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U.S. Model Portfolio Landscape
2023 in Review

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Executive Summary

Model portfolios continue to gain significant traction across the industry. Advisors looking for investment blueprints can lean on these offerings to access industry-leading asset-allocation teams and investment processes while still maintaining discretion over their portfolios. Assets have steadily grown since Morningstar first published assets that follow model portfolios in June 2021, increasing from USD 286 billion to USD 424 billion as of June 2023. These conservative estimates only account for assets that model providers can track and are based on a mix of surveyed and reported data.

With model portfolios' rise in popularity among advisors and no barriers to launching new paper models, asset managers have flooded the marketplace with options. Since Morningstar launched its model portfolio database in 2019, over 2,500 U.S. models have been reported. Most of them are designed to serve as the core of an investor's portfolio by targeting a specific risk level. But there are only so many ways to build a model within the confines of a risk target, whether it's for a conservative, moderate, or aggressive investor. The proliferation of similar target-risk models can make it hard for advisors to sort through the myriad choices. A strong framework for evaluating these options should lead to better results for advisors and their clients.

Morningstar has increased its efforts to help investors sort through the thousands of portfolios. In March 2019, Morningstar Manager Research analysts began assigning qualitative, forward-looking Medalist Ratings to model portfolios. Then in 2021 it launched the Morningstar Rating™ for models, also known as the "star rating." In November 2022, Morningstar applied quantitatively driven assessments to model portfolios. The process uses a machine-learning algorithm to mimic the decision-making processes of analysts and helps increase model portfolio coverage. As of Dec. 31, 2023, 62% of the portfolios in Morningstar's model database received either an analyst-driven or quantitative Morningstar Medalist Rating.

This report first looks at broader model portfolio industry trends, including asset growth and makeup, product proliferation, fees, and future developments. This report also provides a framework for evaluating target-risk portfolios as another model portfolio evaluation tool.

Key Takeaways

- Assets following third-party model portfolios continue to expand, increasing by over 21% since March 2022. As of June 2023, nearly USD 424 billion followed model portfolios—a conservative estimate based on surveys and data submitted directly to Morningstar's database.
- Capital Group has charged up the ranks of top model providers. The firm reported USD 75 billion in assets following its models as of June 2023, up from USD 41 billion in March 2022, and placing it second among all providers. BlackRock remains in the lead with USD 84 billion of assets following its models.
- The 10 largest model providers account for approximately 75% of assets following third-party models, as of June 2023. That hasn't changed in the last two years.
- The pace of allocation model portfolio launches has cooled from its blistering pace. They averaged 240 new launches per year from 2018 to 2021, but only 175 portfolios launched during 2022 and 2023 combined. Multi-asset model portfolio launches still overwhelm those of mutual funds, though.
- Allocation model portfolios still dominate the landscape. Over 77% of the portfolios currently in Morningstar's model portfolio database land in the allocation global broad Morningstar Category that excludes all-equity or all-fixed-income portfolios in a target-risk series.
- The new launch slowdown and the predominance of allocation models are connected. It's getting harder for new entrants to differentiate themselves, especially when it comes to target-risk strategies, the most common allocation model. With so many similarities between target-risk models, it's important to have a framework to evaluate them.
- As of Dec. 31, 2023, Morningstar Manager Research analysts assigned qualitative ratings to more than 360 individual model portfolios. Morningstar had assigned about 1,370 quantitatively driven Medalist Ratings on individual models, as of the same date.
- With the market for off-the-shelf models getting crowded, providers are ramping up their ability to customize model portfolios to stand out.
- Additional tools like tax-management overlays and adding more personalized investment options, like separately managed accounts, are two popular ways to customize portfolios for individual clients. Some platforms and larger advisor firms are also seeking uniquely tailored versions of off-the-shelf models for their clients.

Introduction

What Are Model Portfolios?

This paper defines a model portfolio as an investment blueprint offered by asset managers and investment strategists for advisors to follow. Advisors can implement models in different ways, such as following versions posted on providers' websites or using third-party platforms to handle execution. In this report, we do not include home office models from firms like Merrill Lynch because usually only those firms' advisors can use them.

Like mutual funds or separate accounts, model portfolios can focus on a single asset class, such as equities or fixed income. However, most model portfolios exist within a series of multiple portfolios designed for a variety of risk tolerances. They typically offer asset-allocation and fund-selection recommendations and may have specific goals like providing income or maximizing aftertax returns.

Asset-management firms and strategists offer models. Asset managers often use their own proprietary investment offerings for their models' fund lineups, even offering models resembling existing mutual funds. Strategists usually lack their own funds, so they tap third-party strategies for their model portfolios.

Interest Continues to Grow

Third-party model portfolios offer advisors an opportunity to outsource some, or all, of their investment management responsibilities. This allows advisors to dedicate more time to other client needs and on growing their practices. Advisors have taken notice as assets following model portfolios have steadily grown since Morningstar began tracking the figure in mid-2021. From June 2021 to June 2023, assets increased by USD 137 billion to USD 424 billion, a 48% rise.

Morningstar's Top-Rated Model Portfolios

The Morningstar Medalist Rating is a forward-looking, qualitative rating that Morningstar's Manager Research analysts assign based on their assessment of a strategy's investment merits. The ratings range across Gold, Silver, Bronze, Neutral, and Negative. The highest ratings go to strategies that analysts conclude will outperform their Morningstar Category benchmarks over a full market cycle on a risk-adjusted basis net of fees. Neutral- and Negative-rated strategies are those that analysts expect to underperform.

In March 2019, Morningstar began assigning Analyst Ratings for separate accounts that represented models. In 2021, we expanded the eligible universe to include hypothetical models to better reflect advisors' opportunity sets and to help them assess their options.

Morningstar's top allocation model portfolio picks with 100% analyst coverage can be found in Exhibit 1.

