

# Morningstar® Managed Portfolios<sup>SM</sup> Performance Overview February 2008

## Focused Strategies

### Returns Gross of Program Fees as of 02-29-08

|                        | 1 Month |           |            | Year-to-Date |           |            | 1 Year |           |            | 3 Year |           |            | 5 Year |           |            | Since Inception |           |            |
|------------------------|---------|-----------|------------|--------------|-----------|------------|--------|-----------|------------|--------|-----------|------------|--------|-----------|------------|-----------------|-----------|------------|
|                        | Return  | Benchmark | Difference | Return       | Benchmark | Difference | Return | Benchmark | Difference | Return | Benchmark | Difference | Return | Benchmark | Difference | Return          | Benchmark | Difference |
| Absolute Return        | 0.38%   | 0.20%     | 0.18%      | -1.23%       | 0.48%     | -1.71%     | 2.42%  | 4.13%     | -1.71%     | --     | --        | --         | --     | --        | --         | 7.03%           | 3.96%     | 3.07%      |
| Foreign Equity         | -0.48%  | 1.54%     | -2.02%     | -8.40%       | -7.24%    | -1.16%     | 0.70%  | 2.13%     | -1.43%     | 13.68% | 12.41%    | 1.27%      | 22.31% | 20.05%    | 2.26%      | 13.68%          | 12.32%    | 1.36%      |
| Global Opportunities   | -1.98%  | -0.58%    | -1.40%     | --           | --        | --         | --     | --        | --         | --     | --        | --         | --     | --        | --         | -4.69%          | -5.31%    | 0.62%      |
| Income Builder         | -0.88%  | 0.20%     | -1.08%     | -1.65%       | 0.48%     | -2.13%     | 0.62%  | 4.13%     | -3.51%     | --     | --        | --         | --     | --        | --         | 2.48%           | 4.25%     | -1.77%     |
| Income Builder - Muni  | -3.65%  | -4.36%    | 0.71%      | -3.06%       | -3.22%    | 0.16%      | -2.80% | -1.25%    | -1.55%     | --     | --        | --         | --     | --        | --         | -1.54%          | -0.50%    | -1.04%     |
| Institutional Income   | -1.78%  | -1.30%    | -0.48%     | -3.09%       | -2.53%    | -0.56%     | -1.99% | -0.50%    | -1.49%     | 4.99%  | 5.69%     | -0.70%     | --     | --        | --         | 5.88%           | 5.79%     | 0.09%      |
| Multi-Cap Growth       | -2.17%  | -2.03%    | -0.14%     | -11.30%      | -9.43%    | -1.87%     | 1.40%  | -0.57%    | 1.97%      | 5.97%  | 5.16%     | 0.81%      | 13.66% | 9.81%     | 3.85%      | 6.14%           | 2.52%     | 3.62%      |
| Multi-Cap Value        | -1.99%  | -4.00%    | 2.01%      | -6.03%       | -7.69%    | 1.66%      | -3.24% | -8.59%    | 5.35%      | 6.08%  | 4.93%     | 1.15%      | 13.42% | 12.80%    | 0.62%      | 5.91%           | 6.11%     | -0.20%     |
| Retirement Income      | -1.60%  | -1.33%    | -0.27%     | -3.22%       | -2.75%    | -0.47%     | -2.64% | -0.61%    | -2.03%     | 5.36%  | 6.05%     | -0.69%     | 9.33%  | 9.47%     | -0.14%     | 9.33%           | 9.47%     | -0.14%     |
| Retirement Income II   | -1.52%  | -1.33%    | -0.19%     | -3.11%       | -2.75%    | -0.36%     | -2.27% | -0.61%    | -1.66%     | 5.35%  | 6.05%     | -0.70%     | 9.27%  | 9.47%     | -0.20%     | 9.27%           | 9.47%     | -0.20%     |
| Small + Mid-Cap Equity | -1.90%  | -2.65%    | 0.75%      | -7.57%       | -8.33%    | 0.76%      | -4.51% | -9.55%    | 5.04%      | 5.20%  | 4.95%     | 0.25%      | 14.69% | 14.79%    | -0.10%     | 6.98%           | 7.29%     | -0.31%     |

