be using sub-advisors instead of third-party managers to implement. Really, the key driver of this is to bring cost down for end investors, to simplify the structure for ourselves and advisors as well as to gain flexibility to manage the underlying exposures in the portfolio, whether it's shifting sub-advisors or asset allocation. So, these are going to be really important for us as we build our asset allocation offerings in the future.

But to wrap up, I just wanted to say that I think we're well-positioned to take advantage of a lot of the powerful trends in the advisor space, both to grow our business, to help advisors and to deliver good investor outcomes.

And with that, I'm going to thank you for your time. And I'm going to introduce John Gabbert, who is our West Coast executive, which I think he says is Silicon Forest, not Silicon Valley. So, thank you.

PitchBook Overview – John Gabbert

John Gabbert, CEO, PitchBook: Well, Daniel, thank you very much for that and Kunal thank you very much for inviting me to the hot seat. I really, really appreciate that. So, my name is John Gabbert, I'm the Founder and CEO of PitchBook, and it really is great to be here with all of you and maybe just to kick it off and to follow-up on Kunal's comments about culture. And becoming part of the Morningstar family, that was really probably the most important thing to me is finding a home for PitchBook that fits well and I think our cultures have blended together incredibly nicely. So, thank you very much for the opportunity.

My objective really today is to provide a little bit more of an overview on what it is that we do at PitchBook. Brett Kaluza, who leads our Customer Success team always jokes and says, 'What is it that you say you do here?' So, I plan to get into that a little bit more on what it is we do.

PitchBook Story

A little bit about our story. I founded PitchBook in March of 2007 after doing research on the venture capital industry for 9-years, down in the real Silicon Valley, I guess. And really the primary need that we were looking to address was providing a better private equity deal database. My previous company focused on venture capital, people kept asking, hey what about private equity. So, I'm passionate about building data products and I really enjoy the private capital markets and building these types of teams.

So, founded PitchBook in 2007 to meet that need. It took us until Q1 of 2009 to build the back-end tools, to get the data to build the front-end of the product, so that we can secure our first customer, which was Grant Thornton in Q1 of 2009. Through that time period, we raised a little bit over $4 million and Morningstar was the last investor in that Series A financing in September of 2009. So, we've been working with Morningstar since then. And, you know, really, I think that led a lot up to the acquisition and just frankly building trust and relationships over time.

So, one thing that I also want to highlight on this journey is that every year, we're really looking to leverage our technical data gathering and go-to-market capabilities to expand our market. So, while we first started as a private equity deal database focused company, we then added Limited Partners and sort of became a fund-raising tool, we added fund performance data and became a benchmarking tool, public company data, then we added venture capital data, European data, M&A data, et cetera.

So, we're always looking to expand our market and leverage these core capabilities. And as we first started tracking M&A – launched this M&A transaction database in 2016, dovetailed in nicely with the acquisition of PitchBook by Morningstar. So, we are tracking our own transactions there. And I think we got all the details just right. And we continue to invest in the business.

I'll get into a little bit more on our products, but we look to get deeper into our customers workflow. And data business; obviously, a very large business for Morningstar. And last year, we really enhanced our capabilities to deliver data feeds as well as APIs, again getting data into our customers' workflow. And this year big push on integrating the next generation of equity fundamental data that Morningstar is gathering into PitchBook as well as Morningstar Research. So, you know, it has been a fun journey, and really look forward to what's ahead.

What PitchBook Tracks

So, the core of what we track. And this slide kind of walks through the lifecycle of private capital market. So, you know, top left, first, the Limited Partners. These are the endowments, foundations, insurance companies, pension plans, family offices that are making commitments to private capital funds. So, we track those commitments to the funds. We also track again that fund performance with the Company providing the largest database on private capital fund performance, so cash flows on a quarterly basis, et cetera. Then all of the investors from angels to corporates.

And then where we really focus is on the companies and transactions. And I think this is the sweet spot that our clients value the most and having details on valuations, cap tables, terms and conditions on transactions, multiples, et cetera. This is really our sweet spot as a company.

And then all of the service providers and professionals involved investment banks, lawyers, lenders, accountants, consultants, that's the ecosystem that we're really focused on tracking.

Rigorous Research Makes PitchBook's Data Superior

So, how is it that we get this? You know, first and foremost, we do leverage a lot of technology. I think we run nearly 600,000, 700,000 web bots and crawlers every single day bringing in an incredible amount of information into our system. Then use data science, natural language processing, machine learning to pick out the most valuable data points. But this is a market where every transaction is a little bit different. So, we've spent over 3 million man hours going through this data, curating data, cleaning it, normalizing it in order to provide a valuable product to our customer. So, we have specialized data teams, they are going through every single transaction, every single profile. So, we kind of marry the technology side with manpower, lots of quality assurance. And then we also get on the phone and we follow-up, so it's cross validating the information usually reaching out to the CEO, the CFO of the company that received the investment or the investors or the advisors involved. So, it's really this cycle that we're continually running to make sure that we have the best possible data.

Accessing Data Where and When You Need It

Then that data flows into our products. Our primary product is the PitchBook Desktop Platform. All of that data, analytical tools are very customizable. This is really the core product that our customers are using to meet their needs, discovery, benchmarking et cetera which I'll get into a little bit more.

And again, we work to get into customer work flow. So, we have a great mobile application that we've won awards for. So, you can take the PitchBook with you wherever you go. It's a great reference tool. We then have an Excel plug-in, so a lot of analysts, associates at investment banks, private equity firms, venture firms, corporate development groups running valuation models. So, with click of the mouse you can update these models. And one differentiator in our plug-in as well is it not only has the public company data, which many competitors have, but it has the private company data as well. So, again, that's the key theme here is putting private company data alongside public company equity data as well.

CRM integration. So, in Salesforce if you are a business development professional or anyone using Salesforce as a workflow tool, you can have many profiles from PitchBook on any of the entities we track right there.

And then Chrome extension, so as you're browsing the web, reading an article you can click a button in our plug-in and highlight companies that we track and then again pull up a little mini-PitchBook profile for that entity.

Who PitchBook Serves

So, we serve a very diverse customer base. And nearly 3,000 firms, which I'll get into that in a moment as well. But again, very diverse customer base. Certainly, venture firms, private equity, investment banks but a lot of corporate development groups, as Kunal mentioned. The market for corporates is quite large for us. And that's just whether they are trying to understand what's going on within a market, emerging technologies, identifying acquisition targets or investment targets, benchmarking competition et cetera. So, we serve again those investor types, investment banks, limited partners, so a very diverse customer base.

