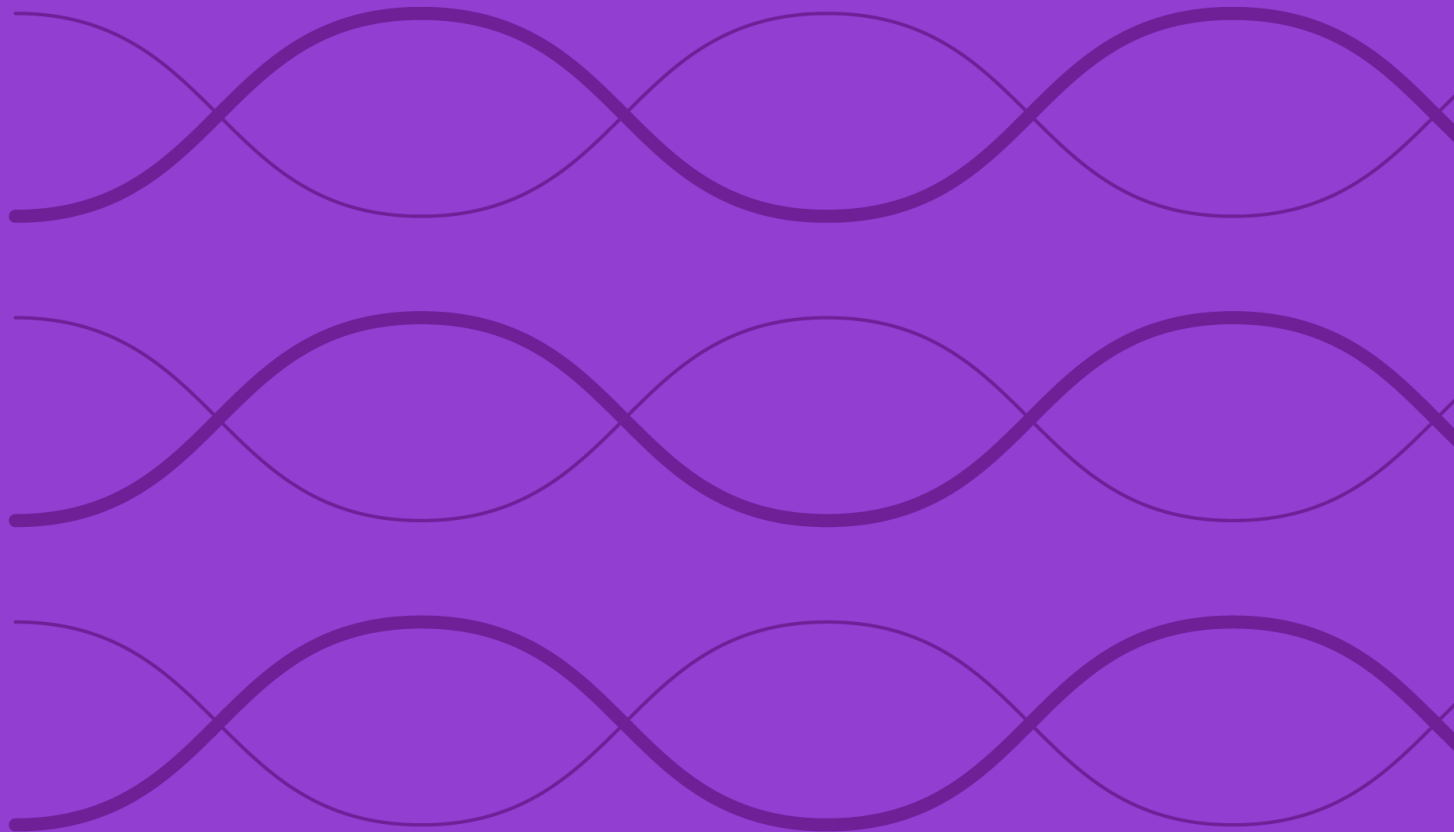


# Construction Rules for the Morningstar® US Small-Mid Cap Moat Focus Index<sup>SM</sup>



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Click [here](#) for the Japanese translation of this rulebook

日本語版 Rulebook へのリンクは [こちら](#) をクリックしてください。

## Overview

The Morningstar® US Small-Mid Cap Moat Focus Index targets companies in the Morningstar US Small Mid Cap Index with Morningstar® Economic Moat™ Ratings of wide or narrow that are trading at the lowest current market price/fair value ratios. Moat ratings and fair value estimates are determined through independent research conducted by the Morningstar equity research team.

For more information on the moat rating process and fair value estimation performed by Morningstar Equity Research, refer to [Morningstar Equity Research Methodology](#).

This index does not incorporate environmental, social, or governance criteria.

## Index Inception and Performance Start Date

The index inception date is July 25, 2022, and the performance start date, when the first back-tested index value was calculated, is March 18, 2011.

## Index Construction

### Methodology Summary



### Starting Universe

At each reconstitution, securities for the Morningstar US Small-Mid Cap Moat Focus Index are derived from the Morningstar U.S. Small-Mid Cap Index (benchmark). For more details on benchmark construction, refer to the construction rules for the [Morningstar US Market Indexes](#).

