Working with Custom Benchmarks and Model Portfolios

Morningstar Office Cloud

MORNINGSTAR Office

Contents

Working with Custom Benchmarks and Model Portfolios

Overview

Custom benchmarks and model portfolios are tools you create to help better manage your clients and accounts. Once created, model portfolios and custom benchmarks are managed within the Workspace area.

Models can be viewed within a Model Portfolio grid and analytical view. The Model Portfolio analytical view is a series of tabs, which contains charts and tables. Charts and tables can be customized to include custom benchmarks which are used to compare your line up with similar line ups within the marketplace.

This manual describes the following topics:

- Creating Custom Benchmarks and Model Portfolios (page 5)
- Analyzing Custom Benchmarks and Model Portfolios using the Analytical View (page 12)

Creating Custom Benchmarks and Model Portfolios

Overview

Custom benchmarks and model portfolios help you construct client accounts and portfolios that align to a specific strategy and are competitive in the marketplace.

In this section, you will learn how to do the following:

- recognize the difference between a model portfolio and a custom benchmark (page 5)
- create a custom benchmark (page 6), and
- create a model portfolio (page 7).

What is the difference between a model portfolio and a custom benchmark?

In Morningstar Office Cloud, custom benchmarks and model portfolios are similar in structure, however, each serves its own unique purpose. The table below describes the purpose of each tool and how it is constructed:

Use this…	For this purpose…	With these holdings…
Custom Benchmark	A benchmark is used as a comparison mechanism to ensure that your clients' accounts and portfolios are performing in lock-step with the market. Create multiple custom benchmarks to ensure that you are making apples-to-apples comparisons against your clients' accounts.	Blend multiple indexes together to create a benchmark that mirrors the investments in your clients' accounts.
Model portfolio	A model portfolio is a portfolio comprised of your preferred holdings, designed to show the strategy you are proposing for your clients. Create multiple models or strategies to align with the goals and objectives of individual clients.	Select preferred holdings in specific asset classes to design specific strategies.

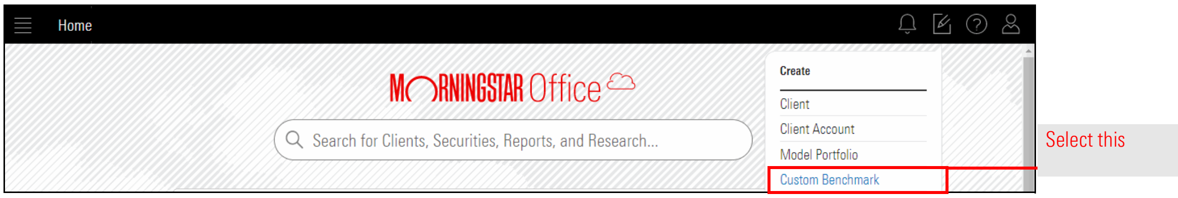
Exercise 1: Create a custom benchmark

Before creating a custom benchmark, be sure to select the indices you want to blend. You can either create or import an investment list containing the indexes, or you can manually select each index to include.

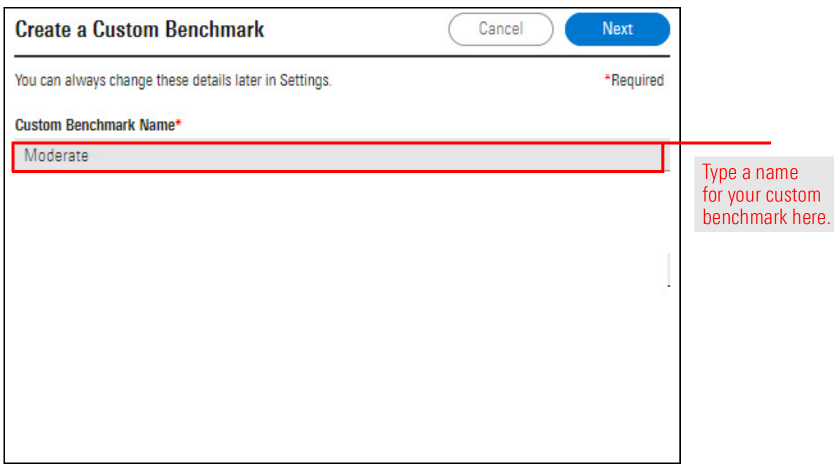
In this exercise, you will manually select each index.

To create a custom benchmark, do the following:

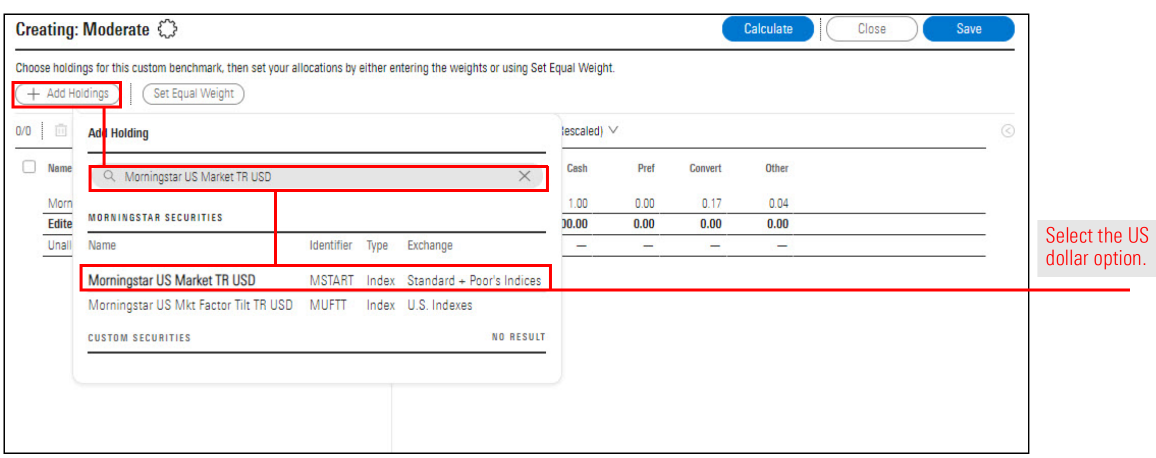
1. On the header, click the **Create** icon, then select **Custom Benchmark.** The Create a Custom Benchmark box opens.



2. In the **Custom Benchmark Name** field, type **Moderate**. Then click **Next**. The Creating Moderate box opens.



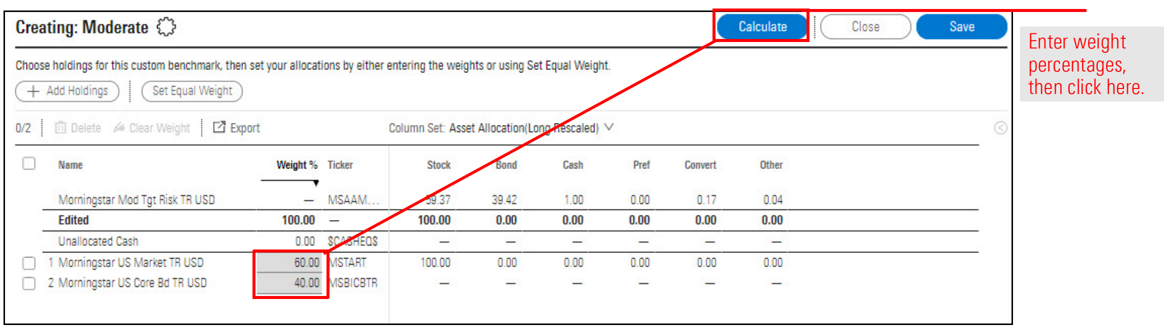
3. Click the **Add Holdings** button. The Add Holdings menu opens.
4. In the **Type to Search** field, type **Morningstar US Market TR USD**.
5. From the **Morningstar Securities** area, select the matching item.



