# Morningstar® Global Next Generation Artificial Intelligence Index℠

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Artificial Intelligence (AI) is the use of computer systems to mimic human behavior or decision-making, rooted in applied statistical modeling. The range of applications is immense and growing, including content generation, web search, marketing, autonomous driving, medical diagnostics, law enforcement, and more.

This is an exciting set of disruptive technologies that create opportunities for downstream users to improve productivity, operating efficiency, and product quality and drive sales growth. AI may also create attractive opportunities to invest in companies involved in producing these technologies as well as the supporting infrastructure.

The Morningstar Global Next Generation Artificial Intelligence Index is designed to deliver thematically pure exposure to companies involved in leading-edge AI technologies, including Generative AI and adjacent products and services, by drawing on the in-depth knowledge and forward-looking insights of Morningstar's equity research team.

## Artificial Intelligence sub-themes

The Morningstar Equity Research Next Generation Artificial Intelligence Committee has identified four key sub-themes. Themes are reviewed annually and can evolve as new sub-themes emerge.

Generative AI: This is a subset of AI that is used to create new and original content. Large language models, such as ChatGPT, are a type of generative AI model that focuses on producing human-like text.

AI Data and Infrastructure: This encompasses the various technological components needed to manufacture, design, maintain, host, support, and improve AI models.

AI Software: Includes enterprise and consumer software that incorporates AI models to enhance the user experience and/or improve efficiency and productivity.

AI Services: Includes consultancies and outsourced business process companies that may aid businesses in implementing AI. These companies may also reduce headcount and improve internal efficiencies by using AI to reduce or remove monotonous workloads.

## Theme exposure scores

Through a thorough, standardized scoring process conducted by Morningstar equity analysts, companies are assigned thematic exposure scores for each sub-theme. This unique, forward-looking framework incorporates analyst insights to determine thematic scores ranging from 0 through 4, with higher scores representing a higher degree of thematic purity. During the scoring process, subject matter experts consider each company's role in the supply chain, expected revenue exposure to the sub-theme five years into the future, and whether the company is expected to experience a net profit increase from its exposure to the sub-theme over the next five years.

## Index eligibility and portfolio construction

The Morningstar Global Next Generation Artificial Intelligence Index derives its constituents from the Morningstar Global Markets ex-India Index, which represents 97% of the investable market capitalization of developed and emerging markets globally. Companies must be covered by Morningstar's equity research analysts and have a score of 1 or higher for at least one of the defined sub-themes to be eligible for index inclusion. Stocks must also pass minimum liquidity screens.

Those that pass the initial eligibility screens are assigned a Tier 1 or Tier 2 status. Companies with a score of 1 or higher on the generative AI sub-theme are assigned to Tier 1. All companies with a score of zero on the generative AI sub-theme and a non-zero score on one of the other targeted sub-themes are assigned to Tier 2.

Companies are then ranked to emphasize thematic purity and exposure to the generative AI sub-theme. The ranking criteria are as follows in descending order of absolute preference:

- Generative AI score (highest to lowest): 4, 3, 2, 1
- Highest Tier 2 aggregate score (sum of scores for Tier 2 themes)
- Number of Tier 2 sub-themes in which constituent scores 4
- Number of Tier 2 sub-themes in which constituent scores 3
- Number of Tier 2 sub-themes in which constituent scores 2
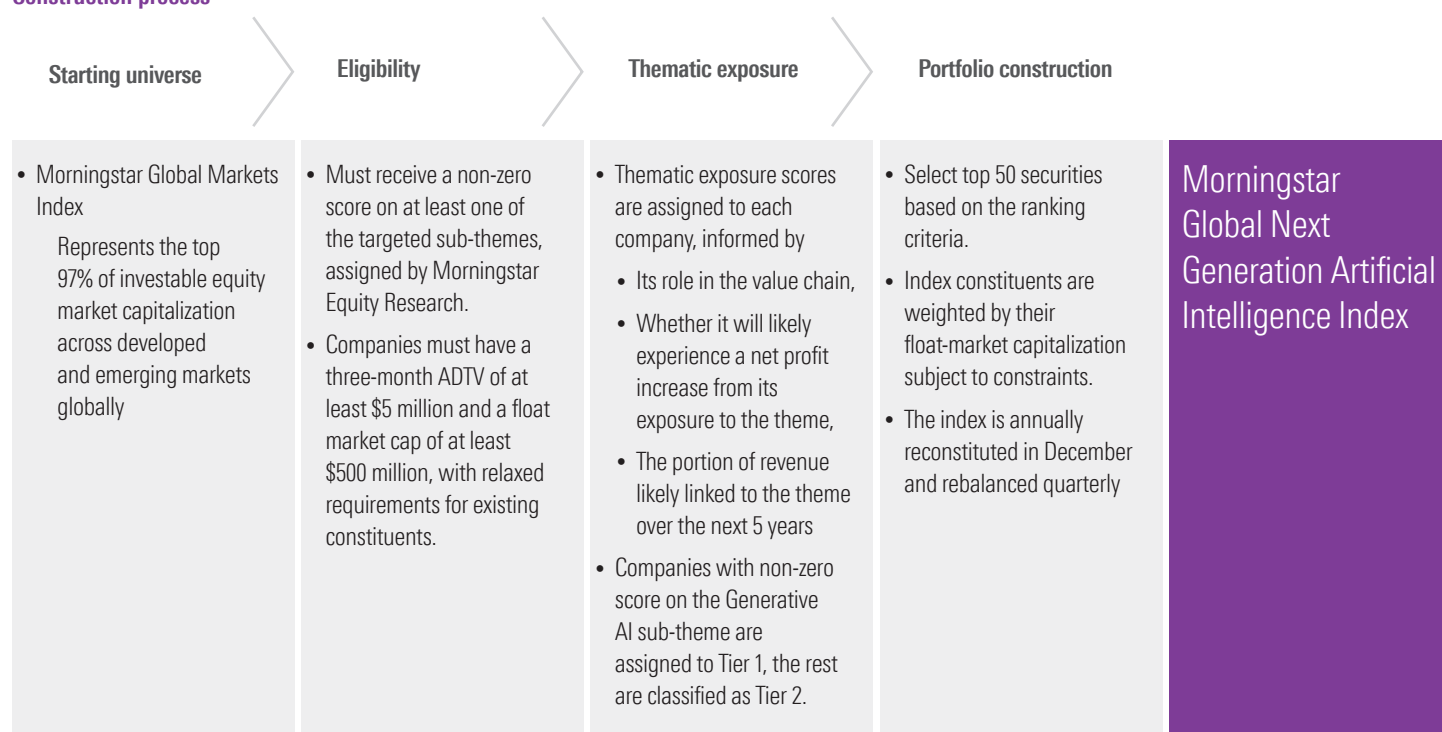- Number of Tier 2 sub-themes in which constituent scores 1

- Current index constituents are given preference
- Company total market cap, preferring smaller over larger

Companies ranked in the top 50 are eligible for inclusion. To further emphasize exposure to the generative AI sub-theme, at each reconstitution if the combined weight of stocks classified as Tier 1 has dropped below 80%, it is reset to 80%. Within each tier, stocks are weighted by float-adjusted market capitalization, subject to constituent-level caps to limit concentration.

**Reconstitution**
The index is reconstituted annually in December and rebalanced quarterly.

## Construction process

### Starting universe

- Morningstar Global Markets Index

  Represents the top 97% of investable equity market capitalization across developed and emerging markets globally

### Eligibility

- Must receive a non-zero score on at least one of the targeted sub-themes, assigned by Morningstar Equity Research.
- Companies must have a three-month ADTV of at least $5 million and a float market cap of at least $500 million, with relaxed requirements for existing constituents.

### Thematic exposure

- Thematic exposure scores are assigned to each company, informed by
  - Its role in the value chain,
  - Whether it will likely experience a net profit increase from its exposure to the theme,
  - The portion of revenue likely linked to the theme over the next 5 years
- Companies with non-zero score on the Generative AI sub-theme are assigned to Tier 1, the rest are classified as Tier 2.

### Portfolio construction

- Select top 50 securities based on the ranking criteria.
- Index constituents are weighted by their float-market capitalization subject to constraints.
- The index is annually reconstituted in December and rebalanced quarterly

**Morningstar Global Next Generation Artificial Intelligence Index**

## About Morningstar Indexes

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. From traditional benchmarks and unique IP-driven indexes, to index design, calculation and distribution services, our solutions span an investment landscape as diverse as investors themselves.

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