### Returns Net of Program Fees as of 02-29-08

|                        | 1 Month | YTD     | 1 Year | 3 Year | 5 Year | Since Inception |
|------------------------|---------|---------|--------|--------|--------|-----------------|
| Absolute Return        | 0.38%   | -1.60%  | 0.89%  | --     | --     | 5.52%           |
| Foreign Equity         | -0.48%  | -8.74%  | -0.80% | 11.98% | 20.49% | 12.03%          |
| Global Opportunities   | -1.98%  | --      | --     | --     | --     | -4.69%          |
| Income Builder         | -0.88%  | -2.02%  | -0.88% | --     | --     | 1.15%           |
| Income Builder - Muni  | -3.65%  | -3.42%  | -4.25% | --     | --     | -2.82%          |
| Institutional Income   | -1.78%  | -3.45%  | -3.45% | 3.43%  | --     | 4.33%           |
| Multi-Cap Growth       | -2.17%  | -11.64% | -0.12% | 4.39%  | 11.97% | 4.60%           |
| Multi-Cap Value        | -1.99%  | -6.38%  | -4.69% | 4.50%  | 11.73% | 4.37%           |
| Retirement Income      | -1.60%  | -3.58%  | -4.10% | 3.79%  | 7.75%  | 7.75%           |
| Retirement Income II   | -1.52%  | -3.48%  | -3.73% | 3.78%  | 7.70%  | 7.70%           |
| Small + Mid-Cap Equity | -1.90%  | -7.91%  | -5.93% | 3.63%  | 12.98% | 5.43%           |

**Portfolio Performance** The portfolio returns presented are from portfolios seeded ("Seeded Portfolios") on the inception dates provided on page 2. Portfolios designated with a Roman Numeral were created due to closures of certain underlying funds to new investors within the original portfolios. Except for the underlying funds replacing those that are closed to new investors, these portfolios have the same underlying funds, investment objective, and time horizon as the original portfolios. Therefore, the historical performance for a portfolio designated with a Roman Numeral is a blend of the performance of the original portfolio and successive same-strategy portfolios as detailed in the Inception Dates table on page 2.

Return calculations assume all dividends and capital gains distributions are reinvested, are net of fund expenses, and are based on the underlying fund's net asset value as of close of trading on the New York Stock Exchange at the last business day of a month.

The Seeded Portfolios have similar investment objectives and strategies as the portfolios recommended to individual clients. The purpose in presenting the Seeded Portfolio performance is to provide a historical indication of the performance of this portfolio's strategy. The Seeded Portfolio may not have contained and/or currently may not contain the same mutual fund holdings as the mutual fund holdings currently underlying this portfolio.

**Past performance is no guarantee of future results. In no way should the Seeded Portfolio performance be considered indicative of or a guarantee of the future performance of this portfolio, nor should it be viewed as a substitute for the actual portfolios recommended to individual clients. Results of an investment made today in the Morningstar Managed Portfolios Program may differ substantially from the historical performance shown and as a result, an individual client may incur a loss.** Returns for periods over one year are annualized.

**Blended Benchmark Performance** The Benchmark returns noted next to the portfolio performance returns are of the blended benchmarks applicable to that portfolio strategy and, with the exception of the Absolute Return strategy, are not one particular index (i.e., Russell 3000). Please refer to the Benchmark Composition Section for more information.

The blended benchmark returns assume monthly rebalancing to benchmark target weights. The composition of the blended benchmarks may change over time primarily due to a material asset class change within a portfolio. Therefore, the historical performance of the blended benchmark represents the composite performance of past and current blended benchmark components.

