



Morningstar Fixed Income Benchmark Family – Benchmark Statement

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1. Objective of the Indexes in the Family

1.1 The Morningstar bond indexes were created to provide bond investors with accurate benchmarks for performance measurement and to offer discrete building blocks for portfolio construction. These indexes provide an accurate, broad depiction of the performance and fundamental characteristics of the bond markets.

Morningstar's primary fixed income index methodology is described at length in the Morningstar® Bond Indexes [Rulebook](#).

1.2 To be eligible for Morningstar Bond indexes, all securities must meet the following rules. Each criterion is applied only to the survivors of the criteria applied previously.

- Securities must have a fixed coupon rate and a stated final maturity.
- Bonds with “make-whole” calls or first-call dates within one year of final maturity are included. All other callable bonds are excluded.
- Securities entering the indexes must have a minimum of 24 months to final maturity at the time of inclusion to qualify for the index.
- Securities must have a minimum of 12 months to final maturity to remain in the indexes.
- All securities must have an investment-grade composite rating to be eligible for the Global Core Bond indexes.

The following exclusions apply to all Morningstar bond indexes unless otherwise indicated:

- Bonds with embedded options, such as puts and scheduled calls, are excluded from the Global Core Bond indexes except for options pertaining to structured securities, unless otherwise noted.
- Perpetual bonds
- Zero coupon bonds
- Step-up coupon bonds
- Fixed-to-floating rate and fixed-to-variable rate bonds
- Payment-in-kind (PIK) bonds
- Amortizing bonds
- Loans
- Sukuk (Islamic bonds)
- Subordinated debt
- Capital securities and contingent capital securities
- Convertible bonds
- Securitized corporate securities, such as pass-through trust certificates

1.3 The categorization of a particular market as developed is based on the [Morningstar Indexes Market Classification](#).

1.4 The Morningstar Global Core Bond Index serves as the parent index for other Morningstar fixed income indexes that address specific investment themes.

1.5 Each fixed income index will be governed by multiple methodology documents, including the specific fixed income index rulebook and the [Morningstar Global Bond Indexes Methodology](#), the [Morningstar Indexes Calculation Methodology](#), the [Morningstar Corporate Actions Methodology](#), and the [Fundamental and Proprietary Data Methodology](#).

1.6 The Morningstar fixed income index family also includes custom indexes that may include specific screens, exclusion lists, or alternative weightings on parent indexes described above.

1.7 The Morningstar fixed income benchmark family contains only non-significant indexes as defined by Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indexes used as benchmarks.

2. Methodology and Index Design Guidelines and Reviews

2.1 Morningstar bond indexes provide an accurate, broad depiction of the performance and fundamental characteristics of the bond markets. There are four key features underlying the design and construction of the Morningstar bond indexes:

- Transparent and objective rules
- The right balance between comprehensive market coverage and full investability
- Nonoverlapping and hierarchical
- Open access to index-level data and metrics to all users

All key terms relevant to an index are described in the individual bond index construction rulebooks which are available on our [website](#).

2.2 The index objectives are achieved through a transparent rules-based methodological approach to index construction and maintenance.

2.3 No changes are made to constituent holdings other than on month-end rebalancing dates. Changes to the portfolio reflect re-openings, buybacks, new issuance, exchanges, exercised options, or rating changes. The new universe of bonds is last month's composition after accounting for the additions and deletions triggered by the inclusion/exclusion criteria and liquidity assessments for each constituent. These characteristics stay constant throughout the month. The weightings are fixed, after the close, on the last calendar day of each month.

Unless otherwise specified, indexes are rebalanced on the last calendar day of the month, based on information available up to and including the rebalancing lock-out date. The term "information available" includes information received and/or processed after the rebalancing lock-out date, but which was announced or publicly available prior to the rebalancing lock-out date. The "rebalancing lock-out date" is the third business day before the last business day of the month, referred to as "T-3" where "T" is the last business day of the month.

2.4 A preliminary rebalancing report, or pro forma, indicating expected changes to the composition will be available for review on each of the last three business days before the last business day of the month. The pro forma reports

and portfolios may differ from the actual rebalanced index. The portfolio as of the first business day of each month reflects all changes and is frozen for the month.