6. In the **Type to Search** field, type **Morningstar US Core Bd TR USD**.
7. From the **Morningstar Securities** area, select the matching item. Click off the Add Holdings menu to close.
8. In the **Weight %** column, enter the following percentages:

Index	Weight
Morningstar US Market TR USD	60
Morningstar US Core Bd TR USD	40

9. At the top of the window, click **Calculate**. The allocation totals update.



10. Click **Save**.

Exercise 2: Create a model portfolio

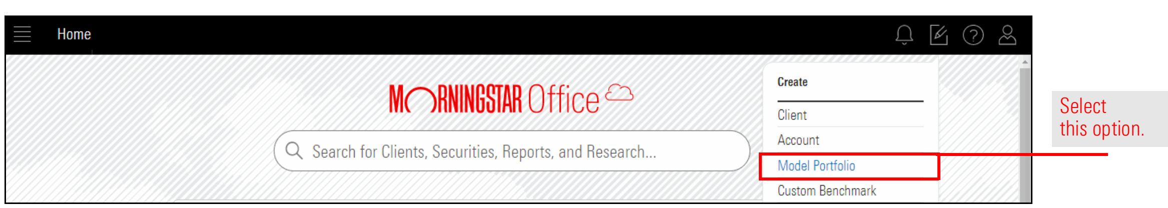
As with the process for creating a custom benchmark, be sure to select the preferred holdings to include before creating a model portfolio. Again, you can either create or import an investment list containing your preferred investments, or you can select each investment individually.

Before completing this exercise, create an investment list named Preferred Investments. Click here to access a Microsoft Excel file containing investments to include in your list.

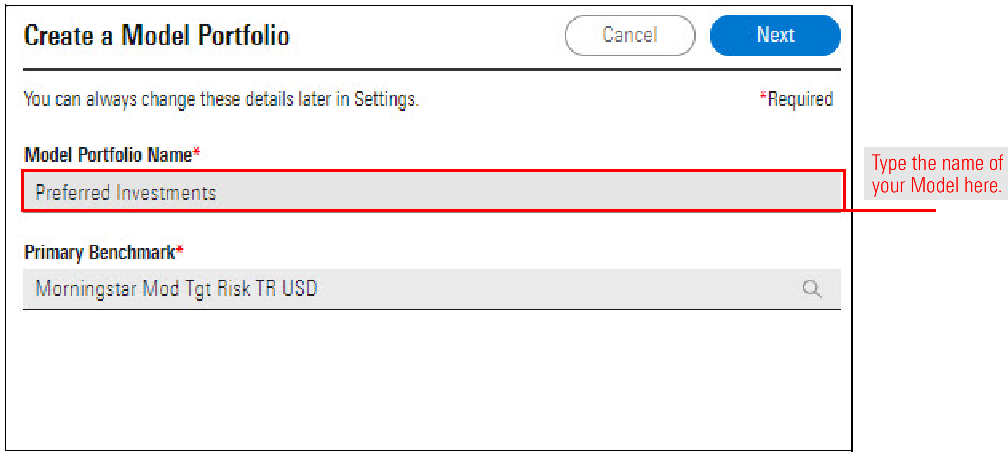
☞ Note: For instruction on importing a list, click here.

To create a model portfolio, do the following:

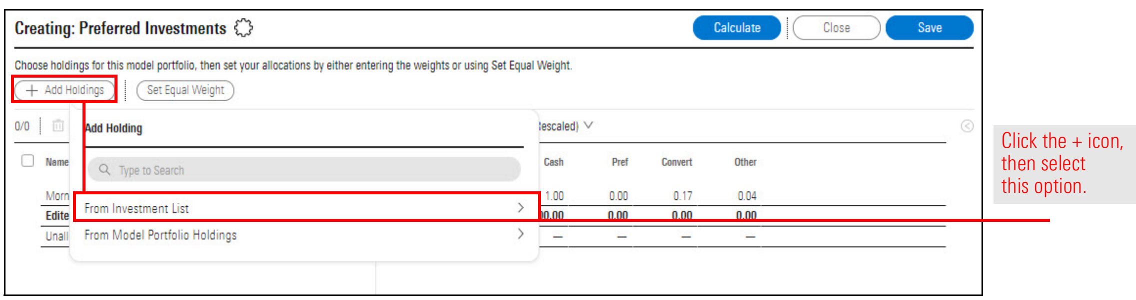
1. On the header, click the **Create** icon, then select **Model Portfolio.** Create a Model Portfolio box opens.



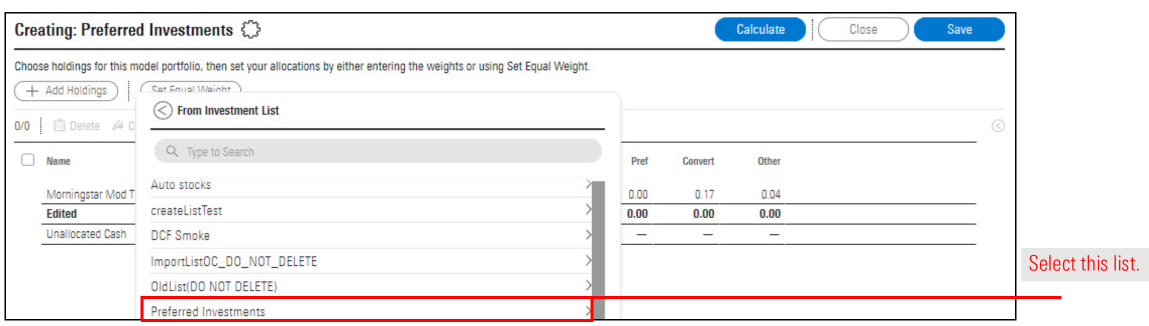
2. In the **Model Portfolio Name** field, type **Preferred Investments.** Then click **Next**. The Creating: Preferred Investments box opens.



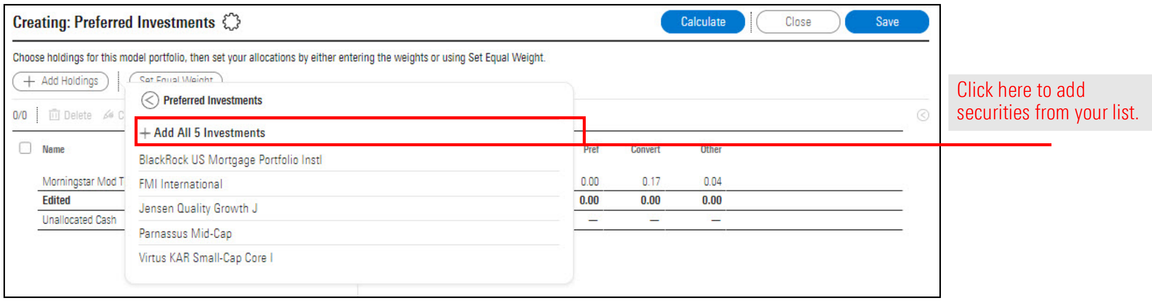
3. Click the **Add Holdings** button. The Add Holdings menu opens.
4. Select **From Investment List**. The Investment List menu opens.



