Retirement Income Portfolios

Morningstar Investment Services

- Todd Schaul, Regional Sales Director

For Financial Advisor Use Only-Not for Use With the Public. This presentation is not complete without accompanying disclosures.

©2013 Morningstar Investment Services, Inc. All rights reserved. The Morningstar name and logo are registered marks of Morningstar, Inc. All other marks are the property of the respective owners. Morningstar Investment Services, Inc. is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. The information contained in this presentation is the proprietary material of Morningstar Investment Services. Reproduction, transcription or other use, by any means, in whole or in part, without the prior written consent of Morningstar Investment Services is prohibited.

Morningstar Investment Services

Since 2001, we have created high-conviction investment portfolios...

Morningstar Investment Services was formed in response to feedback from advisors seeking an objective, independent investment approach.

...designed exclusively for fee-based, independent financial advisors

We work with more than 3,000 financial advisors across the country.

...to deliver investment choices to the clients that they serve.

Our team of investment professionals create, build, and monitor a diverse lineup of managed portfolios.

Morningstar Investment Management (MIM)

We combine the strengths of Morningstar, Inc...

- Investors first
- Independent investment research since 1984
- Global resources in 27 countries
- Trusted brand

...with over 35 years of investment experience*

- Expertise in asset allocation, manager selection, and portfolio construction

$166.1B
Total Assets*

35+ years
Serving Clients**

...to create innovative solutions for institutions, advisors, and individual investors.

- Offer leading retirement, investment management, and consulting services

The Morningstar Investment Management division is a division of Morningstar and includes Morningstar Associates, Ibbotson Associates, and Morningstar Investment Services, which are registered investment advisers and wholly owned subsidiaries of Morningstar, Inc. All investment advisory services described herein are provided by one or more of the registered investment advisor subsidiaries.

*Data as of June 30, 2012 and includes Morningstar Associates, Ibbotson Associates, and Morningstar Investment Services, OBSR, and Ibbotson Australia.

**Ibbotson Associates Inc. was established in 1977, and acquired by Morningstar in 2006. Morningstar Associates was established in 1999 and Morningstar Investment Services, Inc. was established in 2001.

Why Morningstar Investment Services?

- Our focus
  - Help fee-based, independent advisors grow their practices
- Our experience
  - 10-plus years
  - We work with thousands of advisors like you
- Our reputation
  - Clients first
  - Independence, objectivity
- Our commitment to investment excellence
  - Knowing who we are (and aren't)
  - Having a well-defined philosophy

MORNINGSTAR®

The Insight of an Advisor, The Strength of Morningstar

- Holistic financial planning meets professional portfolio management
- We team up to deliver a tailored investment plan designed to help investors reach their long term goals

MORNINGSTAR®

Our Investment Team

- Dedicated to Morningstar Investment Services
  - Combined 90+ years of investment experience; average of 15 years of experience, all members carry the CFA designation
- Many have risen through Morningstar, Inc.'s analyst ranks; share the same philosophy
- Leverage the Morningstar Investment Management research team: approximately 20 analysts

MORNINGSTAR®

Our Reputation

- Morningstar, Inc., our parent company, is a widely recognized source of trusted investment analysis and research
- Goal: Empowering investors through education
  - Provide unbiased, independent information
  - Commit to using the highest quality data and research
  - Create high-quality, well-designed offerings to help improve the overall investing experience

MORNINGSTAR®

Our Commitment to Investment Excellence

MORNINGSTAR®

Our Philosophy

- We invest for the long term
- We are independent thinkers
- We employ a disciplined, consistent investment process
- We actively manage portfolios
- We are sensitive to costs and taxes
- We invest clients' money as if it were our own
- We communicate in a timely and candid fashion

MORNINGSTAR®

Retirement Income

MORNINGSTAR®

A thumbnail of our Retirement Income series

- Four distinct managed portfolios
- Targeted payouts ranging from 4–7%
- Time horizons from 1 to 20+ years