PitchBook's Client and User Growth

As far as user growth. Yeah, we are a business very focused on maximizing our potential and serving absolutely as many people as possible. So, we certainly show up every single day that drive growth, it's almost 3,000 firms that we're serving today and over 15,000 individual users. You can see the growth rate over the past year or so and again something that we're very focused on as the business is driving growth.

From PitchBook Customers

From our customers, our first core value is Customers are King. I think that fits very nicely with Morningstar's mission of serving investors. And I believe that we service the heck out of our customers. Our NPS is currently 58. So, this is a simple question to users, which is how likely are you to recommend PitchBook to or refer PitchBook to a friend or colleague. And not to get into exactly how the tally is done, but you have to get a 9 or 10 in order to get a positive one in this. So, a 58 score truly is fantastic, something we're very proud of. We also some other surveys and questions that we asked to our customers is about their return on investment in a PitchBook subscription and 91% of our clients saying that they get a positive return within the first year of their investment. 71% of customers say that we have significantly better private company data. 74% say significantly better private company data in comparison to one of our larger competitors. And 58% say that we have significantly better fund performance and management data relative to others as well. So, very proud of that.

PitchBook Positive Feedback

A little bit more qualitatively from some of our customers. Again, this is why we show up every single day to serve them. So, we're proud of these – phenomenal information service, outstanding application, awesome platform, customer service, super-responsive – exactly what I'm looking for et cetera. So, again, very proud of this and why we show up.

PitchBook's Innovation & Initiatives

PitchBook Product Vision and Themes

As far as key initiatives that we're working on. Again, this is really the theme of focusing on our core, having the best private capital data possible and marrying that with public data sets. So, again, in our expanded relationship with Morningstar, integrating that next generation of equity fundamental data as well as the research.

When it comes to the private side one key thing and actually I was having a conversation earlier this morning about this how we're looking to better compete, especially on this first box on top-- this search & discovery-- is how do we enable our customers to more easily surface emerging trends. If you're trying to understand what's going on with blockchain, who are all the companies, who are the investors, who is involved, how much capital have they raised, what specifically are they doing. We're really looking to surface those types of emerging trends for our customers. Again, deeper into the workflow whether that would be Excel plug-in, APIs data feeds, salesforce, and then speed and scale. As we have over 15,000 users, we want to make sure that we're scaled so that we can support many, many times that.

On the public data side again, the valuation & modeling. This is something that there is always a challenge in changing user behavior and something like these Excel models are very sticky for analysts and associates that already have them built. So, we're offering services to recreate those models for them and then again building out the library of available models that are already pre-built.

As Kunal mentioned for the Buy-side integrating Morningstar equity research and analyst notes into the PitchBook platform has been one of the biggest requests that we've had over the past couple of years. And then, again real time & scale making sure that we can accommodate real time publishing of new reports or real time data.

And with that I'd like to share a little video related to this public and private intersection.

[Video]

John Gabbert: We are incredibly well-positioned to be the next great financial data provider.

Adley Bowden, VP, Market Development & Analysis, PitchBook: I think PitchBook is at one of those inflection points that I've seen a few times in that it really is a sense that we're going to see a big product shift.

Paul Santarelli, VP of Sales, PitchBook: The reality is the public equity market is not growing, right? There is a huge downturn in IPOs, the number of public companies is shrinking out there.

John Gabbert: A lot of the growth for public companies is coming from the acquisition of private companies. There is a lot of cash on balance sheets. They have tremendous buying power today. And they're also getting access to new technologies, research and development by acquiring early stage companies as well.

Kunal Kapoor: From the Morningstar and PitchBook angle what matters is that investors want to understand the life cycle of a company. So, the company that's private or public or you're trying to track a company that is kind of going through that cycle. Today it's like a real mix and you need to do those comparisons and you need to do them globally.

Paul Santarelli: The private capital market is a multi-trillion-dollar market, but it pales in comparison to how large the public equity market is.

Adley Bowden: We have a small little corner of it right now and I think there is a potential to take a lot more of that as we put this whole thing together.

Kunal Kapoor: So, if you think about the fantastic kind of value proposition we could bring to the market in the future is we have this amazing dataset that covers both private and public equities and then you think about putting research on it, analytics on it, that's really hard to imagine anyone being able to do it quite as successfully and impactfully as we could.

John Gabbert: And I think the rate of change and growth that we experience today will create more opportunities than we’ve ever had in the past.

[/End Video]

So, with that, thank you very much for having me here today and I'd like to welcome Kunal back to the stage. Back to the hot seat.

Closing Thoughts – Kunal Kapoor

Kunal Kapoor: All right. Hopefully, you enjoyed the presentations. I think we all knew PitchBook had arrived when it had a moment on the HBO Show Silicon Valley. What was that 18 months ago or so, John? Right after the acquisition. So, had its moment in the zeitgeist.

But again, we're going to take a short break. Now it is about 10:25. So, we'll take a 15-minute break come back in here at 10:40. If you're watching the stream please feel free to send in a question on the platform, otherwise we'll set up here in the room for the Q&A and I will also be joined by Tricia Rothschild, our Chief Product Officer, on the stage. So, look forward to answering your questions in 10, 15 mins.

Question-And-Answer

Kunal Kapoor: Thank you, and welcome back, everybody. We're going to kick off the Q&A portion of the meeting. We have actually already got a number of questions that are coming in over the web, but we're going to start in the room itself. So, I think, there is a mic in the back. If you just want to raise your hand, we will send the mic over to you. Just please identify yourself, the firm you are with and then feel free to ask any question of any of us on the stage and other members of the management team and board will jump in as appropriate if needed.

Terry Brady: Yeah. I will open this one up. I'm Terry Brady. I'm a shareholder from Yorkville. First time I have been here. A new investor in the company. Somewhat impressed so far. I notice this company is one of the ones that separated the Chairman of the Board and the Chief Executive Officer. But you threw in something to, kind of, muddy the water there, Executive Chairman. Just what does that mean? I don't recognize that title at all. And how does that relate to the CEO? I mean, have you really separated them or have you just sort of did it with – in name only? Or just, what's the relationship between Executive Chairman and Chief Executive Officer?

