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# UK Managed Portfolios — Costs, Returns, and Risks

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## Morningstar Manager Research

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## Executive Summary

Following the inaugural UK Managed Portfolios Landscape 2022 research report, additional insights presented here focus on fees and costs, performance, and risk, including an overview of the Morningstar Portfolio Risk Score, which can be used as a guide to portfolios' risk and diversification.

Morningstar's newly launched UK Managed Portfolio Database makes available a wide range of data points for over 900 managed portfolios, at the time of writing.

## Key Takeaways

- ▶ The median management fee applied to managed portfolios in Morningstar allocation categories in the database is 0.24%, with very little difference across the various Morningstar allocation categories, indicating that providers typically charge a flat fee at every risk level across a given multi-asset range.
- ▶ Median management fees for managed portfolios described as passive are 0.15%. Managed portfolios described as active or blended charge a median management fee of 0.24%.
- ▶ Managed portfolios overwhelmingly use collectives to build portfolios, and the added costs — or 'look-through' costs — should also be factored in. Based on median values, this adds 0.61% in annual costs to 'active' managed portfolios, 0.39% to blended, and 0.15% to passive offerings.
- ▶ Viewed by Morningstar Category, these look-through costs increase through the risk spectrum, adding a median 0.21% to managed portfolios in the most cautious GBP allocation 0-20% equity category and 0.60% to those in the most aggressive GBP allocation 80%+ equity allocation category.
- ▶ Managed portfolios described by their providers as having a sustainable-investing focus attract both higher management fees and higher look-through costs.
- ▶ When factoring in total costs and comparing the median UK managed portfolios to open-end funds in equivalent Morningstar allocation categories, we find a cost advantage of 0.24%-0.28% in favour of managed portfolios, depending on the category.
- ▶ Across most allocation categories, in the most recent five-year period, the median managed portfolio has produced lower total and risk-adjusted net return than the equivalent Morningstar category index. This is a similar pattern to what we see with open-end allocation fund category averages, which have also mostly lagged Morningstar category indexes over this period. Each category index is an 'index of indexes' with a fixed level of equity exposure aligned with the model category.
- ▶ Looking at the top 10 performing managed portfolios in each allocation category over the past five years, we find that active, blended, and passive investment styles are all well represented. This suggests that successful asset allocation is the more important factor.
- ▶ We find that on average there is a lower dispersion of returns among the managed portfolios than among open-end funds in the same category. Lower dispersion in the overall costs of managed portfolios, compared with funds, could play a part in this.

- Morningstar Portfolio Risk Scores, which are highly correlated with the level of equity/risky assets in a portfolio, can be used as a guide to a portfolio's risk and diversification and compared with category peers. We find that, on average, Portfolio Risk Scores rise, as expected, in line with the level of equity/risky assets, and we see fairly close alignment between the managed portfolios and their respective Morningstar Categories.

### What Are Managed Portfolios?

Managed portfolio services are investment services through which wealth managers and advisors can provide professional portfolio management to investors, encompassing asset allocation, the selection of underlying funds, and trade execution. Providers typically offer a range of portfolios, covering a number of risk profiles or objectives. There is a large variety of providers in the UK market; currently, 66 providers have portfolios included in Morningstar's dataset.

### Morningstar Model Categories

As of September 2022, 94% of the managed portfolios in the UK database belonged to allocation categories. Allocation products in the database fall within the Morningstar categories shown in Exhibit 1, along with the corresponding Morningstar index.

