
UK Managed Portfolios Landscape 2022

Morningstar Manager Research

28 July 2022

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Executive Summary

Managed portfolio services, or MPS, is the fastest-growing UK investment solution, with on-platform MPS estimated to have grown assets by nearly a quarter in 2021 (Platform, 2022).

Unlike the unitised fund space, comprehensive and widely available data on managed portfolios has been lacking. Morningstar's newly launched UK Managed Portfolio Database is the first independently collected market database of UK managed portfolios. It captures portfolio holdings and asset allocation, calculates performance and risk scores, and categorises investments, providing the industry with comparable and independently calculated data.

The database makes available a wide range of data points for nearly 900 managed portfolios, at the time of writing. We expect this number to grow. Further data points will also be forthcoming, including summation of underlying fund fees and total cost of investment data. Risk and return data are also available to database subscribers.

This report presents an overview of some of the data currently contained in the new database, highlighting some key initial findings.

Key Takeaways

- ▶ While 2021 saw a slowdown in launches, a significant number of new managed portfolios were reported to Morningstar between 2018 and 2020, reflecting rapid growth in the sector.
- ▶ Not surprisingly, allocation portfolios are the most common category, although there are a small number of managed portfolios that invest in only one asset class such as equities or fixed income.
- ▶ Digging deeper to look at underlying holdings, index funds feature heavily in the funds most owned by managed portfolios. Among the most held active funds, sustainable funds also feature prominently, suggesting that many providers are turning to a handful of well-recognised managers when looking for active funds that meet sustainability requirements.
- ▶ Just over 1,200 distinct underlying holdings are used across all portfolios. This might seem narrow relative to the potential universe of funds across the market but likely reflects the much lower number of providers (67) and the need for platform availability. Quality is of course also a relevant consideration, further narrowing the opportunity set, and we find the most held funds are well-rated by Morningstar.
- ▶ Morningstar Sustainability Ratings indicate that those managed portfolios described as having a sustainable focus, appear true to label, overall, with their Sustainability Ratings tending to be significantly higher than other managed portfolios.

Referring to their underlying holdings, 61% of managed portfolios are described as active by their providers, with 23% passive and 15% a blend. Depending on the materiality thresholds used, look-through analysis suggests this understates the number of portfolios that actually blend active and passive funds.

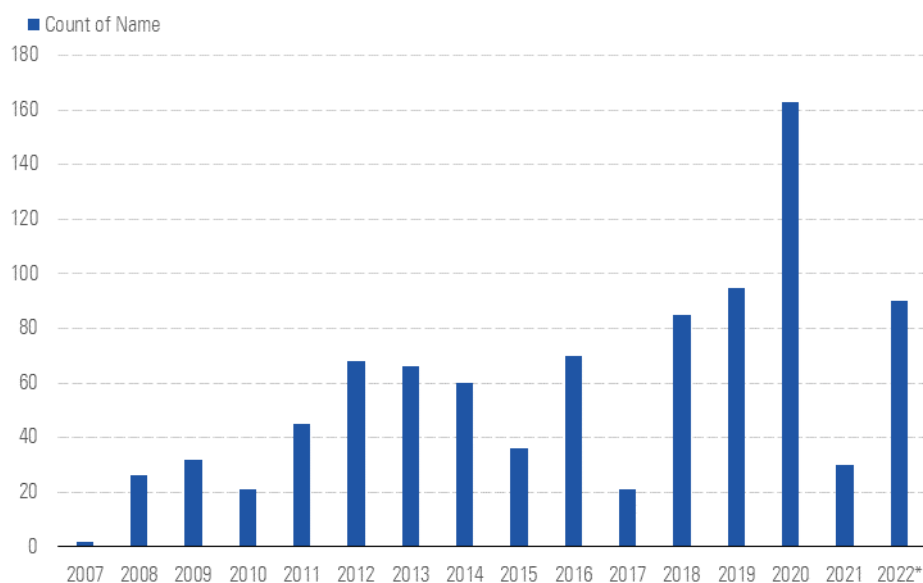
What Are Managed Portfolios?

Managed portfolio services are investment services through which wealth managers and advisers 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 67 providers have portfolios included in Morningstar's dataset.

Managed Portfolio Launches

The exhibit below shows the number of models reported to Morningstar with inception dates in each calendar year. The years 2018 through 2020 in particular saw a notable increase. Numbers in 2021 were lower, which may indicate that many managed portfolio providers had already entered the market, but they appear to be on track for a significantly higher number in 2022.

