

Morningstar Indexes

March 15, 2024

Methodology Update: Morningstar Leveraged Loan Indexes Hedge Methodology Change Effective May 4, 2024

Methodology change: Effective May 4, 2024, which coincides with the [cutover in calculation](#) from S&P Dow Jones Indices (SPDJI) as calculation agent and benchmark administrator to in-house calculation and administration by Morningstar Indexes, Morningstar will change the hedge methodology applied to hedged variants of the Leveraged Loan Indexes from the S&P Hedge Methodology to the Morningstar Hedge Methodology.

- **Current** - S&P Hedge Methodology: [S&P Dow Jones Indices Fixed Income Mathematics Methodology](#) (page 6)
- **Effective May 4, 2024** - Morningstar Hedge Methodology: [Morningstar Indexes Currency Hedge Index Methodology](#)

Reason for change: The results of Morningstar's internal parallel calculation analysis of Morningstar-calculated values against the SPDJI values revealed some inconsistencies in SPDJI's application of its stated hedging methodology. For most hedged loan indexes, S&P applied its published hedging methodology, which is based on index yield. However, for a subset of the hedged variants within the Global Leveraged Loan Index series, SPDJI applied a variation of the published hedging methodology known as the "Index of Indexes" approach, which also takes into account currency exposure. Morningstar has determined that changing to the Morningstar Hedge Methodology, which uses a currency-based approach, will provide the most consistent client experience across all Loan Indexes upon cutover. Additionally, migrating to a consistent hedging methodology will avoid confusion that could arise from supporting multiple hedging methodologies within the Leveraged Loan Index series.

Impacted indexes: This change will impact all hedged variants of the Morningstar Leveraged Loan Indexes. A complete list of impacted indexes is attached.

Expected impact: Due to this change, clients should expect Morningstar's index level values to differ somewhat from SPDJI during the external parallel test period for the hedged indexes (set to begin in early April). At the cutover, Morningstar will rebase the test levels to match SPDJI final values and begin officially implementing the Morningstar Hedge Methodology as of May 4th. To implement the Morningstar Hedge Methodology as of the cutover date and then on an ongoing basis, Morningstar will perform an ad-hoc rebalance of the hedge using the May 3rd currency weights of the parent portfolios. The Morningstar hedge will take effect after the close of May 4, 2024, according to the cutover timeline.

A list of impacted indexes can be found [here](#).

About Morningstar Indexes

Morningstar Indexes has been designing modern solutions for 20 years, but what makes us truly unique has been more than three decades in development. Our rich history began in 1984, when Morningstar was founded on a promise to empower investors with data and research that is independent and objective. Over time, our collection of data has expanded considerably—and so has its application. Today, Morningstar Indexes draws on unique IP to unlock an extensive range of emerging opportunities for investors of every kind, while providing a robust institutional beta platform for core investing.

Contact Us

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