### Eligibility

To be eligible for inclusion in the Index, all constituents must meet the following criteria in sequence:

- Analyst Data
  - The company must be assigned an economic moat rating of wide or narrow by Morningstar's Equity Research team.
  - The company must be assigned a fair value estimate by Morningstar's Equity Research team.
  - The fair value estimate must not be under review at the time of reconstitution.
- The company must have 12 months of price history.
- Minimum float market capitalization filter
  - At each reconstitution date in the sub-portfolio getting reconstituted, securities with a wide or narrow moat rating and fair value estimate from the parent benchmark will be ranked on float market capitalization and those securities ranking in the bottom three percent (by count) based on lowest float market capitalization will not be eligible for inclusion in the index.
- If a company has more than one eligible share class:
  - Select the one that is a current index constituent.
  - Otherwise, select the most liquid share class determined by Morningstar Indexes.

- Momentum Screen
  - Eligible securities are ranked by their total returns over the past 12 months<sup>1</sup>. The securities in the bottom 20% are screened out.
- Liquidity Filter
  - Non-index constituents with having three-month average daily trading value, or ADTV, of less than \$5 million are screened out.

### Portfolio Construction

- Buffer Rules
  - Index constituents of the sub-portfolio ranked within the top 150% of target count in the eligible universe based on current market price/fair value ratio are given preference in subsequent steps.
- Sector Capping
  - At the time of reconstitution, the maximum weight of an individual sector in each sub-portfolio is capped at its corresponding weight in the benchmark + 10% or 40%, whichever is higher. This constraint is enforced through stock selection. Maximum sector weight = Max (40%, benchmark weight + 10%)
- Price/Fair Value Selection
  - The aggregate portfolio is formed from two sub-portfolios. All buffered constituents are retained in the index. From among the remaining companies, those representing the lowest current market price/fair value ratios are included in the index sub-portfolio until the target number of 75 constituents is reached.

### *Number of Stocks*

The Morningstar US Small-Mid Cap Moat Focus Index consists of two sub-portfolios, reconstituted on staggered quarters, which each target 75 companies based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. Because the reconstitution of the two sub-portfolios is staggered, the index may have been 75 and 150 constituents. However, if securities fall short of the selection and eligibility criteria, or if securities are added or deleted as a result of corporate actions after reconstitution, the indexes can have more or fewer than the targeted number. In addition, securities that are deleted from the Morningstar US Small-Mid Cap Index after June and December reconstitutions are simultaneously deleted from the Morningstar US Small-Mid Cap Moat Focus Index.

### *Index Weighting*

The index is equal weighted. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

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<sup>1</sup> Momentum is measured through the most recent month-end prior to the reconstitution.

## Index Maintenance and Calculation

### Scheduled Maintenance

The index is reconstituted, where the membership is reset, semi-annually with a quarterly staggered schedule. Consequently, about half of the total index membership is reset every quarter in March, June, September, and December, on the Monday following the third Friday. If Monday is a holiday, it is effective on the next business day. In addition, the sub-portfolio weights are reset to 50% each in June and December. Refer to Appendix 3 for the staggered reconstitution implementation process.

The analyst data (moat rating and fair value estimates) used to reconstitute the index is as of the Tuesday before the second Friday of the reconstitution month. Refer to Appendix 2 for details on reconstitution and rebalancing.

Index files are published according to the global calendar schedule, meaning index files will be published every day from Monday to Friday throughout the year, even on local market holidays.

### Corporate Actions

The treatment of corporate actions will be as per the alternatively-weighted indexes corporate action methodology. For more details, please refer to 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 consider corporate action treatment, eligibility requirements, 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 Policy](#).

Morningstar Indexes notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to, or a possible cessation of, the index. These circumstances are generally not within Morningstar's control and may include significant changes to the underlying market structure, inadequate access to necessary data, geo-political events, and regulatory changes. In addition, factors such as low usage or methodology convergence may result in the cessation of an index.

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 affects index calculations, corrections are applied prospectively.

### Index-Related Data and Divisor Corrections

Incorrect pricing and corporate action data for individual issues in the database will generally be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within two days of its occurrence, will 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

For reporting purposes, index values are rounded to two decimal places and divisors are rounded to appropriate decimal places.

### Exceptions

While Morningstar will seek to apply the method described above, the market environment, supervisory, legal, financial, or tax reasons may require an alternative approach to be adopted. A decision to take an alternative approach will be made by the relevant Morningstar Indexes Methodology Committee, and in all instances, the application of a nonstandard process will be reported to the Morningstar Indexes Oversight Committee.