Exhibit 1 Morningstar's Top Analyst-Covered Allocation Model Portfolio Series

		Pillar Rating ↑ Upgrades ↓ Downgrades		
Series Name	**Medalist Rating**	**People**	**Process**	**Parent**
*BlackRock Target Allocation ESG	Gold ↑	High ↑	Above Average	Above Average
BlackRock Target Allocation Tax Aware	Gold ↑	High ↑	Above Average	Above Average
*BlackRock Long-Horizon Allocation ETF	Gold	High ↑	Above Average	Above Average
BlackRock Target Allocation ETF	Gold	High ↑	High	Above Average
American Funds Growth	Gold	High	Above Average	High
American Funds Growth and Income	Gold	High	Above Average	High
American Funds Retirement Income	Gold	High	Above Average	High
American Funds Tax Aware Growth and Income	Gold	High	Above Average	High
^American Funds Tax Aware Preservation and Income	Gold Silver	High	Above Average	High
^American Funds Preservation and Income	Gold Neutral	High/Above Average	Above Average/Average	High
BlackRock Target Allocation Mult-Manager with Alts	Silver ↑	High ↑	Above Average ↑	Above Average
State Street Strategic Asset Allocation	Silver	Above Average	Above Average ↑	Above Average
Fidelity Target Allocation Index-Focused	Silver	Above Average	Average	Above Average
Vanguard Core	Silver ↓	Above Average	Above Average	High
Vanguard CRSP	Silver ↓	Above Average	Above Average	High
Vanguard Russell	Silver ↓	Above Average	Above Average	High
Vanguard S&P	Silver ↓	Above Average	Above Average	High
Vanguard Tax-Efficient	Silver ↓	Above Average	Above Average	High
BlackRock Long Horizon Mutual Fund	Bronze	High ↑	Average	Above Average
Pimco Retirement Income	Bronze	Above Average	Above Average ↑	Above Average
Dimensional Core Plus Wealth	Bronze	Above Average	Average	High
Dimensional Tax-Sensitive Wealth	Bronze	Above Average	Average	High
Goldman Sachs Multi-Manager ETF	Bronze	Above Average	Average	Average
John Hancock Active/Passive	Bronze	Above Average	Average	Above Average
Nuveen ESG	Bronze	Average	Above Average	Average
Schwab AB	Bronze	Above Average	Average	Above Average
T. Rowe Price Active	Bronze	Above Average	Average	High
T. Rowe Price Income	Bronze	Above Average	Average	High
Vanguard Income	Bronze	Above Average	Average	High
Dimensional Core Wealth	Bronze ↓	Above Average	Average	High
Schwab A	Bronze ↓	Above Average	Average	Above Average

Source: Morningstar Direct. Model portfolio series under analyst coverage as of Feb. 2, 2024. Medalist Ratings as of Dec. 31, 2023. Medalist Rating and pillar changes based on 2023 updates.
*Morningstar analysts rate the separate account offering only. ^Model portfolio series holds a split rating across the portfolios.

The Landscape

Advisors' Use of Models Continues to Grow

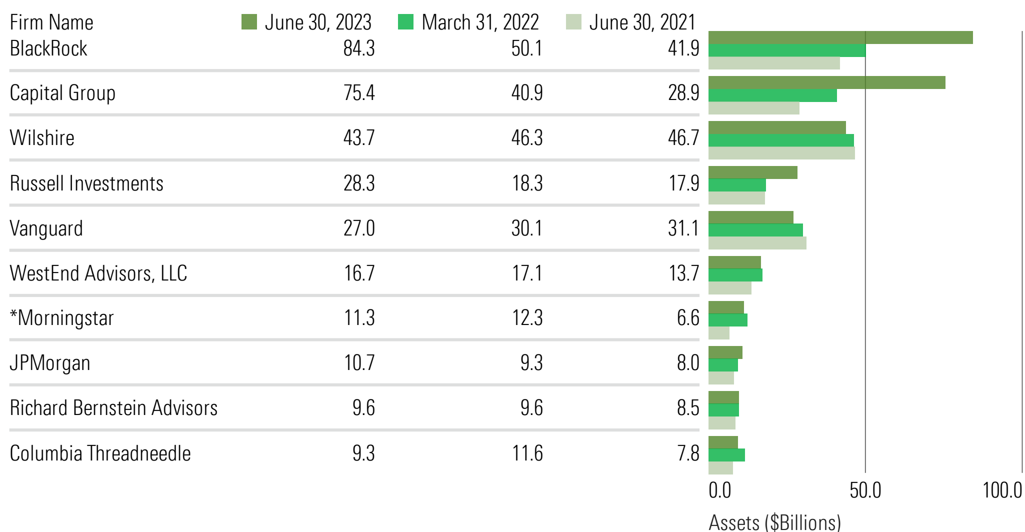
Tallying the total size of the model portfolio industry is difficult given the variety of ways that providers make models available.

At its most rudimentary level, advisors may subscribe to a "paper" model portfolio through a firm's website and follow those allocations via alerts and/or email updates. The assets employed this way are extremely hard to quantify. Advisors also can access models in more structured ways, such as through a model marketplace, independent technology platform, or through broker/dealers. Model marketplaces provide curated lists of model portfolio options but usually leave implementation in advisors' hands—asset levels here can be opaque, too. Independent technology platforms and direct access via broker/dealers generally handle model implementation for advisors and their clients, which makes asset tracking clearer and more reportable.

As of June 30, 2023, model portfolios guided nearly USD 424 billion, an increase of over 21% since March 2022 and 48% since Morningstar began tracking assets in June 2021.

Exhibit 2 shows the top 10 model providers by reported assets. These figures are based on a survey of 35 leading model providers and data reported to Morningstar's model portfolio database.

Exhibit 2 Top 10 Model Providers by Assets (USD Bil)



Firm Name	June 30, 2023	March 31, 2022	June 30, 2021
BlackRock	84.3	50.1	41.9
Capital Group	75.4	40.9	28.9
Wilshire	43.7	46.3	46.7
Russell Investments	28.3	18.3	17.9
Vanguard	27.0	30.1	31.1
WestEnd Advisors, LLC	16.7	17.1	13.7
*Morningstar	11.3	12.3	6.6
JPMorgan	10.7	9.3	8.0
Richard Bernstein Advisors	9.6	9.6	8.5
Columbia Threadneedle	9.3	11.6	7.8

Source: Surveyed Data. Data as of June 30, 2023.
*Morningstar Investment Management LLC and Morningstar Investment Services LLC.