5. Select **Preferred Investments**. The Preferred Investments menu opens.



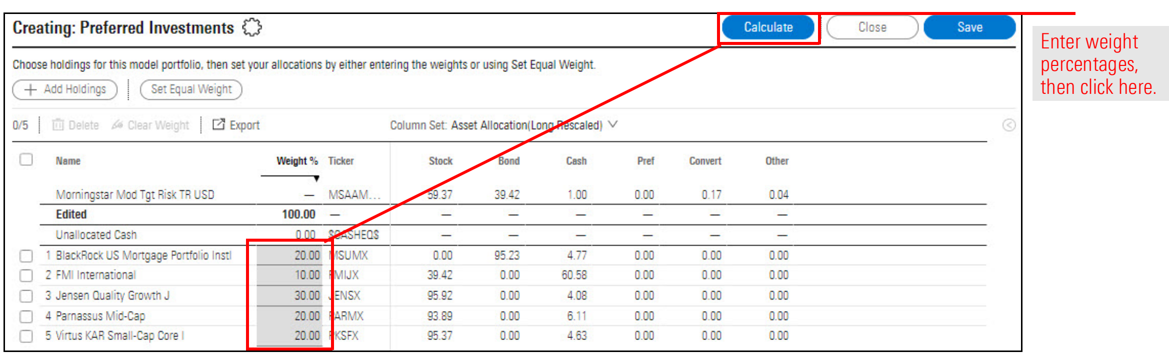
6. From the top of the Preferred Investments menu, select **+ Add All 5 Investments**. The investments are added. Click off the Add Holdings menu to close



7. To **close** the Preferred Investments menu, click outside it.
8. In the Weight column, add the following percentages:

Index	Weight
BlackRock US Mortgage Portfolio Instl	20
FMI International	10
Jensen Quality Growth J	30
Parnassus Mid-Cap	20
Virtus KAR Small-Cap Core I	20

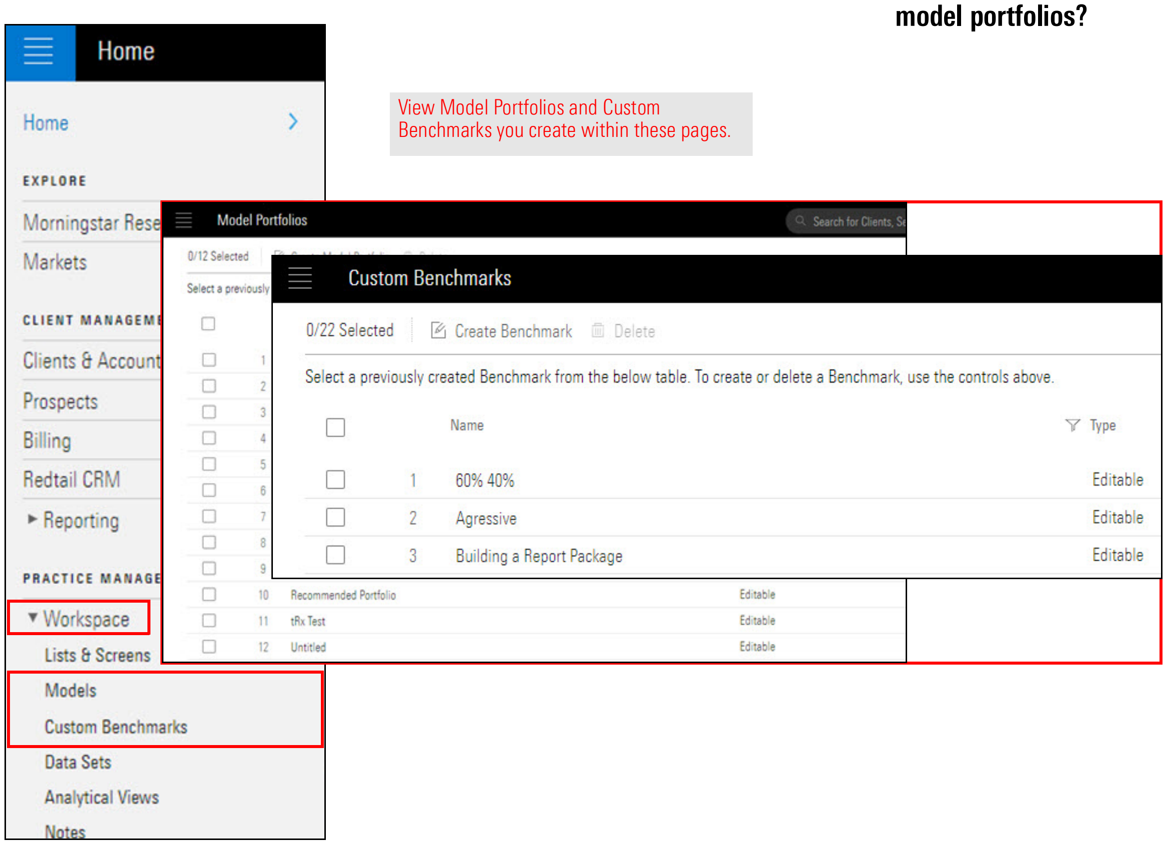
9. At the top of the window, click **Calculate**. The allocation totals update.



10. Click **Save**.

Where do I locate custom benchmarks and model portfolios?

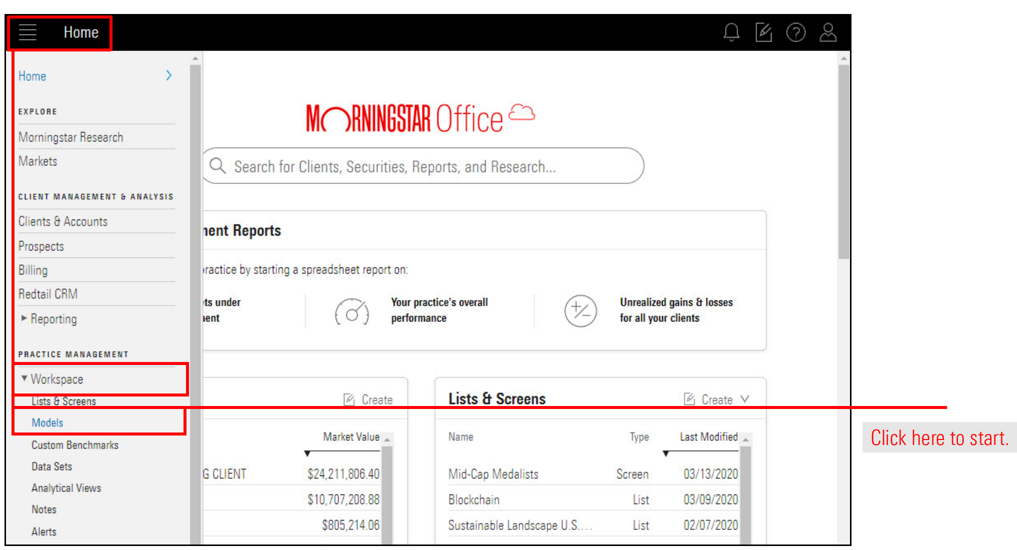
Once created, you can locate Model Portfolios and Custom Benchmarks within the Menu under Workspace.