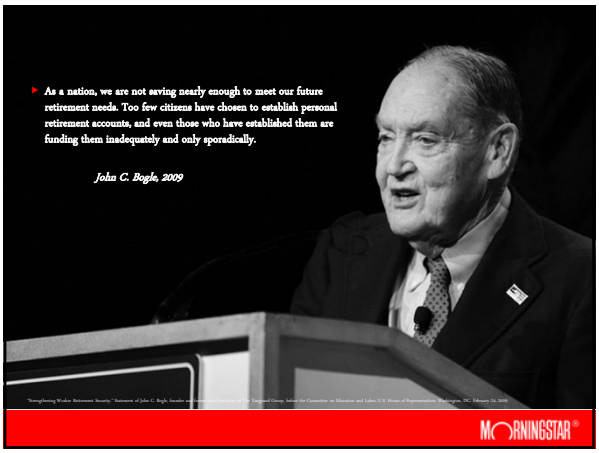
The information is for illustrative purposes only. No guarantees can be given about future targeted payouts.

MORNINGSTAR®

Why retirement income matters

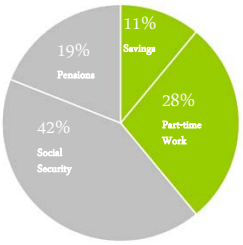
- Currently individuals are responsible for a significant portion of their retirement income
- In the coming years, their contribution to retirement income will need to grow higher still to maintain the same standard of living

MORNINGSTAR®



Individuals are responsible for 39% of retirement cost today

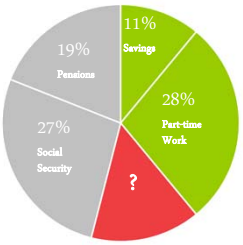
- Pensions and Social Security cover the remaining 61%
- Social Security remains the single largest source of retirement income



Source: *EBRI Databook on Employee Benefits*, Employee Benefit Research Institute, and Current Population Survey, March 2010 Supplement.

MORNINGSTAR®

By 2030 Social Security will cover 15% less



41.2%	Percent of retiree's income from Social Security today
36.5%	After extension of retirement age from 65 to 67
33.2%	After Medicare Part B premium
30.5%	After personal income tax
26.9%	After 10% benefit cut to eliminate financing gap

Source: Employee Benefit Research Institute, estimates from Current Population Survey, March 2010 Supplement. Munnell, Alicia, "The Declining Role of Social Security," *Just the Facts On Retirement Issues*, February 2002, Number 6, Center for Retirement Research at Boston College.

MORNINGSTAR®

Retirement Basics

- First things first: Saving is a must
- Portfolio construction should balance growth and income needs

MORNINGSTAR®

Retirement Income objectives

- Transition investors from accumulating assets to spending assets
- Generate cash flow streams to last over appropriate time horizons
- Balance volatility and drawdown with growth needs

There can be no assurance that the stated objectives will be met.

MORNINGSTAR®

Breaking down the Retirement Income portfolios

- Four distinct managed portfolios
- Targeted payouts ranging from 4–7%
- Time horizons from 1 to 20+ years
- Endowment-like approach
- Diversified across asset classes
- Payouts derived from total return, not reliant solely on yield

The information is for illustrative purposes only. Neither diversification nor asset allocation ensure a profit or guarantee against a loss. No guarantees can be given about future targeted payouts.

MORNINGSTAR®

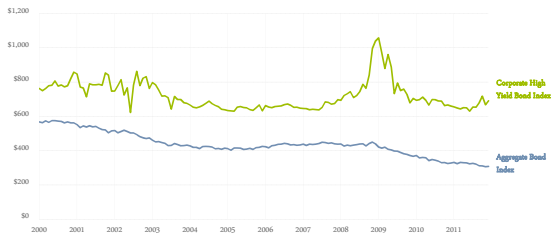
Why not just income?

	Income Portfolio	Total Return Portfolio
Advantages	× Churns out income × In theory, do not need to sell investments to meet spending needs	× Balances the need for income and growth × Offers diversification × Protects against inflation and interest rate risk
Disadvantages	▶ Limited diversification ▶ Lower growth potential ▶ Income levels can fluctuate ▶ Vulnerable to rising inflation, interest rates	× May need to sell securities in down markets to meet income needs

MORNINGSTAR®

Declining coupons make income strategies more dangerous

- Income generated by a $100,000 portfolio



1 Data downloaded from Barclays Live, January 2013. For illustrative purposes only. Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment.