**Exhibit 1** Morningstar Model and Fund GBP Allocation Categories and Morningstar Index

Model Category	Fund Category	Morningstar Index
EAA Model GBP Allocation 0-20% Equity	EAA Fund GBP Allocation 0-20% Equity	Morningstar UK Cautious Target Allocation Index
EAA Model GBP Allocation 20-40% Equity	EAA Fund GBP Allocation 20-40% Equity	Morningstar UK Moderately Cautious Target Allocation Index
EAA Model GBP Allocation 40-60% Equity	EAA Fund GBP Allocation 40-60% Equity	Morningstar UK Moderate Target Allocation Index
EAA Model GBP Allocation 60-80% Equity	EAA Fund GBP Allocation 60-80% Equity	Morningstar UK Moderately Adventurous Target Allocation Index
EAA Model GBP Allocation 80%+ Equity	EAA Fund GBP Allocation 80%+ Equity	Morningstar UK Adventurous Target Allocation Index
EAA Model GBP Flexible Allocation	EAA Fund GBP Flexible Allocation	Morningstar UK Moderate Target Allocation Index

Source: Morningstar.

In this paper, we focus our analysis on the above categories but exclude the GBP flexible allocation category because of its small sample size of only two managed portfolios.

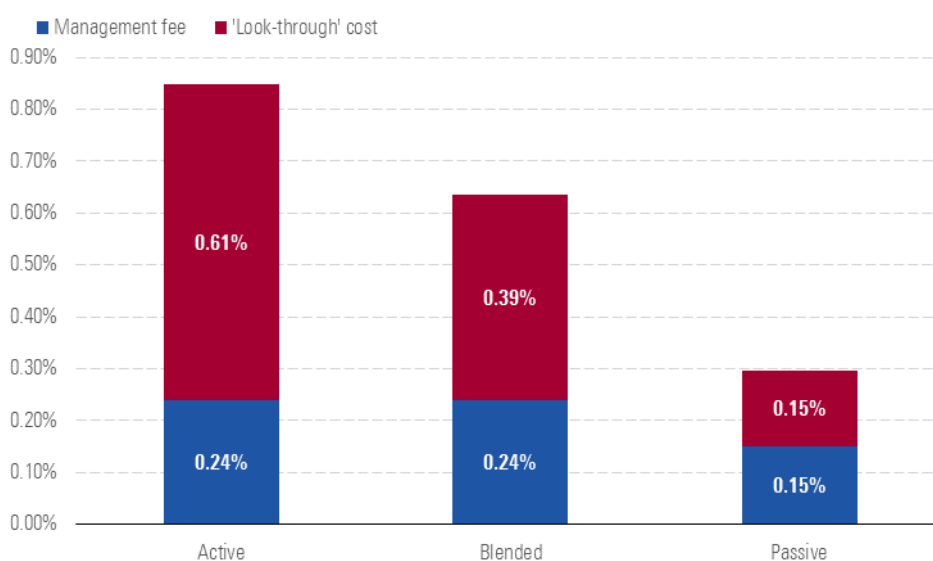
### Managed Portfolio Fees and Costs

In measuring the fees and costs associated with managed portfolios, we incorporate the management fee charged by the provider and the combined charges of the underlying investments held in the portfolio. As with open-end funds, investors typically also incur platform fees, but these are not included in our analysis.

The median management fee applied to managed portfolios is 0.24%. There is very little difference in median management fees across the various Morningstar allocation categories, reflecting the fact that providers typically charge the same management fee at every risk level across a given multi-asset range.

There is a clearer difference when looking at the type of building blocks used. Managed portfolios described by their provider as *passive* charge a median management fee of 0.15%, compared with 0.24% for those described as *active* or *blended* (combining active and passive underlying investments).

**Exhibit 2** Median Overall Managed Portfolio Cost, by Building-Block Type



Source: Morningstar Direct. Data as of September 2022.