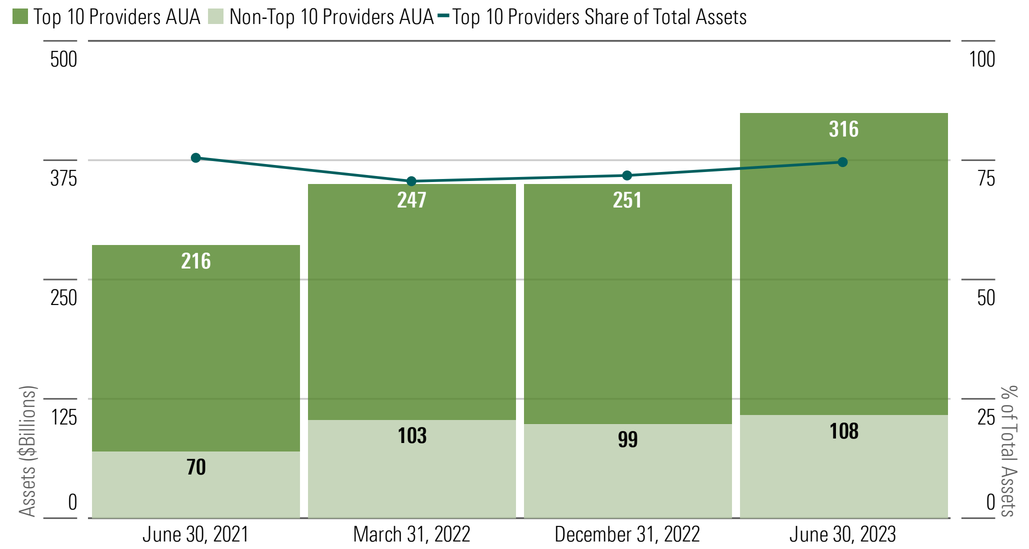
BlackRock continues to lead all providers with USD 84.3 billion in assets tracking its model portfolios. The firm's model assets increased by USD 34.2 billion since March 2022, when it also held the top spot. Capital Group reported a similar asset jump; its model assets increased by USD 34.5 billion, nearly doubling its total since our last publication and the most of any provider. Capital Group vaulted past Wilshire Associates and its USD 43.7 billion.

BlackRock's model lineup includes more than 15 target allocation series. Its target allocation exchange-traded fund series is the most popular model series under Morningstar coverage. Capital Group has had the most success with its growth and income, growth, and retirement income offerings. Both firms have also expanded their models' toolkit to provide clients more-tailored versions of their off-the-shelf model offerings.

There were not many other changes among the top 10 providers. JPMorgan was the only new member. The firm's model assets increased by USD 1.4 billion since March 2022, enough to earn eighth place. Brinker, whose reported assets fell by USD 2.1 billion, fell out of the top 10. Russell Investments overtook Vanguard for the fourth spot with a nearly USD 10 billion asset jump while Vanguard's model assets declined by USD 3.1 billion.

The overall market shares of top model providers have remained consistent. Exhibit 3 provides a breakdown of model portfolio assets by the top 10 providers and all other providers. The share of total assets attributed to the top providers has remained around 75% as assets have grown. The largest providers have a clear foothold, but smaller shops haven't lost much ground.

Exhibit 3 Top 10 Model Providers Share of Total Model Portfolio Assets (USD Bil)



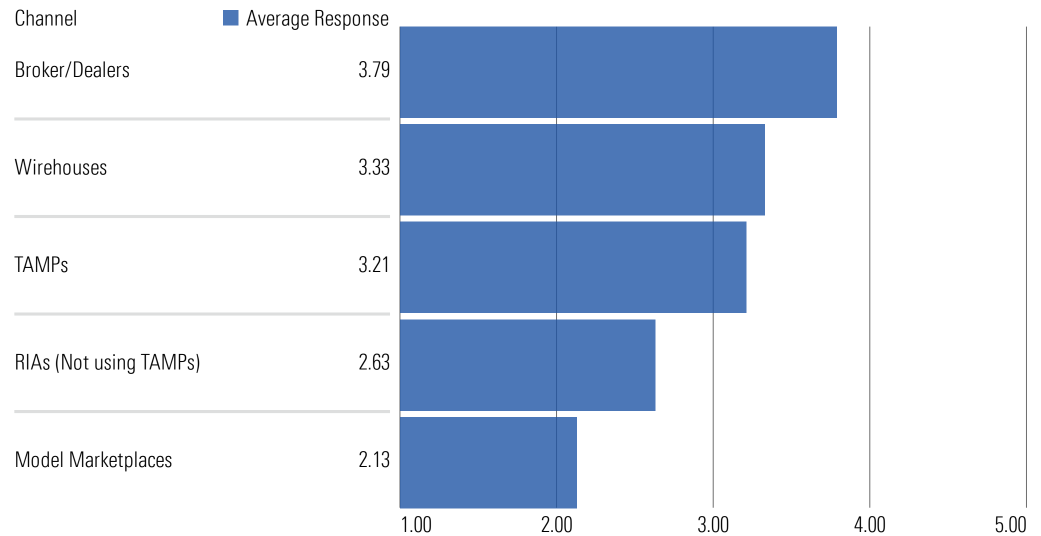
Source: Surveyed Data. Data as of June 30, 2023.

Tracking the total assets following model portfolios can be arduous. Not all providers report all their models to Morningstar, complicating estimates of firms' assets. Asset managers and strategists also struggle to fully understand the reach of their model portfolios given the variety of ways advisors access them. Thus, the reported asset figures are conservative estimates. For this report, we have surveyed model providers under Morningstar analyst coverage for their firm's total model assets, including the growing area of custom models, and used the reported assets in Morningstar Direct. So, the assets in this report may not match those shown in Morningstar Direct.

How Are Providers Trying to Gain Market Share?

To better understand where model providers see the most growth opportunities over the next three years, we asked 34 providers to rank five model delivery channels. Exhibit 4 shows the average rank of the responses—a ranking of 5 indicates the largest three-year growth opportunity, and 1 the smallest. We received 24 responses for this question.

Exhibit 4 Growth Opportunity by Channel



Source: Surveyed Data. Results as of August 2023.

Surveyed model providers think broker/dealers and wirehouses offer the largest growth opportunities. Nineteen of the respondents ranked the broker/dealer channel as the largest or second-largest growth opportunity, and nine respondents ranked wirehouses similarly (in many instances the two went hand in hand). Both broker/dealers and wirehouses have internal investment teams to create their own models, but in recent years they have included models built by third-party asset managers and strategists. The big advisor bases of these firms make them lucrative entry points for providers. And by bringing on third-party models at broker/dealers and wirehouses, it can help free their advisors' time to focus on other client needs.