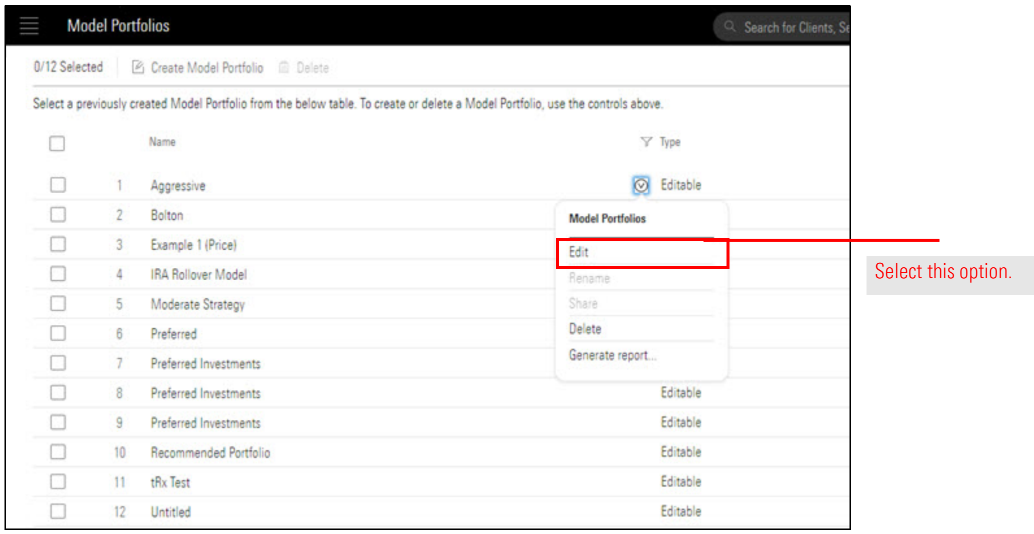
How do I edit a Model Portfolio?

To edit a model portfolio, do the following:

1. From the Menu, select **Workspace > Models**. The Model Portfolios page opens.



2. **Hover the cursor** over the **model** you want to edit, then select the **Action** drop-down menu.
3. From the **Model Portfolios** drop-down menu, select **Edit**. A window opens.



4. **Add** or **remove investments,** or **change allocation**.

   ☞ Note: Repeat these steps to edit a Custom Benchmark.

5. Click **Save.**

Analyzing Custom Benchmarks and Model Portfolios using the Analytical View

Overview

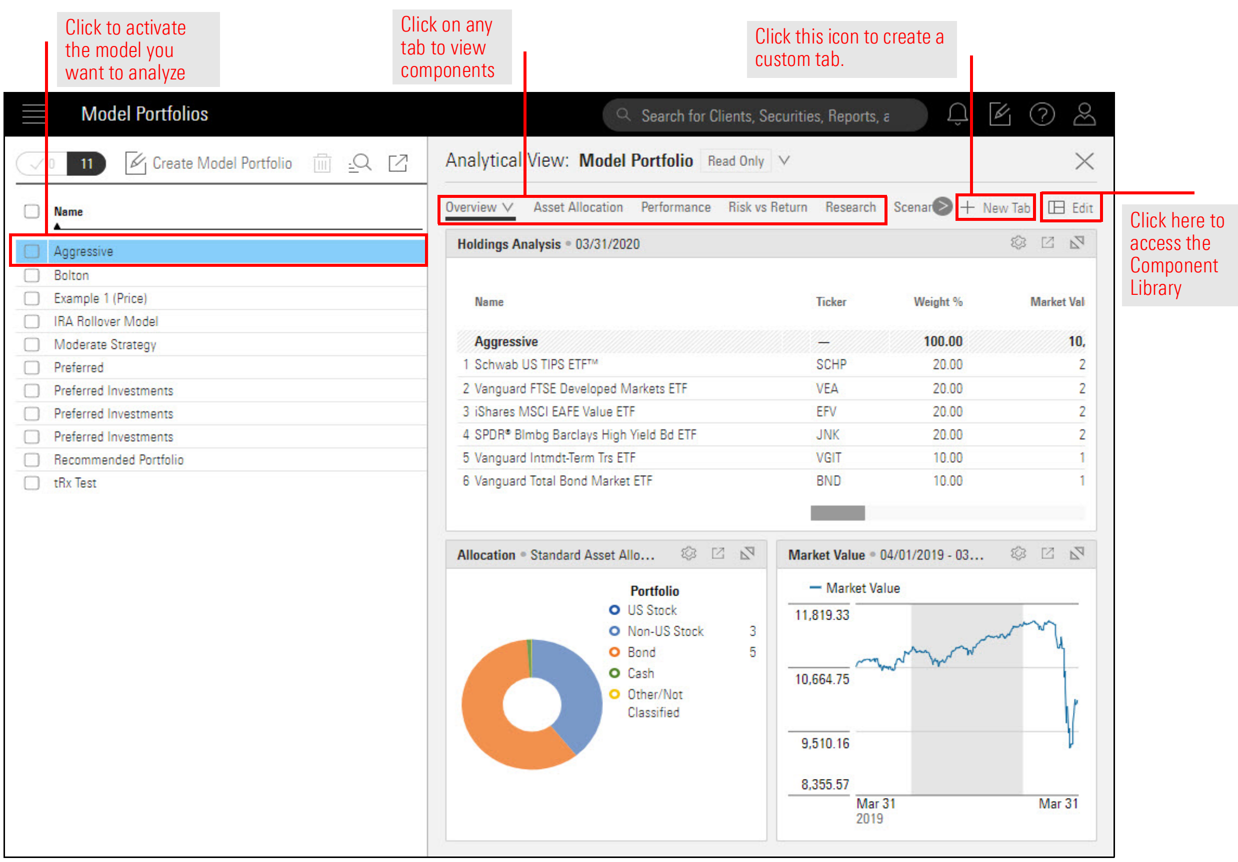
Once created, analyze your custom benchmarks and model portfolios within the Models analytical view. Here, you can review performance, asset allocation, risk and more for each model portfolio to ensure that your recommended strategies meet your clients' needs. You can also apply a custom benchmark to charts and graphs to compare your model portfolio with market conditions.

In this section, you will learn how to do the following:

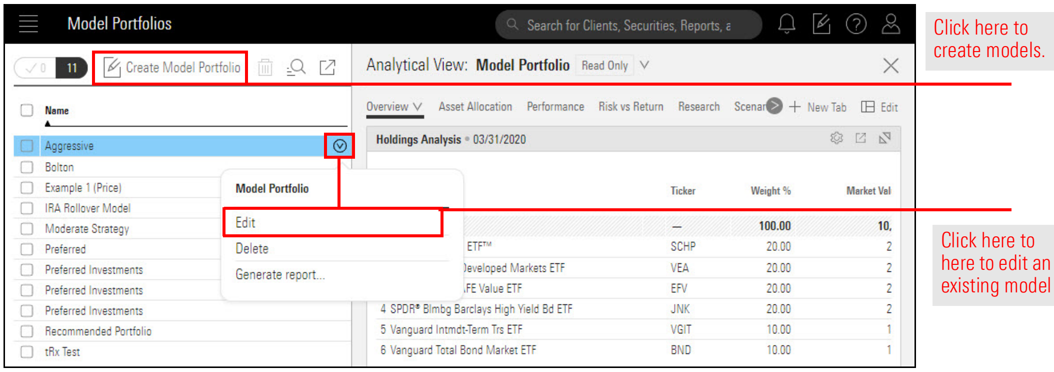
- recognizing functionality within the Model Portfolio analytical view(page 12).
- assigning a custom benchmark to a chart or table(page 13)
- customizing a tab (page 15)
- running a report for a model portfolio (page 18)
- adding notes, and (page 20)
- saving a custom analytical view. (page 21)

What functionality is available within the Model Portfolio analytical view?

The Model Portfolio area contains a list of your model portfolios, along with an analytical view fly-in panel that contain charts and tables that help you analyze your models. You can customize tabs, or create your own tabs from scratch using the Edit panel.