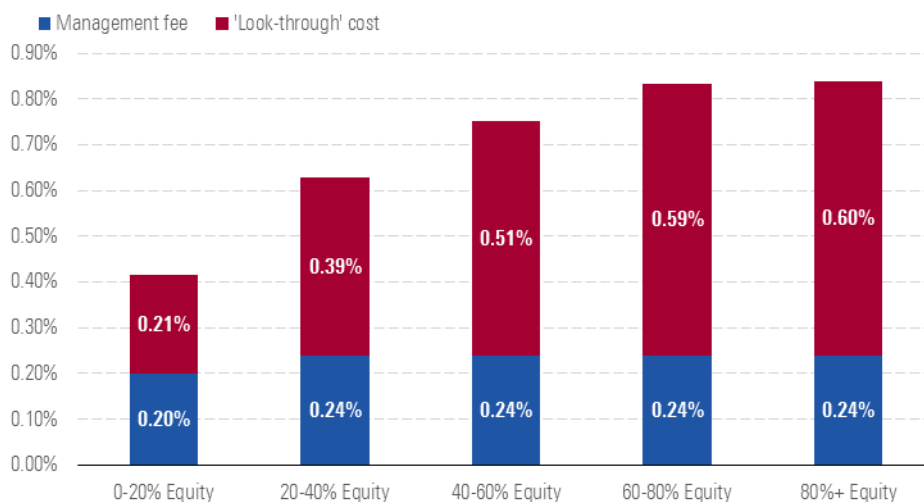
### Adding Look-Through Costs

Managed portfolios overwhelmingly use collectives as underlying holdings, with very few using individual securities—as of June 2022, open-end funds, closed-end funds, and exchange-traded funds made up 99.8% of all portfolios' underlying holdings by number. The overall cost of investing in managed portfolios therefore includes the fees charged by underlying collective investments, passively or actively managed. This is calculated by summing the representative costs of each portfolio's holdings, in proportion to portfolio weight. Between active, blended, and passive managed portfolios, we see a clear difference in look-through costs. Managed portfolios described by their providers as *blended* fall in between active and passive ones in terms of look-through costs, which is in line with what we might expect and suggests that, overall, they are true-to-label in combining active funds with lower-cost passive funds.

If we look separately at managed portfolios charging no management fees, the 31 active options had a median look-through cost of 0.85% compared with a median look-through cost of 0.61% for managed portfolios that do charge management fees. We therefore find similar overall costs for managed portfolios using active building blocks, whether they charge management fees or not. Those managed portfolios charging no management fees tend to invest in the provider's own in-house funds, which forms part of the rationale for the absence of a management fee at the managed portfolio level.

Using a different lens and grouping managed portfolios by their Morningstar Category, the chart below shows that, while there is minimal variation in the management fee, look-through expenses rise in step with the level of equity exposure, which is intuitive given that typical management fees of equity funds are higher than those of fixed-income funds.

**Exhibit 3** Median Overall Managed Portfolio Cost by Morningstar Category

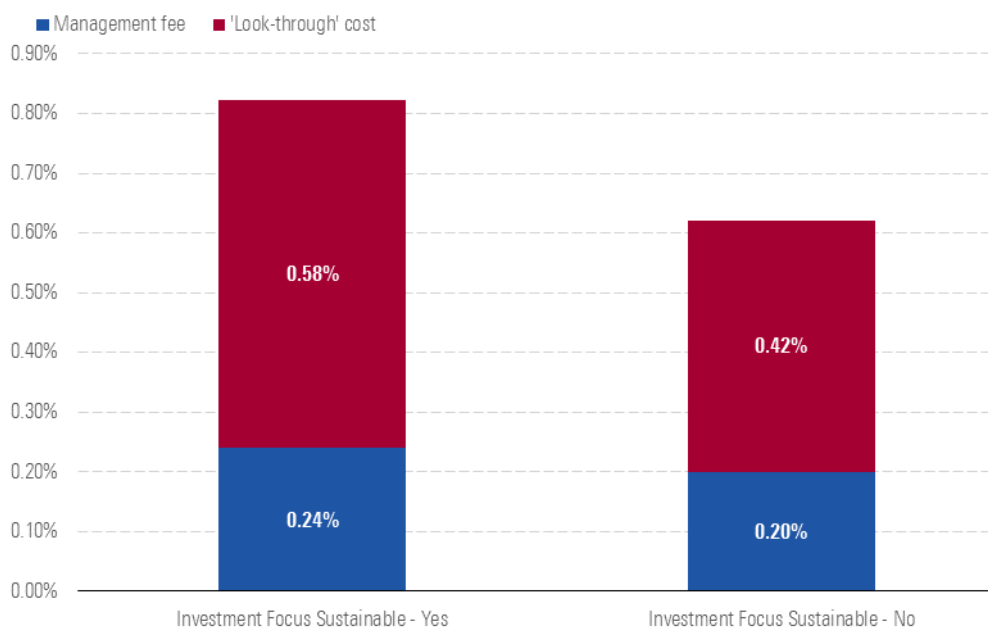


Source: Morningstar Direct. Data as of September 2022.