3. Index Content Governance

3.1 Morningstar Index Methodology Committee (IMeC) oversees all new indexes development, index methodology changes, the annual review of existing index methodologies and cessation of indexes. For more detail, please see the [Morningstar Index Methodology Committee charter](#).

3.2 For the Morningstar® Bond Indexes methodology and child methodologies, all results and analysis related to Index Reviews are presented to, reviewed, discussed by the IMeC and approved by the Morningstar Index Product Committee.

3.3 The Morningstar Index Product Committee is responsible for final decisions on market classifications and may be consulted on selected index terminations and serves as an escalation point for the IMeC. Relevant topics deemed to have material importance, as determined by the IMeC, are discussed, and decided by the Morningstar Index Product Committee. For detail, please see the [Morningstar Index Product Committee charter](#).

4. Index Calculation and Discretion

4.1 The index calculation agent uses third-party vendor pricing as the primary source of calculations for Morningstar bond indexes. Bid-side prices are used for the daily bond index calculations and offer-side for adding new bonds to the index. Trading and settlement of securities follow local market conventions. The index does not take transaction costs (bid-offer spreads) or tax withholdings into account

4.2 The return of the indexes is calculated in a number of currencies including USD and EUR. If an index contains bonds of a single currency, that currency is considered the base currency. If the index contains bonds in multiple currencies, USD is considered the base currency.

4.3 The Morningstar bond indexes rely on the continued availability of transacted security prices from data vendors and permission for Morningstar to use such data for determining the Morningstar bond indexes. Morningstar reserves the right to use an alternative pricing source, if necessary, as described below.

4.4 The methodology for Morningstar index construction, maintenance, and calculation are available in publicly accessible methodology rulebooks and standard operating procedure guidebooks. These documents are available on the Morningstar indexes [website](#).

4.5 Morningstar's rules-based index methodologies provide that discretion is not used in the production of the indexes except in unusual cases not effectively addressed by the methodology. These include, but may not be limited to:

- Corporate events not previously encountered or unusually complex in nature
- Structural changes to the underlying markets
- Operational issues at data vendors
- Geo-political events

- Events beyond human control

4.6 The Product Committee is responsible for the governance over the creation and maintenance of all Morningstar branded Indexes, ensuring the highest standards are continuously met. Any matters arising from exceptional or undocumented events will be resolved at the discretion of the Morningstar Index Product Committee.

4.7 Morningstar does not perform explicit ex-post analysis of decisions besides its regular reviews of indexes and methodologies.

4.8 The process described above ensures any act of discretion will be agreed upon by a group of experts only in extraordinary circumstances. All committees are governed by terms of reference and all decisions are appropriately documented and archived. Please see the official [Morningstar Indexes Calculation Methodology](#) for detail.

5. Corrections

5.1 Morningstar Indexes strives to deliver the highest-quality data. Despite Morningstar's focus on excellence, index-level and/or constituent inaccuracies may occur as a result of a late or missed dividend, a pricing error, an incorrect application of methodology, or any other missed/incorrectly applied data input. In the case of data errors that occur in the determination or calculation of an index in the Morningstar fixed income benchmark family, if the impact of the error is below a documented threshold, no recalculation is made. Please see the [Morningstar Index Recalculation Guidelines](#) for detail.

5.2 If the impact of the error on performance is above the particular threshold at the index return, indexes will be recalculated.

5.3 If a group of Morningstar indexes is affected by an error and at least one of the indexes has an error that calls for a recalculate, Morningstar Indexes will restate all affected indexes regardless of the magnitude of the error or the time elapsed since its occurrence.

5.4 If a calculation agent automatically recalculates an index that is a component of a Morningstar multi-asset index, Morningstar Indexes will restate the multi-asset index regardless of the magnitude of the error or the time elapsed since its occurrence.

5.5 Corrections related to regular index rebalancings or corporate events are assessed on a case by case basis. Morningstar typically considers the following factors in determining the most appropriate corrective action: index instability and replicability as well as potential reverse turnover.