Exhibit 1 Managed Portfolios Reported to Morningstar, by Year of Inception



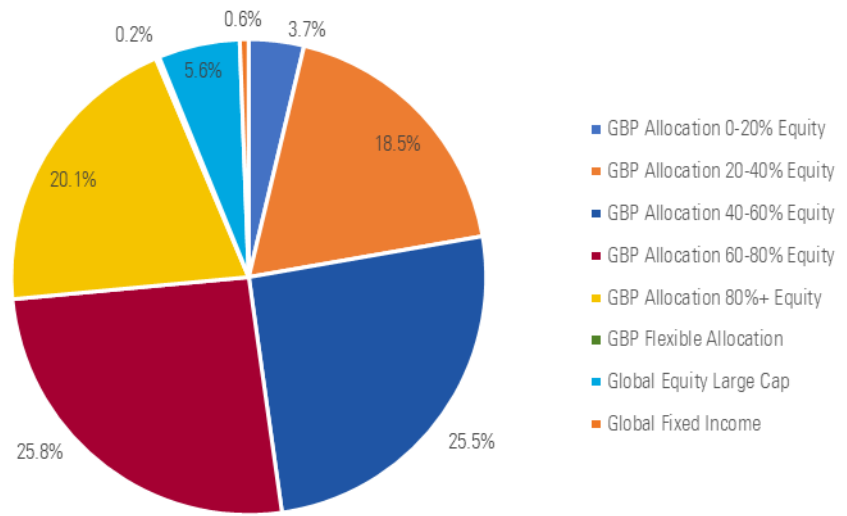
Source: Morningstar Direct. Data as of 23 June 2022.

* Annualised figure

Managed Portfolio Morningstar Categories

Around 94% of managed portfolios are allocation products, providing clients with asset allocation as well as fund selection. The GBP allocation 40-60% equity and 60-80% equity Morningstar Categories each account for around 25% of portfolios, while just over 20% sit in the more aggressive GBP allocation 80%+ equity category. Portfolios in the GBP allocation 20-40% equity category also make up a significant number. The most conservative allocation category, 0-20% equity, accounts for less than 4% of managed portfolios. Only a handful of portfolios belong in the flexible allocation and global fixed-income categories. A relatively small number (5.5%) are classified as global equity.

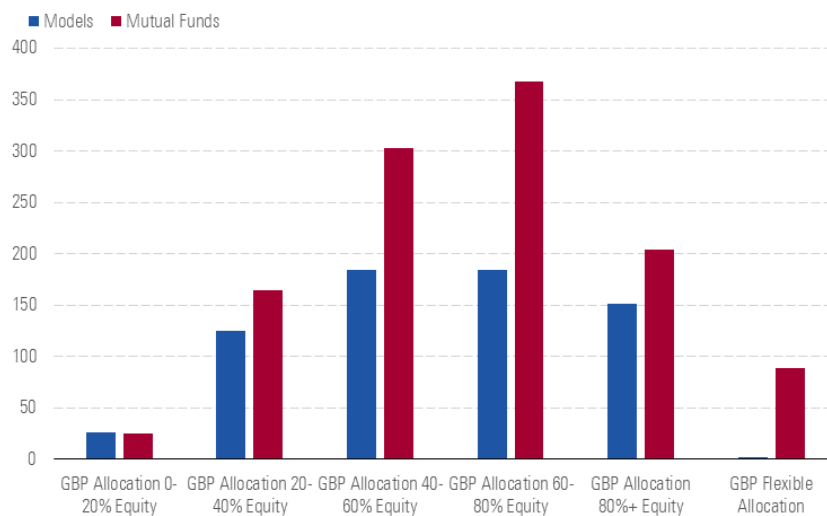
Exhibit 2 Managed Portfolios by Morningstar Category



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

The chart below compares the number of managed portfolios versus the number of unique open-ended strategies, in each of the UK allocation categories. The shape of the distribution is similar. Notably, only two flexible allocation portfolios are currently captured in Morningstar’s data: **Morningstar Real Return Flexible** and **Linear Systematic Model**. Managed portfolios are often aligned to investor risk tolerances and questionnaires. Staying in those agreed boundaries is important, but the nature of a flexible portfolio could mean deviation from a client’s risk stance.