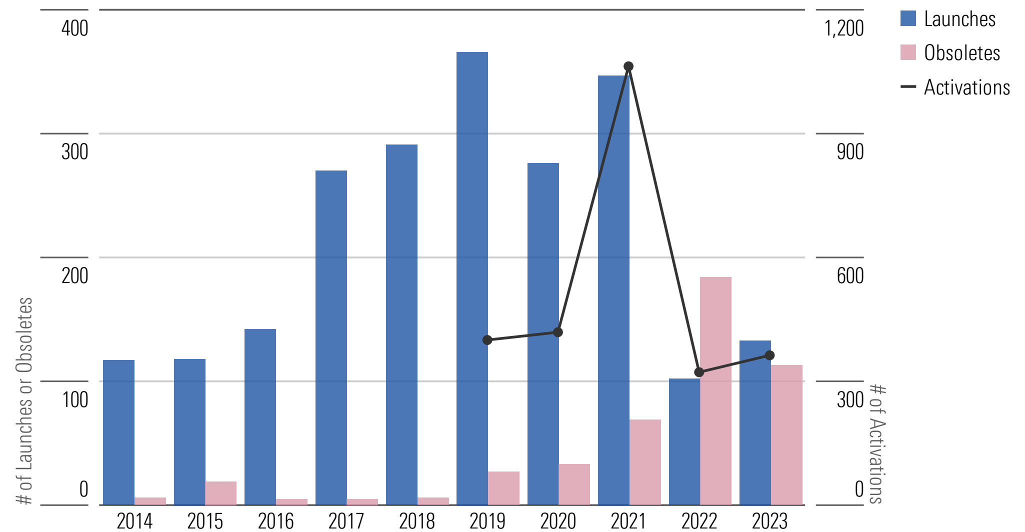
Turnkey asset-management platforms, or TAMPs, came in a close third. Providers can use TAMPs to gain access to a wide swath of advisor firms without having to go door to door. TAMPs may also help with model implementation by providing services like automated trading and rebalancing, tax optimization, and cash management. This further outsources investment management for advisors, freeing time to build their practices.

Model marketplaces and registered investment advisors who don't use TAMPs offered the smallest growth opportunities, respondents said. The fragmented nature of the RIA channel makes it difficult to reach without a substantial salesforce. The proliferation of off-the-shelf model portfolios has made it more difficult for providers to stand out and earn shelf space and advisor attention on model marketplaces. Model marketplaces also lack many of the additional features TAMPS offer, limiting their appeal.

Model Launches Have Slowed

Development of off-the-shelf models has slowed as assets have grown. Exhibit 5 shows the number of model portfolios launched, activated, and obsoleted over the past decade within Morningstar's models database. Launches are based on a model's inception date, activations on the date a reported model is added to Morningstar's database, and obsoletions on the date a model is liquidated.

Exhibit 5 Model Portfolio Launches, Activations, and Obsoletes



Source: Morningstar Direct, Authors' Calculations. Data as of Dec. 31, 2023.

There was an average of more than 300 model portfolio launches per year from 2017 through 2021. The pace has slowed tremendously since; fewer than 250 new models have been incepted in 2022 and 2023 combined. Allocation models, excluding stand-alone equity and bond models, and all-equity or all-fixed-income target-risk portfolios, saw a similar drop off.

Both stocks and bonds plunged in 2022, making it a difficult year for multi-asset portfolios, which may have put a damper on new model development and a penchant to focus on the firm's current product lineup. Providers also liquidated the most models since Morningstar established its model portfolio database. Models are not subject to the same regulation as open-end mutual funds, and providers who self-report data may opt to remove models that suffer big losses from the database rather than report poor results. And since Morningstar launched its database in 2019, model activations have lagged their actual launch date by almost 16 months, on average. Providers tend to wait until they have, preferably flattering, track records before reporting their models' results.

Many of the largest model providers also have now fully entered the field, creating a marketplace crowded with model series focusing on areas like income, environmental, social, and governance investing, tax awareness, and active and passive mixes. Some of the largest providers offer more than 75 individual portfolios. That may explain the slowdown of launches in 2022 and 2023. That said, some

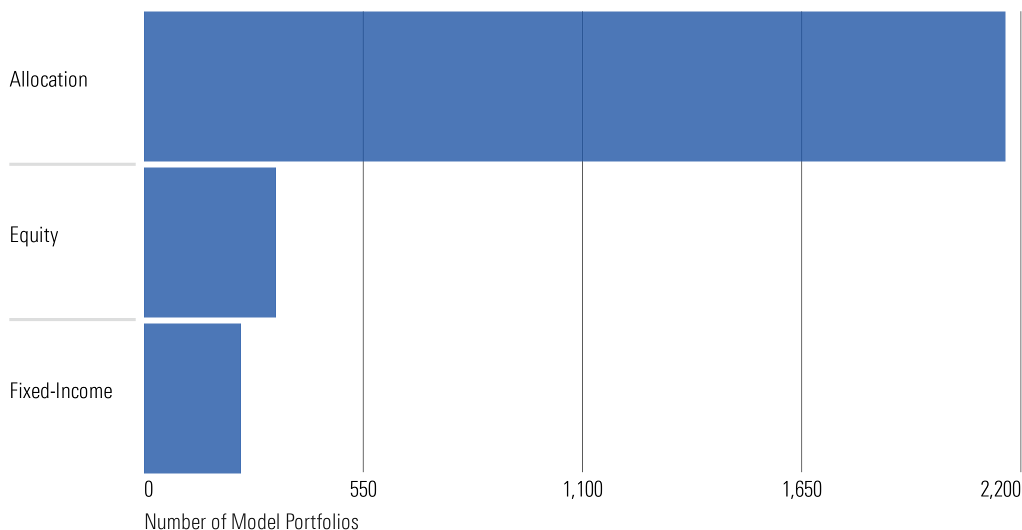
large providers have still released new asset-allocation portfolios worth monitoring. Below are a few notable launches since 2022:

- T. Rowe Price Blend model portfolio series, September 2023.
  - This series is an adaptation of an active offering the firm launched in late 2018. Instead of relying almost entirely on actively managed underlying strategies, this version mixes active strategies with passive ETFs to lower fees while maintaining diversification—the asset-weighted fee of each portfolio's underlying holdings sits 22 basis points cheaper, on average, than its sibling series.
- Capital Group's active/passive versions of their existing models, February 2023.
  - Similar to T. Rowe Price, Capital Group released versions of their growth, growth and income, preservation and income, and retirement income series that blend active American Funds and passive ETFs from iShares, Charles Schwab, and Vanguard while mirroring the same asset allocations.
- Dimensional Launches model ETF portfolios, 2022.
  - Dimensional tapped its expanding lineup of systematic, active ETFs in 2022 for its core market, core, core plus, and sustainable ETF model series that follow the same strategic asset-allocation plans of its existing models.

Allocation Models Continue to Be the Most Popular

Although there were fewer new allocation models, they still dominate the model portfolio landscape. As of December 2023, asset-allocation model portfolios falling in the allocation global broad Morningstar category accounted for over 77% of all models reported. And as shown in Exhibit 6, there are 6.5 and 9 times more allocation models than equity and fixed-income models, respectively, in absolute numbers.

Exhibit 6 Allocation Models Still Dominate the Landscape



Source: Morningstar Direct, Authors' Calculations. Data as of Dec. 31, 2023.