## Appendixes

### Appendix 1: Modifications to the Rulebook

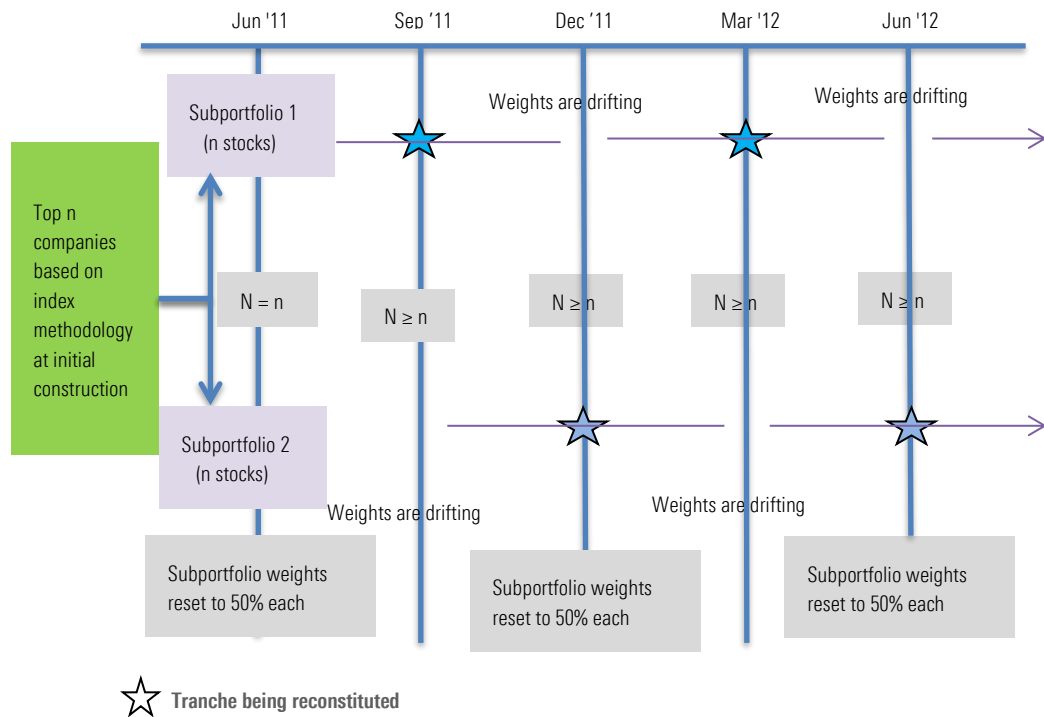
Section	Description of Change	Update Date
Entire rulebook	Moved to new template	April 2023
Overview	Index description updated	April 2023
Eligibility	Momentum screen clarification	November 2023
Index Maintenance & Calculation	Updated calendar from US to global	February 2024

### Appendix 2: Glossary

Terms	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.
Rebalance	During each rebalancing, the weights are reset.

### Appendix 3: Staggered Reconstitution Process

**Exhibit 1** Staggered Reconstitution Schematic



The portfolio construction process is described below.

1. At initial construction both sub-portfolios are reconstituted at the same time and therefore have an identical portfolio composition. The sub-portfolios are set to equal weights at 50% each.
2. In September, the first sub-portfolio is reconstituted, while the second is not (drifted leg). As a result, the composition of the sub-portfolios may not remain identical.
3. In December, the second sub-portfolio is reconstituted and the first forms the drifted leg. In addition, the sub-portfolio weights are reset to 50% each and distributed among the securities within them in proportion to their weights.
4. In March, the first sub-portfolio is reconstituted again.
5. In June, the second sub-portfolio is reconstituted. In addition, the sub-portfolio weights are reset to 50%.
6. The process is repeated (go to Step 2)

## 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.

## Morningstar Indexes Methodology Committee

The Morningstar Indexes Methodology Committee oversees all new index development, index methodology changes, and cessation of indexes for any indexes where Morningstar owns the intellectual property. This committee is also charged with ensuring that indexes align with Morningstar Research principles and values. The group comprises members of the index team with index research, product development, product management, client service, index implementation, and operation expertise who provide the first layer of governance over index design and methodology.

## Morningstar Indexes Operations Committee

The Morningstar Indexes Operations Committee governs the processes, systems, and exception handling of the day-to-day management of all live indexes, including index rebalancing and reconstitution, restatements, market classification, and contingency management. The committee oversees the annual review of index methodology (as required by U.K. and EU benchmark regulations, or BMR), ensuring that methodologies remain fit for purpose and continue to achieve their stated investment objectives. The group comprises members of the index team with data, operations, corporate actions, product development, index launch, client service, and index management experience who provide the first layer of governance over index operations.

## Morningstar Indexes Oversight Committee

The Morningstar Indexes Oversight Committee is responsible for the index oversight function as per the requirements of the U.K. and European BMR, providing independent oversight of all aspects of the governance of benchmark administration as required by the relevant BMR. Its remit extends to all calculation and administration-related business activities of Morningstar Indexes, including administration of Morningstar-owned benchmarks as well as client-owned benchmarks and index calculation. The oversight function is part of the organizational structure of Morningstar but is separate and independent from the index business, index management, and the other index committees.

[www.indexes.morningstar.com](http://www.indexes.morningstar.com)

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