

Morningstar, Inc.  
Form 10-K  
February 26, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR  
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-51280

MORNINGSTAR, INC.

(Exact Name of Registrant as Specified in its Charter)

Illinois

(State or Other Jurisdiction of  
Incorporation or Organization)

22 West Washington Street

Chicago, Illinois

60602

(Address of Principal Executive Offices)

36-3297908

(I.R.S. Employer

Identification Number)

(312) 696-6000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common stock, no par value

Name of Each Exchange on Which Registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of shares of common stock held by non-affiliates of the Registrant as of June 30, 2015 was \$1.5 billion. As of February 19, 2016, there were 42,911,386 shares of the Registrant's common stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain parts of the Registrant's Definitive Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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Part I

Item 1. Business

Overview

Morningstar is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Our mission is to create great products that help investors reach their financial goals. We offer an extensive line of data, software, research, and investment management offerings for financial advisors, asset managers, retirement plan providers and sponsors, and individual investors. In addition to our U.S.-based products and services, we offer local versions of our products designed for investors in Asia, Australia, Canada, Europe, Latin America, and South Africa. Morningstar serves approximately 250,000 financial advisors, 1,300 asset management firms, 28 retirement plan providers, 300,000 retirement plan sponsors, and 10.1 million individual investors. We have operations in 27 countries.

Our data and research are core assets that we seek to leverage to build Morningstar's long-term value. As of December 31, 2015, we provided extensive data on more than 500,000 investments, including mutual funds, stocks, exchange-traded funds (ETFs), closed-end funds, separate accounts, and variable annuities. We also track real-time market data on more than 17 million exchange-traded equities, derivatives, commodities, currencies, and other investments.

Our data and proprietary analytical tools such as the Morningstar Rating for mutual funds, which rates past performance based on risk- and cost-adjusted returns, and the Morningstar Style Box, which provides a visual summary of a mutual fund's underlying investment style, have become important tools that millions of investors and advisors use in making investment decisions. We've created other tools, such as the Ownership Zone, Sector Delta, and Market Barometer, which allow investors to see how different investments work together to form a portfolio and to track its progress. Our popular Portfolio X-Ray tool helps investors evaluate their portfolios and get a clear view of their underlying holdings.

We've been providing independent analyst research on mutual funds and other investment vehicles since the mid-1980s. We use this analyst research to provide a qualitative, forward-looking Morningstar Analyst Rating for funds. We now provide research reports and Morningstar Analyst Ratings for approximately 4,600 funds globally, including active, passive, multi-asset, ETF, and closed-end fund strategies. We also offer qualitative research and ratings on alternative funds, state-sponsored college savings plan portfolios, and target-date funds.

In 2015, we announced plans to launch the industry's first sustainable investing metrics for global mutual funds and ETFs. Our new metrics are based on company-level ratings and research from Sustainalytics, a leading provider of environmental, social, and governance (ESG) and corporate governance ratings and research. We have a long tradition of innovative research centered on good stewardship, lower costs, and more transparency for investors and want to bring even greater transparency and accountability to the investment industry with information about sustainability, while helping investors to put their money to work in ways that are meaningful to them.

As part of our research efforts on individual stocks, we popularized the concepts of economic moat, a measure of competitive advantage originally developed by Warren Buffett, and margin of safety, which reflects the size of the discount in a stock's price relative to its estimated value. The Morningstar Rating for stocks is based on the stock's current price relative to our analyst-generated fair value estimates, as well as the company's level of business risk and

economic moat. We offer a variety of other qualitative measures such as Stewardship Grades, which help investors identify companies and fund firms that have demonstrated a high level of commitment to shareholders and stewardship of investors' capital.

Our analysts cover approximately 1,500 stocks, using a consistent, proprietary methodology that focuses on fundamental analysis, competitive advantage assessment, and intrinsic value estimation. In July 2015, we received the “Thought Leadership” award at the Investment Week Investment Marketing and Innovation Awards in London for our independent equity research drawing on our economic moat methodology.

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In addition to our analyst-driven coverage, we provide quantitative ratings and reports for approximately 40,000 companies globally. These equity ratings draw on the fundamental research of our equity analyst team and provide a forward-looking statistical view of the valuation, competitive advantage, and level of uncertainty for stocks that are often under-followed by other research firms.

Through our Morningstar Credit Ratings, LLC subsidiary, which is a Nationally Recognized Statistical Rating Organization (NRSRO), we provide new issue and surveillance ratings and analysis for commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS), as well as operational risk assessment services.

In addition, we publish credit ratings and associated research on corporate debt issuers. We currently provide ratings on about 400 issuers. Morningstar, Inc. is not currently an NRSRO, and our credit ratings on corporate issuers are not NRSRO credit ratings.

In our investment management business, we've developed in-depth advice on asset allocation, portfolio construction, and security selection to meet the needs of investors and professionals looking for integrated portfolio solutions. We've published research on "Gamma," an innovative measure that quantifies how much additional retirement income investors can generate by making better financial planning decisions. We use the concept of human capital—or potential future earning ability—to provide a more complete picture of an investor's financial worth and optimize a portfolio's asset mix.

In 2015, we launched the Global Market Barometer, which delivers our global family of indexes through a signature visual to help investors identify market trends and opportunities. We introduced our Signature Asset Library, a set of curated, interactive components that bring together Morningstar's strength in research, data, data visualization, design, and technology. We offer these components through a variety of products to help users gain insights into our rich data sets.

We believe investors rely on these tools because they offer a useful framework for comparing potential investments and making decisions. Our independence and our history of innovation make us a trusted resource for investors.

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### Strategy and Key Objectives

Our strategy is to widen our economic moat, or sustainable competitive advantage, and build shareholder value by focusing on our three key objectives, which we describe in more detail below. Our investment data, research, and ratings are at the heart of our strategy, allowing us to help investors achieve better investment outcomes whether they make their own investment decisions or outsource management of their portfolios.

1. Produce the most effective investment data, research, and ratings to help investors reach their financial goals.

We believe our leadership position in independent investment research offers a competitive advantage that would be difficult for competitors to replicate. Our goal is to leverage our proprietary research and intellectual property to help investors with both decision support (via Morningstar Direct) and outsourced investment management (via our investment management business).

We're focusing our research efforts on several different areas, as described below.

- Manager research (including mutual funds, ETFs, separate accounts, and other vehicles)

Our goal for manager research is to leverage our leadership position to reach additional customer groups. In contrast to most other companies, we also integrate manager research with our software, which we believe is another competitive advantage.

As of December 31, 2015, we had 115 manager research analysts globally, including teams in North America, Europe, Australia, and Asia.

- Equity research

Our equity research complements our approach to manager research, where we focus on analyzing the individual stocks that make up each fund's portfolio. As of December 31, 2015, we had more than 100 equity analysts globally, making us one of the largest providers of independent equity research. We believe our analysts' long-term approach, deep industry knowledge, and focus on sustainable competitive advantage are important factors that set us apart and help investors achieve better investment outcomes.

- Credit research and ratings

Morningstar Credit Ratings, LLC, our structured credit research and ratings subsidiary, is a Nationally Recognized Statistical Rating Organization (NRSRO) that has earned a reputation for innovation and excellence in the structured finance market.

Morningstar Credit Ratings has submitted a preliminary application to the Securities and Exchange Commission (SEC) to expand its NRSRO license to include credit ratings for corporate bonds and financial institutions. We're seeking to expand the license because we believe we can make a difference in the market by bringing transparency, unique perspectives, and superior client service to all investors across the fixed-income markets.

- Holistic advice methodologies (including our research on Gamma and the Total Wealth Approach)

Over the past several years, we've developed new research tools that provide a more holistic approach to investing and asset allocation. Whereas traditional asset allocation methodologies focus solely on financial assets (such as stocks

and bonds), we've developed methodologies that provide a more complete view of all sources of wealth, including financial capital, human capital, housing assets, and retirement and pension benefits.

2. Develop Morningstar Direct as our flagship decision support platform.

In 2015, we began rolling out the next-generation version of Morningstar Direct, our institutional investment research platform.

