

Construction Rules for Morningstar® Global Sector Indexes

Morningstar Indexes

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Overview

The Morningstar Global Sector Index Family is a comprehensive set of indexes that collectively target 97% coverage of the global equity markets. It is a three-tiered classification system that groups companies engaged in similar lines of business by varying levels of granularity.

At the top level, the stock universe is divided into three major economic spheres, or Super Sectors:

- ▶ Cyclical
- ▶ Defensive
- ▶ Sensitive

Next, each of these Morningstar Super Sectors is further divided into groups, which collectively form the 11 Morningstar sectors.

Finally, companies are mapped to one of the 148 unique Morningstar industries.

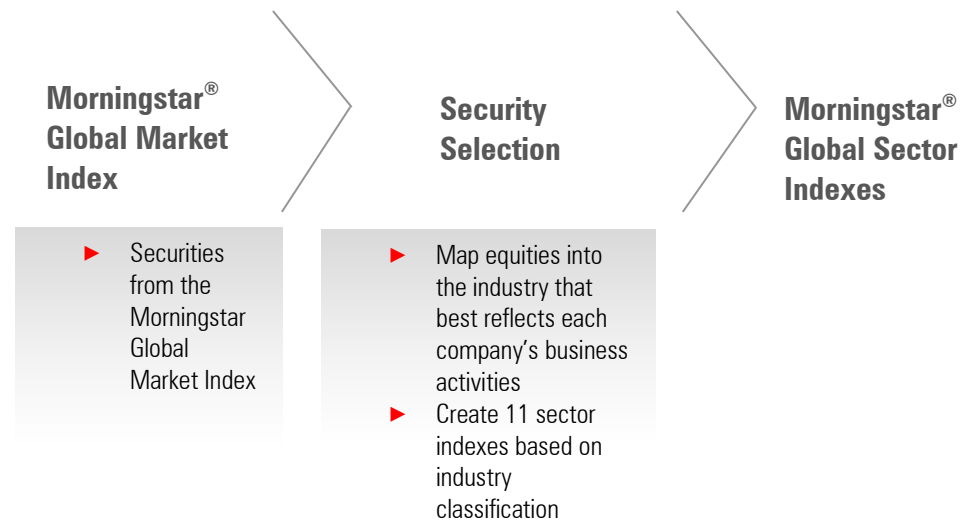
The result is a unified system that applies to stocks, funds, and portfolios. It allows investors to quickly evaluate the similarities and differences of funds and portfolios by comparing exposure to the three Super Sectors, but also permits further examination of holdings at a very granular level.

Index Inception Date and Performance Inception Date

The inception date of the indexes is [to be determined], and performance inception date of the indexes is [to be determined], when the first back-tested index value was calculated.

Index Construction

Exhibit 1 Morningstar Sector Indexes Construction Process



For any additional security selection criteria, refer to the "Assigning Stocks to the Indexes" section.

Assigning Stocks to the Indexes

Selection Universe

At each reconstitution, securities for the indexes are derived from the Morningstar Global Market Index (benchmark). For more details on benchmark construction, refer to the Construction Rules for the Morningstar Global Market Index.

Security Selection

Each benchmark constituent is considered for one of the 11 industry sectors, which are then consolidated into three Super Sectors which are a broader representation of Morningstar sectors.

- ▶ Cyclical Super Sector
 - ▶ Basic materials
 - ▶ Consumer cyclical
 - ▶ Financial services
 - ▶ Real estate
- ▶ Defensive Super Sector
 - ▶ Consumer defensive
 - ▶ Healthcare
 - ▶ Utilities

- ▶ Sensitive Super Sector
 - ▶ Communication services
 - ▶ Energy
 - ▶ Industrials
 - ▶ Technology

For more details regarding sectors and Super Sectors, please refer to the [Morningstar Global Equity Classification Structure rulebook](#).

Number of Stocks

The number of stocks in the indexes are subject to the selection and eligibility criteria at the time of reconstitution.

Constituent Capping

A capped version of an index is created for those indexes which have security weights greater than 20% for a single constituent. These capped indexes will have a maximum security weight of 20%, with remaining securities weighted in proportion to their float market capitalization. Please refer to the Capped Weighted Indexes section of the [Morningstar Indexes Calculation Methodology](#).

