

Morningstar Category Changes – April 30, 2024

Frequently Asked Questions

What is the rationale behind renaming the static allocation categories?

Morningstar is renaming the 529 static allocation categories so that they are more aligned with the retail allocation categories. In 2023, we renamed the retail categories to remove equity exposure ranges.

The current definitions of these categories stay unchanged, and funds will not be recategorized as a result of the name change.

Where can these categories be found?

Static allocation categories are 529 categories, which have their own [Morningstar Category Classification for 529 Investment Options methodology document](#). This document will be updated 30 days before the category changes are released to reflect the updates.

Why is Morningstar introducing a new short-term inflation protected bond category?

Morningstar will be launching a new short-term inflation-protected bond Morningstar Category to better differentiate between strategies focused on the broad market for inflation-protected securities and those that emphasize the characteristics of shorter-maturity instruments.

Portfolios in both groups are dominated by exposure to Treasury Inflation-Protected Securities, or TIPS. Intermediate- and long-term TIPS are designed to provide inflation-protected returns over their maturity cycles, but their longer durations and higher interest-rate sensitivity generate a level of volatility that typically overshadows the month-to-month return impact of their inflation-indexed components.

By contrast, the shorter-duration profiles of short-term TIPS typically carry a lower month-to-month volatility of returns that reflects their sensitivity to current-period inflation, as measured by the Consumer Price Index. As such, many investors view short-term inflation-protected strategies as a more “pure play” on inflation rather than bond market yields, whereas longer-maturity funds effectively provide both.

What’s changing for the U.S. target-date strategies?

In April, the institutional categories for target-date strategies will be revamped to help investors build better peer groups. The previous institutional categories (aggressive, moderate, conservative) are being retired. As glide paths have become more

similar, there isn’t enough differentiation to assign the three different risk levels in a meaningful way. The institutional categories will be replaced by new holdings-based designations that are informed by the makeup of a target-date’s underlying funds. The new categories will be:

- **Active-based** (for series with more than 75% of assets invested in actively managed underlying funds).
- **Index-based** (for series with more than 75% of assets invested in index underlying funds).
- **Blend** (for series that have a mix of both actively managed and index funds as the underlying holdings).

Is Morningstar making any changes to its definitions for global categories?

Yes, Morningstar is updating definitions for the below listed global categories. Funds in these categories will not be affected as a result of this change. The Global Category Classification document will be updated 30 days before the category changes are released to reflect the updates.

- **Aggressive Allocation**
- **Cautious Allocation**
- **Moderate Allocation**
- **Flexible Allocation**

When will all the changes take place?

All changes will take place on April 30, 2024, and will be reflected in Morningstar systems by the fifth business day of May.