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The new software is designed to be more intuitive, elegant, and easy-to-use. It provides a more consistent, cohesive experience with a strong emphasis on Morningstar's proprietary research and tools. We also improved the underlying technology, including a more streamlined development process for commonly used Morningstar capabilities such as portfolio management tools.

The new software is fully web-based, which eliminates the need for desktop software installations and allows immediate access to new features. It allows to us innovate more rapidly and more easily configure our software solutions to meet client needs. It also addresses the growing need for mobile-optimized capabilities to extend the desktop experience onto mobile devices.

Over time, we expect to migrate many of our core software capabilities to Morningstar Direct, which will serve as our main platform for clients looking for information to support the investment decisions they make on their own or validate investment recommendations from another party. We also plan to expand the user base for Morningstar Direct by enhancing workflow capabilities for our existing clients and adding workflows for new types of clients, such as financial advisors.

3. Build world-class investment management solutions based on our proprietary research.

We leverage our innovative, proprietary research by building world-class investment management solutions that help investors achieve better outcomes. Our goal is to connect our existing capabilities to create holistic solutions that help financial advisors, asset managers, and individual investors with portfolio construction, monitoring, security selection, and implementation.

Our investment management solutions include Investment Advisory services, which had \$77.8 billion in assets under advisement as of December 31, 2015, and Workplace Solutions (formerly Retirement Solutions), which had a total of \$89.7 billion in assets under management and advisement.

For financial advisors, we offer Morningstar Managed Portfolios, a fee-based discretionary asset management service that includes a series of mutual fund, ETF, and stock portfolios tailored to meet specific investment time horizons and risk levels. As of December 31, 2015, we managed \$12.9 billion in assets through this service.

We also expect to expand the investment management solutions we offer through our index business. We currently offer more than 300 investment indexes that can be used for both benchmarking and product creation.

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### Major Customer Groups

Given the core capabilities discussed above, we're focusing on four primary customer groups:

- Advisor (including independent financial advisors as well as those affiliated with broker-dealers, other intermediaries, and retail brokerage firms);
- Asset management (including fund companies, insurance companies, and other companies that build and manage portfolios of securities for their clients);
- Workplace/retirement (including retirement plan providers and plan sponsors); and
- Individual investor.

### Advisor

Financial advisors work with individual investors to help them reach their financial goals. This customer group includes independent advisors at registered investment advisor (RIA) firms, advisors affiliated with independent broker-dealers, dually registered advisors, and “captive” advisors who are employees of a broker-dealer. Captive broker-dealers include wirehouses, regional broker-dealers, and banks. In total, Cerulli Associates estimates there were approximately 300,000 financial advisors in the United States as of the end of 2015.

We believe our deep understanding of individual investors’ needs allows us to work with advisors to help them make more efficient use of their time and deliver better investment outcomes for their clients. Our advisor solutions also draw on Morningstar’s proprietary investment research methodologies and research insights.

We sell our advisor-related solutions both directly to independent financial advisors and through enterprise licenses, which allow financial advisors associated with the licensing firm to use our products.

We’re expanding the range of services we offer to help financial advisors with all aspects of their daily workflow needs, including investment decision-making, portfolio construction, client monitoring and reporting, practice management, portfolio rebalancing that connects with custodial and trading interfaces, and financial planning. Because advisors are increasingly outsourcing investment management, we’re continuing to enhance Morningstar Managed Portfolios to help advisors save time and reduce compliance risk.

We also plan to integrate our investment management solutions with our advisor software to deliver a comprehensive investment platform, focusing on the needs of independent registered investment advisors. With our November 2015 acquisition of Total Rebalance Expert (tRx), we added automated, tax-efficient portfolio rebalancing capabilities for advisors. In addition, we plan to build advisory solutions that incorporate both retirement and non-retirement assets.

Our main products for financial advisors are Morningstar Advisor Workstation (including Morningstar Office) and Morningstar Managed Portfolios.

### Asset management

Asset management firms manage and distribute investment portfolios. We estimate that there are more than 3,000 asset management firms globally, ranging from large, global firms to firms with small fund lineups and operations in a single market or region. The asset management customer group includes individuals involved in sales, marketing, product development, and distribution, as well as investment management (often referred to as the “buy side”), which includes portfolio management, research, and securities analysis.

Our asset management offerings help companies connect with their clients because of Morningstar's strong brand presence with both financial advisors and individual investors. We offer a global reach and have earned investors' trust in our unbiased approach, investor-centric mission, and thought leadership.

Our goal is to expand the number of asset management firms and individuals at these firms who employ Morningstar's research offerings to help them achieve better results for their clients. We also plan to leverage our proprietary research and data to continue developing differentiated software and data offerings.

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The key products we offer for asset management firms include Morningstar Direct, Morningstar Data, and Morningstar Indexes. For the buy side, key products include Morningstar Research, Morningstar Credit Ratings, Morningstar Data, and Morningstar Direct.

### Workplace/retirement

In the workplace (also known as retirement) market, millions of investors are now charged with planning for their own retirement, mainly through self-directed retirement plans such as 401(k) plans in the United States. Assets in 401(k) plans totaled an estimated \$4.7 trillion as of December 31, 2015, based on data from Cerulli Associates. In the wake of the financial crisis in 2008 and 2009, we believe individual investors, financial advisors, employers, and government organizations have all become more aware of the need for advice and guidance that helps individuals build assets for retirement and beyond.

Our retirement offerings help retirement plan participants of all ages plan and invest for retirement. We offer these services both through retirement plan providers (typically third-party asset management companies that offer proprietary mutual funds) and directly to plan sponsors (employers that offer retirement plans to their employees).

Our major products for the workplace/retirement customer group are Workplace Solutions (formerly Retirement Solutions), Investment Advisory services, and Investment Profiles.

### Individual investor

We offer products for individual investors who invest to build wealth and save for other goals, such as retirement or college tuition. While the number of individual investors has declined from earlier peaks (before the financial crisis in 2008 and 2009), a Gallup survey released in April 2015 found that approximately 55% of individuals in the United States invest in the stock market either directly or through mutual funds or self-directed retirement plans.

We design most of our products for individual investors who are actively involved in the investing process and want to take charge of their own investment decisions. We also reach individuals who want to learn more about investing or want to validate the advice they receive from brokers or financial advisors. Because many individual investors trust Morningstar's research and tools, our extensive reach with individual investors also drives demand for our other customer groups.

Our main product for individual investors is Morningstar.com, which includes both paid Premium Memberships and free content available to registered users and visitors. We also reach individual investors through a series of investment newsletters, iPad and mobile applications, and through licensing our content to other websites, such as Yahoo Finance, MSN Money, and Google Finance.

### Acquisitions

Since our founding in 1984, we've mainly focused on organic growth by introducing new products and services and expanding our existing offerings. From 2006 through 2015, we also completed 27 acquisitions to support our growth objectives. In 2015, we acquired Total Rebalance Expert (tRx), an automated, tax-efficient investment portfolio rebalancing platform for financial advisors.

For more information about our acquisitions, refer to Note 7 of the Notes to our Consolidated Financial Statements.



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### Major Products and Services

The section below describes some of our major products and services (ranked in order of size based on each product's 2015 revenue).

#### Morningstar Data

Morningstar Data gives institutions access to a full range of investment data spanning numerous investment databases, including real-time pricing and market data. We offer licenses and data feeds for our proprietary statistics, such as the Morningstar Style Box and Morningstar Rating, and a wide range of other data, including information on investment performance, risk, portfolios, operations data, fees and expenses, cash flows, and ownership. Institutions can use Morningstar Data in a variety of investor communications, including websites, print publications, and marketing fact sheets, as well as for internal research and product development.

We also offer Morningstar Data for equities, including financial statement data, consolidated industry statistics, stock ownership information, and proprietary Morningstar statistics. Our equity database now includes more than 43,000 companies globally covering 98% of the world's market capitalization.

In 2015, we introduced several new types of data feeds for managed products, including historical datasets for asset classification, Modern Portfolio Theory statistics, and summary portfolio statistics. We added portfolio-level information to indicate the percentage of stocks within a portfolio that receive our Economic Moat Ratings of Wide, Narrow, or None to provide investors and asset managers with a view of Morningstar's take on sustainable competitive advantage for the underlying portfolio holdings.