Kunal Kapoor: So, the question is, what's the relationship between the Executive Chairman and Chief Executive Officer and the working relationship? The way I think about it is that Joe and I have a very close relationship and partnership in running the business. And so, I think, it's fair to say that Joe is probably more involved in working with us on strategy, capital allocation and things like that than probably you would have in another situation. So, we do operate pretty separately on a day-to-day basis, I would say. On a day-to-day basis, I'm running the business for sure. But in terms of all long-term decisions, Joe plays a key role and I think that's how I think about the Executive Chairman role being different from a more passive Chairman of the Board.

Scott Brayman, Champlain Investment Partners: Hi. Good morning. Scott Brayman, Champlain Investment Partners. Can one of you describe any tools or benchmarking practices that you use to measure the productivity of your software design and production teams and also maybe talk about how that productivity has been trending?

Kunal Kapoor: Absolutely. So, I think, this is a good question for both Tricia and John to answer since they oversee the two software platforms.

Tricia Rothschild, Chief Product Officer, Morningstar: Sure. It's a great question and something that we spend a lot of time making sure that we are measuring – the question is, how we measure the productivity of our software development teams. So, we deploy an agile software development process, which enables us to look at the output of all of the squads. We have a process known as an Agile Health Check, where we look at the commitments that those squads have made, the velocity of their throughput and then the outcomes that they deliver.

And in terms of the trend, actually, we've been evolving toward the Agile development process from a more traditional Waterfall process over the past three years. And we have been spinning up these squads and have seen improvements in the output which ultimately the real test of that is in the investor experience, our net promoter scores, our financial results and the retention rates. So, I do feel like you can see the trends in the improvements in terms of the throughput from the data which is really, kind of, where everything starts here at Morningstar on the software side into the product development process running through this Agile process and the squads and then delivering it out through the market and our marketing and sales teams.

John Gabbert: Yeah, I think, many similar ways that we do it at PitchBook. Certainly, we look to make sure that our spending on R&D is in line with overall budgets and financial plans. And as Daniel went through on the investment side as far as how to measure success, I also think we measure it on a goals basis. Are we providing our customers with what they need and measuring it through active users? And once we release certain piece of functionality is it being adopted? So, I think, certainly, on the front end, managing resources and also, measuring success of that once it rolls out.

Brad Moldin: Brad Moldin from Fidelity Investments. You guys have done a lot of acquisitions since becoming a public company. Could you just spend a few minutes on the vetting process for looking at deals, how you are sourcing them and the hurdle rates for the deals and like, what the time horizon is to achieve those hurdle rates?

Kunal Kapoor: Yeah. So, Brad's question is just on our acquisition strategy and how we think about that. And I think you were referencing that we've done a number of deals since we came public. Brad, one thing I would sort of point to is, you can probably segment the acquisition strategy a little bit. We probably did a far greater number of deals in the first few years after coming public than we have of late. But I think one thing we said consistently and that we believe in is that we think that the organic opportunities at Morningstar are far superior to many of the acquisition opportunities that come our way.

So, when we think about investing in the business, organic opportunities are generally the top of the list. And I will say that over time as we've made acquisitions, I think, we have learned from them. If you were to ask me, you know, among our acquisitions which ones do you think have been the most successful, I would actually point to some of our larger acquisitions as actually having been the most successful. More recently, PitchBook obviously is one we are talking about. But I think about the acquisition of the S&P Fund Data business, which really gave us a footprint outside the United States. Or I think about the acquisition of Ibbotson, which really, I think, gave us scale on the Investment Management side. So, I think, those have been very, very successful on a number of measures.

I think the smaller ones sometimes are harder to do, because they do tend to kind of be hard to focus on and they do tend to get a little bit lost. And so, I think, overall, when we think of acquisitions now, we really view it from the capability of what are we missing that we can't build ourselves or that we have an issue in terms of how long it might take for us to get to market. And the reality is that acquisitions never come at you necessarily on the lifecycle that you want them to, they kind of show up sometimes at random times. But we tend to be prepared.

Mike Holt, who runs our strategy team, has a list of companies that we keep tabs on, that we're interested in. And again, we are price-sensitive obviously and we do not want to pay something that we don't think we're going to be able to earn a good return on. And I will say that in the current environment, in particular, when we see the valuations that a lot of companies are going at and their product and revenue, it's not nearly as exciting to us as doing things such as buying back our own stock. So, I'd say that we are generally skeptical of acquisitions and it's a very high bar for making them.

Arthur Baptist: Hi. Arthur Baptist with Golden Gate Capital. I just had a couple. My first is just on the – when you look across the software portfolio, if you could maybe talk about – I know you've had some recent announcements about new products and introducing them in the cloud. I am just curious kind of long-term what's the strategy of moving your portfolio into the cloud, where are you today in terms of how many products do you have that are ready to go. And is there an appetite with your customers to move in that direction?

Tricia Rothschild: Sure. Happy to take that. So, really, our story here is about portfolio simplification and ensuring that our products are relevant for the use-cases that we see from our core customer bases, which as you know, are primarily asset managers and wealth management firms and independent advisors for that part of the business and then the private equity and venture capital user group from John's part of the business.

In terms of our movement to the cloud, there is a technology strategy as well as a client-facing strategy. So, we are migrating off of our on-prem service into Amazon Web Services. That's going very well, and we can talk in more detail about that if you'd like.

In terms of the client-facing product experience, which I think is more the core of your question, we have our independent advisor platform now fully in the cloud. So, that is same brand, Morningstar Office, and we have probably about a quarter to a third of our advisors accessing the cloud. We still are running the other product. So, our strategy here is to entice them to move as opposed to force them to migrate and we are investing in terms of our research and data capabilities in the cloud version so that there is an incentive. We have seen really great response because the connectivity of the data and research in the cloud version is – it performs far better for the advisors and it allows them to get their jobs done more efficiently and take broader advantage of the types of investments that Morningstar has made over the years including our ByAllAccounts data aggregation, all-in-one product.

As far as the other user types that we serve, we have Direct for Wealth Management, which we just released; we have an Investor Pulse, a predictive tool, so that asset managers can understand asset flows better that will be released in the cloud exclusively; and we are moving toward other cloud-based transitions for the asset manager users of Morningstar Direct. So, we maintain, as I said, the desktop version, but entice the folks to move over to the cloud with the investments that we are putting there and the upgrades that we are putting into the cloud version.