**Sustainable Managed Portfolios**

Shown in the exhibit below is a comparison of median fees and costs within managed portfolios described by their provider as having a sustainable focus, against those that are not thus described. We find that products with a sustainable focus attract a slightly higher median management fee but incur notably higher look-through costs.

**Exhibit 4** Median Overall Managed Portfolio Cost — Sustainable Focus 'Yes' vs. 'No'

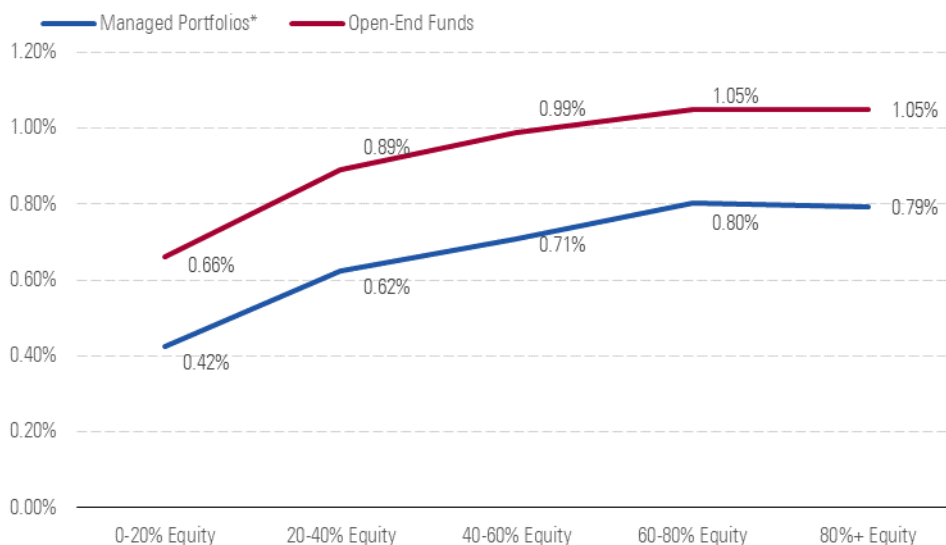


Source: Morningstar Direct. Data as of September 2022.

**Comparing Managed Portfolio Costs With Open-End Funds**

The exhibit below compares the median overall costs of managed portfolios against those of open-end funds (defined as the median 'KIID ongoing charge,' or OCF, for each category in Morningstar Direct). For open-end funds, we have only included share classes with a Share Class Fee Basis of 'Clean (Management Fee Only)'. This comparison reveals an overall cost advantage in favour of managed portfolios of around 24-28 basis points depending on the Morningstar Category.