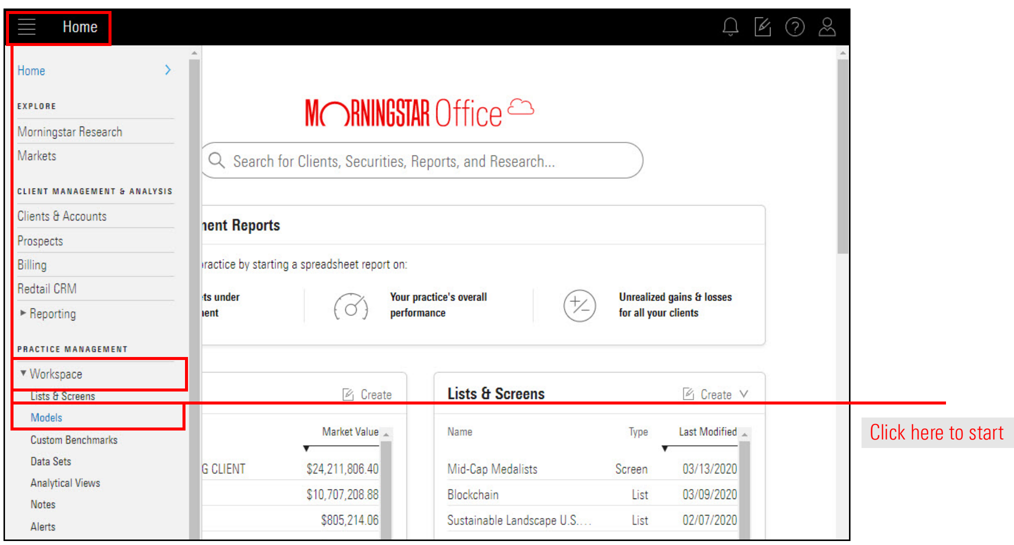
You can also edit existing model portfolios, create new model portfolios and export models, directly from the Grid.



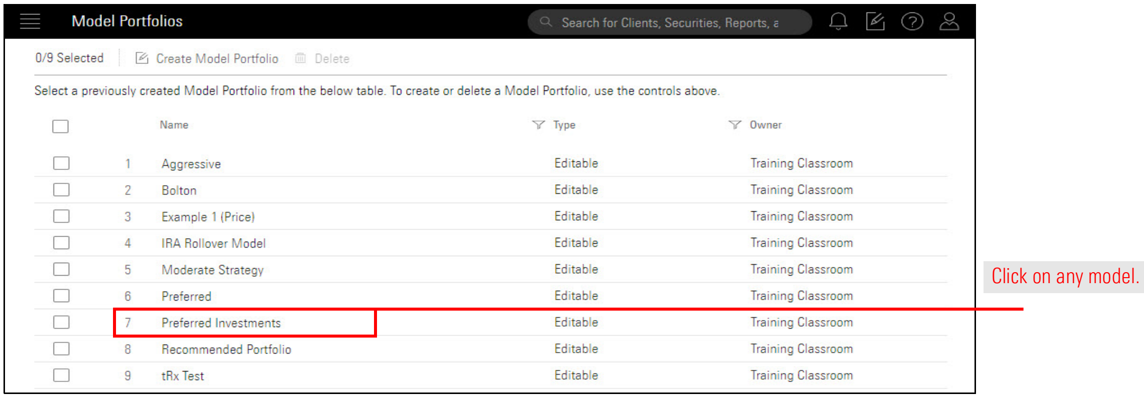
Exercise 3: Assign a custom benchmark to a component

Assigning custom benchmarks to charts and tables helps to ensure that the investment lineup within the model remains competitive against the marketplace. In this exercise, you will assign the custom benchmark you created in Exercise 1 to the Historical Returns chart.

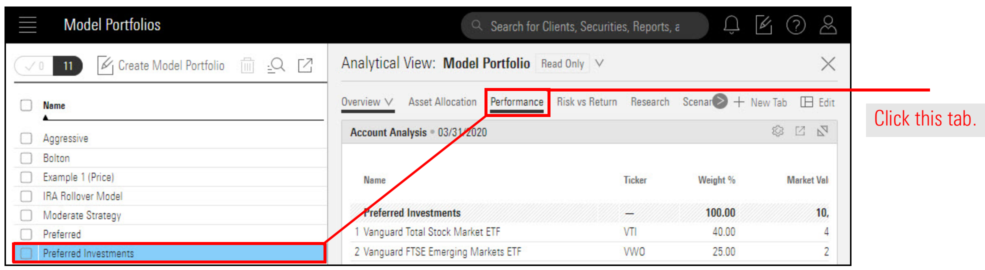
1. From the **Menu**, select **Workspace > Models**. The Model Portfolios page opens.