Arthur Baptist: That's great. Thank you. And then maybe just, I guess, for Kunal and Jason. When you look at organic growth – and 2017 was a meaningful improvement in the organic growth rate and then even Q1 this year has been another step-up into kind of this double-digit level – what were kind of the big one or two reasons why organic growth kind of inflected positively to this level? And then as we look out two, three, four years, kind of, is there a rate we should expect, kind of a target, how are you setting investments, I guess, what kind of organic growth are you driving the business towards?

Jason Dubinsky: So, the question was if you looked at last year and the momentum in organic growth, what were some of the drivers of that. And then if we look out into the future, are there expectations of what levels that should be.

So, maybe I'll start with the last and then go back to the first. We don't give any formal guidance, but I'll come back to the remarks that I made in my prepared remarks in the presentation. We're very focused on getting what I'd call back to more sustainable levers of long-term growth and making sure that revenue is growing at a healthy pace and we are maybe able to manage the right spread beating revenue and expense growth to generate strong performance and operating income and margin. I'd focus on that. And that's the focus and intent.

We are investing in the business to drive growth and I think you could see the outsized growth in our key investment areas. So, we do believe there is significant opportunity ahead in all of our areas to continue to provide pretty positive growth, but it takes work, it takes attention, it takes execution. We're focused on doing that. But there is not a target rate we can disclose, but I assure you everyone up here is focused on maintaining that momentum into the sustainable future.

Kunal Kapoor: I would just add that if you think back to the shareholder meeting last year, we talked about this topic as well. And the one thing I would say is that last year we talked a lot about the investments we were making and how we hoped that they would pay off or that we intended to drive those types of results. And so, in my mind, one of the differences between last year and this year is, potentially we're at a point where we are seeing the investments that we made pay off, whereas last year we were still sort of at a point where we were making some of those investments and I think that was part of the difference.

So, it is true that I think probably relative to other organizations there is a willingness to, I think, look at long-term growth that is superior even if it is a little lumpier as long as the end outcome is better than just sort of taking a straight line because it is a straight line. I think we want to have more at the end. And that's always our goal. And so, we invest with that in mind and we will take advantage of things. In fact, I think one of the things we have tried to do every year is even though we have a budget and we set things, if stuff pops up that we think we want to get after, we will try to do it. And Morningstar Plan Advantage is a perfect example of that.

When the fiduciary rule first started to come about or there were discussions around it, we didn't have a product or budget or anything like that stacked against it. We saw the opportunity and we immediately moved resources to, kind of, go, get after it. And we will do that from time to time because we see the opportunity. But we're certainly in the place where I think many of the investments we've made are starting to really pay off and we are starting to, I think, see the benefits of that.

Jason Dubinsky: And then I'll just close too – and I'll give a lot of credit to Danny Dunn and our sales team as well. It's one thing to be able to create and bring great innovations to market and it's other thing to make sure we've got the systematic approach and structure and a global team that's able to go and sell those and deliver those to clients. So, that renewed focus certainly has helped us and create great momentum in the business. And credit to our global sales team.

Eugene Krishnan: Hi. Eugene from Lazard Asset Management. Actually, I have two questions. First question for Daniel – okay, it's actually three questions. Maybe you could talk about the decoupling between AUM growth and revenue growth, and I think you guys partially talked about it in terms of some of the international custom model stuff that was going away, but how long should we see that. And clearly, you focus the strategy on Managed Portfolios. Should we basically assume that the rest of the revenue – I don't want to say it to be dramatic – it goes away over time, but it's just basically going to be in decline? Or is there some strategy for that part of the business?

I guess the second question would be for Kunal on credit ratings. You showed that great slide in terms of how asset-backed has become a bigger part of the mix. You have more balance there. And you guys have clearly made a large investment in that business in terms of growing the headcount over the last few years. Maybe you could talk about what's needed in terms of further investment from here. What are you doing to continue to grow asset-backed and the corporate securities part of the business strategy there? Thank you.

Kunal Kapoor: Daniel, why don't you go first? Just repeat the question.

Daniel Needham: Yes. So, the question was related to the transition we've been making in the Investment Management business, so towards Managed Portfolios and away from the more customized advisory; how should we think about that transition and asset growth to revenue going forward? And then – what was the second question, sorry?

Kunal Kapoor: Will that revenue go away or how you see…?

Daniel Needham: Oh, how are we going to see the rundown? Sorry. Yes. I was too busy thinking about the answer to the first question. So, as I showed, we've been on a transition for the last three years away from the customized advisory. I think we've made a lot of that movement now. I think a lot of that is behind us but it's going to continue into the future.

Our goal is to have the Managed Portfolios grow at a much higher rate. So, the share will fall as the Managed Portfolios growth is much higher and I think run-off of that business could take some time. So, these are clients of ours. We continue to provide services where we have good relationships, but their businesses are in a different place than when we set the relationship up. So, the way to think about the customized deals is that you start them early; you have, say, a five-year ramp-up period. And the biggest risk of client losses in that 5 to 10-year period when the assets are at their largest. And so, you're not only competing with other organizations, you are also competing with internal teams. So, it becomes a real challenging business. So, once you stop growing that business, it just slowly declines because you've got to continually replenish the larger accounts that you lose. So, it's going to be lumpy but it's going to run down.

Within the Managed Portfolios business, we feel confident that we've got the business positioned well. And specifically, for the direct to advisor part of the business, that's where we're investing a lot, and we think that's a really attractive potential growth engine for us in the future.

Kunal Kapoor: Before I answer the second part of your question, Eugene, I would just add that I think part of the way you can think about this too is just wherever we can across our business we want to try to control our destiny and the outcome that we deliver to the investor. If you look back on our history, I think we've been most successful, both in terms of impacting the investor and impacting the financial outcome when we have that type of impact and control. So, much of the shift in Daniel's business is going to give us that ability and we like the Managed Portfolios business for that reason. We're delivering solutions that we have high conviction in, where we can kind of control how they are sold, what the messaging is. One other things that Daniel and his team are going to work on is really essentially a program for advisors where we certify them in our way of thinking about investing and thinking about interact with clients. We really want to have folks who are true long-term partners in that sense whether they are advisors or investors or what have you. So, I would just add that.

The second part of your question was really around our Credit Ratings business and how we think about investing in that business. You are right, we, certainly, over the past few years have made investments to grow the size of the team in the credit ratings space. I believe we're now at a place where we are largely essentially reinvesting back into the business as opposed to adding a whole lot of new capital into the business to fund its future growth. So, it's not to say that more opportunities will not pop up, but we feel like we've reached a point where we have that ability to do things.

