

Morningstar Portfolio Risk Score Enhancements - Overview

Context

In December 2022 the Morningstar Portfolio Risk Score (MPRS) methodology began tapping into Morningstar's Risk Model and adopted a holdings-based versus the prior return-based approach. This change enhanced the precision of the risk estimate calculation and extended the coverage of managed products by 22%.

To continue to provide home offices, advisors and individual investors with accessible metrics and tools, we are now making further enhancements to MPRS!

What's changing?

Currently, Portfolio Risk Scores are anchored by the static levels of equity exposure in Morningstar Target Allocation Indexes. For example, a score of 23 aligns to a level of risk associated with Morningstar's Conservative Allocation Index, which has a 23% equity allocation. A score of 60 aligns to the Moderate Allocation Index, which has a 60% equity allocation, and so on. Some portfolios (~20%) receive a score of 100+, because they are taking on more risk than a well-diversified (as defined by the Target Allocation Indexes) 100% equity portfolio.

The enhanced MPRS is making two key changes.

1. **Taking a range-based approach:** Rather than using fixed equity allocation anchors, the new Portfolio Risk Scores will be defined by volatility ranges (Conservative, Moderate, Aggressive, and Very Aggressive), and scores will be based on the forecasted standard deviation of the portfolio in relation to that of Morningstar's Target Allocation Indexes.
2. **Rescaling the scores:** Instead of an unbounded scale, the new MPRS will be based on a new core 0-100 scale. A score of 0 would be at the bottom of the Conservative range, aligning to an all-cash portfolio, and a score of 100 would be at the top of the Very Aggressive range, aligning to a score of 140 in today's MPRS, the upper end of the highest Risk Comfort Range in our system. A small percentage of portfolios taking even more risk may receive a score above 100, capping out at 500.

Why is MPRS changing?

Three of the most important benefits are as follows:

- The range enhancements will allow investors to more readily visualize the kind of portfolio they hold at a glance, while still utilizing the same risk index reference points, maintaining the robustness of the score, but making it easier to use.
- By enhancing the scoring methodology to focus on volatility bands instead of equity allocation, MPRS can more readily expand to score new asset classes and investment types while maintaining intuitive reference points—the Target Allocation Indexes.
- Rescaling the score to a 0-100 orientation helps investors more easily evaluate “in-bounds” risk, while reserving the 100-500 range for portfolios that would be too risky by themselves for any investor goal.

When is the change scheduled to happen?

The changes are scheduled to go live in Advisor Workstation on the weekend of April 1-2, 2023.

Please read [our FAQ](#) for more detail and keep an eye out for the full methodology document, which we will email to you later this month.