2. Click on a **model**. The Model Portfolio analytical view opens.

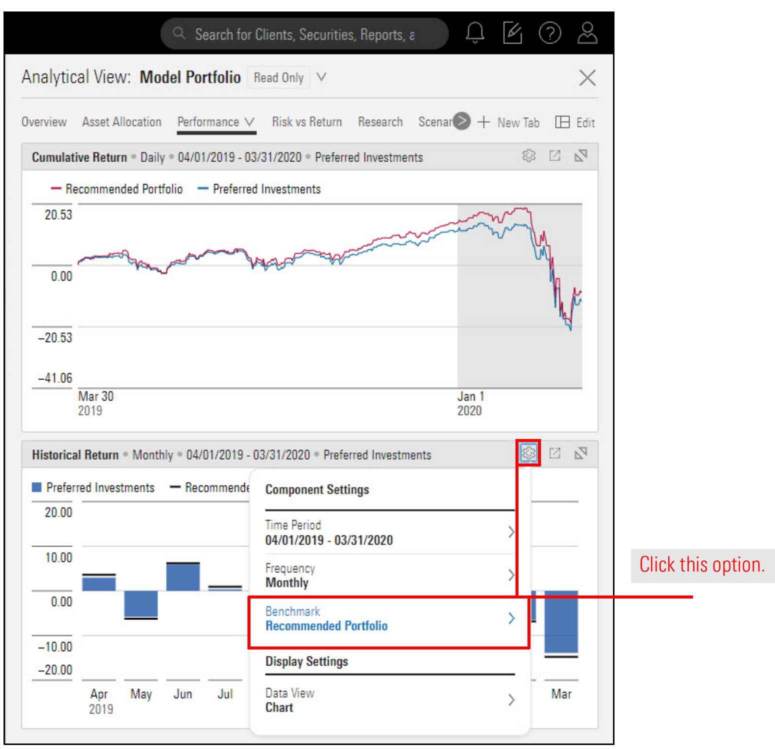


3. From the analytical view, select the **Performance** tab.

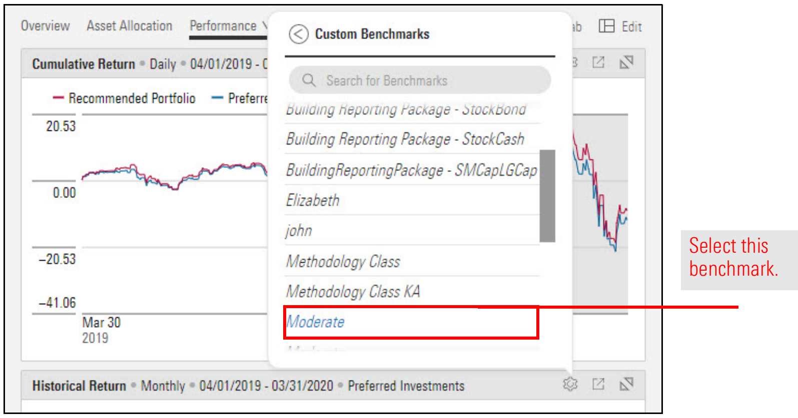


4. In the header of the Historical Return Monthly chart, click the **Settings** icon. The Component Settings menu opens.

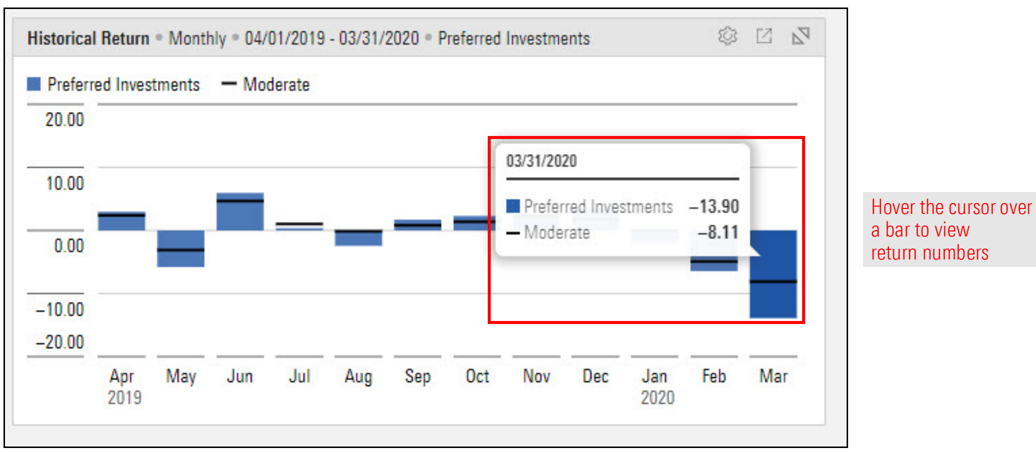
5. From the Settings menu, select **Benchmark**. The Benchmark menu opens.



6. Select **User Created**. The User Created menu opens.
7. Select **Custom Benchmarks**. The Custom Benchmarks menu opens.
8. Select the **Moderate** benchmark.



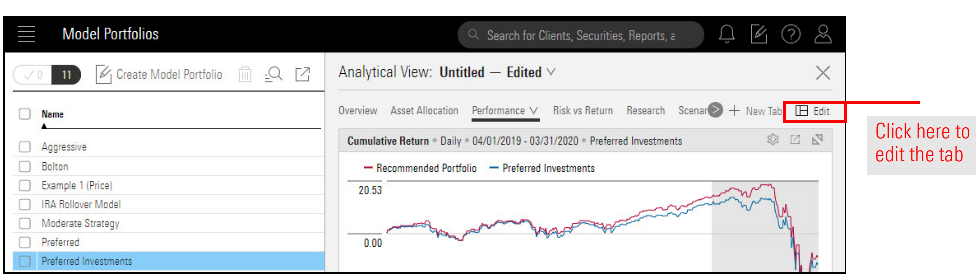
9. **Click away** from the Component Settings menu to close it. The benchmark used in the component will change the custom benchmark you selected. Remain on the Performance tab.



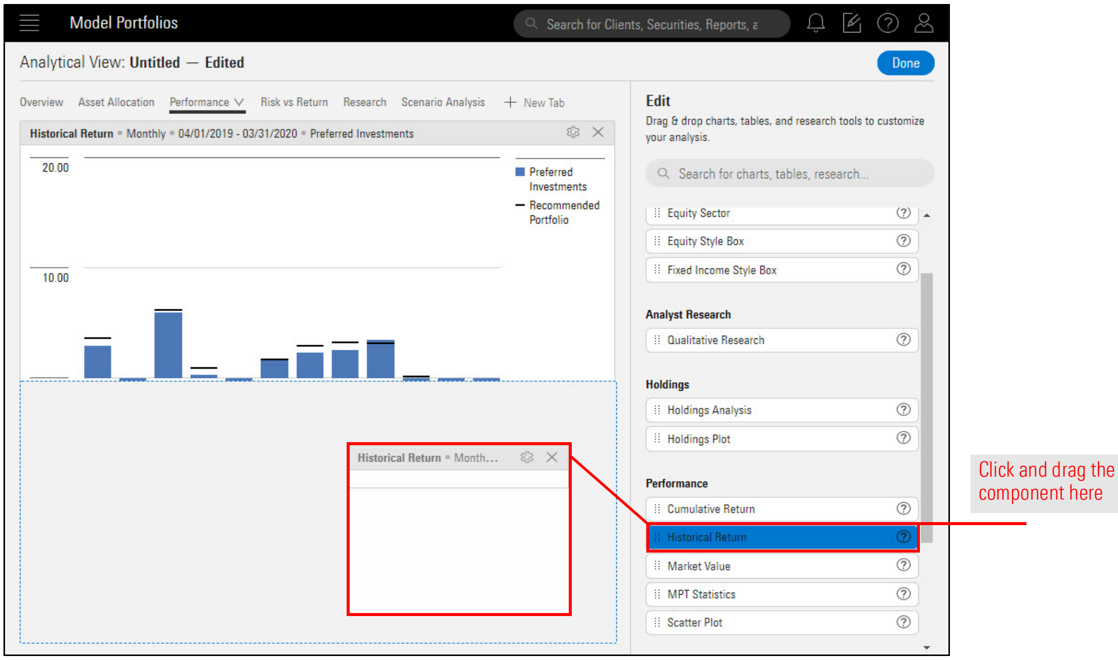
Exercise 4: Create a custom tab

In addition to comparing your model portfolio against a custom benchmark, you may want to customize a tab to compare different time frames. In this exercise, you will add a second Historical Returns component to the Performance tab to compare returns at different frequencies. To add a component to a tab, do the following:

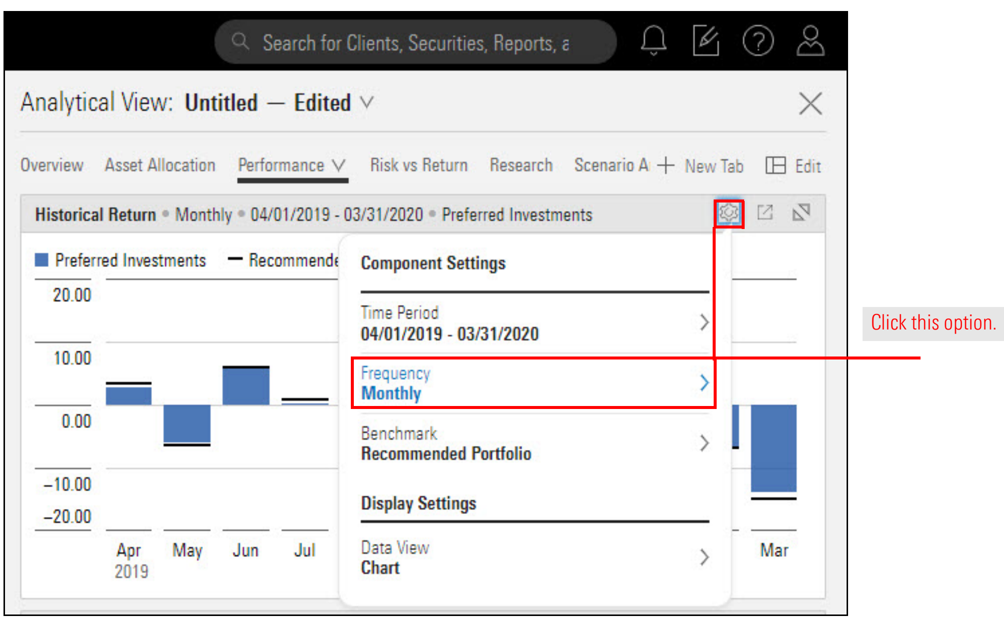
1. From the right side of the screen, click **Edit**. The Edit panel opens.