We've continued developing our data delivery platforms, including application programming interfaces (APIs), which allow for faster and more flexible client access to large groups of data files. We've expanded the number of data sets that are available through APIs and expanded the scope of data provided at the request of our clients.

Pricing for Morningstar Data is based on the number of investment vehicles covered, the amount of information provided for each security, the frequency of updates, the method of delivery, the size of the licensing firm, and the level of distribution.

Our main competitors for Morningstar Data include Activ Financial, Bloomberg, FactSet, Financial Express, Interactive Data, Standard & Poor's, Thomson Reuters, and Xignite.

Morningstar Data is our largest product based on revenue and accounted for 18.3%, 18.4%, and 18.8% of our consolidated revenue in 2015, 2014, and 2013, respectively.

#### Morningstar Advisor Workstation

Morningstar Advisor Workstation, a web-based investment planning system, provides financial advisors with a comprehensive set of tools for conducting their core business—including investment research, planning, and presentations. It allows advisors to build and maintain a client portfolio database that can be fully integrated with the firm's back-office technology and resources. Moreover, it helps advisors create customized reports for client portfolios that combine different types of investments.

Morningstar Advisor Workstation is available in two versions: Morningstar Office for independent financial advisors and an enterprise version for financial advisors affiliated with larger firms. As of December 31, 2015, approximately



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4,300 financial advisors in the United States were licensed to use Morningstar Office, and approximately 190 companies held licenses for the enterprise version of Morningstar Advisor Workstation.

In 2015, we introduced the new Morningstar for Advisors iPad app that helps advisors interact with clients, monitor investments, and analyze portfolios using Morningstar data and tools. We also added integrations with several leading third-party platforms to help advisors with all aspects of their daily workflows.

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Pricing for Morningstar Advisor Workstation varies based on the number of users, as well as the number of databases licensed and level of functionality. We typically charge annual fees of about \$3,400 per licensed user for a base configuration of Morningstar Advisor Workstation, but pricing varies significantly based on the scope of the license. We generally charge \$6,000 per user for an annual license for Morningstar Office, as well as additional fees for portfolio accounting and record-keeping services.

Competitors for Morningstar Advisor Workstation and Morningstar Office include Black Diamond, Envestnet, Orion Advisor Services, Standard & Poor's, and Thomson Reuters.

Morningstar Advisor Workstation is our second-largest product based on revenue and made up 13.5%, 13.4%, and 13.3% of our consolidated revenue in 2015, 2014, and 2013, respectively.

## Morningstar Direct

Morningstar Direct is an institutional investment research platform that includes data and advanced analytical tools on the complete range of securities in Morningstar's global database, as well as privately held investments and data from third-party providers. It helps portfolio managers, investment consultants, financial product managers, wealth managers, and other professionals develop, select, and monitor investments. Users can create advanced performance comparisons and in-depth analyses of an investment's underlying investment style, as well as custom-branded reports and presentations.

In 2015, we began rolling out the next-generation version of the platform: Morningstar Direct Cloud. So far, we've released new modules for Investment Analysis, which represents a complete rebuild of the user interface and data delivery systems, and Research Portal, which presents curated research from Morningstar's analyst teams. In addition, we introduced a new signature report for stocks as well as upgrades to the global mutual fund and ETF data reports included with the software.

Morningstar Direct's primary competitors are Bloomberg, eVestment Alliance, FactSet Research Systems, Thomson Reuters, and Zephyr Associates.

Morningstar Direct had approximately 11,400 licensed users worldwide as of December 31, 2015.

Pricing for Morningstar Direct is based on the number of licenses purchased. For clients in the United States, we generally charge an annual fee of \$17,000 for the first user, \$10,500 for the second user, and \$9,000 for each additional user.

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Morningstar Direct is our third-largest product based on revenue and accounted for 12.9%, 12.1%, and 11.4% of our consolidated revenue in 2015, 2014, and 2013, respectively.

Workplace Solutions (formerly Retirement Solutions)

This product line includes several different offerings, including retirement advice and managed accounts, plan sponsor advice, custom models, and financial wellness services.

Our advice and managed accounts program, Morningstar Retirement Manager, helps retirement plan participants with their retirement goals. As part of this service, we deliver personalized recommendations for a target savings goal, a recommended contribution rate to help achieve that goal, a portfolio mix based on risk tolerance, and specific investment recommendations. Participants can build their own portfolios based on our recommendations or elect to have their accounts managed by us through our managed retirement account offering. We do not hold assets in custody for the managed retirement accounts we provide.

In our plan sponsor advice business, we work with retirement plan sponsors to help them meet their fiduciary obligations by selecting and monitoring a broad range of diversified plan options.

With our custom models, we work with retirement plan providers to design customized models for their investment lineups, including target maturity models and risk-based models.

Through HelloWallet, we offer personalized financial guidance to more than 500,000 individuals and their families through their employer benefit plans. HelloWallet helps employees build a strong financial foundation by providing them with tools for emergency savings, debt management, and budgeting.

In 2015, we introduced the next-generation version of Morningstar Retirement Manager with a completely redesigned interface and user experience. The redesigned platform is designed to drive participant adoption into managed retirement accounts and improve operational support. We've started rolling out the new platform to clients and plan to continue transitioning our clients to the new platform during 2016.

Pricing for Workplace Solutions depends on several different factors, including the level of services offered (including whether the services involve acting as a fiduciary under the Employee Retirement Income Security Act, or ERISA), the number of participants, the level of systems integration required, and the availability of competing products. For HelloWallet, we charge employers for individual employee licenses at a rate of \$50 to \$100 per user per year.

Our main competitors for Workplace Solutions are Financial Engines, Guided Choice, Learnvest, and Personal Capital, as well as companies that provide automated investment advice, such as Betterment and Wealthfront.

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Workplace Solutions is our fourth-largest product based on revenue and accounted for 8.4% of our consolidated revenue in 2015, compared with 7.5% in 2014 and 6.5% in 2013.

### Morningstar.com

Our largest website for individual investors is Morningstar.com. Revenue for this product offering includes both Premium Memberships and Internet advertising sales, which each made up approximately half of Morningstar.com's total revenue in 2015. In addition to our U.S.-based site, we offer more than 30 regional investing websites customized to the needs of investors worldwide. Many of these sites feature coverage in local languages with tools and commentary tailored to specific markets.

We also offer paid Premium Membership, which includes access to written analyst reports on stocks, mutual funds, ETFs, and closed-end funds, as well as our Portfolio X-Ray, asset allocation and portfolio management tools, proprietary stock data, Stewardship Grades and Ratings, and premium stock and fund screeners. We currently offer Premium Membership services in Australia, Canada, China, Italy, the United Kingdom, and the United States.

In 2015, we introduced a beta version of the new Morningstar.com to a small group of site users. The site features a new user interface focused on helping individual investors select and monitor investments. As part of this upgrade, we developed a new stocks quote page that better surfaces Morningstar's proprietary research and ratings and makes it easier for individual investors to understand a company's performance and compare it with its competitors. We plan to continue rolling out the new site to additional users during 2016.

Morningstar.com primarily competes with The Motley Fool, Seeking Alpha, TheStreet.com, and Yahoo! Finance, as well as other finance and brokerage sites.

As of December 31, 2015, the free membership services offered through Morningstar.com had 10.1 million registered users worldwide. We also had approximately 120,000 paid Premium subscribers for Morningstar.com in the United States plus an additional 16,000 paid Premium subscribers in other global markets. We currently charge \$23.95 for a monthly subscription, \$199 for an annual subscription, \$339 for a two-year subscription, and \$439 for a three-year subscription for Morningstar.com's Premium Membership service.

Morningstar.com is our fifth-largest product based on revenue and accounted for 7.6% of our consolidated revenue in 2015, compared with 7.6% in 2014 and 8.0% in 2013.

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Investment Advisory

Our Investment Advisory business provides institutional investment advisory and management services for asset management firms, broker-dealers, and insurance providers. We offer Investment Advisory services through a variety of registered entities in Australia, Dubai, France, Hong Kong, India, Japan, South Africa, South Korea, the United Kingdom, and the United States. All of these entities are wholly owned or majority-owned subsidiaries of Morningstar, Inc., and are authorized to provide Investment Advisory services by the appropriate regulatory agency in their applicable jurisdictions.

