

Morningstar Category Changes – April 30, 2025

Overview and Frequently Asked Questions

April Category Changes Overview

- **Domicile/Region (Universes):**
 - **United States (US Open-End, Variable Annuity, Exchange-Traded Fund, Closed-End Fund, Separate Account, Collective Investment Trust, Unit Investment Trust, 529 Plans and Models):** Please see the [attached spreadsheet](#) for changes to the US Categories, summarized below.
 - **US Retail Categories: See updated [Retail Category definitions](#).**
 - Six new US Retail Categories will be added.
 - One US Retail Category will update its assigned Primary/US Category Group Index.
 - One US Retail Category updated its assigned Secondary/Category Index as of Jan. 31, 2025.
 - One US Retail Category updated its Morningstar Index as of Jan. 31, 2025.
 - Two US Retail Categories will be retired.
 - Two US Retail Categories will change their asset classes.
 - Nine US Retail Categories will change their definitions.
 - **US 529 Categories: See updated [529 Category definitions](#).**
 - Four 529 Categories will update their assigned Secondary/Category Indexes.
 - **International:** Please see the [attached spreadsheet](#) for changes to international categories, summarized below.
 - **Europe, Asia, and Africa (Open-End Funds, Closed-End Funds, ETFs): See updated [Europe, Asia, and Africa Category definitions](#).**
 - Morningstar will add five categories, rename one category, retire four categories, update the category index of 11 categories, and add a Morningstar Index for 23 categories.
 - **Japan (Open-End Funds, Closed-End Funds, ETFs): See updated [Japan Category definitions](#).**
 - Morningstar will retire one existing category.
 - **Mexico (Open-End Funds, Closed-End Funds, ETFs): See updated [Mexico Category definitions](#).**
 - Morningstar will add one new category, redefine one existing category, retire one category, and update the category index of one category.
 - **Spain (Insurance and Pension Funds): See updated [Spain Category definitions](#).**
 - Morningstar will retire two categories.

- **Australia and New Zealand (Open-End Funds, Closed-End Funds, ETFs, Insurance and Pension Funds)**
 - **Australia**
 - Morningstar will add 28 new fee-level groups and rename 27 fee-level groups.
 - **New Zealand**
 - Morningstar will add 50 new fee-level groups.
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Frequently Asked Questions for US-specific updates

Why is Morningstar retiring the global-allocation category and adding more granular global allocation categories?

Morningstar will be launching five new categories by splitting the existing global-allocation category into global-conservative allocation, global moderately conservative allocation, global-moderate allocation, global moderately aggressive allocation, and global-aggressive Allocation. These categories will create peer groups that better differentiate global strategies based on their expected volatility levels than the current single category. This will ensure investors can find strategies that match their risk tolerance and facilitate better peer group ratings and rankings.

What changes are being made to how we determine whether a managed investment falls under domestic or global categories?

We are simultaneously amending our dividing line between global and domestic in our equity and allocation categories. Only managed investments that have had greater than 75% average equity and bond exposures to US securities over the previous 36 months will qualify to be in our domestic allocation categories. The same 75% threshold will also be used for equity category classifications. Both of these thresholds were previously 60%.

Why is Morningstar raising its threshold to qualify for domestic equity and allocation categories?

There are two reasons. First, we believe that any country- or region-specific designation should represent a decisive focus on that region—75% has become a common threshold for such categories globally at Morningstar. Moreover, in recent years, global equity benchmarks have increasingly reflected greater US exposure, because of the US market's outperformance of global peers. As of Dec. 31, 2024, the MSCI All Country World Index, or MSCI ACWI, our category benchmark for global equity, had a US equity exposure of 66%. Our current equity and allocation guidelines, which classify managed investments with at least 60% US exposure as domestic, have become misaligned with this shift.

For instance, a fund with the same exposure to US markets as MSCI ACWI would be classified as a domestic portfolio.

Our category classifications are not solely determined by these thresholds. We will continue to assess strategies qualitatively and account for the specific details of each classification decision.

How will these updates affect Morningstar Ratings (the star rating) for managed investments affected by these changes?

The Morningstar Rating uses the Morningstar Categories as peer groups for ranking managed investments on their previous risk-adjusted returns. Category classification changes that arise from these updates will change the composition of the peer groups and therefore may affect an investment's ratings. We believe, however, that the enhanced categories will make their category rankings and star ratings more meaningful.

Why is Morningstar launching a new miscellaneous-allocation category?