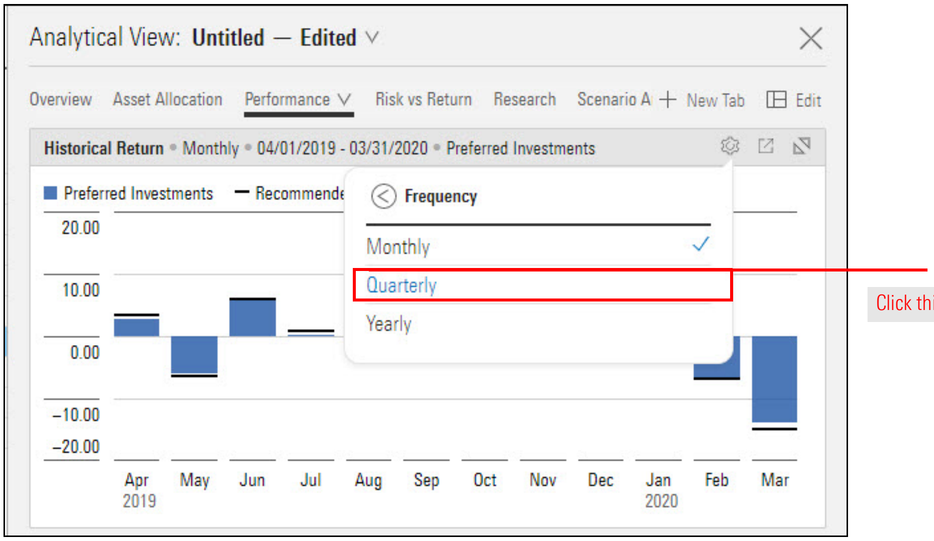
2. Click the **X** in the top right corner of the Cumulative Return component to remove it.
3. Click and drag the **Historical Return** component to the bottom of the screen.



4. Click **Done** to close the Edit panel.
5. On the right side of the top **Historical Return** component, click the **Settings** icon. The Settings menu opens.
6. Click **Frequency.**

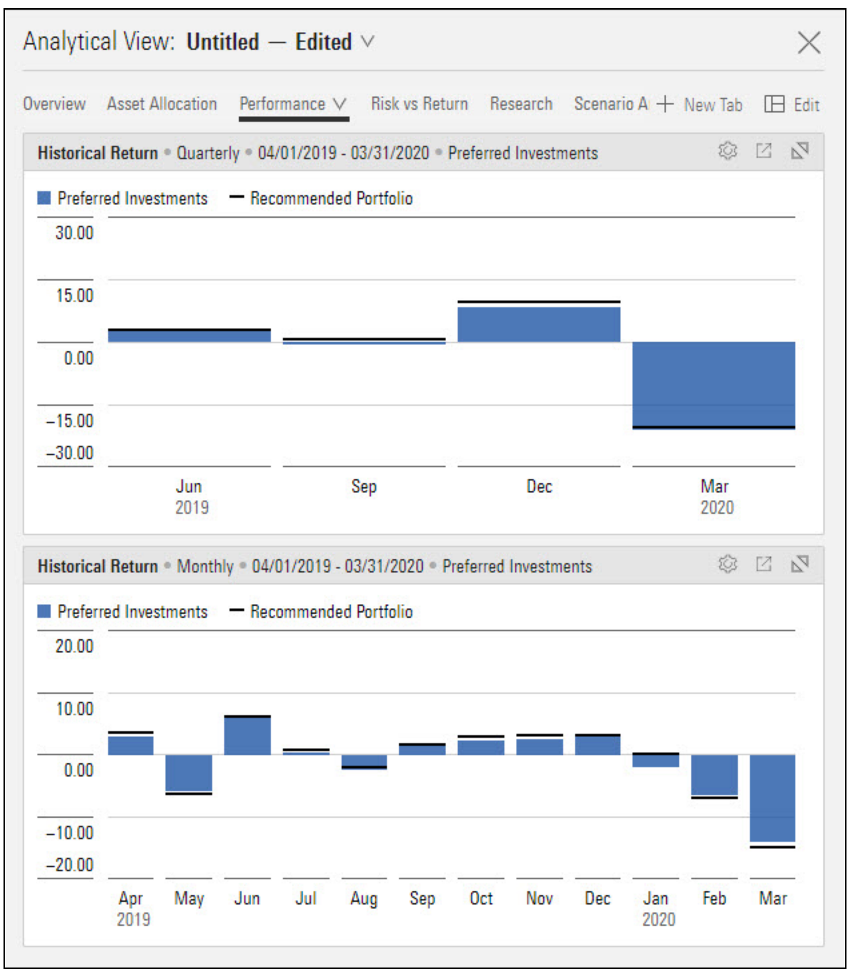


7. Click on the **Frequency** option, then select **Quarterly**.



Click this option.

8. **Click away** from the Component Settings menu to close it. The Frequency changes to Quarterly.



Note that you can now compare returns with different frequencies

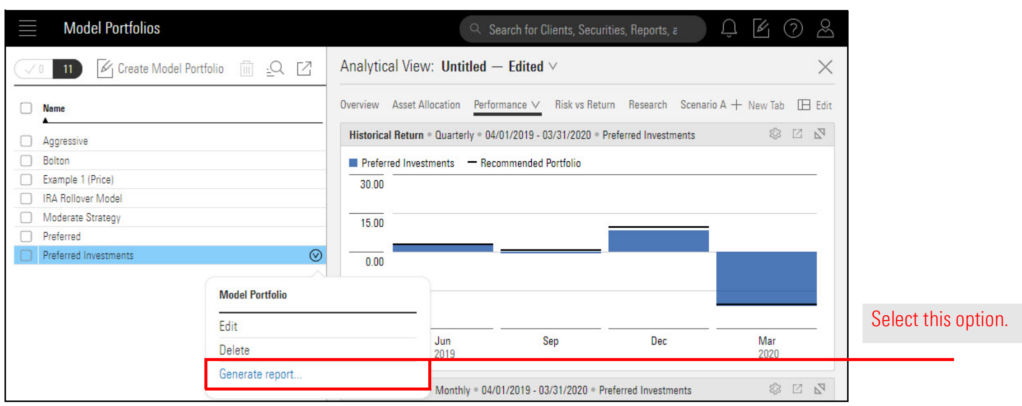
Exercise 5: Run an analytical report for a model

Three analytical reports are available to be run with model portfolios. The following table describes each report:

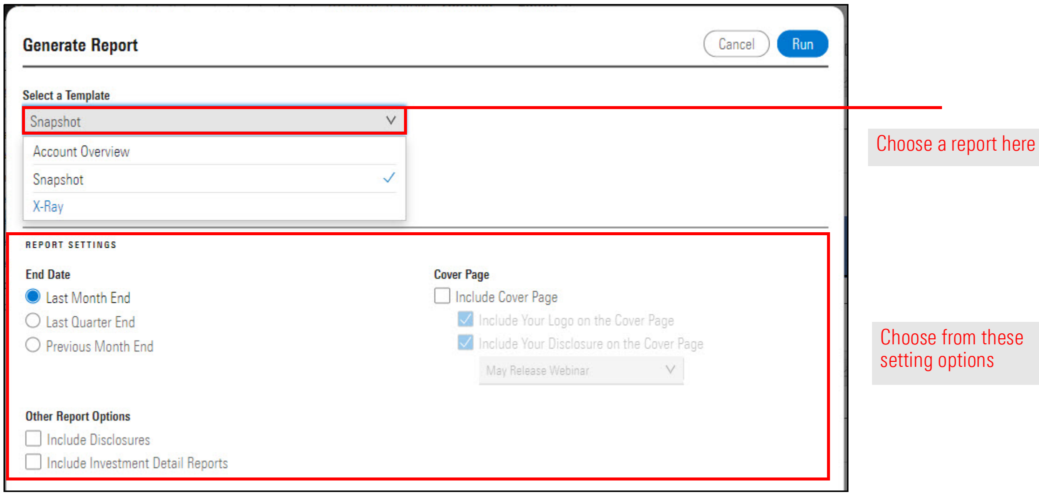
Report	Description
Account Overview	A one-page report that provides analytical, performance and holding data.
Morningstar Snapshot	The full range of portfolio analytics, including Morningstar proprietary metrics
Morningstar X-Ray	Aggregated composition and performance data for all the holdings in a portfolio