Asset-allocation models generally come in a series format, delivering a variety of portfolios across different stock/bond mixes for different investor risk profiles. Some series include more than 10 mixes. Five of Vanguard's allocation series (Core, CRSP, S&P, Russell, and Income), for example, include 11 portfolios with stock/bond exposures that vary by 10 percentage points.

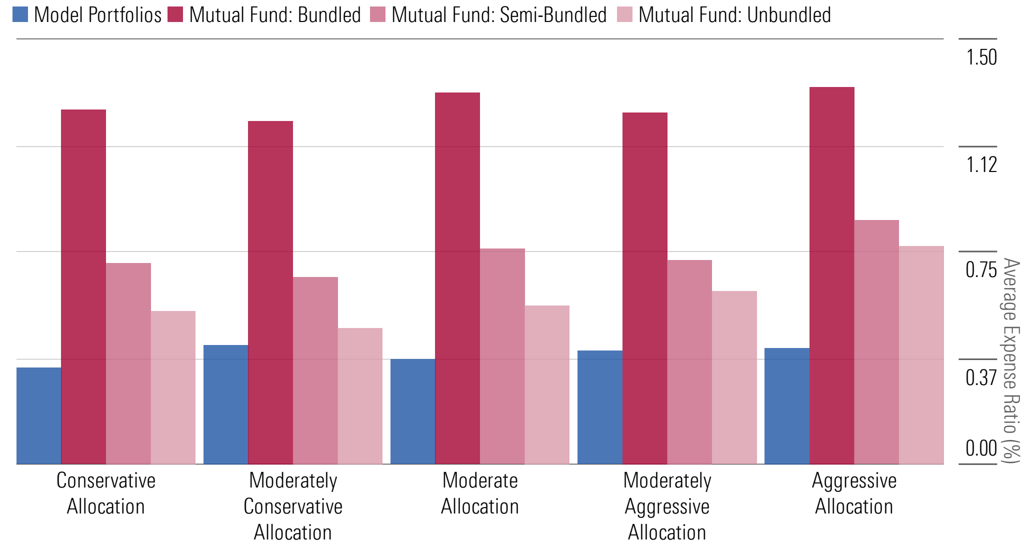
Fees Remain an Edge

Low costs are a strong selling point for model portfolios. To measure models' fee advantage compared with similar mutual fund peers, we used the Morningstar prospective acquired fund expense data point for models, which reflects the asset-weighted average of the underlying holdings' net expense ratios. We did not account for the strategist fee or any fees an advisor might charge on top of the model. For mutual funds, we broke down each allocation category by Morningstar's "Clean Share – Service Fee Arrangement" data point, which sorts each fund share class into one of the following groups:

- Bundled: Mutual fund share classes that include load sharing or payments to third parties for distribution fees.
- Semibundled: Mutual fund share classes that do not pay third-party distribution fees or engage in load sharing. However, the "semibundled" share class may pay third parties for subtransfer agent services or engage in revenue sharing.
- Unbundled: Mutual fund share classes that do not pay third parties, either through share class expenses or revenue-sharing arrangements.

As shown in Exhibit 7, model portfolios still have a significant fee advantage versus mutual funds within each target-risk allocation category. This advantage holds true regardless of the fee arrangements. Even when compared against unbundled mutual funds' shares with the lowest built-in expenses, an average model portfolio still costs 6 to 35 basis points less.

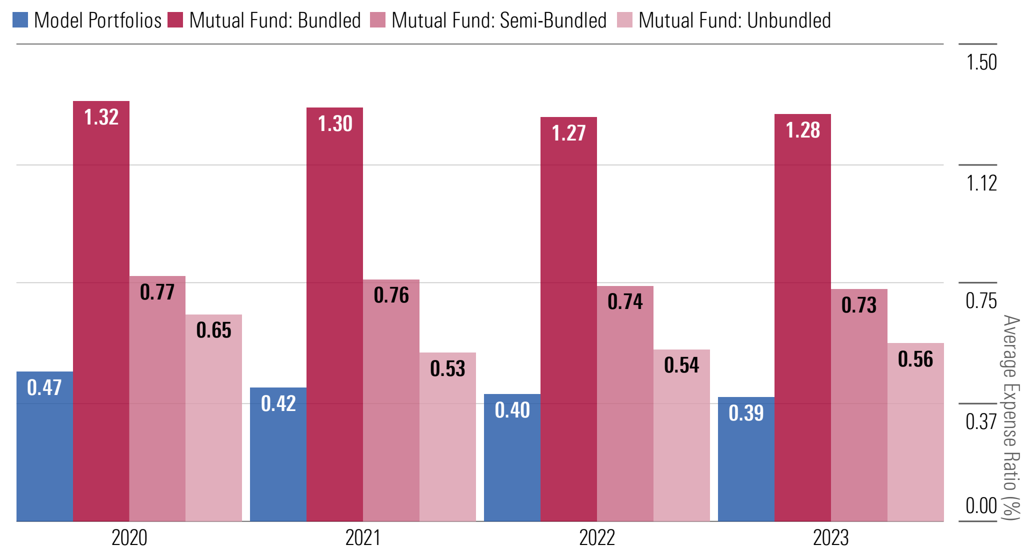
Exhibit 7 Fees by Morningstar Allocation Category



Source: Morningstar Direct, Authors' Calculations. Data as of Dec. 31, 2023.

Model portfolios have remained cheaper over time. Exhibit 8 shows fees back to December 2020, where allocation models were almost 19 basis points cheaper, on average, than the cheapest allocation mutual funds. The average model portfolio asset-weighted fee was 47 basis points at the time. And that average has fallen each year since. Though prices can't go to zero, they keep moving downward to the investors' benefit and have kept their lead on mutual funds. As of December 2023, the average allocation model was 17 basis points cheaper than the mean unbundled, or cheapest, allocation mutual fund.