Except for the Absolute Return strategy, the blended benchmark returns are derived by taking a weighted average of the returns of each underlying index minus a hypothetical expense charge. The hypothetical expense charge is a blend of the median of expense ratios for passive index mutual funds (excluding ETFs) in three asset classes: Domestic Equity, Fixed-Income and Foreign. Because market indexes are unmanaged and do not incur expenses, this expense adjustment is intended to allow for a more meaningful comparison. Please contact your investment advisory representative for more information about the blended benchmark.

**Net of Fee Calculation** assumes a 1.5% Total Maximum annual fee. The timing and the amount of fee deducted (based on the Maximum Annual Fee) is reflected in the Net of Fee performance in accordance with the Program's fee schedule. The purpose of the table is to illustrate the effect the Maximum Program Fee had on the Seeded Portfolio's investment experience for the time periods noted.

**Index Returns** as of 02-29-08

|                                 | 1 Month | YTD    | 1 Year  | 3 Year | 5 Year |
|---------------------------------|---------|--------|---------|--------|--------|
| Citi 3mth T-Bill (Tax-Adj.)     | 0.14%   | 0.33%  | 2.86%   | 2.72%  | 1.94%  |
| Citigroup 3mth T-Bill           | 0.22%   | 0.51%  | 4.43%   | 4.22%  | 3.01%  |
| LB Global Real: U.S. Tips       | 1.23%   | 5.24%  | 14.88%  | 6.83%  | 6.43%  |
| Lehman Brothers Aggregate       | 0.14%   | 1.82%  | 7.30%   | 5.18%  | 4.50%  |
| Lehman Brothers Muni            | -4.58%  | -3.38% | -1.17%  | 2.52%  | 3.35%  |
| Merrill Lynch High Yield Master | -1.16%  | -2.49% | -2.75%  | 4.12%  | 9.12%  |
| Morningstar Large Cap           | -3.19%  | -9.13% | -2.33%  | 5.77%  | 11.30% |
| Morningstar Mid Cap             | -2.46%  | -8.25% | -6.87%  | 7.52%  | 16.41% |
| Morningstar Small Cap           | -3.58%  | -9.34% | -11.10% | 4.33%  | 15.93% |
| MSCI World ex US                | 1.65%   | -7.57% | 2.48%   | 13.46% | 21.63% |
| MSCI World NR USD               | -0.58%  | -8.18% | -0.53%  | 9.28%  | 16.10% |
| NAREIT Equity REIT              | -3.56%  | -4.55% | -22.72% | 9.54%  | 17.78% |
| Russell 2500                    | -2.75%  | -8.69% | -9.74%  | 5.56%  | 16.07% |
| Russell 3000 Growth             | -2.10%  | -9.85% | -0.28%  | 5.80%  | 10.80% |
| Russell 3000 Value              | -4.17%  | -8.02% | -8.72%  | 5.56%  | 13.98% |

**3 Year Risk Statistics** as of 02-29-08

|                        | Comparison Index | Beta vs. Index | R-Squared vs. Index | Std Deviation Portfolio | Std Deviation Blended Bmark |
|------------------------|------------------|----------------|---------------------|-------------------------|-----------------------------|
| Foreign Equity         | MSCI WLD x US    | 0.97           | 95.06               | 11.16                   | 10.69                       |
| Institutional Income   | Russell 3000 Val | 0.43           | 88.06               | 4.21                    | 4.16                        |
| Multi-Cap Growth       | Russell 3000 Gr  | 1.15           | 95.96               | 11.91                   | 9.64                        |
| Multi-Cap Value        | Russell 3000 Val | 0.86           | 94.80               | 7.99                    | 8.57                        |
| Retirement Income      | Russell 3000 Val | 0.45           | 89.98               | 4.35                    | 4.31                        |
| Retirement Income II   | Russell 3000 Val | 0.45           | 89.13               | 4.38                    | 4.31                        |
| Small + Mid-Cap Equity | Russell 2500     | 0.84           | 96.49               | 10.42                   | 11.62                       |