So, one thing we are doing with that business is expanding some of the support operations in Mumbai that underpin that business. So, we've been investing somewhat there because it's really proven to be quite successful. So, that's one part that perhaps we've done some things and clearly, as you pointed out, with ABS we did as well make some investments just because the demand was so high and the market share that we captured was greater than we thought would be right out of the gate. So, we've made some tactical investments. But otherwise, we're essentially now trying to get into a place where it's self-sustaining.

I guess it's the third question.

Eugene Krishnan: Sorry. I'll just follow on with Daniel. So, I guess, the third question I was trying to ask is basically – and I may have read this a bit wrong, but in the proxy, it looked like your annual comp was tied specifically to the Managed Portfolio revenue and EBITDA growth. But if I think about the overall Investment Management business, there are a couple of other components there that you guys have talked to and those looked like they could be in decline. And I guess, I worry that when I look at that overall business that – you guys do a great job of showing the key products and how we've got 8% growth, but the reality is the Investment Management business with those other pieces in decline, the overall growth is going to be less. So, maybe you could talk about how you feel like you are incentivized and what the overall strategy is for the other components of that business?

Daniel Needham: Sure. So, the question is, with the focus on Managed Portfolios and sort of the incentives of leadership of the Investment Management group, how we are tied to the aggregate revenues. So, firstly, I think that it's important to note that the portion of my compensation that's tied to the financial results of Investment Management include both Managed Portfolios and the non-Managed Portfolios part of the business. So, we have aggregate revenue targets for the business including those as well as operating income targets. So, when we're thinking about the business, we're thinking about all of the clients in the business. So, there is an incentive for me to make sure we don't lose those clients and that actually they grow. And so, that's something that we're focused on.

So, we spend a lot of time as we shifted the business in 2015 was for the clients that were, say, more customized was to build a more scalable delivery for those bespoke clients. And so, we spent a lot of time on that. We're still very focused on supporting those clients. So, we have sales folks and account management folks who are incentivized to keep those clients. And so, you have to use different economic incentives for businesses that have different levels of maturity, and I think we've reflected that in the KPIs for the teams that look after that.

I think, overall, we're focused on the outcomes for all of our clients. So, it's not just the Managed Portfolio users, it's also all those clients. I think as you deemphasize growth, there is just a natural deceleration in those businesses, because you have to constantly replenish the client line-up as organizations move away. But a lot of these organizations we're providing custom-services to also take other services from Morningstar. So, it's not as if we're just providing that. So, we have a holistic relationship and account managers. So, I don't want to seem that we're just kind of forgetting those. I think it's a good question and we definitely focus on that, but we're realistic about the future growth.

Kunal Kapoor: It's also just worth pointing out that as it pertains to Daniel's incentives, a significant portion of his incentives are also tied to the performance of the portfolios that his team oversees. So, we want to make sure that he's also aligned to the long-term risk-adjusted performance that his team is delivering.

Barb, do we want to do a few questions that are coming in as well?

Barbara Noverini, Director of Investor Relations, Morningstar: This one is for John and then also the Morningstar executives. Could you discuss how you view the potential total addressable market for PitchBook?

John Gabbert: Certainly, I mean, I think in general, I believe that we have a lot of runway. We are serving nearly 3,000 firms today, but I think there are many tens of thousands of potential firms for us to serve. Then even within firms, certainly, we serve many of the large investment banks as an example. There is a lot of potential seat growth there as well. So, I don't worry as much about there being available market as just executing to make sure that we go after it. So, I believe there is plenty of market.

Kunal Kapoor: Yeah. I mean, among the many things I admire about John is that he's a very focused individual and we've had many discussions about how we should think about PitchBook from a geographic diversification perspective. And the reality is that today PitchBook could be in many more markets than it is.

And we have purposely chosen not to be there, because we think in the core markets that we're executing in today, the opportunity itself remains so big.

So, for instance, you know, Brad, you had the question around acquisitions or things like that. We get a lot of calls about "Why are you guys not in Asia? There's all these databases popping up in Asia." We could be there. We could be looking at that, but you get the trade-off of where we have this huge opportunity in the U.S. and in the EMEA area and we want to execute on those first and foremost. So, I too am not worried about the size of the opportunity. I think PitchBook could be many multiples larger than what it is today. And it fundamentally comes down to our ability to execute against the opportunity and obviously for the health of the underlying market over the long haul to be sustained as well.

Will Slocum, Golden Gate Capital: All right. I think as investors as we think about the significant market potential – and we just talked about with PitchBook, very significant. And we talked about Managed Portfolios for advisors and then also retirement managers within Workplace Solutions. It would be great if you could start providing addressable market sizes. I know you provided for the whole thing, but address, like, your penetration with the advisors is here, but Managed Portfolios is just tiny sliver, or PitchBook could be addressable market or credit ratings could be – it could really help us start sizing things, because I think there is a tremendous opportunity within retirement manager just to take on that management. There is a tremendous opportunity if you look at your installed base of financial advisors to take on Managed Portfolios. I mean, I think it's just a sliver of assets that you manage and what that could be over time. That could really help us kind of understand not just is this a 3% grower or an 8% grower, but in 5 years or 10 years this could be twice the size, right, or three times the size. And you did that a few years ago with $100 million for each one of these targets, but not today, but over time if you can start providing that through 8-Ks and disclosures, I think it would be really helpful and powerful way to tell the story.

Jason Dubinsky: It's a good feedback. So, we certainly have points of view in each of these areas that we operate across products and we'll take that in consideration and what information transparency we might be able to provide on a go-forward basis. But thanks for the point.

Peter Wahlstrom: Good morning. Pete Wahlstrom from Front Barnett. So, Jason, welcome to the stage.

Jason Dubinsky: Thank you.

Peter Wahlstrom: There is a lot of focus on revenue growth, whether organic or via acquisition and for a good reason. Maybe could you take a step back, and as I think about Morningstar, it's a business that has very fixed cost areas. The incremental margins are very nice in a lot of different areas. Could you talk about some of the underlying changes that you are implementing in Morningstar's core cost structure that maybe are being masked right now as you are seeing a lot of revenue growth and a lot of that incremental margin is dropping to the bottom line. Some of the things that you see maybe as an opportunity to trim.