Exhibit 8 Models Still Have a Fee Advantage



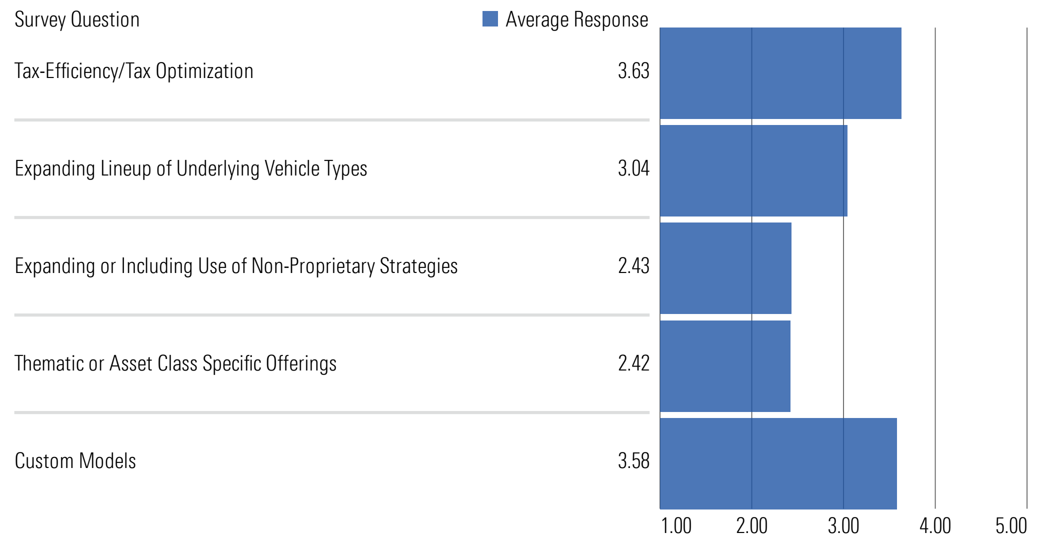
Source: Morningstar Direct, Authors' Calculations. Data as of Dec. 31, 2023.

Models' fee advantage rests on their preference for low-cost index funds.

The Future Will Be Customized

Due to the rapid growth of off-the-shelf model portfolios, it has become hard for providers to differentiate themselves. To better understand where providers see the largest growth opportunities to differentiate, we surveyed 34 providers to rank the five focus areas noted in Exhibit 9. A ranking of 5 indicates the biggest opportunity over the next three years, while 1 indicates the smallest. For this question we received 24 responses.

Exhibit 9 Where Model Providers See the Biggest Growth Opportunities



Source: Surveyed Data. Results as of August 2023.

On average, model providers indicated implementing tax efficiency or tax optimization into their models' lineup as the largest growth opportunity. At the portfolio level, this can include introducing tax-efficient underlying ETFs or swapping out taxable-bond funds for municipal-bond funds. Model providers may adjust their current offerings or launch something entirely new. It is also possible to use tax-optimization technologies to automatically exploit tax-loss-harvesting opportunities, but this falls mainly on the implementation side and less with the construction of the model itself.

Using different vehicles than traditional mutual funds and ETFs as underlying model portfolio holdings is the next biggest trend, according to respondents. Separate accounts, including direct indexing, can give providers more ways to shape their offerings for advisors to meet specific client preferences. Some providers have already moved in this direction. For instance, Fidelity has launched two series mixing Fidelity and third-party separate accounts with mutual funds and ETFs: Fidelity Model Portfolios with SMA and Fidelity Tax-Aware Model Portfolios with SMA.

Custom models are a unique circumstance, venturing past adjustments being made within a firm's off-the-shelf models. For the survey, we considered custom models as any expansion of these "golden

copies." Such versions still feature a firms' unique asset-allocation and fund-selection approaches but incorporate specifically tailored adjustments to meet unique client or platform preferences that may not be suitable for broader use. Such customizations can include a variety of portfolio adjustments including stock, bond, and geographic allocations, and underlying fund choices.

Custom models are a key focus area for providers, as indicated by the survey results, and as they gather momentum, Morningstar plans to further explore the differences between a firms' custom and off-the-shelf offerings.

How Morningstar Analysts Evaluate Target-Risk Models

What Is a Target-Risk Model?

Target-risk models are multi-asset strategies designed to fit an individual's risk tolerance and preference and serve as their portfolio core. They are typically a series of portfolios that range from conservative, fixed-income-heavy portfolios to aggressive, stock-heavy ones. The most popular are those that aim for a middle ground, like the classic 60/40 portfolio. Since there are low barriers to launching models, these series often include up to 10 portfolios with even more granular risk targets.

These portfolios keep their overall stock exposure relatively static, though some managers will make small deviations of plus or minus 5 percentage points from their starting points. Within the stock and bond sleeves, however, there is room for variation. Active decisions, like how much to invest outside the United States, how much credit risk to take, and where to pick an active manager or an index fund account for most of the differentiation.

Still, model providers don't stray too far from the norm. For example, the standard deviation of five-year annualized returns for almost 300 models in the moderate-allocation Morningstar Category was 1.46% at the end of December 2023. The same measurement for mutual funds in the large-blend Morningstar Category was 2.97%.

Finding the Goldilocks Portfolio

The proliferation of target-risk model portfolios and their narrow range of returns can create a paradox of choice for advisors. Firms offering various iterations of target-risk series, like a version that only uses ETFs with one that blends active and passive funds, further complicates matters. Even firms that have long shunned launching their own passive funds have embraced choice. In February 2023, for example, Capital Group launched new versions of its popular Growth and Income series of models that pair the firm's well-regarded active equity and bond funds with third-party ETFs—though they are still far behind BlackRock, which has nine varieties of its target allocation models.

To navigate all these models, it's important to have an evaluation framework. Morningstar analysts apply the same methodology to assessing model portfolios as they do allocation strategies in other vehicles, like mutual funds or ETFs. Below we highlight some of the best practices for the five fundamental pillars we use to evaluate target-risk portfolios.

People

The investment team and its supporting resources are the focus of the People Pillar. For models that use mutual funds, ETFs, and/or SMAs as their building blocks we also consider those strategies' quality as part of this pillar (how they are picked and monitored falls under the Process rating).

- Teams often run target-risk portfolios, but they aren't immune from key-person risk. It's important to identify the key decision-makers.
- Allocation teams should have a range of relevant backgrounds related to portfolio construction, equities, fixed income, and other asset classes, like alternatives.
- A clear team structure and decision-making process make it easier to evaluate the decision process and gain confidence in the team.
- Tenure matters, but experience can be misleading. How relevant the experience of the key decision-makers and supporting analysts is to their current role is more important; firms often count any time employed as experience, even if it's not applicable to their current job.
- Some turnover is unavoidable, but the best teams don't make it a regular occurrence. Stability bolsters confidence in the team's ability to execute its process.
- Bigger teams aren't necessarily better, and smaller ones aren't automatically disadvantaged. Team size should be appropriate for the strategy. More complex models, which make frequent bets or portfolio shifts, may benefit from larger teams while simple models that trade infrequently may be able to succeed with smaller teams.
- Money management matters, not public speaking. While it may be more fun to talk to an eloquent manager, there's no correlation between charisma and future performance.
- The best investment teams don't work in silos. They can use resources across their firms and share ideas. This is particularly relevant for teams at larger diversified firms where other teams may have complementary skills and research that could help a multi-asset portfolio.
- For model portfolios that use mutual funds and ETFs, choosing high-quality building blocks help build confidence that the underlying fund selection won't drag on performance. Models with a higher percentage of assets invested in funds earning Morningstar Medalist ratings of Gold, Silver, or Bronze have better prospects than those favoring Neutral- or Negative-rated offerings.