Drawing on our proprietary research and methodologies, we deliver a variety of services, including asset allocation, manager evaluation, portfolio management, and 15(c) board consulting services. Many of our Investment Advisory agreements focus on investment monitoring and asset allocation for multimanager portfolios made up of managed investment products, such as mutual funds, separate accounts, and variable insurance trusts. We do not hold assets in custody in our Investment Advisory business.

Because of the diversity of our offerings, our Investment Advisory business competes with a wide assortment of firms. We compete with consulting firms such as Mercer, Callan, and Wilshire Associates, as well as various in-house providers of investment management services.

We base our pricing for our Investment Advisory services on the scope of work, our degree of investment discretion, and the level of service required. In the majority of our contracts, we receive asset-based fees, reflecting our work as a portfolio construction manager or subadvisor for multimanager portfolios.

Morningstar Enterprise Components

Morningstar Enterprise Components is a set of tools and capabilities that help institutional clients build customized websites or enhance their existing solutions. We offer a series of components, editorial content, and reports that investment firms can license to build or enhance their websites for financial advisors and individual investors. We also offer licenses for investment research, editorial content, and portfolio analysis and comparison tools that allow users to drill down into the underlying data when researching a potential investment.

For Enterprise Components, our primary competitors include Financial Express, Interactive Data Corporation, Markit on Demand, and Thomson Reuters.

Pricing for Enterprise Components consists of both ongoing license fees and one-time development fees and depends on the solution being offered, the number of users and level of distribution, and the amount of client integration involved.

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### Morningstar Managed Portfolios

Morningstar Managed Portfolios is a fee-based discretionary asset management service that includes a series of mutual fund, ETF, and stock portfolios tailored to meet specific investment time horizons and risk levels. We offer this service through Morningstar Investment Services LLC, a registered investment advisor, registered broker-dealer, member of the Financial Industry Regulatory Authority, Inc. (FINRA), and wholly owned subsidiary of Morningstar, Inc. We offer Morningstar Managed Portfolios mainly to fee-based independent financial advisors. These advisors are often affiliated with the corporate registered investment arms of insurance companies and independent and registered broker-dealers.

In 2015, we launched a multi-strategy proposal workflow, allowing advisors to create a proposal containing several portfolios.

We had approximately \$12.9 billion in assets under management with about 5,800 financial advisors using the service as of December 31, 2015. We charge asset-based fees for Morningstar Managed Portfolios, which are typically based on a tiered schedule that depends on the client's average daily portfolio balance. Fees for our mutual fund and ETF portfolios generally range from 30 to 40 basis points. We charge 45 to 55 basis points for Select Stock Baskets, which are customizable stock portfolios based on Morningstar's proprietary equity research and indexes. We use third-party custodians for Morningstar Managed Portfolios and do not hold the assets in custody.

For Morningstar Managed Portfolios, our primary competitors are AssetMark, Brinker Capital, Envestnet PMC, Loring Ward, and SEI Investments. We also compete with in-house research teams at independent broker-dealers who build proprietary portfolios for use on brokerage firm platforms, as well other registered investment advisors that provide investment strategies or models on these platforms.

### Morningstar Research

Morningstar Research includes both Equity Research services and Manager Research services. We offer equity research to institutional investors who use it to supplement their own research, as well as to broker-dealers who provide our research to their affiliated financial advisors or individual investor clients. Our Manager Research services help institutional investors and manager research due diligence teams evaluate funds, investment strategies, and asset management firms.

Our Equity Research services compete with Ford Equity Research, Ned Davis Research Group, Standard & Poor's, Zacks Investment Research, and several smaller research firms. For institutional clients, we compete with sell-side firms, internal providers, and smaller boutique firms. Our Manager Research services mainly compete with Mercer, Willis Towers Watson, and Wilshire Associates. Competitors for our credit research include Credit Sights, Fitch, Gimme Credit, Moody's, and Standard & Poor's.

Pricing for Morningstar Research varies based on the level of distribution, the type of investors who are using our research, the number of securities or investment strategies covered, the amount of custom coverage and client support required, and the length of the contract term.

### Morningstar Credit Ratings

Morningstar Credit Ratings, LLC is an NRSRO that provides timely new issue and surveillance ratings and analysis for structured credits, as well as operational risk assessment services. We provide ratings on a broad range of structured finance securities, including commercial mortgage-backed securities, single family rental securities, and

residential mortgage-backed securities. In 2015, we expanded our credit ratings and research to include coverage of other asset-backed securities.

Morningstar Credit Ratings has completed a preliminary application with the SEC to expand its NRSRO license to include ratings on corporate credits and financial institutions, including real estate investment trusts (REITs). We anticipate receiving approval for the expanded license during 2016.

This business competes with several other firms, including Dominion Bond Rating Services (DBRS), Fitch, Kroll Bond Ratings, Moody's, and Standard & Poor's.

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We charge annual fees for our subscription-based CMBS surveillance software and data services, which are paid for by the user. Pricing for these services varies depending on the solution and the level of access within a client organization. For new-issue ratings, we charge one-time fees to the issuer based on the type of security, the size of the transaction, and the complexity of the issue. In addition to the initial rating fee, clients pay annual surveillance fees that continue until the securities mature.

### Morningstar Indexes

We offer an extensive set of investment indexes that can be used to benchmark the market and create investment products, including indexes that track the U.S. market by capitalization, sector, and investment style; dividend indexes; active equity indexes based on Morningstar's equity research; bond indexes; commodity indexes; hedge fund indexes; and asset allocation indexes.

We currently license Morningstar Indexes to numerous institutions that offer ETFs and exchange-traded notes based on the indexes. Firms can license Morningstar Indexes for both product creation (where we typically receive the greater of a minimum fee or basis points tied to assets under management) and data licensing (where we typically receive annual licensing fees). In both cases, our pricing varies based on the level of distribution, the type of user, and the specific indexes licensed.

Major competitors for Morningstar Indexes include FTSE Russell, MSCI, S&P Dow Jones Indices (offered through McGraw Hill Financial), and Research Affiliates.

### Other Products and Services

We offer a variety of other products and services, including:

- Morningstar Investment Profiles: pre-made or custom-generated investment fact sheets institutions can use for investor communications;
- Morningstar Commodity Data: high-quality market data and analytical products for energy data management systems, financial and agricultural data management, historical analysis, trading, risk management and forecasting;
- Print and online publications;
- ByAllAccounts, which provides innovative data aggregation technology for financial applications;
- Investment conferences;
- Morningstar Enterprise Data Management: customized data aggregation and performance reporting solutions that help clients integrate data more effectively;
- Market data and desktop software; and
- Other investment software for financial advisors and institutions.

### International Operations

We conduct our business operations outside of the United States through wholly owned or majority-owned operating subsidiaries based in each of the following 26 countries: Australia, Brazil, Canada, Chile, Denmark, France, Germany, India, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, People's Republic of China (both Hong Kong and the mainland), Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, United Arab Emirates, and the United Kingdom. See Note 5 of the Notes to our Consolidated Financial Statements for additional information concerning revenue from customers and long-lived assets from our business operations outside the United States.



Intellectual Property and Other Proprietary Rights

We treat our brand, product names and logos, software, technology, databases, and other products as proprietary. We seek to protect this intellectual property by using trademark, copyright, patent and trade secrets laws; licensing and nondisclosure arrangements; and other security measures. For example, we generally provide our intellectual property to third parties through standard licensing agreements, which define the extent and duration of any third-party usage rights and provide for our continued ownership in any intellectual property furnished.

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Because of the value of our brand name and logo, we generally seek to register one or both of them in all of the relevant international classes under the trademark laws that apply to jurisdictions where we operate. We have registered the Morningstar name and/or logo in numerous countries and the European Union and have applied for registrations in various other countries. In some jurisdictions, we also register certain product names.

