

Morningstar Portfolio Risk Score

Frequently Asked Questions

What is the Morningstar Portfolio Risk Score?

The Morningstar Portfolio Risk Score is part of the Morningstar Portfolio Risk Score & Suitability System that assigns a numeric Risk Score to a portfolio. For more detailed information, please see the [attached methodology](#).

What types of investments receive a Morningstar Portfolio Risk Score?

The API will score all research universes except Canada Bond and US Fixed Index Annuities (if these were in a portfolio they would be excluded). The widely available on-demand score will focus on exchanged traded-funds and open-end mutual funds. Morningstar Advisor Workstation will batch scores on additional universes for that product.

Why is the Morningstar Portfolio Risk Score a pivotal enhancement for our clients?

Our risk ecosystem is a robust yet accessible due-diligence tool for investors, advisors, and compliance officers monitoring many advisor-created portfolios, and for regulators in an area of increasing regulation. Morningstar is the only provider that can combine a proven psychometric risk assessment with quality investment and portfolio analytics.

How might an advisor reference and explain the Morningstar Portfolio Risk Score in a conversation with an end client?

The Morningstar Portfolio Risk Score would facilitate any advisor-client conversation about the range of risk a client is comfortable with and how that compares against the risk level on the portfolio(s) in question.

Why isn't a portfolio showing a Morningstar Portfolio Risk Score?

The most likely reason is because a portfolio has insufficient returns history. Other reasons might include trying to score a portfolio in a region where the Risk Score is not available yet, token issues, or invalid holdings.

On Jul. 7, 2021, the Morningstar Portfolio Risk Score will be available for all individual investments within Morningstar Advisor Workstation in the grid view for the US and Canada Mutual Fund, ETFs, and US Model Portfolio research universes that meet the requirements mentioned above. Additionally, users will be able to generate the Morningstar Portfolio Risk Score on demand for their saved and new portfolios. Throughout July, Morningstar will be updating all saved client, model, and proposed portfolios to apply the Morningstar Portfolio Risk Score.

How often does the Morningstar Portfolio Risk Score change?

Monthly (as the latest data comes in), unless some element of the portfolio, such as its constituents, are changed.

How does Morningstar's methodology compare with others in the market?

We believe our approach is more rigorous because it looks at risk from a long-term perspective, rather than taking a short-term value-at-risk approach. In addition, the Morningstar Portfolio Risk Score is framed against the [Morningstar Target Allocation Index](#) series, providing a stable, consistent, and unbiased benchmarking system for risk-tolerance-based portfolio analysis.

What data or evidence can Morningstar offer that suggests your risk analytics are more accurate?

The methodology has been produced by individuals who have been recognized as experts for their previous research. The foundation for our latest iteration of the risk ecosystem has been [recognized in the industry](#) as having an "A+" grade in "defensibility in arbitration."

How long after a user creates/imports a portfolio will a Morningstar Portfolio Risk Score populate?

A risk score can populate indefinitely if no issues exist, such as the score being on a mutual fund that has since closed.

Can a financial professional show the Risk Score to an end client?

Yes, the Morningstar Portfolio Risk Score can be shared with an end client.

Is the Morningstar Portfolio Risk Score on any reports?

The Morningstar Portfolio Risk Score will not be available on a standard report with the initial launch in July 2021 but will become available later in the year. Additional details on the report will be shared in the third quarter of 2021.

What makes the Morningstar Portfolio Risk Score different than other portfolio risk systems?

The Morningstar Portfolio Risk Score uses a returns-based style analysis to measure a portfolio's overall risk against the Morningstar Target Allocation Index family, providing investors with a consistent and unbiased tool to benchmark the composition of multi-asset portfolios across risk tolerances in the major global regions. When coupled with the Morningstar Risk Profiler's risk tolerance test (the FinaMetrica risk tolerance questionnaire), we

can display the range of Morningstar Portfolio Risk Scores (Risk Comfort range) within which the client would be most comfortable.

If a Morningstar Advisor Workstation portfolio's Risk Score is either much lower or much higher than anticipated, can a user determine which security is affecting this score?

At a high level, the Morningstar Portfolio Risk Score reflects the risk derived from a portfolio's asset allocation, underlying diversification, and concentration in relation to the series of Morningstar Target Allocation Indexes. Even though a portfolio may appear to match the allocation of a Morningstar benchmark, its score may be higher or lower than the benchmark's owing to differences in underlying concentrations or exposures versus the benchmark. The underlying funds and ETFs in a portfolio will be individually scored, providing some indication for the overall portfolio's score; however, the overall score is not a simple average of the underlying components because of correlations and other factors. The Morningstar Portfolio Risk Score also calculates a "risk decomposition" to highlight residual risk from concentration or active management that impacts the overall score. Work is under way to make this available in Morningstar products.

How does the Morningstar Portfolio Risk Score tie to the Morningstar Risk Profiler score?

The FinaMetrica risk tolerance test is incorporated into the Morningstar Risk Profiler. A client's risk tolerance score — along with the investment time horizon and the client's financial knowledge, experience, and composure — will generate a Risk Comfort range on the Morningstar Portfolio Risk Score spectrum to inform the construction of a compatible portfolio to meet the end client's needs.

How is the Morningstar Portfolio Risk Score incorporated into Morningstar's Investment Proposal Tool?

The Morningstar Portfolio Risk Score will be incorporated into our proposal-generation workflows, allowing an advisor to see scores for a client's current portfolio, assess a client's Risk Comfort range, and propose a portfolio with a more compatible risk score and profile.

Can a financial professional customize the benchmarks for the Morningstar Portfolio Risk Score?

No, the Morningstar Portfolio Risk Score was designed around and currently works only with the Morningstar Target Allocation Index

series. These indexes are an integral part of the Risk Score because they provide investors with a consistent and unbiased tool to benchmark the composition of multi-asset portfolios across risk tolerances in the major global regions.

Can financial professionals map their own risk tolerance questionnaires to the Morningstar Portfolio Risk Score?

Provided it has sufficient returns history and recognizable securities, any client portfolio, proposed portfolio, model portfolio, or managed investment product will receive a Morningstar Portfolio Risk Score. However, the Risk Comfort range is only available for advisors and institutions that use Morningstar Risk Profiler with the FinaMetrica risk tolerance test. Other risk tolerance tests cannot be mapped to the Risk Comfort range.