5.6 Clients will be notified at the earliest possibility in the case of a recalculation and file reposting.

6. Consultations

6.1 Morningstar Index methodologies are reviewed during an index's regularly scheduled maintenance to ensure that it reflects the underlying economics of the market or the strategy it intends to represent. All methodology change proposals are first reviewed by IMeC. Each proposal is accompanied by a rigorous impact analysis to understand the rationale and extent of the change. IMeC is responsible for classifying each change as minor or major. A methodology

change is considered major or material when the comparability of the time series data across the change date is disjointed relative to the historical trend. Major changes are escalated to MIPC for further review and approval. To inform the decision-making process and ensure outside stakeholders have a voice when there is a downstream impact, IMeC or MIPC may, if deemed necessary, initiate a consultation process. The consultation process is detailed in the [Morningstar Indexes Methodology Change Policy](#).

6.2 If a consultation is required, a consultation document highlighting the proposed changes and relevant analysis is broadly distributed to market participants, including, but not limited to, clients and external stakeholders. The client consultation document covers these points:

- Information on the driving force for the change.
- Proposed methodology changes.
- List of affected indexes and an impact analysis as deemed appropriate.
- Due date for providing feedback.
- Contact details for responding to the survey.

The product management team may conduct the client consultation through any or all of the following mediums: meeting with clients or through a telephone call, mailing clients, or conducting a survey.

6.3 Given a thorough analysis of the methodology change proposal, including outside consultation feedback, the MIPC owns the final and authoritative decision on the methodology change. The committee will account for criteria in the best interest of the end investor.

6.4 The final decision, including the rationale for the change, is communicated to all the market participants at the same time and will be implemented in the upcoming reconstitution after providing a three-month notice.

6.5 The methodology change statement published on the Morningstar Indexes website will cover these points:

- The methodology change and its rationale
- List of affected indexes and an impact analysis as deemed appropriate.
- Effective date of the approved change.

7. Index Terminations

7.1 Although an index decommissioning is not a common occurrence, circumstances may arise that call for the cessation of a Morningstar Index, including, but not limited to: market structure change, geo-political events, regulatory changes, product definition change, inadequate supply of data, and/or other external factors beyond the control of Morningstar.

7.2 In all these cases if an index termination is proposed or required, Morningstar would proceed as follows: Index cessation proposal is brought before the Morningstar Index Committee, who will assess the circumstances, number of potentially impacted stakeholders, as well as the economic and financial impact of the cessation, as necessary. Morningstar will announce to Index subscribers, vendors, and to the general public the intended Index cessation at least three months prior to cessation date. On the specified Index cessation date, the Index will cease to be calculated. Please see the [Index Cessation Process Summary](#) for detail.

8. Index Usage

8.1 Morningstar indexes in the fixed income benchmark family may be used for a variety of purposes, including benchmarking or use as the basis for index-linked investment products. They may be used by a variety of market participants including but not limited to asset owners, portfolio managers, broker-dealers, and researchers. Not all uses are appropriate for all users. Market participants should use their judgment when selecting an index for a particular purpose.

8.2 The Morningstar bond index methodology is continually reviewed to ensure it achieves all stated objectives. These reviews consider corporate action treatment, selection, and maintenance procedures. Subscribers to the index will be notified before any methodology changes are made. Morningstar also notifies all index subscribers and stakeholders that circumstances might arise that require a material change to the index, or a possible cessation. 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.

8.3 If financial product issuers or investment managers choose to use a Morningstar index in the Morningstar fixed income benchmark family as the basis of an index-linked financial product or an investment fund, they should consider this possibility, including the potential need to terminate or modify the terms of a financial product resulting from the termination of the calculation of the index.

9. ESG Disclosures

9.1 ESG disclosures are provided as per the following regulations that were published in the EU Official Journal on December 3, 2020:

- Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published.
- Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology.

9.2 The ESG disclosures pertaining to Commission Delegated Regulation (EU) 2020/1816 for indexes in the Morningstar fixed income benchmark family will be published by Morningstar at a later date.