**Exhibit 5** Median Overall Cost by Morningstar Category

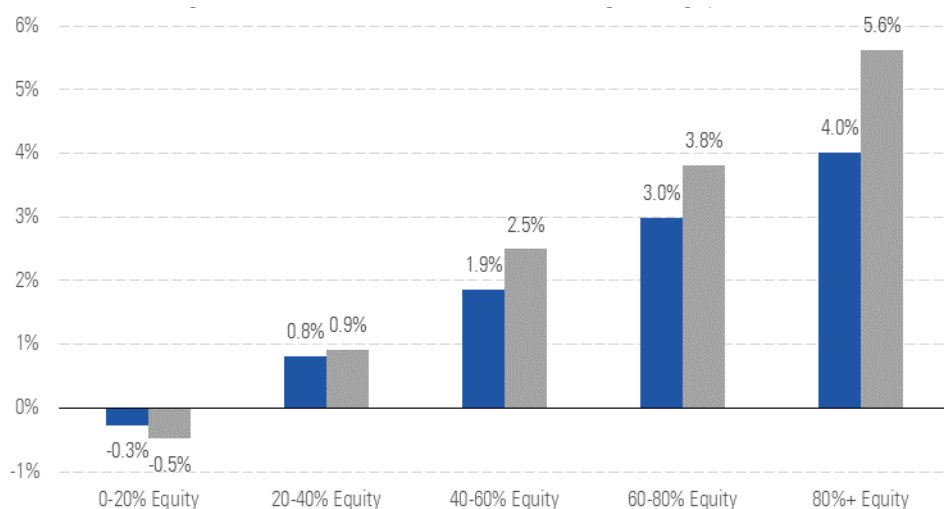


Source: Morningstar Direct. Data as of September 2022.  
 \* includes Managed Portfolios with zero management fees.

**Managed Portfolios—Measuring Performance Vs. Morningstar Category Indexes**

For managed portfolios in the UK Managed Portfolios Database, each day, Morningstar calculates total return figures from the underlying holdings, based on the net asset value return for each underlying holding in accordance with its weight. This accounts for the management fees of underlying managed investments and constitutes the gross return. The net return of a managed portfolio is its total (gross) return, minus the management fee charged at the managed portfolio level by its manager.

Exhibit 6 compares the five-year annualised net return of the median managed portfolio in each allocation category (in blue), against the Morningstar index (in grey) that applies to each category. With the exception of the GBP allocation 0-20% equity category, the median managed portfolio in each category has produced a lower net return than the Morningstar category index. This is similar to what we find with open-end fund category averages, with the Morningstar category indexes proving a tough hurdle.

**Exhibit 6** Median Five-Year Annualised Total Returns of Managed Portfolios vs. Morningstar Category Index

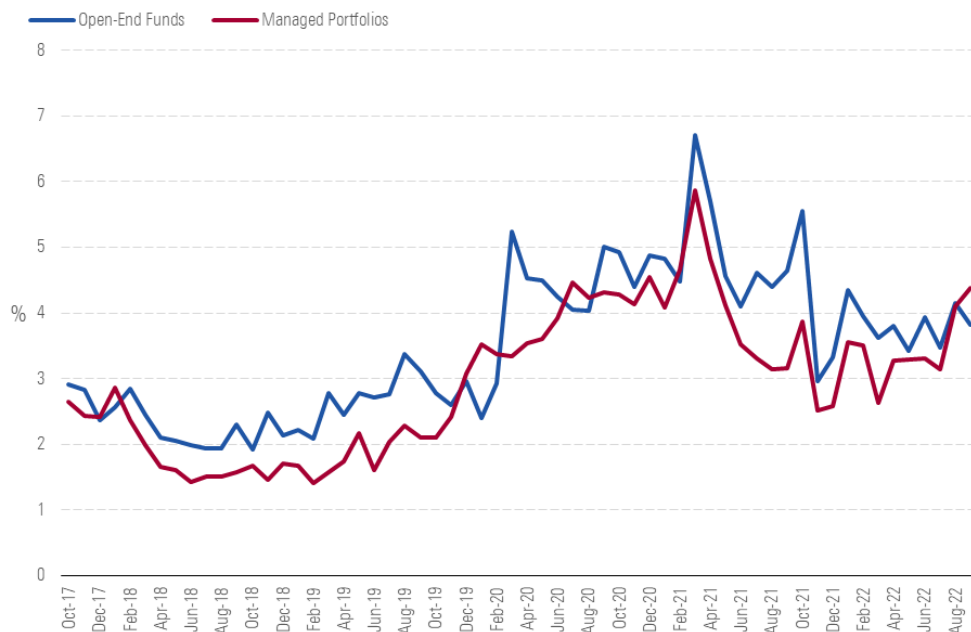
Source: Morningstar Direct. Data as of 30 September 2022.