“Morningstar” and the Morningstar logo are registered marks of Morningstar in the United States and in certain other jurisdictions. The table below includes some of the trademarks and service marks referenced in this report:

HelloWallet®	Morningstar Office SM
Morningstar® Advisor Workstation SM	Morningstar® Ownership Zone SM
Morningstar Analyst Rating TM	Morningstar® Portfolio X-Ray®
Morningstar® ByAllAccounts®	Morningstar® Principia®
Morningstar® Data	Morningstar Rating™
Morningstar Direct SM	Morningstar® Retirement Manager SM
Morningstar® Enterprise Components SM	Morningstar® Stewardship Grade SM
Morningstar® Managed Portfolios SM	Morningstar Style Box™
Morningstar Market Barometer SM	Morningstar.com®

In addition to trademarks, we currently hold several patents in the United States, including patents held by Morningstar Investment Management LLC for lifetime asset allocation and asset allocation with annuities.

## License Agreements

We license our products and/or other intellectual property to our customers for a fee. We generally use our standard agreements, whether in paper or electronic form, and we do not provide our products and services to customers or other users without having an agreement in place.

We maintain licensing agreements with most of our larger operating companies. We put these agreements in place so these companies can use our intellectual property, such as our products and trademarks, to market our products and develop and sell country-specific variants of products under the Morningstar name in their operating territories.

In the ordinary course of our business, we obtain and use intellectual property from a wide variety of sources, including licensing it from third-party sources, developing it internally, and recording it based on information found in public filings.

## Seasonality

We believe our business has a minimal amount of seasonality. Some of our smaller products, such as our annual investment conference in Chicago, generate the majority of their revenue in the first or second quarter of the year. We sell most of our products with subscription or license terms of at least one year, though, and we recognize revenue ratably over the term of each subscription or license agreement. This tends to offset most of the seasonality in our business.

We believe market movements generally have more influence on our performance than seasonality. The revenue we earn from asset-based fees depends on the value of assets on which we provide advisory services, and the size of our asset base can increase or decrease along with trends in market performance.

## Largest Customer

In 2015, our largest customer accounted for less than 3% of our consolidated revenue.

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### Competitive Landscape

The economic and financial information industry includes a few large firms as well as numerous smaller companies, including startup firms. Some of our main competitors include Bloomberg; Standard & Poor's, a division of McGraw Hill Financial; and Thomson Reuters. These companies have financial resources that are significantly greater than ours. We also compete with a variety of other companies in specific areas of our business. We discuss some of the key competitors in each area in the Major Products and Services section of this report.

We believe the most important competitive factors in our industry are brand and reputation, data accuracy and quality, technology, breadth of data coverage, quality of investment research and analytics, design, product reliability, and value of the products and services provided.

### Research and Development

A key aspect of our growth strategy is to expand our investment research capabilities and enhance our existing products and services. We strive to adopt new technology that can improve our products and services. As a general practice, we manage our own websites and build our own software rather than relying on outside vendors. This allows us to control our technology development and better manage costs, enabling us to respond quickly to market changes and to meet customer needs efficiently. As of December 31, 2015, our technology team consisted of approximately 1,120 programmers and technology and infrastructure professionals.

### Government Regulation

#### United States

Investment advisory and broker-dealer businesses are subject to extensive regulation in the United States at both the federal and state level, as well as by self-regulatory organizations. Financial services companies are among the nation's most extensively regulated. The SEC is responsible for enforcing the federal securities laws and oversees federally registered investment advisors and broker-dealers.

Two of our subsidiaries, Morningstar Investment Management LLC and Morningstar Investment Services LLC, are registered as investment advisors with the SEC under the Investment Advisers Act of 1940 (Advisers Act). As registered investment advisors, these companies are subject to the requirements and regulations of the Advisers Act. These requirements relate to, among other things, record-keeping, reporting, and standards of care, as well as general anti-fraud prohibitions. As registered investment advisors, both subsidiaries are subject to on-site examination by the SEC.

In addition, because these subsidiaries provide investment advisory services to retirement plans and their participants, they may be acting as fiduciaries under the Employee Retirement Income Security Act of 1974 (ERISA). As fiduciaries under ERISA, they have duties of loyalty and prudence, as well as duties to diversify investments and to follow plan documents to comply with the applicable portions of ERISA.

Morningstar Investment Services is a broker-dealer registered under the Securities Exchange Act of 1934 (Exchange Act) and a member of FINRA. The regulation of broker-dealers has, to a large extent, been delegated by the federal securities laws to self-regulatory organizations, including FINRA. Subject to approval by the SEC, FINRA adopts rules that govern its members. FINRA and the SEC conduct periodic examinations of the brokerage operations of Morningstar Investment Services.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales, capital structure, record-keeping, and the conduct of directors, officers, and employees. Violation of applicable regulations can result in the revocation of a broker-dealer license, the imposition of censures or fines, and the suspension or expulsion of a firm or its officers or employees. As a registered broker-dealer, Morningstar Investment Services is subject to certain net capital requirements under the Exchange Act. These requirements are designed to regulate the financial soundness and liquidity of broker-dealers.

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Morningstar Credit Ratings, LLC is registered with the SEC as a Nationally Recognized Statistical Rating Organization (NRSRO) specializing in rating structured finance investments. As an NRSRO, Morningstar Credit Ratings is subject to certain requirements and regulations under the Exchange Act. These requirements relate to, among other things, record-keeping, reporting, governance, and conflicts of interest. As part of its NRSRO registration, Morningstar Credit Ratings is subject to annual examination by the SEC.

### Australia

Our subsidiaries that provide financial information services and advice in Australia, Morningstar Australasia Pty Limited and Ibbotson Associates Australia Ltd., are registered under an Australian Financial Services license and are subject to oversight by the Australian Securities and Investments Commission (ASIC). This license requires them to, among other things, maintain positive net asset levels and sufficient cash resources to cover three months of expenses and to comply with the audit requirements of the ASIC.

### United Kingdom

Morningstar Investment Management Europe Limited is authorized and regulated by the Financial Conduct Authority (FCA) to provide advisory services in the United Kingdom. As an authorized firm, Morningstar Investment Management Europe Limited is subject to the requirements and regulations of the FCA. Such requirements relate to, among other things, financial reporting and other reporting obligations, record-keeping, and cross-border requirements.

### Other Regions

We have a variety of other entities (including in Canada, France, Hong Kong, India, Japan, Korea, South Africa, and Thailand) that are registered with their respective regulatory bodies; however, the amount of business conducted by these entities related to the registration is relatively small.

Additional legislation and regulations, including those relating to the activities of investment advisors and broker-dealers, changes in rules imposed by the SEC or other U.S. or non-U.S. regulatory authorities and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may adversely affect our business and profitability.

### Employees

We had approximately 3,930 employees globally as of December 31, 2015, including approximately 780 data analysts, 80 designers, 440 investment analysts (including consulting and quantitative research analysts), 1,120 programmers and technology staff, and 530 sales and marketing professionals. Our U.S.-based employees are not represented by any unions, and we have never experienced a walkout or strike.

### Executive Officers

As of February 26, 2016, we had 10 executive officers. The table below summarizes information about each of these officers.

Name	Age	Position
Joe Mansueto	59	Chairman, Chief Executive Officer, and Director
Stéphane Biehler	48	Chief Financial Officer

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Bevin Desmond	49	Head of Global Markets and Human Resources
Catherine Gillis Odelbo	53	Head of Corporate Strategy and Partnerships
Kunal Kapoor	40	President
Haywood Kelly	47	Head of Global Research
Daniel E. Needham	37	President and Chief Investment Officer, Investment Management
Rob Pinkerton	46	Chief Marketing Officer
James Tanner	55	Head of Global Business Development and Sales
David W. Williams	55	Head of Design

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Joe Mansueto

Joe Mansueto founded Morningstar in 1984. He has served as our chairman since our inception and as our chief executive officer from 1984 to 1996 and from 2000 to the present.

Joe holds a bachelor's degree in business administration from The University of Chicago and a master's degree in business administration from The University of Chicago Booth School of Business.

Stéphane Biehler

As chief financial officer, Stéphane Biehler is responsible for corporate finance, accounting, tax, and investor relations. He joined us in 2013 and previously served as executive vice president, chief accounting officer, and corporate controller for NYSE Euronext, a global operator of financial markets, since 2007. Before the 2007 merger of NYSE Group with Euronext to form NYSE Euronext and the 2006 merger of Archipelago Holdings with the New York Stock Exchange to form NYSE Group, he was managing director and corporate controller for Archipelago Holdings, which he joined in 2004.

