Morningstar CanadaTarget Allocation Indexes

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The Morningstar Target Allocation Indexes are a market-based tool designed for creating and benchmarking multi-asset investment portfolios according to region-specific asset class preferences and risk tolerances. By leveraging Morningstar's database of multi-asset funds to determine weights across key asset classes, the indexes provide investors with a market-based, regionally relevant asset allocation framework that is aligned with the Morningstar Categories for Allocation Funds.

Nine region-specific sets of Target Allocation Indexes are available, including Australia, Canada, Europe, Japan, Korea, New Zealand, United Kingdom, and United States as well as a multi-region set for Europe, Asia, and South Africa domiciled USD funds. Key features of the Morningstar Target Allocation Indexes include:

- **Seamless asset class representation** Each regional set of Morningstar Target Allocation Indexes is comprised of underlying Morningstar Indexes that closely represent the most commonly used asset allocation building blocks for multi-asset portfolios according to the region's Category data.

- **Regionally relevant risk-based asset allocation** Morningstar's database of multi-asset funds is used to determine the asset class allocations and weights for each regional set of Target Allocation Indexes, thereby reflecting local asset class preferences and risk tolerances.

- **Globally consistent, rules-based methodology** The Morningstar Target Allocation Indexes offer a premier market-based tool for multi-asset benchmarking and portfolio construction, built on an entirely rules-based and globally consistent methodology that reflects the asset allocation wisdom of the market.

- **Alignment with Morningstar Category classifications** The Morningstar Category classification system is a widely used tool by investors to identify funds and evaluate fund performance relative to other funds in the category.

Available indexes

The Morningstar Canada Target Allocation Index series is comprised of the following indexes:

- Morningstar Canada Equity Global Target Allocation Index
- Morningstar Canada Neutral Global Target Allocation Index
- Morningstar Canada Fixed Income Global Target Allocation Index
- Morningstar Canada Equity Target Allocation Index
- Morningstar Canada Neutral Target Allocation Index
- Morningstar Canada Fixed Income Target Allocation Index

Starting universe

All open-end funds within the Morningstar Categories for Canadian Balanced Funds are included in the initial universe from which average asset allocation will be calculated for each risk-based index. Data for these categories is based on portfolio holdings data.

Average asset allocation

Asset allocation is determined according to the following process:

- A simple average asset allocation is calculated across all funds within each Balanced Fund Category (only one share class of a fund is considered).

- Removal of outliers: funds with average allocation below the 5th and above the 95th percentile of the respective Morningstar Category are excluded.

- The remaining funds are used to determine the asset allocation mix of equity, bond, and cash, which serve as the primary asset classes. Weight from other asset classes is rescaled proportionally to the primary asset classes.

- The total equity allocation is reentered to the midpoint of the equity range for each Balanced Fund Category, and asset class-level allocations are rescaled to maintain appropriate weights.
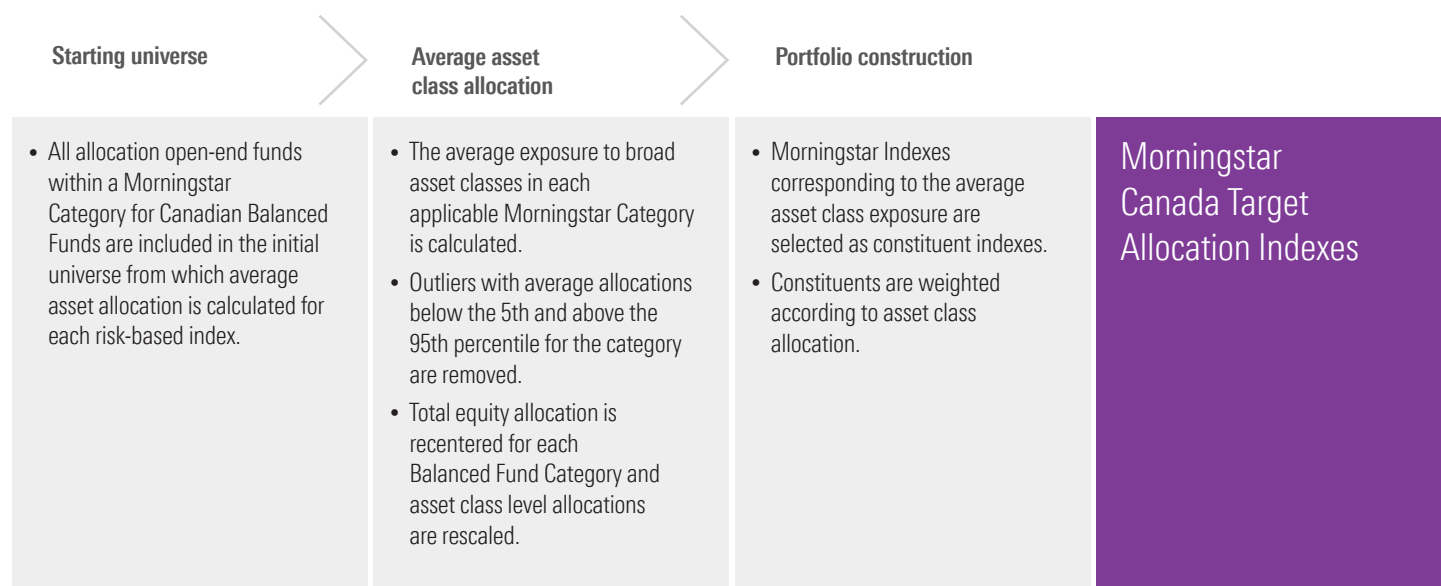
Portfolio construction