Our goal is to make Morningstar's individual categories as useful as possible for the comparison of portfolios with similar market exposures and mandates. We are launching the miscellaneous-allocation category as a potential destination for offerings whose makeup, structure, or design makes them inappropriate or especially ill-suited for inclusion in any other allocation category.

Why is Morningstar retiring the leveraged net long category?

The leveraged net long category was originally created to house 130/30 and 120/20 strategies. In recent years, most of these funds have either been liquidated or merged with other strategies. Currently, no funds are assigned to this category. The few remaining 130/30 managed investments in our database are well-suited to remain within their existing equity style-based categories.

Why is the category benchmark for Emerging-Markets Local-Currency Bond changing before the launch date in April?

We will be updating the category benchmark for Emerging-Markets Local-Currency Bond on **Jan. 31, 2025**. The current benchmark has been made private, limiting our users' access to its performance data. A key criterion for selecting a category benchmark is its broad availability to our users. As a result, we are making this update outside of our regular cycle as an exception. The new category benchmark will be Bloomberg Emerging Markets Local Currency Government Diversified TR USD.

We will also be adding Morningstar Emerging Markets Government Bond Local Currency GR USD as the Morningstar benchmark to the category **on Jan. 31, 2025**.

Why are we updating category benchmarks for 529 Plan categories?

Category benchmarks for the following 529 Plan categories are being updated from third-party indexes to Morningstar Indexes to align with our retail category schema. We aim to use Morningstar intellectual property wherever appropriate and possible. The new category benchmarks are well aligned with the category peer groups and have live histories of at least 10 years, which are some of the key requirements for any index change in the US category schema.

- Static Real Estate
- Static Large Blend
- Static Mid-Cap
- Static Small Cap

When will the changes take place?

All changes other than benchmark updates for emerging-markets local-currency bond category that are scheduled for Jan. 31, 2025, will take place on April 30, 2025, and will be reflected in Morningstar systems by the fifth business day of May.

Frequently Asked Questions for Separately Managed Accounts and Models

Which part of our semiannual category review is this about?

As previously announced, at the end of April we are launching five new risk-based global-allocation categories to replace the current single global-allocation category. As always, the separately managed accounts, or SMA, and model portfolio universes will receive these updates on a delay, while all other universes will receive them immediately.

When are SMA and model universes updated? Why is there a delay in their receiving category methodology updates?

Morningstar follows a quarterly production cycle for updating the SMAs and model universes as opposed to the monthly production schedules for all other universes. Moreover, unlike other universes, the production cycle for SMAs and models is completed on a three-week lag. Therefore, the first-quarter production cycle for SMAs and models is typically completed in the third week of April.

When will SMAs and models currently classified under global allocation be reclassified? Will any ratings be affected by this discrepancy when methodology updates are reflected in the SMA and model universes?

Because category launches are scheduled for the end of April (and therefore were not in place by SMA/model production in the third week of April), any related category methodology changes for these universes will be reflected in the following quarterly production cycle for SMAs and models, which occurs in July.

Star ratings and percentile rankings for these investments will be published as of March 31, based on their current global-allocation category assignment. However, Medalist Ratings, which are assigned indirectly by analyst or directly by algorithm, will be temporarily suspended for a period of three months (from late May until late August) for SMAs and models in the global-allocation category.

Why will some algorithmically assigned Medalist Ratings be impacted in this way?

Algorithmically assigned Medalist Ratings for SMAs and models are calculated using an overlay methodology based on the corresponding open-end fund universe. Since all open-end funds currently categorized under global allocation will undergo reclassification at the end of April, algorithmically assigned Medalist Ratings for SMAs and models in global allocation will not be able to be calculated during this interim period.

Which investments are impacted?

[Attached is a list of SMAs and Models](#) whose Medalist Ratings will be temporarily suspended from late May until late August 2025. Updated category assignments for these managed investments will be sent to designated contacts at each firm before the end of June, which will allow time for firms to appeal reclassifications with which they disagree before late-July production (as of June 30).

Will analyst-assigned Medalist Ratings for SMAs and models be similarly impacted?

No. Although we will not be able to publish new analyst-assigned Medalist Ratings for these managed investments during this three-month period, any existing ratings will be allowed to remain in place. Since we were already not planning to update any such ratings during this interim period, we do not expect this issue to affect those ratings.

What should clients who are utilizing these investment medalist ratings do?

Clients who utilize the algorithmically assigned Medalist Ratings in any saved items such as reports, searches, lists, or processing should be aware of their interim unavailability. If needed, clients should adjust their saved items to ensure no disruption.