Stéphane holds a master's degree in international business from the University of Haute-Alsace in France.

Bevin Desmond

Bevin Desmond is head of global markets and human resources, a role she has held since 2010. She is responsible for identifying, developing, managing and directing international operations, and overseeing human resources functions for all of Morningstar's global operations. Previously, she was head of international operations from 2001 until 2010. She joined Morningstar in 1993.

Bevin holds a bachelor's degree in psychology from St. Mary's College.

Catherine Gillis Odelbo

Catherine Gillis Odelbo is head of corporate strategy and partnerships, responsible for working with Morningstar's senior management team on the company's overall strategic planning process, mergers and acquisitions, and major partnerships. She has been in this role since 2012. Previously, she was president of equity and credit research from 2009 to 2012. Cathy joined Morningstar in 1988.

She holds a bachelor's degree in American history from The University of Chicago and a master's degree in business administration from The University of Chicago Booth School of Business.

Kunal Kapoor

Kunal Kapoor is president of Morningstar. He is responsible for product development and innovation, sales and marketing, and driving strategic prioritization and accountability across the firm.

Before assuming his current role in 2015, Kunal was head of global products and client solutions. Kunal became head of our global client solutions group in 2013 and took on additional responsibility for the products group in February 2014. For part of 2013, he was president of our Data Division, and from 2010 until 2012, he was president of Equity and Market Data/Software. In 2009 and 2010, he was president of Individual Software. Kunal joined Morningstar in



1997.

He holds a bachelor's degree in economics and environmental policy from Monmouth College and a master's degree in business administration from The University of Chicago Booth School of Business. He also holds the Chartered Financial Analyst (CFA) designation.

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Haywood Kelly

Haywood Kelly is head of global research for Morningstar and oversees our global fund, equity, and credit research and data operations. Before taking on his current role in January 2014, he was head of equity and credit research since 2009 and took on additional responsibility for equity data in 2013. Haywood joined Morningstar in 1991.

He holds a bachelor's degree in economics from The University of Chicago, where he graduated as a member of Phi Beta Kappa. He also holds the CFA designation.

Daniel E. Needham

Daniel Needham is president and chief investment officer (CIO) of Morningstar Investment Management and is responsible for building world-class investment management solutions based on our proprietary research. Before taking on his current role in February 2015, he served as CIO for Morningstar Investment Management, and was previously managing director and CIO for Morningstar Investment Management's Asia-Pacific Operations. He joined our company when Morningstar acquired Intech Pty Ltd (now Ibbotson Associates Australia) in 2009, where he served as chief investment officer. Before joining Intech in 2002, Daniel worked for Zurich Financial Services in Sydney.

He holds a bachelor's degree in commerce with a major in finance and economics from the University of Sydney. He also holds the CFA designation.

Rob Pinkerton

Rob Pinkerton is our chief marketing officer and is responsible for overseeing our global marketing organization and corporate communications. He joined Morningstar through our June 2014 acquisition of HelloWallet, where he served as chief marketing officer. Before joining HelloWallet in 2012, Rob was a senior director for Adobe Systems, a computer software company, beginning in 2007. He previously served in executive marketing and product roles with LexisNexis and Siebel Systems (which was acquired by Oracle).

He holds a bachelor's degree in economics, political science, and history from the University of Richmond, a juris doctor degree from the University of Baltimore School of Law, and a master's degree in business administration with concentrations in information technology management, marketing, and strategy from Carnegie Mellon University.

James Tanner

James Tanner is head of global business development and sales for Morningstar. He joined us in January 2013. Previously he served as CEO of Markit On Demand, an Internet technology company he founded as Wall Street On Demand in 1991.

In addition to his role as founder and CEO of Wall Street On Demand, he served in various roles for the firms that have owned Wall Street On Demand, including vice chairman for business development for Markit in 2012, head of distribution for Markit in 2010 and 2011, and division head for Goldman Sachs from 2006 to 2010.

James holds a bachelor's degree in Russian language and literature from Haverford College and a master's degree in business administration from Harvard University.

David W. Williams

David Williams is head of design for Morningstar. He is responsible for corporate design and its application to brand identity, products, communications, and the workplace. He also oversees all aspects of Morningstar's design as it relates to our other core capabilities in research and technology. He joined us in 1993.

David holds a bachelor's degree in industrial design from The Ohio State University and a master's degree in fine arts from the Yale University School of Art.

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Company Information

We were incorporated in Illinois on May 16, 1984. Our corporate headquarters are located at 22 West Washington Street, Chicago, Illinois, 60602.

We maintain a website at <http://corporate.morningstar.com>. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to any of these documents are available free of charge on this site as soon as reasonably practicable after the reports are filed with or furnished to the SEC. We also post quarterly press releases on our financial results and other documents containing additional information related to our company on this site. We provide this website and the information contained in or connected to it for informational purposes only. That information is not part of this Annual Report on Form 10-K.

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Item 1A. Risk Factors

You should carefully consider the risks described below and all of the other information included in this Form 10-K when deciding whether to invest in our common stock or otherwise evaluating our business. If any of the following risks materialize, our business, financial condition, or operating results could suffer. In this case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Our investment management operations may subject us to liability for any losses that result from a breach of our fiduciary duties.

Two of our subsidiaries, Morningstar Investment Management LLC and Morningstar Investment Services LLC, are registered as investment advisors with the SEC under the Investment Advisers Act of 1940, as amended. As registered investment advisors, these companies are subject to the requirements and regulations of the Advisers Act. These requirements relate to, among other things, record-keeping, reporting, and standards of care, as well as general anti-fraud prohibitions. As registered investment advisors, both subsidiaries are subject to on-site examination by the SEC.

In addition, because these subsidiaries provide investment advisory services to retirement plans and their participants, they may be acting as fiduciaries under the Employee Retirement Income Security Act of 1974. As fiduciaries under ERISA, they have obligations to act in the best interest of their clients. They also have duties of loyalty and prudence, as well as duties to diversify investments and to follow plan documents to comply with the applicable portions of ERISA.

Our subsidiaries outside the United States that have investment advisory operations are subject to similar requirements.

We may face liabilities for actual or claimed breaches of our fiduciary duties, particularly in areas where we provide retirement advice and managed retirement accounts. In some of our retirement contracts, we act as an ERISA fiduciary by, for example, selecting and monitoring a broad range of diversified plan options. We also provide a managed account service for retirement plan participants who elect to have their accounts managed by our programs. As of December 31, 2015, we had \$40.3 billion in assets under management in our managed retirement accounts.

We rely on automated investment technology for our retirement advice and managed retirement accounts services. The Wealth Forecasting Engine is our core advice and managed accounts engine that determines appropriate asset allocations for retirement plan participants and assigns individuals to portfolios. We also rely on automated portfolio construction tools. Problems could arise if these programs assigned retirement plan participants to the wrong portfolios, particularly if we failed to detect program errors over an extended period. Clients may take legal action against us for an actual or claimed breach of a fiduciary duty. If we make an error, we may be subject to potentially large liabilities for make-whole payments and/or litigation. We cannot quantify the potential size of these liabilities with any level of precision.

In addition, we may face other legal liabilities based on the quality and outcome of our investment advisory recommendations, even in the absence of an actual or claimed breach of fiduciary duty, or based on our investment management fees and expenses. In total, we provided investment advisory and management services on approximately \$180 billion in assets as of December 31, 2015. We could face substantial liabilities related to our work on these assets.

Failing to maintain and protect our brand, independence, and reputation may harm our business. Our reputation and business may also be harmed by allegations made about possible conflicts of interest.

We believe independence is at the core of our business, and our reputation is our greatest corporate asset. We depend to a large extent on our reputation for integrity and high-caliber products and services. Any failure to uphold our high ethical standards and ensure that our customers have a consistently positive experience with us could damage our reputation as an objective, honest, and credible source for investment research and information. Allegations of improper conduct, whether the ultimate outcome is favorable or unfavorable to us, as well as any negative publicity or media reports about Morningstar, whether valid or not, may harm our reputation and damage our business.

