

REBALANCING WITH ASSET SUBCLASS MODELS

Morningstar Total Rebalance Expert (TRX) offers a robust, flexible modeling approach which gives advisors multiple choices for how to define target allocations. While other tools may offer advisors the ability to construct model portfolios using only specific securities, TRX additionally provides the unique option to create customized models using asset subclasses with preferred securities as building blocks. Read on to learn more about the benefits of this approach.

ASK YOURSELF

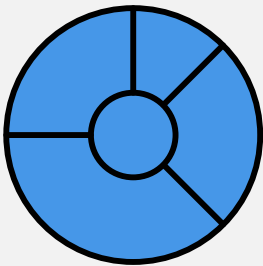


Imagine if one of your clients held a security similar to one in your model portfolio. **Would you force them to sell their position just to purchase the one you recommend?** If you could accept a different investment to fulfill the same portfolio slot in certain situations, then subclass models might better reflect your approach! In fact, it may be advantageous to avoid security-level rebalancing in this scenario because the logic embedded in TRX would suggest selling the client’s holding.

MODEL CONSTRUCTION

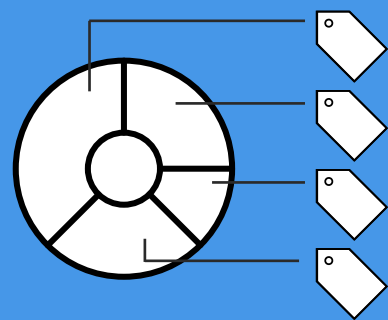
Within broader asset classes, such as equity or fixed income, individual asset subclasses can correspond to entire classifications, as opposed to a specific security. Examples include:

- US Large Cap Blend
- US Large Cap Growth
- US Mid Cap Growth
- US Small Cap Growth
- US Tax-Exempt Bonds
- US Taxable Long Term Bonds
- US Taxable Short Term Bonds
- Real Estate
- Non-US Developed Stocks
- Non-US Developed Bonds



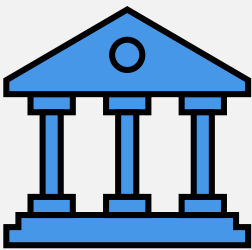
PREFERRED BUYS BY ACCOUNT TYPE

With asset subclass models, when your model is underweight in a particular subclass, you can choose different securities for varying scenarios. For a single subclass, you can use different securities per account type, custodian, client size, strategy, and so on. This means that a specific security can be bought when the client is underweight in a particular asset subclass, allowing more personalization for the client.



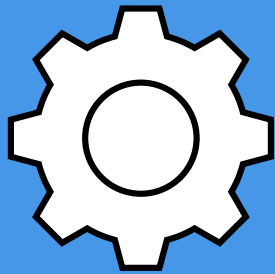
ALTERNATIVE BUYS AND TAX EFFICIENCY

Once you assign your preferred securities, you can also assign alternates to be used in Tax Loss Harvesting and wash sale avoidance. Also, in scenarios where clients are holding multiple securities in an overweighted subclass, TRX can pick the most tax efficient among them from which to sell. Model portfolios with allocations to specific securities do not provide this level of tax efficiency.



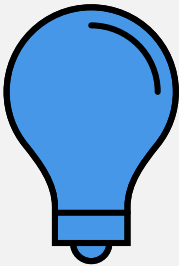
FLEXIBILITY IN MODELING APPROACH

Not entirely sure which approach to use? The good news is that TRX can accommodate model subclasses based on both asset classes and securities, depending on your preferences. Advisors are empowered to use whatever approach works best for their practice.



RECOMMENDED APPROACH

Morningstar generally recommends the use of asset subclass rebalancing due to the increased flexibility and opportunities for tax efficiency. Videos and other onboarding materials showcase examples using asset subclass rebalancing. For additional information about how to customize TRX for your needs, contact your Customer Success Manager.



Contact your Customer Success Onboarding Specialist for more information.