In the 0-20% equity category, where the median managed portfolio has fallen by less than the category index return, we find a smaller sample size, with only 32 managed portfolios having five-year track records, compared with between 66 and 109 in each of the other allocation categories. Also notable here is the fact that the most cautious allocation category overall has recorded negative five-year returns as of the end of September 2022, following an exceptionally challenging year-to-date period for fixed income and, indeed, for conservative investors.

### Dispersion of Returns

When we focus on the GBP allocation 40-60% equity category—where a typical 'balanced' fund or portfolio might sit—we see a dispersion between first- and fourth-quartile returns, measured on a rolling 12-month basis, shown in the exhibit below. This is calculated separately for managed portfolios and open-end funds in the model or fund GBP allocation 40%-60% equity categories; it is then directly compared. For open-end funds, we include share classes with a Share Class Fee Basis of 'Clean (Management Fee Only)' to reduce the dispersion caused by variation in fees and costs.

**Exhibit 7** 12-Month Rolling Returns — Performance Difference Between Top and Bottom Quartile, GBP Allocation 40%-60% Equity



Source: Morningstar Direct. Data as of 30 September 2022.

We find that, on average, there is a lower dispersion of returns among the managed portfolios than among the open-end funds. Lower dispersion in the overall costs of managed portfolios, compared with funds, could play a part in this. Overall, dispersion within each structure has followed similar trends over the last five years, such as rising in 2020-21, perhaps due to increased market volatility and changes in market direction and leadership.

When comparing the performance of managed portfolios to open-end funds, it is important to remember that open-end funds typically trade often (for example, in response to investor applications and redemptions), and this is captured in their return measurements. For managed portfolios, however, individual client investments, additions, and withdrawals cannot be captured in the same way. For this reason, for a single strategy offered in a managed portfolio format, and as an open-end fund, the reported returns of each vehicle could be expected to diverge. This limits a direct comparison of returns across the different structures.

Also, while Morningstar calculates fund category averages free of survivorship bias, managed portfolio returns, given their relative newness, are based on surviving portfolios as of September 2022.

**Top 10 Performing Managed Portfolios by Morningstar Category**

The following tables show the top 10 performing managed portfolios based on absolute returns, over the five years to 30 September 2022, by Morningstar Category. Also shown are the Sharpe ratios, which measure risk-adjusted returns. Passive, active, and blended investment styles are all well-represented, suggesting no single approach has been more successful than the others.



**Exhibit 8** Five-Year Returns and Sharpe Ratio — EEA Model GBP Allocation 0-20% Equity Category

Name	Return (Annualised)	Sharpe Ratio (Annualised)	Investment Style	Sustainable Focus	Equity Style Box
Charles Stanley Dynamic Passive 1	0.75%	0.13	Passive	No	Large Blend
Parmenion Tactical Active RG2	0.60%	0.11	Active	No	Mid Blend
atomos index conservative	0.59%	0.09	Active	No	Large Blend
Charles Stanley Pan Asset Defensive	0.55%	0.08	Passive	No	Large Blend
Schroder Active Portfolio 2	0.54%	0.05	Active	No	Large Blend
Parmenion Tactical Passive RG2	0.43%	0.07	Passive	No	Large Blend
Schroder Strategic Index Portfolio 2	0.32%	0.00	Passive	No	Large Blend
Parmenion Strategic Passive RG2	0.12%	-0.07	Passive	No	Large Value
EBI Vantage Earth UK Bias 20	0.12%	-0.04	Passive	Yes	Large Blend
Parmenion Strategic Conviction RG2	0.05%	-0.01	Blended	No	Large Blend
Morningstar Category Index*	-0.48%	-0.19			

Source: Morningstar Direct. Data as of 30 September 2022.

\* Morningstar Category Index: Morningstar UK Cautious Target Allocation NR GBP.