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We offer products and services to institutional clients, which include banks, brokerage firms, insurance companies, mutual fund companies, media outlets, and retirement plan providers and sponsors. Our institutional clients generate a significant portion of our overall revenue. We provide ratings, analyst research, and investment recommendations on mutual funds and other investment products offered and securities issued by our institutional clients. We also provide investment advisory and investment management services. In some cases, we make investment recommendations (such as Select Lists) within the framework of client constraints. While we don't charge asset management firms for their products to be rated, we do charge licensing fees for the use of our ratings. We also receive payments from issuers for our new-issue ratings on commercial mortgage-backed securities. These payments may create the perception that our ratings, research, and recommendations are not impartial.

This perception may undermine the confidence of our customers and potential customers in our reputation as a provider of independent research. Any such loss of confidence or damage to our reputation could hurt our business.

Our reputation may also be harmed by factors outside of our control, such as news reports about our clients or adverse publicity about certain investment products. Our reputation could also suffer if we fail to produce competitive performance in our investment management offerings.

Failing to differentiate our products and continuously create innovative, proprietary research tools may harm our competitive position and business results.

We attribute much of our company's success over the past 30 years to our ability to develop innovative, proprietary research tools, such as the Morningstar Rating, Morningstar Style Box, Ownership Zone, and Portfolio X-Ray. More recently, we've developed unique concepts and tools such as the Wealth Forecasting Engine, Gamma, and Total Wealth Approach. We believe these innovations set us apart because most of our competitors focus on providing data or software rather than creating their own proprietary research frameworks. We also believe our ability to develop innovative, proprietary research tools is at the core of what drives Morningstar's value for all of our customer groups.

If we fail to continuously fuel our innovation engine and develop new tools to meet the needs of our customers, our competitive position and business results may suffer. In addition, our reputation could be harmed if we're perceived as not moving quickly enough to meet the changing needs of investors.

Our competitive position and business results may also suffer if other companies are able to successfully introduce innovative, proprietary research tools that gain attention from our clients. We believe lower technology costs and the growth of open software platforms have lowered the barriers to entry for new competitors, making it easier for new players to enter the market. Smaller companies, including startup firms funded by private equity and venture capital, may be able to move more quickly to develop research and tools that gain a wide following.

If we fail to introduce innovative, proprietary research tools and frameworks, we may not generate enough interest from potential clients to win new business. We cannot guarantee that we will successfully develop new product features and tools that differentiate our product offerings from those of our competitors.

Failing to respond to technological change, keep pace with new technology developments, or adopt a successful technology strategy may negatively affect our competitive position and business results.

We believe the technology landscape has been changing at an accelerating rate over the past several years. Changes in technology are fundamentally changing the ways investors access data and content. Examples include the shift from local network computing to cloud-based systems, the proliferation of wireless mobile devices, and rapid acceleration

in the use of social media platforms.

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While some changes in technology may offer opportunities for Morningstar, we cannot guarantee that we will successfully adapt our product offerings to meet evolving customer needs. We believe our ability to develop innovative technology has historically given us a competitive advantage. As mentioned above, though, we believe lower technology costs and growth in open software platforms have lowered barriers to entry for new competitors. Our competitors may also be able to introduce new technology more rapidly than we are to meet changing market needs. If we fail to develop and implement new technology rapidly enough, we may sacrifice new business opportunities or renewals from existing customers. We may also incur additional operating expense if major software projects take longer than anticipated. Our competitive position and business results may suffer if we fail to develop new technologies to meet client demands, if our execution speed is too slow, or if we adopt a technology strategy that doesn't align with changes in the market.

We could face liability related to our storage of personal information about individuals as well as portfolio and account-level information.

Customers routinely enter personal investment and financial information, including portfolio holdings, account numbers, and credit card information, on our websites. In addition, we handle increasing amounts of personally identifiable information in areas such as Morningstar Retirement Manager, HelloWallet, Morningstar Managed Portfolios, ByAllAccounts, Morningstar Office, Enterprise Data Management, and Morningstar.com. In 2014, we acquired HelloWallet, which provides personalized financial guidance to individuals through their employer benefit plans. Through HelloWallet's website and mobile applications, employees enter their goals and priorities and add their financial information, including income, bank accounts, credit cards, retirement plans, insurance, and investments. We also acquired ByAllAccounts, which uses technology to collect, consolidate, and transform financial account data and deliver it to any platform. Both HelloWallet and ByAllAccounts handle a large volume of personally identifiable information as part of their normal business operations.

Any failure to safeguard this information could damage our reputation and business results. We must continuously invest in systems, processes, and controls to guard against the risk of improper access to this information, which could be disclosed through employee errors, other inadvertent release, failure to restrict access, or failure to properly purge and protect data. We may suffer malicious attacks by individuals or groups seeking to penetrate our network and databases to gain access to personal data. These attacks have become increasingly frequent, sophisticated, and difficult to detect.

Contractual commitments to customers as well as laws and industry regulations related to data protection, system availability, and privacy require us to safeguard critical data. We are also required to take appropriate steps to safeguard credit card numbers, Social Security numbers, and other information about individuals or their accounts. Given the growing concern over data privacy and identity theft, we have been and expect to continue to be subject to increased scrutiny by clients and regulators. We could be subject to liability if we were to inappropriately disclose any user's personal information or if third parties were able to penetrate our network security or otherwise gain access to any user's name, address, Social Security number, account numbers, portfolio holdings, credit card information, or other personal information.

Compliance failures, regulatory action, or changes in laws applicable to our investment advisory or credit rating operations could adversely affect our business.

Our investment management operations are a growing part of our overall business. The securities laws and other laws that govern our investment advisory activities are complex. The activities of our investment advisory operations are subject to provisions of the Advisers Act and ERISA. In addition, Morningstar Investment Services is a broker-dealer registered under the Exchange Act and is subject to the rules of FINRA. We also provide investment advisory services

in other areas around the world, and our operations are subject to additional regulations in markets outside the United States. If we fail to comply with securities laws and other regulatory requirements, we may be subject to fines or other events that could have a negative effect on our business.

Over the past several years, we have also made significant investments in our credit rating business. Our Morningstar Credit Ratings, LLC subsidiary is an NRSRO that specializes in structured finance. As an NRSRO, Morningstar Credit Ratings is subject to various requirements and regulations under the Exchange Act relating to, among other things, record-keeping, reporting, governance, and conflicts of interest. As part of its NRSRO registration, Morningstar Credit Ratings is subject to annual examination by the SEC.

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We also publish credit ratings and research on corporate debt issuers and have completed a preliminary application to expand our NRSRO license to include ratings for corporate credits and financial institutions. Credit rating and research providers have been under increasing regulatory scrutiny.

The laws, rules, and regulations applicable to our business may change in the future, and we may not be able to comply with these changes. In addition, the broad scope of our business operations makes it more difficult to monitor areas that may be subject to regulatory and compliance risk. If we fail to comply with any applicable law, rule, or regulation, we could be fined, sanctioned, or barred from providing investment advisory or credit rating services in the future, which could adversely affect our business.

An outage of our database, technology-based products and services, or network facilities could result in reduced revenue and the loss of customers.

The success of our business depends upon our ability to deliver time-sensitive, up-to-date data and information. We rely on our computer equipment, database storage facilities, and other network equipment, much of which is geographically concentrated in our Chicago headquarters and other backup locations in the United States. We also have extensive information systems outside the United States. Our mission-critical databases and networks are increasingly complex and interdependent, which increases the risk of failure. Problems in our network systems may lead to cascading effects involving product downtime, overloading of third-party data centers, and other issues that may affect our clients. Many of our client contracts contain service-level agreements that require us to meet certain obligations for delivering time-sensitive, up-to-date data and information. We may not be able to meet these obligations in the event of failure or downtime in our information systems.

Our operations and those of our suppliers and customers are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist attacks, wars, computer viruses, and other events beyond our control. Our database and network facilities may also be vulnerable to external attacks that misappropriate our data, corrupt our databases, or limit access to our information systems. To defend against these threats, we implement a series of controls focusing on both prevention and detection, including firewalls, intrusion detection systems, automated scanning and testing, server hardening, anti-virus software, and patch management. We make significant investments in servers, storage, and other network infrastructure to prevent incidents of network failure and downtime, but we cannot guarantee that these efforts will work as planned.