Run these reports with model portfolios to analyze a strategy, and help your clients understand the strategy you are recommending for them. To run an analytical report, do the following:

1. On the **Model Portfolio** grid, **hover the cursor** over the **Preferred Investments** row. The Action icon appears.
2. From the **Action** drop-down menu, select **Generate report...** The Generate Report dialog box opens.



3. From the **Select a Template** drop-down menu, select any **report**.
4. Select the **Report Settings** you want to include.



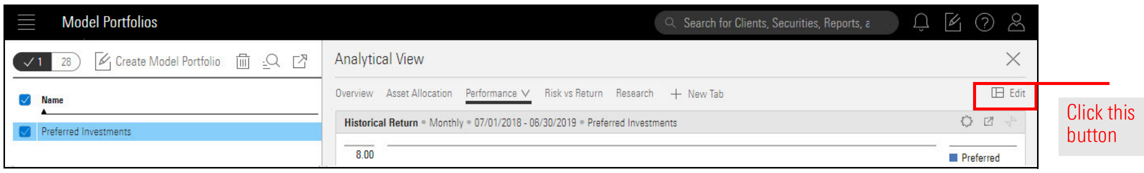
5. Click **Run**. The report opens in a new tab when it is ready.

How do I view notes within the Model Portfolio analytical view?

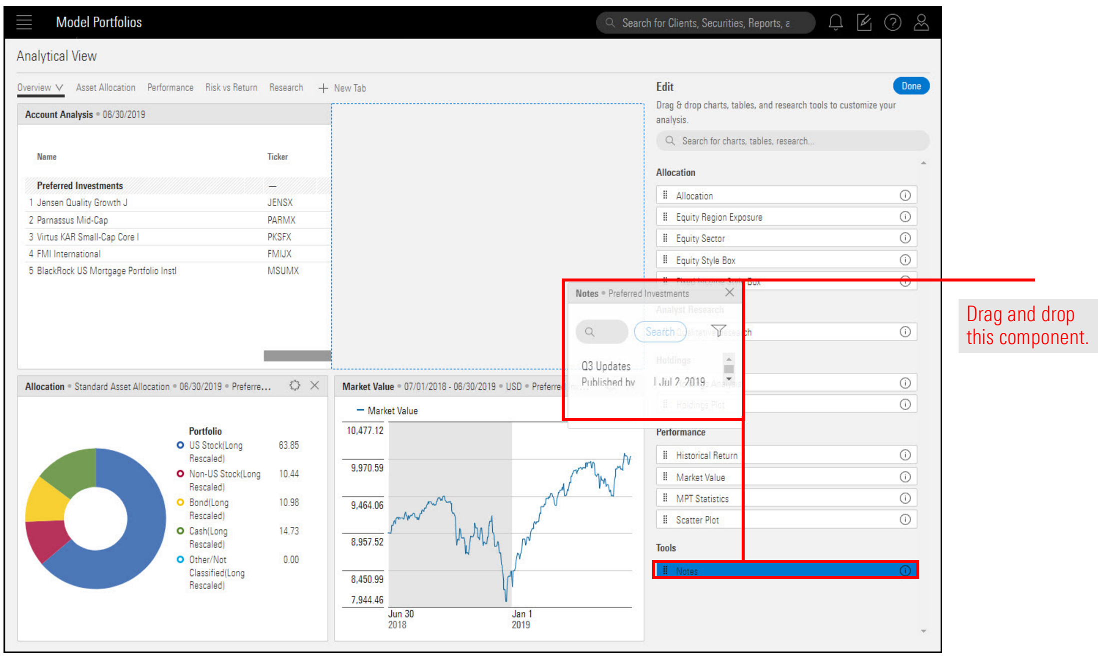
You can view notes relating to model portfolios or a security within a model portfolio within the Model Portfolio analytical view. To view notes, you must add the Notes component to an existing tab or a custom tab.

To view notes within the Model Portfolios analytical view, do the following:

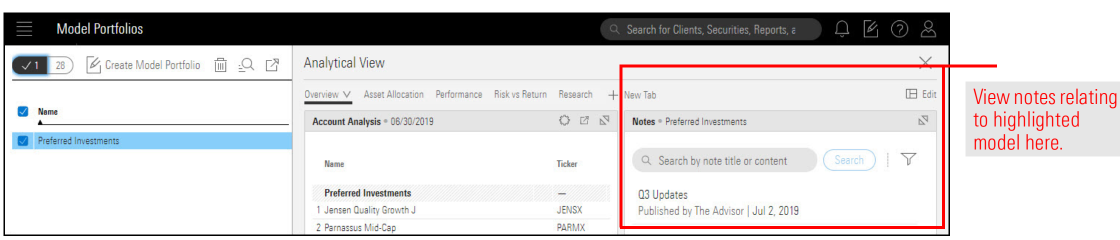
1. From the **Analytical View** header, click **Edit**. The Edit panel opens.



2. Drag and drop **Notes** into any standard or custom tab.



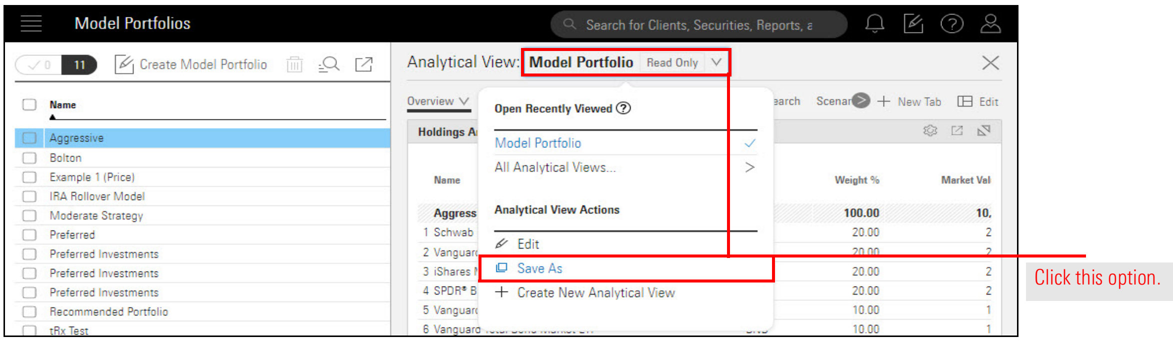
3. Click **Done**. Notes related to the highlighted model are visible.



Exercise 6: Save a Model Portfolio analytical view

Now that you've customized your Model Portfolios analytical view, save it to retain the changes that you've made. To save changes to a Model Portfolio analytical view, do the following:

1. On the header, click the **Model Portfolios** drop-down menu, then select **Save As**.
   A box opens.



2. In the text box, type **My Model Portfolio**.

3. Click **Save**. A confirmation message appears.