Jason Dubinsky: It's a good question. So, the question was around opportunities with the cost base as revenue grows. So, I think, I am going to reframe that a little bit, and Kunal might have mentioned it at the beginning in his remarks. But to some extent as we approach a $1 billion business, growing up in many different ways, the important thing that we can do is make sure the business is set up for scale in the future, and I talked a little bit about that. Single out the focus and the attention across our products and geographies and our core infrastructure is how do we make sure that we're allocating resources in the right way. We just talked about our core IT infrastructure. How do we aggregate that in the right way for the future to set our products up for success, and our whole IT infrastructure to success so we conserve the good pipes to our products in an efficient manner.

I think about our process and governance around things that we do and decision-making to make sure that we are set up with the right decisions to drive returns for a long-term success. So, I view a lot of what I am doing, and we are doing as a leadership team to kind of evolve process and structure, to allow ourselves to scale in the right way, especially given the fact that we got various lines of business and products across geography, and I think that is the primary focus. And I think you've seen us do some of that in terms of what Daniel is doing in some of his businesses, exiting certain businesses and prioritization against the opportunities that are really going to drive growth where we can scale is where I am focused and where the leadership team is focused.

Tricia Rothschild: If you don't mind, I just wanted to add, Pete, an example of the where this kind of growth at scale comes to light is, we have an initiative that's pretty much companywide around Robotic Process Automation and how do we deploy more efficient techniques to data collection, data processing. If we are transferring clients from a desktop to a cloud version and we are trying to move objects, are there ways that we could program the bots to do that repeated task as opposed to having an entry-level person doing that systematically and very tedious and not adding us much value. So, that type of thinking in all of the leadership team and our managers are expected to think about growth but really growth at scale.

Kunal Kapoor: Yeah, I was actually just going to talk about RPA which is a big deal here within Morningstar. Bevin Desmond often pushes me to think about transformation of our business and every time I come with an idea Bevin is like, well, let's move it up here. And we've been talking about this notion of data automation within Morningstar and how we can be on this path where essentially all the data we are collecting is more or less always automated in the way that we are getting it in.

So, you would think naturally that the first step then is, if we can do that then that lowers your cost base. And at some level, yes, it does. But I think the other thing that we think about, Pete, is what can we now start gathering that we were not gathering and what can we put people on that they could not do before. And so, there is both the potential to reduce costs but also to just actually go get more harder-to-find data sets that we were previously maybe not touching.

I will also just say that when it comes to just thinking about our cost base, we're also always thinking actively around where our people are and whether we have the right amount of scale in the different locations that we need to. In the past year, we have made a concerted effort, for instance, to start scaling our operation in Madrid and part of what we are trying to do there is pull together more of what happens across Europe in one location. And we're finding that Madrid is not only full of the talent that we need but also from a cost perspective it's quite favorable.

So, I just want to point out that there's many dimensions to how we think about costs and where our people are, is a pretty big and important part of that. And even John and the part of the business that he oversees, we are looking at where we have contractors where does that make sense, or can he now leverage Morningstar's India footprint to do some of the data gathering that PitchBook has done historically. So, these are all things that we are looking at. But I will say our primary goal right now is to automate and do more. Because there's a lot of things that we wanted to do. Every org has a huge list obviously and we haven't been able to get through our list, and I think RPA is one example of something that's going to enable our ability to get further down our list.

Will Slocum: Just wanted to get to your license growth outside of John's business, which is Direct, Office and Workstation. We track those trends. Office and Workstation have been pretty flat. I think I understand why but not totally sure. Office, does that pick up and then what's – I guess, could you just talk about the growth of Direct and Office and why Direct is growing so fast and revenue is even growing faster than your license growth? I assume that's mix and price and other things. But those three lines would be really helpful.

Kunal Kapoor: Absolutely. Do want to start and I'll fill it in.

Tricia Rothschild: Yeah, sure. So, the question is related to the growth and perhaps revenue versus user growth across the three primary software platforms and the license business space, which are, Direct, Office and Advisor Workstation.

So, to answer the last part of your question first, Morningstar Direct has a large seat component – and so, we have over 14,000 users – but there is also revenue that comes from reporting solutions where it's really more of an enterprise-wide or a distribution-based piece of the revenues. And there's also been some price increase success that we've seen. As we have added more value to the platform, we've been able to hold up really well in terms of the price increases. So, it's a combination of unit growth there as well as the other services that are embedded in that.

And when we think about then the connection to the other software platforms that you mentioned, as I said few minutes ago, we're really looking to simplify the product portfolio. So, instead of having what we had built originally, which made sense at the time, which are really three distinct stacks of technology to serve these very three distinct use cases we've replatformed on a common core framework, which is the core and we call that the Direct Core, and then we can target the same user groups that we served through a more efficient delivery mechanism.

So, you will see Office, as an example, some of the core RIA users who want a complete performance reporting portfolio accounting service, will use Morningstar Office. If somebody else in their practice wants kind of harder core heavier duty research solution, they would use Morningstar Direct. There is a link between Morningstar Direct and Morningstar Office in terms of how the data can flow. So, we can serve both use cases within the same wealth management or advisory firm, for example. And then the additional use case there would be the asset manager use case.

And Advisor Workstation today is still – it remains as a separate product. Primarily the use case there is proposal generation for an advisor to give to a client and we are delivering over 165,000 investment proposals per year through that service. So, we've seen especially with the increase in fee-based advice and the need for advisors to be able to look at both the fee-based and commission-based part of their business that Advisor Workstation has been a really important part of the solution and that was where a lot of the growth last year came from in terms of the Department of Labor and Best Interest Solutions that we rolled out.

And as Kunal said, regardless of what the regulatory regime is, all of these advisors are now being held to a higher standard really by their clients in terms of being able to provide transparency into how they deliver those proposals and what's going into them.

Kunal Kapoor: I think there is a really nice story there if you look at Office and the recent release in terms of how we're slowly kind of moving it to the same platform that Direct is on. So, we've talked about this vision of trying to get everybody on that same ecosystem. And I would say that under Dermot's leadership, we have really made some really good strides recently in executing that vision. So, pretty excited about the direction for Office.

Barbara Noverini: We'll take another one from the web. This question is directed to John and Daniel, and Tricia. Could you talk about the ways in which your businesses are or are not resilient during market and economic downturns?

Kunal Kapoor: I think it's easy answer for Daniel.

