

Are Your Clients Positioned for Today's Market?

As the economy recovers and value stocks start to rotate back into favor, we believe our portfolios' valuation-driven approach along with active security selection has the potential to capitalize on today's market trends.

Investment Idea:

Valuation-driven asset class investing with active equity security selection.

- Mutual Fund Asset Allocation Series
- ▲ All-Cap Equity Portfolio

Market Trends:

01

Value Versus Growth

The great dislocation of value vs. growth stocks, with growth outperforming value, may be nearing an end. Value stocks have recently outperformed as U.S. Real GDP grew at an annual rate of 6.4% in Q1 2021 signaling an economic recovery is underway.

Employ a Valuation-Driven Approach

As value comes back into favor, pairing complementary strategies such as Mutual Funds Asset Allocation with All-Cap Equity leverages our valuation-driven approach to asset allocation and security selection. This approach is built upon five decades of research that strives to identify undervalued assets.



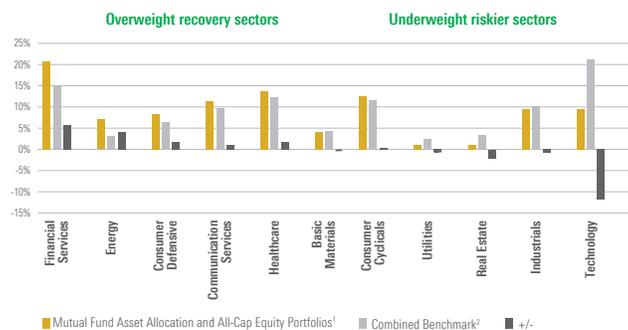
For illustrative purposes only. Past performance is not indicative of future results.

02

Economic Recovery

Morningstar, Inc. is forecasting Real GDP growth of 6% for 2021. Value stocks, especially in cyclical sectors such as energy and financials, may be particularly poised to benefit from this economic recovery. It may be the right time to navigate away from overpriced sectors (for example, Technology) that may present increased drawdown risk.

Exposure to Recovering Sectors



Subject to change. For illustrative purposes only. We are selecting the Income & Growth Portfolio from the Mutual Fund Asset Allocation series as an example.

03

Risk of Overconcentration to FAANGM

The market cap of FAANGM stocks (Facebook, Amazon, Apple, Netflix, Google and Microsoft) has appreciated to as much as 24% of the S&P 500. Our portfolios focus on undervalued companies and de-emphasize exposure to the Technology sector and FAANGM stocks.

Avoiding Market-Cap Weighted Risk and Overconcentration

Unlike a market-weighted portfolio that risks overconcentration, the All-Cap Equity portfolio actively seeks undervalued, high-quality companies with durable competitive advantages.

92% of the stocks in the All-Cap Equity portfolio have a wide or narrow Morningstar Economic Moat Rating, allowing a company to sustain excess profits over long periods.

22% of the S&P 500 is composed of six stocks.

P/E Ratio (TTM): 18.3 All-Cap Equity **vs** 32.5 Morningstar U.S. Market

Combining Portfolios

Using a core-satellite approach

Mutual Fund Asset Allocation Portfolio

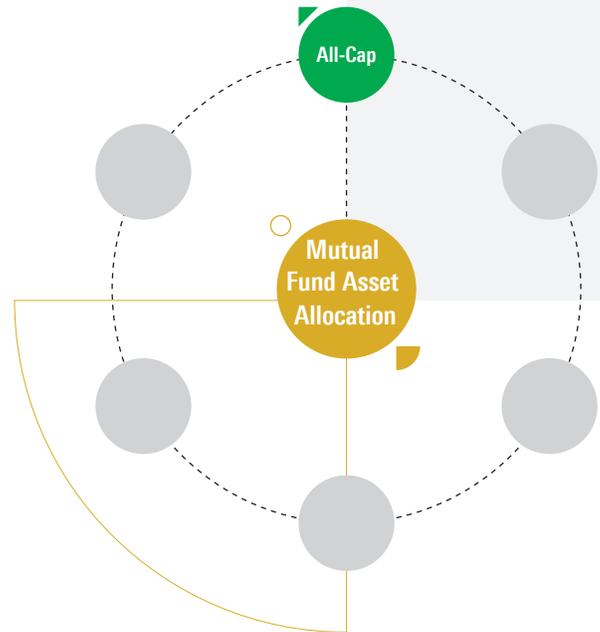
A globally diversified, long-term core portfolio that provides access to our valuation-driven asset allocation approach.

All-Cap Equity Portfolio

A “go-anywhere” portfolio seeking high conviction stock ideas in a focused separately managed account of 20 – 40 holdings.

This combination provides investors with:

- Globally diversified core exposure with active stock selection of what we view as undervalued, quality companies that help mitigate overconcentration risk to FAANGM stocks
- Exposure to sectors that may benefit from an economic recovery and de-emphasis on overvalued sectors
- Vigilant focus on valuations to help protect from downside risk



Learn more about how combining these two portfolios may position your clients for future success. For more information, contact your Morningstar Managed Portfolios Representative.

¹ The combined portfolio is allocated 60% to the Income & Growth ETF Portfolio and 40% to the All-Cap Equity Portfolio.

² The combined benchmark is derived from 60% of the Income & Growth ETF benchmark and 40% of the Morningstar U.S. Market Index.

Important Information

Price/Earnings (P/E) Ratio is a valuation metric that assesses how many dollars investors are willing to pay for one dollar of a company's earnings.

Morningstar US Market TR USD: The index measures the performance of US securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index.

The Income & Growth Asset Allocation portfolio's benchmark is a combination of the following:

BBgBarc US Universal TR USD: The index measures the performance of USD-denominated, taxable bonds that are rated either investment grade or high-yield. It represents the union of the U.S. Aggregate Index, U.S. Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index.

Morningstar US Cash T-bill TR USD: The index measures the performance of a 13-week US Treasury Bill. **Morningstar Gbl xUS Trsy Bd GR USD:** The index measures the performance of sovereign bonds with maturities greater than one year that are issued by developed markets countries, excluding US denominated treasury bonds. It is market-capitalization weighted.

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MSCI ACWI Ex USA IMI NR USD: The index measures the performance of large, mid and small cap representation across 22 of 23 developed (excluding the United State) and 23 emerging markets equity securities. It covers approximately 99% of the global equity opportunity set outside the US. The index is free float-adjusted market capitalization weighted.

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

The idea of an economic moat refers to how likely companies are to keep competitors at bay for an extended period. The following attributes can give companies a wider economic moat: huge market share; low cost producer; patents, copyrights, or governmental approvals and licenses; unique corporate culture; high customer-switching costs; and network effect. A company can be rated as having no economic moat, a narrow economic moat, or a wide economic moat. The equity moat ratings of the fund's underlying equities are aggregated and displayed as a percentage of the fund's equity holdings with moat ratings.

Individual index performance is provided as a reference only. Each index is unmanaged and is not available for direct investment. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although Index performance data is gathered from reliable sources, Morningstar Investment Management cannot guarantee its accuracy, completeness or reliability.