Exhibit 3 Managed Portfolios by Global Category



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

Most Commonly Held Funds

Looking into the underlying holdings of the managed portfolios, we find that 1,217 distinct investments are held, which is a low number relative to the breadth of open- and closed-end funds and exchange-traded funds in the marketplace. This is likely to be at least partly due to many providers using the same holdings across multiple portfolios and the need for underlying holdings to be available on platforms.

Quality is also an important consideration for managed portfolio providers and narrows their opportunity set. All the top 10 most-held funds are favourably rated by Morningstar and earn medals using either the Morningstar Analyst Rating or Morningstar Quantitative Rating, which are both forward-looking ratings.

Exhibit 4 Top 10 Most-Held Funds in Managed Portfolios

Fund Name	Morningstar Category	# of portfolios included in	Index / Active	Morningstar Analyst Rating	Morningstar Quantitative Rating
Vanguard Global Bond Index Fund	Global Bond - GBP Hedged	173	Index	Bronze	
Rathbone Ethical Bond Fund	GBP Corporate Bond	154	Active		Gold(Q)
Vanguard U.S. Equity Index Fund	US Large-Cap Blend Equity	115	Index	Gold	
HSBC Global Funds ICAV - Global Government Bond Index Fund	Global Bond - GBP Hedged	114	Index		Bronze(Q)
Vanguard U.K. Government Bond Index Fund	GBP Government Bond	109	Index	Silver	
Royal London Sustainable Leaders Trust	UK Large-Cap Equity	108	Active	Silver	
iShares Emerging Markets Equity Index Fund (UK)	Global Emerging Markets Equity	100	Index		Bronze(Q)
Vanguard Emerging Markets Stock Index Fund	Global Emerging Markets Equity	99	Index	Bronze	
Legal & General Short Dated Sterling Corporate Bond Index Fund	GBP Corporate Bond - Short Term	98	Index		Silver(Q)
HSBC Index Tracker Investment Funds American Index Fund	US Large-Cap Blend Equity	97	Index	Gold	

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

Notably, index funds make up eight of the top 10 most held funds across the portfolios. This is perhaps unsurprising given their inclusion in both fully passive portfolios and portfolios holding a mix of active and passive funds, which may use index funds for efficient exposure to an asset class, country, or sector, and to reduce overall costs. The most held fund is the Bronze-rated **Vanguard Global Bond Index**. **HSBC Index Tracker Investment Funds American Index** and **Vanguard US Equity Index**, both Gold-rated, are popular choices for allocations to US equity.

The most held active fund is **Rathbone Ethical Bond**. Its popularity may be explained by the range of sustainable and responsible portfolios—with 220 indicating a focus on sustainability—and the narrower number of ethical bond funds available in the market. Silver-rated **Royal London Sustainable Leaders Trust** is the other active fund among the top 10.

Exhibit 5 Top 10 Most-Held Active Funds in Managed Portfolios

Fund Name	Morningstar Category	# of portfolios included in	Morningstar Analyst Rating	Morningstar Quantitative Rating
Rathbone Ethical Bond Fund	GBP Corporate Bond	154		Gold(Q)
Royal London Sustainable Leaders Trust	UK Large-Cap Equity	108	Silver	
Legal & General UK Property Feeder Fund	Property - Direct UK	87		
Liontrust Sustainable Future UK Growth Fund	UK Flex-Cap Equity	86	Bronze	
Janus Henderson Absolute Return Fund	Long/Short Equity - UK	81	Bronze	
FP WHEB Sustainability Fund	Sector Equity Ecology	80		Neutral(Q)
Janus Henderson Global Sustainable Equity Fund	Global Flex-Cap Equity	79		Neutral(Q)
Liontrust Sustainable Future Corporate Bond Fund	GBP Corporate Bond	79		Bronze(Q)
Liontrust Special Situations Fund	UK Flex-Cap Equity	78	Bronze	
Allianz Gilt Yield Fund	GBP Government Bond	77	Neutral	