Daniel Needham: If the market goes down, our revenue goes down. But we're long-term investors. So, there is going to be volatility in the flows. And so, we invest for the long-term and we factor in variability in the sort of headline revenue that's going to come from markets. And so, I think there is good returns in the asset management industry and business and I think that in-built in that is the natural fluctuation in the markets.

So, as an investor, we actually like the market volatility. So, we're kind of – you see the revenue go down, but at the same time, you see opportunities open up for our investors. So, as surprising as it might sound, we actually get more excited when markets go down.

Kunal Kapoor: John and Tricia?

Tricia Rothschild: Sure, I'll just say, from the license software perspective, as an example, and Morningstar.com would be another place where you might see this. We are really a pretty big provider of trust and transparency, whether we're doing that directly with the investor or whether we're doing it through an intermediary like an advisor and the communication tools that an advisor uses from Morningstar to get the message across to the investor is relevant, particularly in down markets or volatile markets. So, I think that there is in terms of like the purpose of our service it actually holds up pretty well across different market environments.

John Gabbert: I mean, I think, it depends how long and how bad. I think that we have a product that's quite sticky. One thing, and our rule in private capital asset classes is, most fund lives are 10 years and most actually extend out further than that, which I think makes them a little bit more resilient to some cycles. So, I think that's one.

Two is that, I think, I've been doing research on private capital market since 1998, certainly, some downturns through there. I think when our customers or our potential customers are taking a look at spend on data products, I think, for our core markets, if we can ever get kind of that bake off side-by-side, if they're looking to make an investment in another one versus us, because they still need information to make decisions, I think that we usually fare quite well. So, in general, yeah, I like things when things are normal, hard, good – and it depends how long, how bad.

Kunal Kapoor: Yeah. I think, in summary, the way I think about it is, if you look at our business today versus 10 years ago, we are probably more sensitive to economic and market cycles than we were at that point. But I think if you look at our performance during the last downturn, it should give you a pretty good picture of the stickiness of our business and the resilience of the business. While it was a tough environment, we still stayed relatively profitable. And, more importantly, we actually invested pretty heavily in the business during that last downturn, so that when things turned, we were ready to take advantage of it. In fact, Daniel's business, the one he is running today, it was a small business for us at that time and we stuck with it, poured money into it, kind of replatformed somewhat and replatforming again. But I think it's a good lesson in terms of how we might think about things. And it's one of the reasons we like to have a strong balance sheet, because that's when you see interesting opportunities pop-up.

Even on the acquisition front, when money is cheap, and everyone is out there selling their firm, there is, I think, people who are going to bid what seem like unnatural numbers to us. And certainly, in a tougher cycle there is fewer buyers who have sort of the flexibility and wherewithal that we do to move quickly if someone needs us to.

Arthur Baptist: Sure. This is just a follow-up, Daniel, on your business specifically. Is there a way to think about just the kind of underlying secular growth in the asset management business? And maybe as a thought experiment, let's say the market was flat for a number of years, what's kind of the underlying just from penetration and adding new clients that you can grow kind of assets in that business?

Daniel Needham: Yeah, I mean, I can't get into specifics. But I mean, I was pretty flippant with my previous comment. I think in a flat market, we have organic growth because we expect gross inflows, less redemptions and so I think a target redemption rate for asset management business would be kind of sub-15%, that's a good level for redemption rate. And then we're always looking to get good output per sales person on the gross sort of flow side. And so, you can kind of – I mean, we're a multi-asset business and so therefore you can look at our assets and roughly work out that it's a 60/40 portfolio and you can kind of work backwards from there, where the organic growth rates are.

Kunal Kapoor: I would just add that in the Managed Portfolios business, I think there is also an opportunity to take market share from others that exist today. I think we are building a superior solution. And when I look at the size of other firms that operate in this space, I think that in and of itself is a good sign. I mean, SEI is a firm that we compete against and they are many multiples larger than we are today in the space and I think we have an offering that can compete well against theirs, for instance.

So, I think in a flat market, that's the other part that we certainly have as we continue to really get advisors excited about what we are building and get them bought into our system, getting them to think about shifting assets from other providers is a part of the strategy.

Barbara Noverini: Here is another one from the web. For everybody up on the stage, what do you think is the biggest misconception about your business?

Kunal Kapoor: I think I tried to touch that. The question is what do we think is the biggest misconception of our business. I think you know the thing that we are best known for and obviously, is the reason why we're all here today, is often also something that perhaps limits the way people think about us. And I referenced that in our speech, which is obviously, we have this wonderful asset in the mutual fund realm with our dataset, our research and our ratings. And that's an important part of our business. But our business is so much more than just that. And I think part of what we tried to do today is paint that story for you that there is a lot of other things going on around that core and we're hoping to continue to build on these things, and ensure that that great core we've built, you know, will really, I think lead to good outcomes in Investment Management, good outcomes for PitchBook, good outcomes for our data business. I think these are all things that maybe are not as well elevated in the conscience when people think about Morningstar.

John Gabbert: Could I add something, because I love to clarify misconceptions.

Kunal Kapoor: Yeah.

John Gabbert: We have an editorial team that has done an amazing job with our newsletters and reports and we have over 500,000 daily subscribers to our PitchBook newsletters. We have 15,000 subscribers to our data platform. So, a big misconception we have is that, 'oh, yeah, no that newsletter, yeah, I get everything you guys have – your emails, it's great.' It's like have you ever seen the database? So, that is one misconception that wonderful newsletter and if you don't get it, please do sign-up but we also have this data platform. So, thank you very much for the opportunity.

Eugene Krishnan: Just a question on sort of professionalization of your sales organization. Again, this is something that you guys mentioned in the proxy, both Danny and Kunal in terms of adding infrastructure. I think the words were improved cadence and forecasting. So, maybe you could give us some examples of what you guys have done and should the output, we think, of this being you have better visibility to what your growth can be in your different businesses, does it extend across the businesses or what's the output of that effort?

Kunal Kapoor: Thanks, Eugene, I told Danny to be prepared to answer a question. So, I think your time has come Danny to maybe come and share a little bit of the journey that you've been on and some other things that we're going on. So, maybe just grab the mic and pop up here on stage.