**Exhibit 9** Five-Year Returns and Sharpe Ratio — EEA Model GBP Allocation 20-40% Equity Category

Name	Return (Annualised)	Sharpe Ratio (Annualised)	Investment Style	Sustainable Focus	Equity Style Box
Waverton MPS Defensive	2.65%	0.40	Active	No	Large Blend
AJ Bell Passive MPS 1	2.52%	0.43	Passive	No	Large Blend
Rivers Cautious Growth Model	2.24%	0.36	Blended	No	Large Blend
Waverton MPS Conservative	2.10%	0.35	Active	No	Large Blend
Quilter WealthSelect Blend Managed 4	2.10%	0.27	Blended	No	Large Blend
Evelyn Partners Sustainable Conservative	2.04%	0.30	Active	Yes	Large Blend
Quilter WealthSelect Active Managed 4	2.02%	0.26	Active	No	Large Blend
Schroder Sustainable Portfolio 3	1.98%	0.29	Active	Yes	Large Blend
Copia select: accumulation - cautious	1.92%	0.35	Passive	No	Large Blend
OCM OBI Active 3	1.85%	0.35	Active	No	Large Blend
Morningstar Category Index*	0.92%	0.10			

Source: Morningstar Direct. Data as of 30 September 2022.

\* Morningstar Category Index: Morningstar UK Moderately Cautious Target Allocation NR GBP.

**Exhibit 10** Five-Year Returns and Sharpe Ratio — EEA Model GBP Allocation 40-60% Equity Category

Name	Return (Annualised)	Sharpe Ratio (Annualised)	Investment Style	Sustainable Focus	Equity Style Box
Waverton MPS Balanced	5.00%	0.53	Active	No	Large Blend
Tribe Impact Capital Medium SIMPS	4.33%	0.42	Active	Yes	Large Growth
Rivers ESG Balanced Model	3.84%	0.45	Blended	Yes	Large Blend
Waverton MPS Cautious	3.70%	0.48	Active	No	Large Blend
Schroder Sustainable Portfolio 5	3.66%	0.40	Active	Yes	Large Blend
OCM OBI Active 6	3.59%	0.49	Active	No	Large Blend
Rivers Balanced Growth Model	3.28%	0.43	Blended	No	Large Blend
Copia select: accumulation - moderate	3.26%	0.48	Passive	No	Large Blend
Quilter WealthSelect Blend Managed 6	3.17%	0.35	Blended	No	Large Blend
AJ Bell Passive MPS 2	3.07%	0.43	Passive	No	Large Blend
Morningstar Category Index*	2.49%	0.30			

Source: Morningstar Direct. Data as of 30 September 2022\*.

\* Morningstar Category Index: Morningstar UK Moderate Target Allocation NR GBP.

**Exhibit 11** Five-Year Returns and Sharpe Ratio—EEA Model GBP Allocation 60-80% Equity Category

Name	Return (Annualised)	Sharpe Ratio (Annualised)	Investment Style	Sustainable Focus	Equity Style Box
Tribe Impact Capital High SIMPS	6.07%	0.52	Active	Yes	Large Growth
Waverton MPS Growth	5.96%	0.55	Active	No	Large Blend
AJ Bell Passive MPS 4	5.46%	0.55	Passive	No	Large Blend
Schroder Active Portfolio 7	4.86%	0.43	Active	No	Large Blend
AJ Bell Passive MPS 3	4.72%	0.55	Passive	No	Large Blend
King & Shaxson Ethical Growth	4.52%	0.43	Active	Yes	Mid Growth
Quilter WealthSelect Blend Managed 8	4.43%	0.41	Blended	No	Large Blend
Rivers Aggressive Growth Model	4.37%	0.44	Blended	No	Large Blend
Tatton Managed Active	4.36%	0.40	Active	No	Large Blend
Copia select: accumulation - balanced	4.29%	0.49	Passive	No	Large Blend
Morningstar Category Index*	3.81%	0.38			

Source: Morningstar Direct. Data as of 30 September 2022.

\*Morningstar Category Index: Morningstar UK Moderately Adventurous Target Allocation NR GBP.