MORNINGSTAR®

In 2008 Linda planned to invest her retirement savings

- 65 years old
- $250,000 in retirement savings
- Receives a pension and social security income
- Linda needs $12,500, or 5%, a year to supplement her income

This is a hypothetical example for illustrative purposes only.

MORNINGSTAR®

Linda and her advisor have a decision to make

		Income Portfolio	Morningstar Mid-Range Portfolio
Stocks	Global Stocks	—	25
Real Estate	REITs	—	4
Bonds	Investment-Grade	85	30
	High-Yield	15	8
	Inflation-Protected	—	5
Alternatives	Commodities	—	3
	Absolute Return	—	15
Cash	Short Term Reserves	—	5

This is a hypothetical example for illustrative purposes only. Portfolio percentages are based on current benchmark allocations, and are subject to change. Asset classes shown are Morningstar category groups. Allocation of portfolios at the individual account level may vary.

MORNINGSTAR®

In past three years, Linda's portfolio might have generated...

Income Portfolio	Morningstar Mid-Range Portfolio
$36,851 in total coupon payments over the trailing three years ending 2011	11.8% trailing three-year return ending 2011, 6.5% estimated long-term annual return
$216 shy of needed income, on average, for each of the past three years	$17,000 above needed income, on average, for each of the past three years

This is a hypothetical example for illustrative purposes only. Data shown is gross of fees.

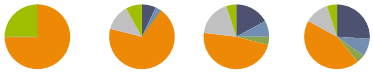
MORNINGSTAR®

Constructing the Retirement Income Series

MORNINGSTAR®

Our Retirement Income Portfolios

- Four distinct managed portfolios diversified across asset classes
- Targeted payouts ranging from 4–7%
- Time horizons from 1 to 20+ years
- Endowment-like approach
- Payouts derived from total return, not reliant solely on yield



	Ultra Short	Short-Range	Mid-Range	Long-Range
Targeted Payout	7%	6%	5%	4%
Time Horizon	1–5 years	2–10 years	10–20 years	20+years
Probability of Principal Preservation	2.1%	9.9%	17.3%	36%
Probability of Principal Depletion	0.1%	0.1%	0.4%	0.8%

Monte Carlo Analysis, 95% confidence; Monte Carlo adjusts for inflation. Figures are based on a recent allocation, and are subject to change. Asset classes shown are Morningstar category groups. Allocation of portfolios at the individual account level may vary.

MORNINGSTAR®

Diversification: Retirement Income's asset allocation

Stocks	Growth Engine	Domestic Small Caps Domestic Large Caps International Emerging
Bonds	Income Producer	Investment-grade High-yield Non-U.S. Inflation-protected
Alternatives	Volatility Dampener	Commodities Real estate Long/Short funds Arbitrage strategies

Neither diversification nor asset allocation ensure a profit or guarantee against a loss.

MORNINGSTAR®

Selecting the right funds for Retirement Income

Stocks	**Flexible** across market caps, geographies **Conservative**, value-conscious Often focused on **dividend-payers**
Bonds	**Diversified** across sectors **Capital-preservation**-minded Emphasis on **total return**, not yield
Alternatives	Aiming for **moderate** returns with low volatility **Diversifying** asset classes and strategies

Neither diversification nor asset allocation ensure a profit or guarantee against a loss.