**Risk Statistics** for portfolios designated with a roman numeral are blended statistics of the same-strategy original portfolio and the roman numeral portfolio. Except for the closures of some underlying funds to new investors in the original portfolios, these portfolios have the same objective, underlying funds, and time horizon. **See the definitions section for detailed methodology descriptions.**

**Index Returns** Individual index performance is provided as a reference only. Each index is unmanaged and is not available for direct investment. Since indices and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although Index performance data and expense ratios of passive index mutual funds are gathered from reliable sources, Morningstar Investment Services cannot guarantee its accuracy, completeness or reliability. Benchmark data sources are: Morningstar Inc., Russell Mellon Analytical Services, Lehman Brothers, Citigroup, Morgan Stanley, Merrill Lynch and NAREIT.

**All Strategy Allocations**

|                                 | Absolute Return | Foreign Equity | Global Opportunities | Income Builder | Income Builder - Muni | Institutional Income | Multi-Cap Growth | Multi-Cap Value | Retirement Income | Small + Mid-Cap Equity |
|---------------------------------|-----------------|----------------|----------------------|----------------|-----------------------|----------------------|------------------|-----------------|-------------------|------------------------|
| Citi 3mth T-Bill (Tax-Adj.)     | 0%              | 0%             | 0%                   | 0%             | 5%                    | 0%                   | 0%               | 0%              | 0%                | 0%                     |
| Citigroup 3mth T-Bill           | 100%            | 5%             | 5%                   | 100%           | 0%                    | 5%                   | 5%               | 5%              | 5%                | 5%                     |
| LB Global Real: U.S. Tips       | 0%              | 0%             | 0%                   | 0%             | 0%                    | 10%                  | 0%               | 0%              | 5%                | 0%                     |
| Lehman Brothers Aggregate       | 0%              | 0%             | 0%                   | 0%             | 0%                    | 33%                  | 0%               | 0%              | 39%               | 0%                     |
| Lehman Brothers Muni            | 0%              | 0%             | 0%                   | 0%             | 95%                   | 0%                   | 0%               | 0%              | 0%                | 0%                     |
| Merrill Lynch High Yield Master | 0%              | 0%             | 0%                   | 0%             | 0%                    | 10%                  | 0%               | 0%              | 8%                | 0%                     |
| Morningstar Large Cap           | 0%              | 0%             | 0%                   | 0%             | 0%                    | 25.6%                | 0%               | 0%              | 0%                | 0%                     |
| Morningstar Mid Cap             | 0%              | 0%             | 0%                   | 0%             | 0%                    | 6.4%                 | 0%               | 0%              | 0%                | 0%                     |
| Morningstar Small Cap           | 0%              | 0%             | 0%                   | 0%             | 0%                    | 0%                   | 0%               | 0%              | 0%                | 0%                     |
| MSCI World ex US                | 0%              | 95%            | 0%                   | 0%             | 0%                    | 0%                   | 0%               | 0%              | 7%                | 0%                     |
| MSCI World NR USD               | 0%              | 0%             | 95%                  | 0%             | 0%                    | 0%                   | 0%               | 0%              | 0%                | 0%                     |
| NAREIT Equity REIT              | 0%              | 0%             | 0%                   | 0%             | 0%                    | 10%                  | 0%               | 0%              | 8%                | 0%                     |
| Russell 2500                    | 0%              | 0%             | 0%                   | 0%             | 0%                    | 0%                   | 0%               | 0%              | 0%                | 95%                    |
| Russell 3000 Growth             | 0%              | 0%             | 0%                   | 0%             | 0%                    | 0%                   | 95%              | 0%              | 0%                | 0%                     |
| Russell 3000 Value              | 0%              | 0%             | 0%                   | 0%             | 0%                    | 0%                   | 0%               | 95%             | 28%               | 0%                     |
| Total                           | 100%            | 100%           | 100%                 | 100%           | 100%                  | 100%                 | 100%             | 100%            | 100%              | 100%                   |

**Inception Dates**

|                        |          |
|------------------------|----------|
| Absolute Return        | 03-31-05 |
| Foreign Equity         | 03-31-02 |
| Global Opportunities   | 01-04-08 |
| Income Builder         | 11-30-06 |
| Income Builder - Muni  | 11-30-06 |
| Institutional Income   | 01-27-04 |
| Multi-Cap Growth       | 03-31-02 |
| Multi-Cap Value        | 03-31-02 |
| Retirement Income      | 02-28-03 |
| Retirement Income II   | 03-15-04 |
| Small + Mid-Cap Equity | 03-31-02 |

**Please Note:** Benchmark Compositions and Asset Allocations for portfolios designated with a Roman Numeral are the same as those for the original portfolio.