Index Weighting

The indexes are float market capitalization weighted. For more details, refer to the [Morningstar Indexes Calculation Methodology](#).

Index Maintenance and Calculation

Scheduled Maintenance

The indexes are reconstituted semiannually and implemented after the close of business on the third Friday of June and December and effective the following Monday. If Monday is a holiday, reconstitution is effective on the immediate following business day. The market data used for reconstitution is as of the last trading day of May and November.

The indexes are rebalanced quarterly and implemented after the close of business on the third Friday of March, June, September, and December and effective the following Monday. If Monday is a holiday, rebalance is effective on the immediate following business day. The market data used for rebalancing is as of the last trading day of February, May, August, and November.

Refer to Appendix 1 for details on reconstitution and rebalancing.

Corporate Action

The treatment of corporate actions can be found in the [Morningstar Indexes Corporate Actions Methodology rulebook](#).

Index Calculation and Price Data

Details about index calculations and price data can be found in their respective rulebooks: [Morningstar Indexes Calculation Methodology](#) and [Equity Closing Prices Used for Index Calculation](#).

Methodology Review and Index Cessation Policy

The index methodology is continually reviewed to ensure it achieves all stated objectives. These reviews take into account corporate action treatment, selection, and maintenance procedures. Subscribers to the index will be notified before any methodology changes are made. For more details, refer to the [Morningstar Index Methodology Change Process](#).

Morningstar also notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to the index, or a possible cessation of the index. Circumstances that could lead to an index cessation include, but are not limited to, market structure change, product definition change, inadequate supply of data, insufficient revenue associated with the index, insufficient number of clients using the index, and/or other external factors beyond the control of the Morningstar Index Committee.

Because the cessation of the index or benchmark index could disrupt subscriber products that reference this index, all subscribers are encouraged to have robust fallback procedures if an index is terminated. For more details, refer to the [Morningstar Index Cessation Process](#).

Data Correction and Precision

Intraday Index Data Corrections

Commercially reasonable efforts are made to ensure the accuracy of data used in real-time index calculations. If incorrect price or corporate action data affect index daily highs or lows, it is corrected retroactively as soon as is feasible.

Index-Related Data and Divisor Corrections

Incorrect pricing and corporate action data for individual issues in the database will be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within five days of its occurrence, will always be fixed retroactively on the day it is discovered to prevent an error from being carried forward. Commercially reasonable efforts are made to correct an older error subject to its significance and feasibility.

For more details, refer to the [Recalculation Guidelines](#).

Computational and Reporting Precision

All calculated and adjusted data are stored in real numbers. For reporting purposes, index values are rounded to two decimal places and divisors are rounded to appropriate decimal places.

Appendix

Appendix 1: Glossary

Terms	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.
Rebalance	During each rebalance, the weights are adjusted for updated free-float and shares outstanding data.

About Morningstar, Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Morningstar offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. Morningstar provides data on approximately 500,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 15 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services through its investment advisory subsidiaries.

About Morningstar Indexes

Morningstar® Indexes combine the science and art of indexing to give investors a clearer view into the world's financial markets. Our indexes are based on transparent, rules-based methodologies that are thoroughly back-tested and supported by original research. Covering all major asset classes, our indexes originate from the Morningstar Investment Research Ecosystem—our network of accomplished analysts and researchers working to interpret and improve the investment landscape. Clients such as exchange-traded fund providers and other asset management firms work with our team of experts to create distinct, investor-focused products based on our indexes. Morningstar Indexes also serve as a precise benchmarking resource.

Morningstar Index Committee

The [Morningstar Index Committee](#) is currently comprised of senior officials who possess the appropriate levels of knowledge in relation to Indexes. A wide array of business groups are represented to allow for a broad voice to be heard and for a wider view to be expressed in evaluating all subjects brought up during Committee meetings. The Committee seeks to create indexes of the highest quality that meet the recognized qualities of a good benchmark.

For More Information

For any queries, reach out to us via our [communication page](#).



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