MORNINGSTAR®

Diversification: Retirement Income's Asset Allocation

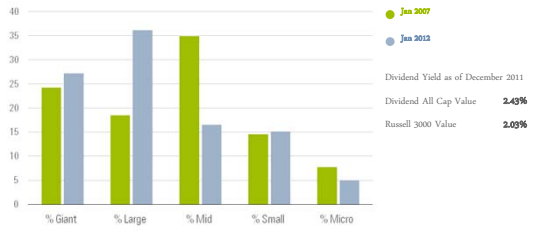
		Ultra Short	Short-Range	Mid-Range	Long-Range
US Stocks	Large Growth	0	2	5	6
	Large Value	0	5	7	10
	Mid-Cap	0	0	3	6
	Small-Cap	0	0	2	4
Non-US	Developed	0	3	6	7
	Emerging	0	0	2	2
Real Estate	REITs	0	0	4	4
Taxable	Investment-Grade	60	36	30	30
	High-Yield	5	22	8	6
	Inflation-Protected	5	5	5	4
	Non-Domestic	5	6	5	4
Alternatives	Commodities	0	3	3	4
	Absolute Return	0	10	15	8
Cash	Short Term Reserves	25	8	5	5

Figures are based on a recent allocation, and are subject to change. Asset classes shown are Morningstar category groups. Allocation of portfolios at the individual account level may vary.

MORNINGSTAR®

Equity fund example: Aston/River Road Dividend All-Cap Value

- Flexible across market cap, valuation-focused, aiming for companies with dividend yields exceeding that of the Russell 3000 Value index.



Dividend Yield as of December 2011

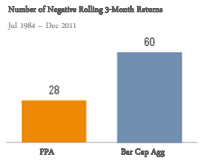
Dividend All Cap Value	2.43%
Russell 3000 Value	2.03%

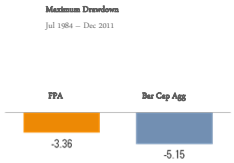
Data downloaded from Morningstar Direct, February 2012. For illustrative purposes only. Past performance is no guarantee of future results. Indices are nonmanaged and not available for direct investment.

MORNINGSTAR®

Fixed-income fund example: FPA New Income

- Absolute-value, capital-preservation minded.
- "We do not like to lose money."
- The fund has seen 82% of the Agg's volatility since Rodriguez took the helm in 1984.



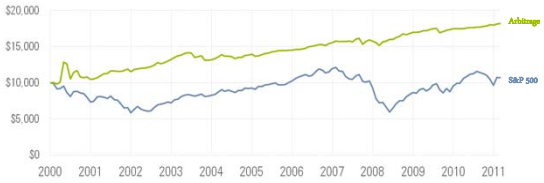


Data downloaded from Morningstar Direct, February 2012. For illustrative purposes only. Past performance is no guarantee of future results. Indexes are unmanaged and not available for direct investment.

MORNINGSTAR®

Alternatives fund example: Arbitrage

- Uses event-driven strategies to achieve low volatility and low correlation to traditional markets.



Correlation with

S&P 500 Index:	0.35
BarCap U.S. Aggregate Bond Index:	0.05

since fund's 2000 inception.

Data downloaded from Morningstar Direct, February 2012. For illustrative purposes only. Past performance is no guarantee of future results. Indexes are unmanaged and not available for direct investment.

MORNINGSTAR®

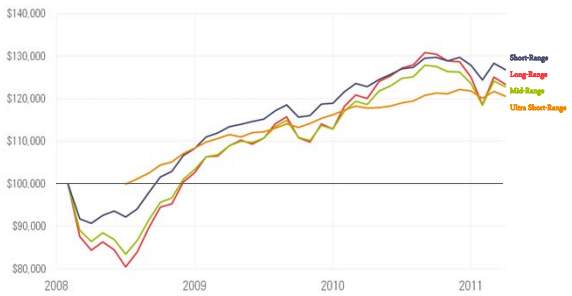
Sample portfolio: Retirement Income Mid-Range