Daniel Dunn, Chief Revenue Officer, Morningstar: Yeah, that's great. Thanks for the question and good to join all of you. This is my first visit from the crowd. But I like the question. I think the way I would answer that is if you simplify sales, it's really a business process, right. And I would argue it's probably the most critical business process inside of the company. I'm biased. But if we think about it as a business process, the way I looked at Morningstar as I came onboard was foundational to running a sales organization and being able to integrate sales with product, marketing and downstream client service is very robust operations. So, the way I think about that is I've been made fun my buzzwords like cadence and things like that. But essentially it starts with a single process, single language that we use globally and a methodology globally to orchestrate and run our sales teams, right. And then we do that through a leading tech stack of Salesforce and Tableau. And the idea is essentially to drive insights into the business, into the units, into the products and the performance globally. And then what we like to do is pull that together as a team, so that marketing, sales, product all see the same information.

When we use the word cadence, what we're talking about is a repeatable way of engaging from field all the way up to leadership, it's consistent. We talk about the current quarter performance. We hold people accountable for their commitments. And we also talk about long-term performance. So, we look at what we call the out-quarter performance. How is the pipeline build going across strategic initiatives and how is it going across our transactional businesses as well. So, that all comes together with cadence.

Without it, I think you're sort of – you're flying blind, right. So, as we think about how might we reorganize and optimize sales coverage. As we think about who are our highest growth customers that matter the most as we introduce new products. You have to have that grounded in data, in rigor. And so that's ultimately what we've done, and we've got more work to do, but we feel pretty good about the progress we've made.

Kunal Kapoor: John, maybe you want to weigh in here as well. You guys have a really solid process as well that I think is worth highlighting?

John Gabbert: Yeah, I mean, I think, you know, very similar to Danny's comments. We're trying to create that repeatable process and really that system. And similarly, you know from our newsletter generating leads, I think it's a system all the way through demand generation, lead nurturing, conversion to opportunities of sales qualified leads to conversion to customers and then continuing to develop those opportunities within our existing customer base. So, I think, yeah, very similar. We're always looking to create systems that we can scale and then systems that we can constantly tweak and refine. So…

Daniel Dunn: Yeah, and it's great having John and his team as part of this too because we've got some heritage Morningstar team members with great perspectives. We have my perspectives from Big Tech and thinking about scale and we balance that with John's perspective on start-up process and scale. And when that comes together in the room, that's how I think we can really innovate together. So, yeah, it's been great. We did just that yesterday.

John Gabbert: Yeah.

Daniel Dunn: So, it was good.

Kunal Kapoor: Good, thank you, Danny. And I would just add that a key part of our success on the sales side is going to be our ability to scale our marketing engine as well. So, Rob Pinkerton and his team are focusing very heavily on that and we're spending a lot of time and effort just to make sure that digitization of our marketing efforts as well kind of catch-up to where we need them to be and we made really good progress.

Barbara Noverini: So, another question from the web. Jason noted that ROIC is a key focus, but only revenue and EBITDA are drivers of management incentive compensation. Why?

Jason Dubinsky: Yeah, so the question was that we focus on ROIC, but that revenue and EBITDA are the only components of management compensation. So, revenue and EBITDA are one component of management compensation and that's for annual bonus. So, if you look at our proxy materials, half of management's compensation is tied to revenue performance, the other half to EBITDA performance and that's managed through annual budget process and the way we set targets. But we do have a long-term compensation program and market stock units that are based on stock price performance over longer period of time. So, consider that like our long-term incentive plan. And I would say that, given our stock price should be relatively correlated to ROIC, I think that there are incentives aligned with making sure that we drive long-term performance the right returns and we benefit from improvements in our stock price performance as our shareholders do.

Kunal Kapoor: Go ahead.

Barbara Noverini: We have one last question from the web. John, what are some secular trends that can be headwinds for your business over the long-term and how can you address them?

John Gabbert: Yeah, I mean, I think you know we talked about potential downturns again, depends how bad, how long. I think as behaviors change people's use of data potentially changes. I mean, I currently view all those as opportunities for us. I think private capital markets, haven't used data as much as public markets have and I think that our markets are continuing to get more and more sophisticated regularly. So, I think it is just that overall downturn potentially, again, I think we addressed that a little bit earlier, but I don't know if there is other things in particular.

Kunal Kapoor: I would just say, I mean, certainly because of fee growth in interest in that space, that you see a lot more competition potentially entering. You're certainly seeing some larger companies trying to pay attention to that, you're seeing some start-ups getting funding in that space, which are covered by PitchBook. And so, I think, obviously, there is a little bit of that going on. But if you look at where we are today, and what PitchBook has built, it is very hard to replicate the data set that's already been built. I think people underestimate how difficult that is and even some of the start-ups that have tried to make a run at

PitchBook are increasingly sort of cleaving off and doing very different things, because they just can't close the gap on the dataset without massive amounts of investment. So, I would agree with John that I think it's more sort of macro factors that are probably the key risk for PitchBook at this stage, more so than anything else.

No more questions on the web? Any more questions in the room? Anything that we can answer for you before we adjourn the meeting? Okay, going once. One question, Scott Brayman, yes.

Scott Brayman: Can you tell us when you are going to end-of-life the desktop software product?

Kunal Kapoor: Scott's question is when are we going to end-of-life the desktop software?

Scott Brayman: All cloud.

Kunal Kapoor: And be all in the cloud.

Tricia Rothschild: That's a good question. And we are, like as I said earlier, at the moment enticing folks to go there and we are looking for efficiencies kind of in terms of how we end up getting there. So, it's a couple of years, I would say.

Kunal Kapoor: I think we are going to make a pretty concerted effort in the next 12 months to start moving people over as more of that functionality hits the cloud.

Tricia Rothschild: Yeah.

Kunal Kapoor: So, we feel like we're at a tipping point in terms of where the functionality in the cloud has gotten to a place where it's not only the new stuff, but key things that people have used on the desktop version of Direct, for instance, and they've kind of gotten it in there. So, that's been one of the biggest challenges, as people have not wanted to migrate because they're used to running their processes in the desktop version. And I think as we've closed the gap in the functionality, that's going to be a pretty big leap forward. So, I think when we're sitting here next year, you're going to have seen some pretty dramatic progress on that front, Scott. We think about that a lot actually, it's a good question, because it kind of goes to the heart of your earlier question on just efficiencies and the way we think about that as it pertains to the software business.

Great, any further questions, anything we can answer for you? All right, well, I want to thank all of you again for making the trip out to Chicago and for being our partners. We very much appreciate your being here and as always look forward to continuing our partnership. Feel free to keep sending in questions and we'll answer every one for you and we look forward to seeing you back here next year as well. So, thank you. Have a good day.