

Morningstar Style Box™ Methodology Update

Frequently Asked Questions

Morningstar made methodology changes to the Morningstar Style Box™ in October 2020. Is this methodology change connected with this update?

Yes, in October 2020, Morningstar updated the Style Box methodology to provide a more normal distribution of Style Scores across the Scoring Groups and incorporate z-scores in several places, including the style score calculation. We are now honing that z-score calculation to most effectively reflect a neutral central tendency for the style scores of each peer group.

How will the change affect securities placement in the Style Box?

This update will have a global impact on equity fund style scores. We anticipate varying changes in the direction and magnitude of these adjustments. For scoring groups that currently have central tendencies above 150 (such as the US large-cap group), style scores will decrease, whereas those below 150 (like Australian large caps) will see increases.

The US and Australian large-cap groups that are seeing the largest dislocations because of this phenomenon are therefore the ones that will witness the most significant adjustments. European large-cap stocks will also likely see a decrease in scores, though the changes will not be as large as those the US and Australia will see. While all style scores will be affected, the result will be quite muted for the majority of the scoring groups. It is also worth mentioning that size scores for stocks and funds will not be affected by this change.

Will this change impact size scores in any way?

No, this update will have no effect on the size score.

Will Morningstar inform clients of the expected securities impact?

When the methodology change goes live for August month-end portfolios, the Morningstar Style Box calculation will have the update applied automatically. The values will flow to all Morningstar products containing the Style Box data. If clients want to review a list of securities they utilize before the change, they should contact their Customer Success or Relationship Manager, who can provide these details.

What does the market-cap weighted mean do to improve the Morningstar Style Box?

This change will explicitly allow us to make the central tendency of style scores for each peer group neutral.

Will the Morningstar Style Box disclosure change with this update?

No, because we are not changing the formula or making any other meaningful changes to the methodology, this will not impact the Morningstar Style Box disclosure.

For clients who use the Morningstar Style Box in their reports, do they need to make any processing adjustments for this change?

Clients should review how they process the Morningstar Style Box and its associated data points for their reporting. As noted, only the values of the Style Box and style score will change with this update, therefore, clients should prepare for the value shifts if that impacts any reporting outputs.

Will Morningstar be restating prior Style Box scores with this update?

No, previous scores will not be recalculated. Morningstar does not historically restate data when methodology updates occur, as our methodology is evolving by adapting to changes in the market and not “correcting” prior versions of the calculation. The new methodology will apply to any new portfolio received as of August month-end.

What will clients need to do to get the new Style Box data?

Clients do not need to make changes to receive new Style Box data. The new Style Box data will flow through to products through the same process it currently does starting with month-end August 2024 portfolios. Clients should be aware of this change, and if they use the Morningstar Style Box or style score within any saved items or processing, they should be prepared to adjust these items as needed.

Will this update impact Morningstar Category assignments?

Upon release of this update, no Morningstar Category assignments will be changed. Instead, Morningstar will be reviewing the portfolio data and plans to update the Category assignments for month-end November 2024. As such, we do expect specific

securities to experience a Category change given their impact with the style score calculation update. In this instance, these securities will follow our standard Category change process and their managers will be notified before the Category change takes place to review and appeal, if deemed necessary.

Morningstar acknowledges the ripple effects that these changes will have across various category groups. While most funds will not shift Morningstar Categories, some adjustments have been forecast through rigorous testing and evaluation of back-tested style scores. Style-based categories whose funds predominantly invest in large-cap stocks in the US, Europe, and Australia could see turnover of about 10% because of this update. The test data will help to inform and guide our category team's decisions on specific fund adjustments. However, we will not make the category changes until November of this year, which will allow us to evaluate two months of live scores under the 2024 methodology before finalizing decisions. These category changes will also cascade downstream, affecting both Morningstar Ratings and Morningstar Medalist Ratings, as they rely on peer groups established through fund category classifications.

Clients should be aware of the Category change and subsequent potential Morningstar Rating, Morningstar Medalist Rating, and Ranking changes, and if they use the Morningstar Category, Rating, or Ranking data within any saved items or processing, they should be prepared to adjust these items as needed.