8%	ASTON/River Road Dividend All Cap Val N	ARDEX	Mid-Cap Value
8%	T. Rowe Price Capital Appreciation	PRWCX	Moderate Allocation
8%	IVA Worldwide I	IVWIX	World Allocation
6%	Dodge & Cox Global Stock	DODWX	World Stock
3%	Third Avenue Real Estate Value Instl	TAREX	Global Real Estate
12%	PIMCO Total Return Admin	PTRAX	Intermediate-Term Bond
11%	DoubleLine Total Return Bond I	DBLTX	Intermediate-Term Bond
10%	Harbor High-Yield Bond Instl	HYFAX	High Yield Bond
6%	Templeton Global Bond Adv	TGBAX	World Bond
5%	Driehaus Active Income	LCMAX	Nontraditional Bond
3%	MFS Emerging Markets Debt I	MEDIX	Emerging Markets Bond
3%	PIMCO Commodity Real Ret Strat Admin	PCRRX	Commodities Broad Basket
3%	Vanguard Inflation-Protected Secs Adm	VAIPX	Inflation-Protected Bond
7%	Absolute Strategies I	ASFIX	Multialternative
6%	Arbitrage I	ARBNX	Market Neutral
1%	Janus Money Market T	JAMXX	Money Market Taxable

Portfolio holdings as of May 1, 2012. This is a sample portfolio and may or may not comprise same securities as are currently in the Retirement Income Mid-Range Portfolio.

MORNINGSTAR®

Growth of $100,000



Inception Dates: Long-Range, Mid-Range & Short-Range, 09/15/2008; Ultra Short-Range, 03/27/2009. Data shown is net of fees. For illustrative purposes only. Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment.

MORNINGSTAR®

Retirement Income risk analysis through 2011

	Ultra Short	Short-Range	Mid-Range	Long-Range
Downside Capture	-2.40%	18.64%	39.29%	48.91%
Standard Deviation	2.60%	7.42%	10.64%	12.58%
Strategy Inception	Mar 2009	Oct 2008	Oct 2008	Oct 2008

For illustrative purposes only. Past performance is no guarantee of future results.

MORNINGSTAR®

Retirement Income Mid-Range

- Year-end values with annual withdrawals

	Initial Value	Return	Inflation	Withdrawal	Year-End Value	
2009	$100,000	24.4%	2.7%	$5,136	$119,214	Nominal
				5,000	*116,057*	*Real*
2010	$119,214	10.8%	1.5%	5,136	126,828	
				5,000	*121,645*	
2011	$126,828	1.5%	3.0%	5,367	123,338	
				5,000	*114,896*	

For illustrative purposes only. Performance is net of fees. Past performance is no guarantee of future results. Fees.

MORNINGSTAR®

Retirement Income Mid-Range

- Year-end values with adjusted annual withdrawals

	Initial Value	Return	Inflation	Withdrawal	Year-End Value	
2009	$100,000	24.4%	2.7%	$6,163	$118,187	Nominal
				6,000	*115,057*	*Real*
2010	$118,187	10.8%	1.5%	6,256	124,648	
				6,000	*119,554*	
2011	$124,648	1.5%	3.0%	4,294	122,199	
				4,000	*113,836*	

For illustrative purposes only. Performance is net of fees. Past performance is no guarantee of future results.

MORNINGSTAR®

Morningstar Investment Services Sales Team

General Information

877 626-3227

Internal Service

mp@morningstar.com Representatives

www.mp.morningstar.com

Peter Dugery
312 696-6040
National Director
peter.dugery@morningstar.com

Reach our sales team members at 877 626-3224

1 **Aaron Peterson** Ext. 1 aaron.peterson@morningstar.com
Region 1 –Alaska, California, Guam, Hawaii, Oregon

2 **Justin Steender** Ext. 2 justin.steender@morningstar.com
Region 2 – Illinois, Iowa, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin

3 **Steven Geiger** Ext. 3 steven.geiger@morningstar.com
Region 3 – D.C., Delaware, Maryland, Pennsylvania, Virginia, West Virginia

4 **Brad Murphy** Ext. 4 brad.murphy@morningstar.com
Region 4 – Massachusetts, Maine, New Hampshire, Rhode Island, Vermont

5 **Mike Reeves** Ext. 5 mike.reeves@morningstar.com
Region 5 – Alabama, Florida, Georgia, Puerto Rico, South Carolina

6 **John Green** Ext. 6 john.green@morningstar.com
Region 6 – Arizona, Kansas, Missouri, New Mexico, Oklahoma, Texas

7 **Todd Schaul** Ext. 7 todd.schaul@morningstar.com
Region 7 – Connecticut, New Jersey, New York

