MSCI Wealth

The MSCI Similarity Score: A New Framework for Personalized Portfolio Alignment

There's a tension between clients' need for personalization and the one-size-fits-all approach of model portfolios.

Traditionally, wealth management firms check portfolio alignment based on exact holdings.

	Model Portfolio Allocation	Client A Allocation	Client B Allocation
Fund A	30%	28%	
Fund B	50%	47%	50%
Fund C	20%	25%	20%
Fund D			30%
		Aligned	Not Aligned

However, some level of mismatch with a model portfolio is inevitable. A client may want to make changes for various reasons:


Tax considerations


Personal values


Stage in life


Large single-stock positions

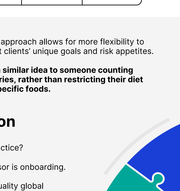

Risk tolerance


Investment preferences

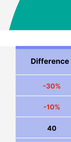
How can advisors meet the personalization needs of their clients at scale? And how can investment teams provide this flexibility while overseeing alignment across the firm?

Introducing the MSCI Similarity Score

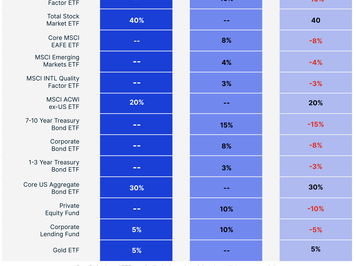
With the MSCI Similarity Score, firms can assess portfolio alignment in a simple, single score.



The score measures how similarly a client portfolio behaves compared to a firm's model portfolio based on various factors.



Examples of Equity Factors



For instance, two U.S. technology growth stocks may behave similarly in response to market movements.

MSCI's Similarity Score utilizes MSCI's multi-asset class model which examines 100s of tactical factors to track asset behavior. Examples of additional factors include momentum, minimum volatility, and many more.

This approach allows for more flexibility to meet clients' unique goals and risk appetites.

It's a similar idea to someone counting calories, rather than restricting their diet to specific foods.

Seeing the Score in Action

How does the MSCI Similarity Score work in practice?

Consider a hypothetical U.S. client that an advisor is onboarding.

The advisor has assigned the client to a high-quality global equity model portfolio, and is checking alignment.

Client vs. Model Portfolio Allocations

Name	Model Allocation	Client Allocation	Difference
Core Total US Stock Market ETF	--	30%	-30%
MSCI USA Quality Factor ETF	--	10%	-10%
Total Stock Market ETF	40%	--	40
Core MSCI EAFE ETF	--	8%	-8%
MSCI Emerging Markets ETF	--	4%	-4%
MSCI INTL Quality Factor ETF	--	3%	-3%
MSCI ACWI ex-US ETF	20%	--	20%
7-10 Year Treasury Bond ETF	--	15%	-15%
Corporate Bond ETF	--	8%	-8%
1-3 Year Treasury Bond ETF	--	3%	-3%
Core US Aggregate Bond ETF	30%	--	30%
Private Equity Fund	--	10%	-10%
Corporate Lending Fund	5%	10%	-5%
Gold ETF	5%	--	5%

Specific funds and ETFs are for illustration only and do not constitute recommendations.

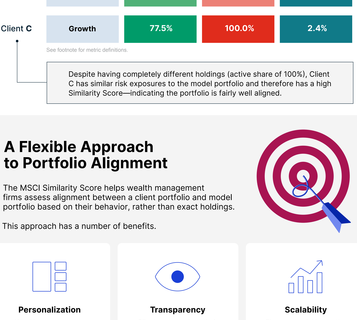
The client's holdings are quite different from those of the model portfolio.

However, using the MSCI Similarity Score, the advisor compares the two portfolios on the factors driving their performance.

MSCI Similarity Score Breakdown

Client's Portfolio vs. Model

Starting from a perfect score of 100, each difference in risk exposure reduces the score.



See footnote for factor definitions.

With a strong Similarity Score of 83.0%, the advisor can see that the drivers of risk for both portfolios are closely aligned despite holding different funds.

Improving Oversight for Firms

In addition to the help it provides advisors, the MSCI Similarity Score is also useful for Chief Investment Officer (CIO) teams at wealth management firms.

For instance, consider a CIO team checking the alignment of three hypothetical clients' portfolios.

No Alignment — Full Alignment

	Model	MSCI Similarity Score (Higher = more aligned)	Active Share (Lower = more aligned)	Tracking Error (Lower = more aligned)
Client A	Diversified	46.6%	40.8%	2.2%
Client B	Balanced	56.9%	82.1%	2.9%
Client C	Growth	77.5%	100.0%	2.4%

See footnote for metric definitions.

Despite having completely different holdings (active share of 100%), Client C has similar risk exposures to the model portfolio and therefore has a high Similarity Score—indicating the portfolio is fairly well aligned.

A Flexible Approach to Portfolio Alignment

The MSCI Similarity Score helps wealth management firms assess alignment between a client portfolio and model portfolio based on their behavior, rather than exact holdings.

This approach has a number of benefits.

Personalization
Wealth managers can customize client solutions without sacrificing portfolio alignment.

Transparency
Clients can see how their portfolio aligns with the firm's recommendation, building their confidence in their investments.

Scalability
Firms can quickly see the score across multiple portfolios, helping them manage thousands of clients efficiently.

As client needs evolve, the MSCI Similarity Score is a simple and innovative way to customize portfolio alignment.

Learn more about the MSCI Similarity Score

The **global equity factor** represents the global equity market portfolio. The **U.S. equity factor** represents additional risk and return arising from exposure to the U.S. equity market, net of global equity risk. The **equity beta factor** represents common variations in returns due to the market that are not captured by the global equity factor. **Volatility** is a measure of risk and refers to how much returns fluctuate over time. **Active share** measures how different a portfolio's holdings are compared to a model portfolio. **Tracking error** measures how much a portfolio's return differs from the model portfolio over time.