Process

The best processes are clearly defined and repeatable. There are a lot of different ways to manage a target-risk portfolio. Understanding how a team sets the model's strategic asset allocation, picks and oversees its underlying funds, decides what, if any, tactical tilts to take, and manages risk are important to consider.

- Target-risk models' primary objective is to balance returns and risk. So, it's important to make sure they have proper risk management guardrails to ensure they deliver what clients expect.
- Diversification is the best defense against the unknown. Target-risk portfolios are designed to be long-term holdings and should be able to weather a variety of market conditions. Concentrating a portfolio's risk in a single factor, such as value, growth, or a single region, could result in booms-and-bust performance that investors have trouble tolerating.

- × Although target-risk portfolios are usually launched in series, it is better to build each portfolio independently rather than building one and scaling risk up or down. What works best for a conservative portfolio may not work for an aggressive portfolio and vice versa.
- × Beware of stock-heavy models that take a lot of risk in their fixed-income portfolios. In such portfolios, the riskier bonds they own are less reliable ballasts against equity market drawdowns because high-yield or emerging-markets debt often behave like stocks in stress periods.
- × Teams should have a clear fund-selection process and an approach for removing funds that aren't delivering.
- × A team shouldn’t favor its own firms’ new, unproven funds over more established outside options. It’s a red flag if it does. Models shouldn't be used to raise funds for new strategies.
- × Past performance alone doesn't determine a process’ quality. It’s hard to separate skill from luck. A Process should behave as you'd expect in various markets. Look at various stress periods; a value-oriented process, for example, should have done well in a year like 2022, when value stocks trounced growthier fare as interest rates soared.

Parent

A good Parent puts investors' interests first. It realizes that it is a fiduciary, and the money it manages is not its own. Good Parent firms charge reasonable fees, attract and retain talented investment and support personnel, and have open, inquisitive, collaborative, and ethical cultures. They are for-profit enterprises, but ones that succeed by prioritizing stewardship over salesmanship. Here's some ways of telling the difference.

- × Better Parent firms attract, develop, and retain investment talent. They also have clear and thoughtful team structures and succession plans.
- × They properly align portfolio manager and client interests. Models aren’t directly investable, so it’s harder to track which managers eat their own cooking by investing alongside shareholders. Firms can still align their interests by tying compensation to long-term, risk-adjusted performance compared with an appropriate benchmark, rather than tying compensation to asset-gathering.
- × Good Parents charge reasonable fees; reasonable means low- to below-average compared with rivals.
- × Good Parents don’t chase investment fads or trends; their models and underlying funds are based on real, time-tested and repeatable investment strategies and asset-allocation plans.
- × Good model providers invest manager research teams to independently analyze, select, and monitor investment in-house and third-party investment options.

Price

Models tend to be cheaper than equivalent mutual funds, but it's still important to pay attention to fees. Models may have more than one component to their price. In addition to the asset-weighted fees of the underlying investments, some firms may charge additional fees, commonly referred to as a strategist fee. There may also be platform fees, depending on how the model is sold and if it outsources trading to a third party like a TAMP.

Appendix

To help investors navigate the model portfolio landscape, we have assigned more-granular attributes to the allocation model series that receive Morningstar Medalist Ratings with 100% analyst coverage.

Portfolio Goals

Target-Risk
These portfolios seek to deliver a consistent level of risk by sticking close to long-term strategic equity and bond allocations. They are usually offered in a series that spans conservative, moderate, and aggressive investor risk tolerances. The allocation to equities typically stays within 10 percentage points of its strategic allocation.

Tax-Aware
These portfolios are similar to target-risk portfolios, but their investment strategy prioritizes aftertax returns. They typically substitute tax-advantaged municipal bonds for taxable bonds in the fixed-income sleeve and favor companies with qualified dividends on the equity side.

Income-Oriented
These portfolios prioritize asset classes with higher levels of income than target-risk or tax-aware portfolios. This typically leads to larger allocations to dividend-paying equities, high-yield bonds, and more-niche markets like REITs, emerging-markets debt, master limited partnerships, and preferred securities.

Portfolio

- **Passive-Based:** More than 75% of the portfolio's assets reside in passively managed, index-based underlying funds.
- **Active-Based:** More than 75% of the portfolio's assets reside in actively managed underlying funds.
- **Blend:** The portfolio holds a more balanced mix of active and passive underlying funds.

Additional Tags

- **# of Portfolios:** The total number of individual portfolios included in the series. Multiple share class offerings for a single portfolio are counted as one.
- **Average # of Underlying Funds:** The average number of underlying holdings within each portfolio across the series based on the most recent portfolio data available.
- **Holding Types:** The type of underling holdings used within the model portfolio series. Investment types could include mutual funds, exchange-traded funds, individual stocks and bonds, and separately managed accounts.
- **Average % Medalist Exposure:** This indicates the percentage of underlying strategies that receive a Morningstar Analyst Rating or Morningstar Quantitative Rating of Gold, Silver, or Bronze. These ratings indicate the conviction level in the fund's ability to outperform its category benchmark over the long term. For passive funds, they indicate the conviction level in the fund to outperform the average peer in the category.
- **Average Asset-Weighted Fee:** This shows the average asset-weighted fee across each portfolio in the series. The calculation uses the most recent underlying holdings, weights, and corresponding prospectus-adjusted expense ratio.
- **Average Star Rating:** The average Morningstar star rating of each portfolio in the series as of Dec. 31, 2023. Model portfolio eligibility for a star rating can be found in Appendix 3 of Morningstar's methodology document titled, "The Morningstar Rating™ for Funds."