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

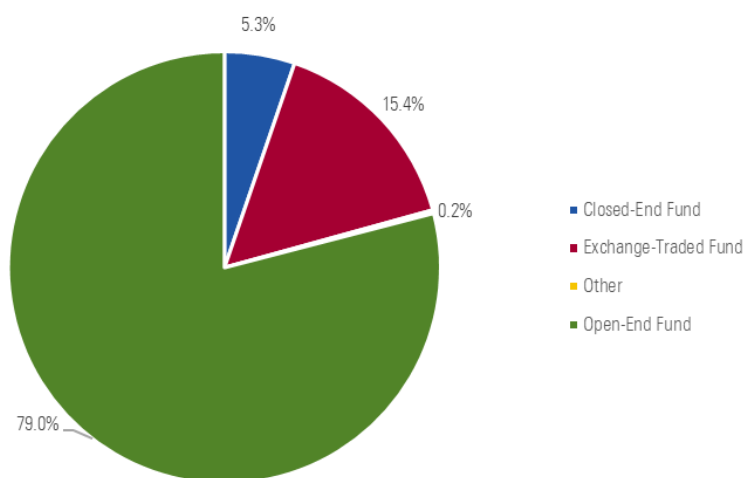
The list of top 10 active funds held in portfolios contains a number of other sustainable funds, including **Liontrust Sustainable Future UK Growth**, which is rated Bronze, **Liontrust Sustainable Future Corporate**

Bond, and Janus Henderson Global Sustainable Equity. Again, the frequency of these funds' use in managed portfolios indicates that many providers are turning to a handful of well-recognised managers when looking for active funds that meet sustainability requirements.

Use of ETFs and Other Vehicles

Of 1,217 distinct underlying investments held across all portfolios, the vast majority (79%) are open-end funds. ETFs make up 15.4% of the number, and closed-end funds just 5.3%.

Exhibit 6 Underlying Investments by Type



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

The most frequently held ETF is **iShares Physical Gold ETC**, which aims to track the spot price of gold. Notably, six of the top 10 most held ETFs have environmental, social, and governance or socially responsible investing mandates. Only five commodity holdings, all ETFs, are featured in managed portfolios.

Exhibit 7 Top 10 Most-Held ETFs in Managed Portfolios

Fund Name	Morningstar Category	# of portfolios included in
iShares Physical Gold ETC	Commodities - Precious Metals	37
UBS (Irl) ETF plc - MSCI United Kingdom IMI Socially Responsible UCITS ETF	UK Large-Cap Equity	31
iShares MSCI Japan SRI UCITS ETF	Japan Large-Cap Equity	29
iShares MSCI EM SRI UCITS ETF	Global Emerging Markets Equity	28
iShares MSCI USA SRI UCITS ETF	US Large-Cap Blend Equity	24
iShares MSCI EM ESG Enhanced UCITS ETF	Global Emerging Markets Equity	19
iShares Core Global Aggregate Bond UCITS ETF	Global Bond - GBP Hedged	16
Invesco UK Gilts UCITS ETF	GBP Government Bond	16
Vanguard FTSE 250 UCITS ETF	UK Mid-Cap Equity	15
iShares MSCI USA ESG Screened UCITS ETF	US Large-Cap Blend Equity	15

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

Closed-end funds feature in few portfolios. Many of those most frequently held invest in direct property and infrastructure, suggesting they are used as a more liquid way to access these illiquid markets. Four of the top 10 are equity funds, including Silver-rated **Mid Wynd International Investment Trust**.

Exhibit 8 Top 10 Most-Held Closed-End Funds in Managed Portfolios

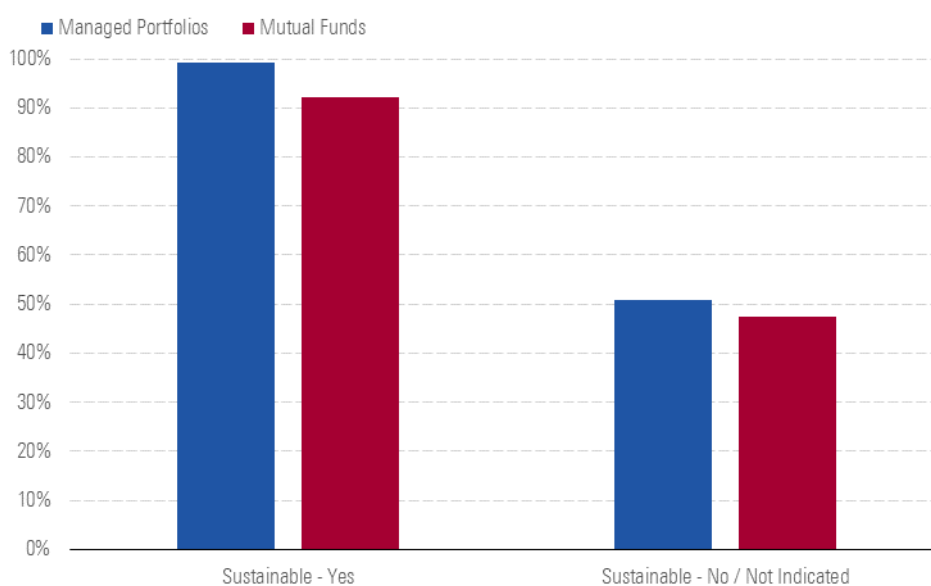
Fund Name	Morningstar Category	# of portfolios included in
Greencoat UK Wind PLC	Infrastructure Direct	15
LondonMetric Property Plc	Property - Direct UK	14
Polar Capital Technology Trust	Sector Equity Technology	12
Impax Environmental Markets Trust Plc	Sector Equity Ecology	11
Civitas Social House Plc	Property - Direct UK	10
The Renewables Infrastructure Group Limited	Infrastructure Direct	10
International Public Partnerships Limited	Infrastructure Direct	9
Foresight Solar Fund Limited	Infrastructure Direct	9
JPMorgan Global Growth & Income Investment Trust	Global Large-Cap Blend Equity	9
Mid Wynd International Investment Trust PLC Fund	Global Large-Cap Growth Equity	9