8 **Tracy Unger** Ext. 8 tracy.unger@morningstar.com
Region 8 – Arkansas, Louisiana, Mississippi, North Carolina, Tennessee

9 **Adam Horakovich** Ext. 9 adam.horakovich@morningstar.com
Region 9 – Ohio, Indiana, Kentucky, Michigan

10 **Andy Justice** Ext. 10 andy.justice@morningstar.com
Region 10 – Colorado, Idaho, Montana, Nevada, Washington, Wyoming, Utah

MORNINGSTAR®

MORNINGSTAR®

Disclosures

The opinions expressed herein are those of Morningstar Investment Services, are as of the date written and are subject to change without notice, do not constitute investment advice and are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. Morningstar Investment Services shall not be responsible for any trading decisions, damages, or other loss resulting from, or related to, the information data, analyses or opinions or their use.

The Morningstar Investment Management division is a division of Morningstar and includes Morningstar Associates, Ibbotson Associates, and Morningstar Investment Services, all registered investment advisers and wholly owned subsidiaries of Morningstar, Inc.

Ibbotson Associates is a registered investment adviser and wholly-owned subsidiary of Morningstar and serves as a sub-adviser to the Morningstar Managed Portfolios program.

Past performance is no guarantee of future results.

Portfolio Performance—The portfolio returns presented are derived from model portfolios created and seeded on the Inception Dates. Please see our Website for a list of portfolio inception dates. Each model portfolio is similar to the investment strategies managed for clients on a discretionary basis under the Morningstar Managed Portfolios program ('Program'). Each model portfolio is designed for a certain strategy and consists primarily of mutual funds (each a 'Strategy Portfolio', collectively 'Strategy Portfolios')

The performance of each Strategy Portfolio presented is not a reflection of actual clients' portfolios, but is that of seeded portfolios which are managed in the same manner as the portfolios managed for actual clients (e.g., the timing of rebalancing and/or reallocation transactions for each Strategy Portfolio is the same as when such transactions are implemented for actual clients).

Returns Gross of Program Fees—The 'gross' performance presented for each Strategy Portfolio does not include any Program fees (Total maximum program fee for MF portfolios is currently 1.50%) which if included, the performance noted would be less (and in some cases may be significantly less). The 'gross' performance calculations do assume all dividends and capital gains distributions are reinvested and are net of underlying holding's fees and expenses. Performance is based on the underlying fund's net asset value as of close of trading on the New York Stock Exchange at the last business day of a month.

Performance returns were calculated using a time weighted, geometrically linked rate of return formula. Returns for periods over one year are annualized. Returns for periods under twelve months are not annualized.

In no way should the performance of each Strategy Portfolio be considered indicative or a guarantee of the future performance of an actual client's portfolio with the same strategy; considered indicative or the actual performance achieved by actual clients in the same strategy within the Program; or viewed as a substitute for the actual portfolios recommended to individual clients.

Actual results of an individual client in the Program may differ substantially from the historical performance shown for a Strategy Portfolio and may include an individual client incurring a loss. Past performance is no guarantee of future results.

MIS does not guarantee that the results of their advice, recommendations, or the objectives of a Strategy Portfolio will be achieved. The Strategy Portfolios may not have contained and/or currently may not contain the same underlying holdings that are currently underlying the Strategy Portfolios.

Standard Deviation measures an investment's volatility or range of outcomes. The total returns of any given investment are expected to be within one standard deviation from its mean return about 68% of the time and within two standard deviations from the mean 95% of the time.

MORNINGSTAR®

Disclosures

Downside Capture Ratio measures a manager's performance in down markets. A down market is defined as those periods in which market return is less than 0. In essence, it tells you what percentage of the down market was captured by the manager. For example, if the ratio is 110%, the manager has captured 110% of the down market and therefore underperformed the market on the downside.

Retirement Income Series Performance: The performance returns presented are derived from portfolios seeded ("Portfolio") and incepted as follows: Long-Range, Mid-Range and Short-Range (9/15/2008) and Ultra Short-Range (2/27/2009).

MORNINGSTAR®