Exhibit 10 Morningstar Analyst-Covered Allocation Model Portfolio Series Characteristics

Series Name	Medalist Rating	Portfolio Goal	Portfolio	# of Portfolios	Average # of Underlying Funds	Holding Types	Average Medalist Exposure %	Average Asset-Weighted Fee %	Average Star Rating
American Funds Growth	Gold	Target-Risk	Active-Based	3	7	Mutual Funds	100.0	0.51	3.4
American Funds Growth and Income	Gold	Target-Risk	Active-Based	3	9	Mutual Funds	100.0	0.43	3.7
American Funds Retirement Income	Gold	Income-Oriented	Active-Based	3	11	Mutual Funds	93.3	0.40	3.7
American Funds Tax Aware Growth and Income	Gold	Tax-Aware	Active-Based	3	8	Mutual Funds & ETFs	100.0	0.37	4.1
*BlackRock Long-Horizon Allocation ETF	Gold	Target-Risk	Passive-Based	8	7	ETFs	96.2	0.05	3.7
*BlackRock Target Allocation ESG	Gold	Target-Risk	Blend	4	9	ETFs	98.1	0.15	3.3
BlackRock Target Allocation ETF	Gold	Target-Risk	Passive-Based	11	16	ETFs	94.4	0.12	3.7
BlackRock Target Allocation Tax Aware	Gold	Tax-Aware	Passive-Based	10	12	ETFs	98.0	0.12	3.8
^American Funds Tax Aware Preservation and Income	Gold Silver	Tax-Aware	Active-Based	3	5	Mutual Funds & ETFs	100.0	0.30	3.9
^American Funds Preservation and Income	Gold Neutral	Target-Risk	Active-Based	2	5	Mutual Funds	30.1	0.38	3.3
BlackRock Target Allocation Mult-Manager with Alts	Silver	Target-Risk	Blend	5	22	Mutual Funds & ETFs	94.1	0.41	3.8
Fidelity Target Allocation Index-Focused	Silver	Target-Risk	Passive-Based	9	5	Mutual Funds	97.5	0.05	3.6
State Street Strategic Asset Allocation	Silver	Target-Risk	Passive-Based	6	12	ETFs	92.1	0.08	3.3
Vanguard Core	Silver	Target-Risk	Passive-Based	11	4	ETFs	98.0	0.04	3.3
Vanguard CRSP	Silver	Target-Risk	Passive-Based	11	9	ETFs	98.0	0.05	3.5
Vanguard Russell	Silver	Target-Risk	Passive-Based	11	9	ETFs	98.0	0.06	3.3
Vanguard S&P	Silver	Target-Risk	Passive-Based	11	8	ETFs	98.0	0.05	3.3
Vanguard Tax-Efficient	Silver	Tax-Aware	Passive-Based	9	6	ETFs	98.0	0.05	3.7
BlackRock Long Horizon Mutual Fund	Bronze	Target-Risk	Active-Based	5	12	Mutual Funds	92.7	0.63	3.6
Dimensional Core Plus Wealth	Bronze	Target-Risk	Active-Based	6	10	Mutual Funds	88.0	0.21	3.8
Dimensional Core Wealth	Bronze	Target-Risk	Active-Based	6	7	Mutual Funds	95.0	0.19	3.7
Dimensional Tax-Sensitive Wealth	Bronze	Tax-Aware	Active-Based	6	3	Mutual Funds & ETFs	80.0	0.21	3.0
Goldman Sachs Multi-Manager ETF	Bronze	Target-Risk	Passive-Based	8	10	ETFs	98.0	0.10	3.6
John Hancock Active/Passive	Bronze	Target-Risk	Blend	5	17	Mutual Funds & ETFs	77.8	0.53	3.4
Nuveen ESG	Bronze	Target-Risk	Passive-Based	5	7	ETFs	31.0	0.15	2.9
PIMCO Retirement Income	Bronze	Income-Oriented	Blend	3	9	Mutual Funds & ETFs	97.3	0.54	3.8
Schwab A	Bronze	Target-Risk	Passive-Based	12	8	ETFs	96.0	0.04	3.3
Schwab AB	Bronze	Target-Risk	Passive-Based	12	14	ETFs	94.6	0.07	3.7
T. Rowe Price Active	Bronze	Target-Risk	Active-Based	8	9	Mutual Funds	70.3	0.46	3.1
T. Rowe Price Income	Bronze	Income-Oriented	Active-Based	2	10	Mutual Funds	84.0	0.49	2.9
Vanguard Income	Bronze	Income-Oriented	Passive-Based	11	6	ETFs	98.0	0.07	3.3
AB Dynamic Multi-Asset Growth	Neutral	Target-Risk	Blend	2	12	Mutual Funds & ETFs	75.0	0.38	3.4
AB Dynamic Multi-Asset Income	Neutral	Income-Oriented	Blend	4	13	Mutual Funds & ETFs	49.6	0.39	3.8
Calvert Responsible Target Risk	Neutral	Target-Risk	Blend	5	15	Mutual Funds	85.7	0.51	3.4
Columbia Active Risk	Neutral	Target-Risk	Blend	3	13	Mutual Funds & ETFs	42.3	0.51	3.5
Dimensional Sustainable Wealth	Neutral	Target-Risk	Active-Based	6	3	Mutual Funds	100.0	0.22	3.3
Fidelity Target Allocation	Neutral	Target-Risk	Blend	18	13	Mutual Funds	94.6	0.32	3.8
Fidelity Target Allocation Blend	Neutral	Target-Risk	Blend	18	14	Mutual Funds & ETFs	76.7	0.39	3.8
Fidelity Target Allocation Tax Aware	Neutral	Tax-Aware	Active-Based	18	12	Mutual Funds & ETFs	88.8	0.46	3.8
Franklin Templeton Target Risk	Neutral	Target-Risk	Active-Based	7	13	Mutual Funds & ETFs	34.4	0.45	2.8
Goldman Sachs ETF	Neutral	Target-Risk	Passive-Based	8	11	ETFs	88.9	0.14	3.0
Janus Henderson Global Adaptive	Neutral	Target-Risk	Passive-Based	3	14	ETFs	67.2	0.12	3.8
PGIM Income	Neutral	Income-Oriented	Blend	1	16	Mutual Funds & ETFs	69.2	1.02	3.4
PGIM Strategist	Neutral	Target-Risk	Blend	5	19	Mutual Funds	80.0	0.35	3.4
Russell Core	Neutral	Target-Risk	Active-Based	14	10	Mutual Funds	0.0	0.73	2.7
Russell Tax-Managed	Neutral	Tax-Aware	Active-Based	14	6	Mutual Funds	0.0	0.76	3.0
State Street Active Asset Allocation	Neutral	Target-Risk	Blend	6	14	ETFs	89.7	0.22	2.9
Wilshire Premier Allocation	Neutral	Target-Risk	Blend	6	14	Mutual Funds & ETFs	31.0	0.73	3.1

Source: Morningstar Direct. Authors' calculations use most recent reported portfolio as of Dec. 31, 2023. Star Ratings and Medalist Ratings as of Dec. 31, 2023.
Model portfolio series under analyst coverage as of Feb. 2, 2024.
*Morningstar analysts rate the separate account offering only. ^Model portfolio series holds a split rating across the portfolios.

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