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## Definitions

### Benchmark Descriptions

**Citigroup 3 Month T-Bill Index** – Represents the average of T-Bill rates for each of the prior three months, adjusted to a bond equivalent basis.

**Lehman Brothers (LB) Aggregate Bond Index** – A market-value weighted index for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

**Lehman Brothers (LB) U.S. TIPS Index** – Measures the performance of inflation-protection securities issued by the U.S. Treasury. Securities must have at least one year to final maturity and at least \$100 million par amount outstanding.

**Merrill Lynch (ML) High Yield Master Index** – A market-value weighted index of all domestic and Yankee high-yield bonds. Issues included in the index have maturities of at least one year and have a credit rating lower than BBB-Baa3, but are not in default.

**Merrill Lynch (ML) Convertible Securities** – A market-value weighted index including mandatory and non-mandatory domestic corporate convertible securities.

**MSCI World ex U.S. Index** – Morgan Stanley Capital International stock index that measures the investment returns of developed markets from around the world, excluding the U.S.

**Morningstar® Large-Cap Index** – The Morningstar Large Cap Index tracks the performance of U.S. large-cap stocks—stocks that represent the largest 70 percent capitalization of the investable universe.

**Morningstar® Mid-Cap Index** – The Morningstar Mid Cap Index tracks the performance of U.S. mid-cap stocks—stocks that fall between 70th and 90th percentile in market capitalization of the investable universe. In aggregate the Mid-Cap Index represents 20 percent of the investable universe.

**Morningstar® Small-Cap<sup>SM</sup> Index** – The Morningstar Small Cap Index tracks the performance of U.S. small-cap stocks—stocks that fall between 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small Cap Index represents 7 percent of the investable universe.

**NAREIT Equity REIT Index** – A market-capitalization weighted index that includes healthcare and net lease REITS but excludes real estate operating companies. There is no minimum size or liquidity requirement for an equity REIT to be included in this index.

**Russell 2500 Index** – Measures the performance of the 2,500 smallest companies in the Russell 3000 Index, which represents approximately 17% of the total market capitalization of the Russell 3000 Index.

**Russell 3000 Index** – A market-capitalization weighted index that includes the 3,000 largest U.S. companies based on total market capitalization.

**Russell 3000 Growth Index** – A market-capitalization weighted index that measures the performance of companies within the Russell 3000 Index having higher price-to-book ratios and higher forecasted growth values.

**Russell 3000 Value Index** – A market-capitalization weighted index that measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

### Risk Statistics

**Beta** – Measures the degree of change in value one can expect in a portfolio given a change in value in an index. A portfolio with a beta greater than one is generally more volatile than the index, while a portfolio with a beta of less than one is generally less volatile than the index. Beta is calculated by regressing a portfolio's excess returns vs. Treasury bills (a relatively risk-free investment) to a market index's excess returns vs. Treasury bills.

**R-squared** – Reflects the percentage of a portfolio's movements that are explained by movements in an index. A high R-squared (85-100) indicates the portfolio performance closely follows the index. R-squared is calculated based on a regression analysis of the portfolio's returns to the returns of the index.

**Standard Deviation** – A measure of the volatility of a portfolio or a blended benchmark's returns around its mean. A high standard deviation indicates a wide monthly performance range and more volatility than does a low standard deviation. The standard deviation is calculated from the difference between the actual monthly returns for a given time period and the average monthly return over the same time period.