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

Sustainability and ESG

Around 25% of the portfolios covered (220 portfolios) are described by their providers as having a sustainable focus. Putting this to the test, the Morningstar Sustainability Rating assigns an overall rating to managed portfolios, taking into account their holdings' corporate and sovereign sustainability ratings.

Ninety-four percent of managed portfolios currently reported to Morningstar are in allocation categories. Exhibit 9 below takes this subset and compares them with open-end funds in allocation categories. Around 99% of managed portfolios that indicate a sustainable focus earn a High or Above Average Sustainability Rating, compared with around 51% for all other managed portfolios. For open-end allocation funds, 92% of those indicating a sustainable focus earn a High or Above Average Sustainability Rating, compared with around 47% of all other allocation funds.

Exhibit 9 Morningstar Sustainability Ratings of High and Above Average

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

Sustainability and ESG— Underlying Funds

Where Luxembourg- and Ireland-domiciled funds are used, we can look at their SFDR designation. Article 8 ("light green") funds promote environmental and/or social characteristics. Article 9 ("dark green") funds have sustainable investment as their core objective.

The most popular Article 8 equity fund within model portfolios is **BMO Responsible Global Equity**, which is found in 77 individual portfolios. **BMO UK Equity** (Silver-rated) and **BMO UK Income** are also popular; they are in 53 and 40 portfolios, respectively.

The most popular Article 8 fixed-income fund is **Muzinich Global Tactical Credit**, which has an Analyst Rating of Gold and is found in 62 portfolios.

Among Article 9 funds, the most popular is **Pictet Global Environmental Opportunities**. It is found in 30 managed portfolios, followed by **Pictet Timber** in 27, and then **Montanaro Better World** in 26. The most popular Article 9 index fund is **NT World Small Cap ESG Low Carbon Index Feeder**, which is found in 26 portfolios.

Veritas Asian (Gold-rated) is one of the most popular Asia-focused actively managed funds, and the most common with an Article 8 or 9 designation.

In total there are 220 different Article 8 (166) or Article 9 (54) strategies out of the 1,217 unique funds found in these managed portfolios.

Use of Alternatives

Across all managed portfolios, 34 funds classified in Morningstar's alternatives asset class were used as underlying holdings. Macro-trading GBP was the most common category, with **JPMorgan Global Macro Opportunities** and **JPMorgan Global Macro Sustainable** (both rated Bronze) and Neutral-rated **TM Fulcrum Diversified Core Absolute Return** the most frequently held. **Neuberger Berman Uncorrelated Strategies**, which is in the multistrategy GBP category, was the most popular alternatives holding overall.