Most of our products and services depend heavily on our electronic delivery systems and the Internet. Our ability to deliver information using the Internet may be impaired because of infrastructure failures, service outages at third-party Internet providers, malicious attacks, or other factors. If disruptions, failures, or slowdowns of our electronic delivery systems or the Internet occur, our ability to distribute our products and services effectively and to serve our customers may be impaired.

We maintain off-site back-up facilities for our data, but we cannot guarantee that these facilities will operate as expected during an interruption that affects our headquarters. There may be single points of failure that affect our core databases, data transfer interfaces, or storage area networks. We may not be able to fully recover data or information lost during a database or network facility outage. Any losses, service disruption, or damages incurred by us could have a material adverse effect on our business, operating results, or financial condition.

The concentration of data and development work carried out at our offshore facilities may have a negative effect on our business operations, products, and services.

We now have approximately 850 employees working in our data and technology development center in Shenzhen, China, or about one-fifth of our total workforce. We rely on these employees to maintain and update our mutual fund database and work on other projects. Because China has a restrictive government under centralized control, our operations are subject to political and regulatory risk, which is inherently unpredictable. Recent news reports have heightened concerns about problems related to data privacy, security, and protection of intellectual property rights in China, as well. The concentration of development and data work carried out at this facility also involves operational risks for our network infrastructure. While we have short-term backup plans in place, it would be difficult for us to maintain and update our mutual fund database if we were unable to access our Shenzhen operations for an extended period of time. Any difficulties that we face in continuing to operate our development center in China may harm our business and have a negative impact on the products and services we provide.

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We have approximately 500 employees who work at our data collection facility in Mumbai, India, which may also be subject to regulatory and political risk (including potential terrorist acts). Like the Shenzhen operation, these facilities also involve operational risks for our network infrastructure.

Our results could suffer if the mutual fund industry continues to experience slower growth, or if actively managed equity funds continue to attract less investor attention.

We generate a significant portion of our revenue from products and services related to mutual funds, and part of our growth since 1984 can be attributed to favorable industry trends. The mutual fund industry has experienced substantial growth over the past 30 to 40 years, but suffered along with the market downturn in 2008 and early 2009. Since then, fund assets have increased, but at a slower rate than in previous years.

A significant portion of our fund research has historically focused on equity-related funds. In addition, we are best-known for our data and analyst research on actively managed equity funds. Over the past 15 years, passively managed index funds have seen greater investor interest, and this trend has been more dramatic in recent years. In 2015, actively managed mutual funds suffered more than \$200 billion of net outflows, compared with net inflows of more than \$400 billion for passively managed funds. Overall, we estimate that passively managed portfolios now account for nearly one-third of combined mutual fund and ETF assets.

Continued downturns or volatility in the financial markets, increased investor interest in other investment vehicles, or a lack of investor confidence could continue to reduce investor interest and investment activity. In addition, a continued lessening of investor interest in actively managed equity funds could decrease demand for our products, including our software, data, and analyst research.

Downturns in the financial sector, global financial markets, and global economy may hurt our results, resulting in lower revenue from asset-based fees, transaction-based revenue, or other parts of our business.

Our business results are partly driven by factors outside of our control, including general economic and financial market trends. Any unfavorable changes in the environment we operate in could cause a corresponding negative effect on our business results. As a result, we may experience lower revenue, operating income, and other financial results in the event of a market downturn.

Many of our customers are asset management firms and other financial services companies, which are also subject to external trends and changes. For example, the financial crisis of 2008 and 2009 led to spending cutbacks among many of the companies we sell to. Some institutional clients have implemented additional review processes for new contracts or started providing certain services, such as investment management, in-house rather than hiring outside service providers. Some institutional clients have also reduced the scope of their operations. For example, several large insurers withdrew from the variable annuity market in recent years, while others curtailed their new sales efforts. This has had a negative effect on the services we provide to institutional clients that offer variable annuities.

Many companies in the financial services industry have also been subject to increasing government regulation and pressure to reduce fees, which may increase their operating costs and cause them to reduce spending.

In addition, our revenue from asset-based fees may be adversely affected by market declines as well as the level of cash outflows from portfolios that we help manage.

In 2015, revenue from asset-based fees made up approximately 15% of our consolidated revenue and a greater percentage of our operating income. The amount of revenue we earn from asset-based fees depends on the value of

assets on which we provide advisory services, and the size of our asset base can increase or decrease along with trends in market performance. The value of assets under advisement may show substantial declines during periods of significant market volatility. Asset levels can also be affected if net inflows into the portfolios on which we provide investment advisory services drop or if these portfolios experience redemptions. If the level of assets on which we provide investment advisory or investment management services goes down, we expect our fee-based revenue to show a corresponding decline.

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Our business results may also be hurt by negative trends in Internet advertising sales, which made up about 4% of consolidated revenue in 2015. Our structured credit rating business, which made up about 5% of consolidated revenue in 2015, is subject to volatility from trends in new issuance of commercial mortgage-backed securities and other structured credits. If industry-wide issuance for commercial mortgage-backed securities declines, our revenue associated with this line of business may also go down.

Our future success depends on our ability to recruit, develop, and retain qualified employees.

We experience competition for analysts, technology experts, and other employees from other companies and organizations. These organizations often have greater resources than we do and are often able to offer significantly more attractive compensation packages to potential employees. Competition for these employees is intense, and we may not be able to retain our existing employees or be able to recruit and retain other highly qualified personnel in the future.

Our future success also depends on the continued service of our executive officers, including Joe Mansueto, our chairman, chief executive officer, and controlling shareholder. Joe is heavily involved in our day-to-day operations, business strategy, and overall company direction. The loss of Joe or other executive officers could hurt our business, operating results, or financial condition. We do not have employment agreements, non-compete agreements, or life insurance policies in place with any of our executive officers. They may leave us and work for our competitors or start their own competing businesses.

Our operations outside of the United States involve additional challenges that we may not be able to meet.

Our operations outside of the United States generated \$203.7 million in revenue in 2015, or about 26% of our consolidated revenue. There are risks inherent in doing business outside the United States, including challenges in reaching new markets because of established competitors and limited brand recognition; difficulties in staffing, managing, and integrating non-U.S. operations; difficulties in coordinating and sharing information globally; differences in laws and policies from country to country; exposure to varying legal standards, including intellectual property protection laws; potential tax exposure related to transfer pricing and other issues; heightened risk of fraud and noncompliance; and currency exchange rates and exchange controls. These risks could hamper our ability to expand around the world, which may hurt our financial performance and ability to grow.

We don't engage in currency hedging or have any positions in derivative instruments to hedge our currency risk. Our reported revenue could suffer if certain foreign currencies decline relative to the U.S. dollar, although the impact on operating income may be offset by an opposing currency impact on locally based operating expense.

We could face liability for the information we publish, including information based on data we obtain from other parties.

We may be subject to claims for securities law violations, defamation (including libel and slander), negligence, or other claims relating to the information we publish, including our research and ratings on issuers of structured credits and corporate credits. For example, investors may take legal action against us if they rely on published information that contains an error, or a company may claim that we have made a defamatory statement about it or its employees. We could also be subject to claims based on the content that is accessible from our website through links to other websites. We rely on a variety of outside parties as the original sources for the information we use in our published data. These sources include securities exchanges, fund companies, hedge funds, transfer agents, and other data providers. Accordingly, in addition to possible exposure for publishing incorrect information that results directly from our own errors, we could face liability based on inaccurate data provided to us by others. Defending claims based on

the information we publish could be expensive and time-consuming and could adversely impact our business, operating results, and financial condition.



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Failure to protect our intellectual property rights could harm our brand and ability to compete effectively.

The steps we have taken to protect our intellectual property may not be adequate to safeguard our proprietary information. Further, effective trademark, copyright, and trade secret protection may not be available in every country in which we offer our services. Our continued ability to market one or more of our products under their current names could be adversely affected in those jurisdictions where another person registers or has a pre-existing registration on one or more of them. Failure to adequately protect our intellectual property could harm our brand, devalue our proprietary content, and affect our ability to compete in the marketplace.