**Exhibit 12** Five-Year Returns and Sharpe Ratio—EEA Model GBP Allocation 80%+ Equity Category

Name	Return (Annualised)	Sharpe Ratio (Annualised)	Investment Style	Sustainable Focus	Equity Style Box
AJ Bell Passive MPS 5	6.79%	0.61	Passive	No	Large Blend
Schroder Active Portfolio 9	5.67%	0.45	Active	No	Large Blend
Charles Stanley Pan Asset Aggressive	5.52%	0.47	Passive	No	Large Blend
BM MPS High Risk (Growth)	5.46%	0.42	Blended	No	Large Blend
Quilter WealthSelect Blend Managed 9	5.41%	0.46	Blended	No	Large Blend
Sarasin Growth Model	5.26%	0.49	Active	No	Large Blend
Quilter WealthSelect Active Managed 9	5.26%	0.45	Active	No	Large Blend
Charles Stanley Multi Manager Income 5	5.22%	0.50	Active	No	Large Blend
Schroder Sustainable Portfolio 7	5.22%	0.45	Active	Yes	Large Blend
Schroder Active Portfolio 8	5.19%	0.43	Active	No	Large Blend
Morningstar Category Index*	5.61%	0.48			

Source: Morningstar Direct. Data as of 30 September 2022.

\* Morningstar Category Index: Morningstar UK Adventurous Target Allocation NR GBP.

**Risk Measures**

Included in the UK Managed Portfolios Database are Morningstar Portfolio Risk Scores. The Portfolio Risk Score measures a portfolio's or product's level of risk and diversification compared with an index family of target allocation funds. Rather than judging the riskiness of a portfolio by its equity/bond mix, the Portfolio Risk Score uses a returns-based style analysis using multiple asset classes to give a better sense of a portfolio's overall risk level.

Diversified asset-allocation portfolios typically receive a score ranging from 0 to 100. The Portfolio Risk Score is highly correlated with the level of equity/risky assets, where 0 represents a cash portfolio and 100 represents a well-diversified 100% equity portfolio. This Portfolio Risk Score can be compared across investment types and regions and at the portfolio level.

Scores above 100 are possible—for example, for highly concentrated portfolios and asset-class-specific portfolios, such as a sector fund or country-specific fund. Scores above 100 indicate high levels of risk and are probably not suitable to represent a complete investor portfolio. The score is based on the portfolio's relationship to an extended risk spectrum based on the Morningstar Target Allocation Index family, as shown below.

**Exhibit 13** Managed Portfolios Morningstar Portfolio Risk Score and Morningstar UK Target Allocation Index Family

Model Category	Average MPRS of UK Managed Portfolios	UK MP Average Net Equity Allocation	Morningstar Index	Morningstar Index Portfolio Risk Score
EAA Model GBP Allocation 0-20% Equity	16.7	13.8%	Morningstar UK Cautious Target Allocation Index	10
EAA Model GBP Allocation 20-40% Equity	38.1	30.2%	Morningstar UK Moderately Cautious Target Allocation Index	30
EAA Model GBP Allocation 40-60% Equity	58.9	48.6%	Morningstar UK Moderate Target Allocation Index	50
EAA Model GBP Allocation 60-80% Equity	77.5	67.6%	Morningstar UK Moderately Adventurous Target Allocation Index	70
EAA Model GBP Allocation 80%+ Equity	95.3	85.1%	Morningstar UK Adventurous Target Allocation Index	90
EAA Model GBP Flexible Allocation*			Morningstar UK Moderate Target Allocation Index	50

Source: Morningstar Direct. Data as of 15 September 2022.

\* Insufficient Managed Portfolio data sample of two portfolios

The exhibit above shows the average Portfolio Risk Score of UK managed portfolios within the database by Morningstar Category. The right side of the table shows the Morningstar index assigned to each category and its Portfolio Risk Score.

As expected, Portfolio Risk Scores rise in line with the level of equity/risky assets. In each category, we see fairly close alignment between the managed portfolios and their respective Morningstar Category and Morningstar index. ■■■

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