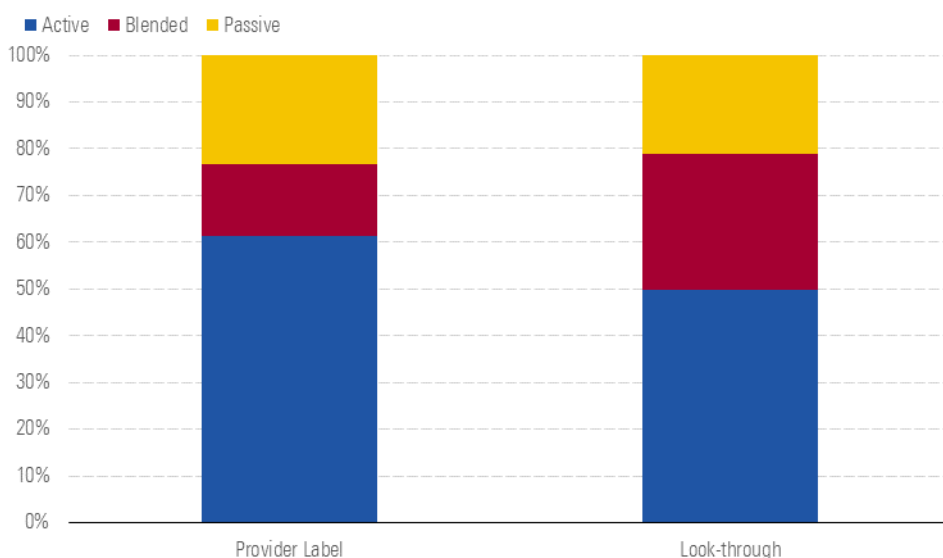
Allocation to Active Underlying Funds

The chart below examines the use of index funds in managed portfolios. The left column shows the percentage of portfolios identified by their providers as either active, blended, or passive in their underlying holdings. Sixty-one percent of portfolios are described as active, 23% as passive, and 15% as blended.

In the column on the right, we examine the portfolios' actual allocations to passive underlying funds. Portfolios are considered active if they have less than 25% exposure to index funds, passive if they have greater than 75% exposure to index funds, and blended if their index fund allocation falls between these thresholds.

On a look-through basis, 50% fall into the active category, while 21% are categorised as passive. A significant number of portfolios (29%) have a sizable allocation to index funds alongside active funds.

Exhibit 10 Managed Portfolios — Exposure to Active and Passive Underlying Investments

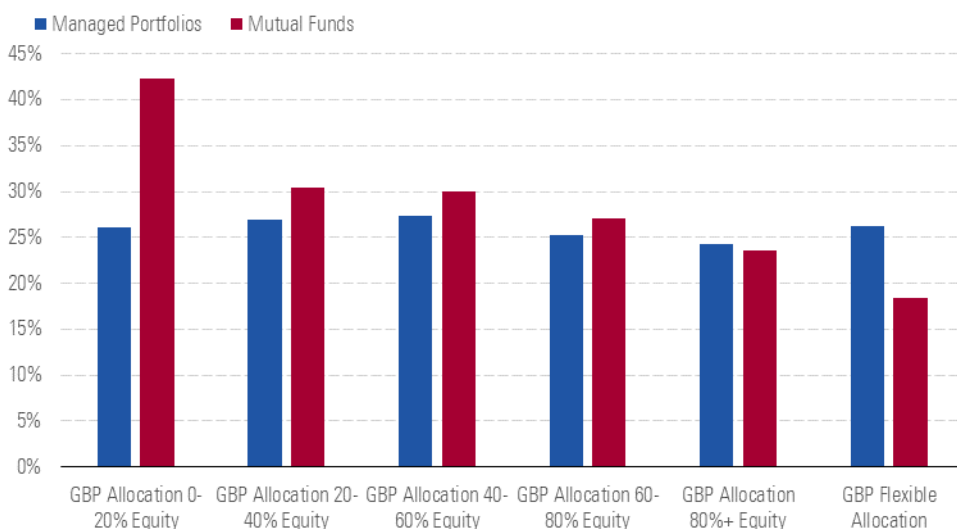


Source: Morningstar Direct. Data as of 30 June 2022.

Home Bias

For managed portfolios and open-end funds, the exhibit below shows the proportion of equity, in each allocation category, that is invested in UK equities. Relative to the UK market's actual weight in global equity indexes—around 3% to 4%—we see a clear home bias in both the managed portfolios and open-end funds.

Exhibit 11 UK Equity Home Bias — Managed Portfolios and Open-End Allocation Funds



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

Comparing the two structures, we see a slightly lower UK home bias in the managed portfolios, except for the GBP allocation 80%+ equity category (in line) and the flexible category. However, the flexible allocation category currently contains only two managed portfolios, which limits any conclusions. Similarly, the GBP allocation 0-20% equity category shows a much wider disparity between the managed portfolios and the open-end funds but contains a relatively small number of distinct strategies in either format, which could influence the results. ■■

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