Morningstar Indexes are selected as constituents to correspond with the average asset class allocations. International fixed income is fully hedged.
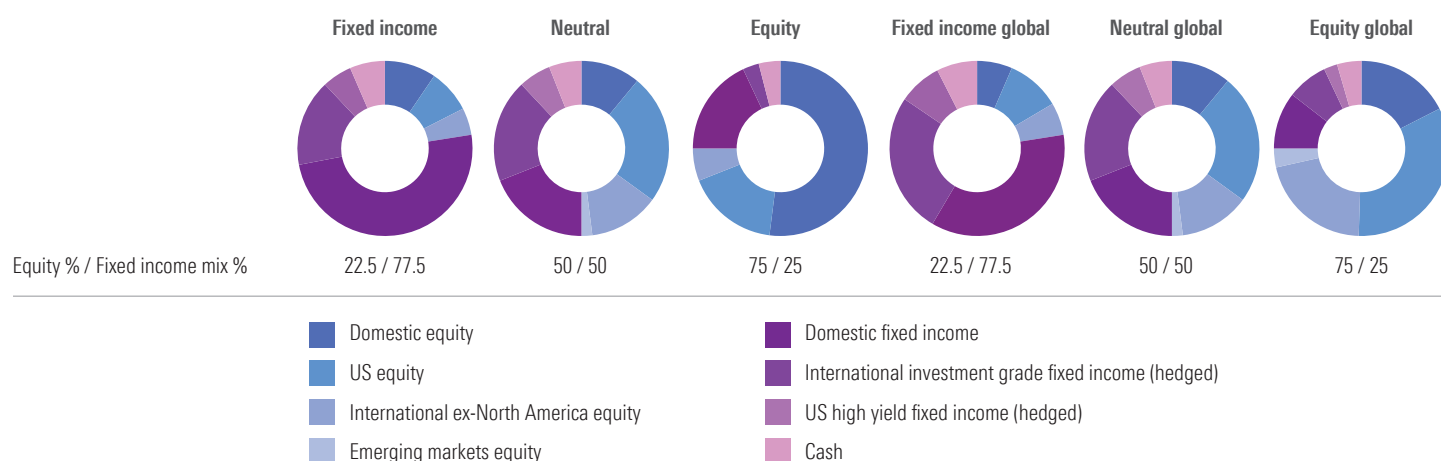
Index weighting and maintenance

The index weights are reconstituted annually in June, according to the average asset class calculation and hedging ratio. Index rebalancing occurs monthly to maintain the target weights designated at the annual reconstitution.

Construction process

Starting universe	Average asset class allocation	Portfolio construction	Morningstar Canada Target Allocation Indexes
• All allocation open-end funds within a Morningstar Category for Canadian Balanced Funds are included in the initial universe from which average asset allocation is calculated for each risk-based index.	• The average exposure to broad asset classes in each applicable Morningstar Category is calculated. • Outliers with average allocations below the 5th and above the 95th percentile for the category are removed. • Total equity allocation is recentered for each Balanced Fund Category and asset class level allocations are rescaled.	• Morningstar Indexes corresponding to the average asset class exposure are selected as constituent indexes. • Constituents are weighted according to asset class allocation.	

Asset allocation

	Fixed income	Neutral	Equity	Fixed income global	Neutral global	Equity global
Equity % / Fixed income mix %	22.5 / 77.5	50 / 50	75 / 25	22.5 / 77.5	50 / 50	75 / 25

- ■ Domestic equity
- ■ US equity
- ■ International ex-North America equity
- ■ Emerging markets equity
- ■ Domestic fixed income
- ■ International investment grade fixed income (hedged)
- ■ US high yield fixed income (hedged)
- ■ Cash

*Note: Equity/Fixed income mix will remain static in alignment with the midpoint of each index's respective Morningstar Category.

MORNINGSTAR Indexes

Constituent indexes

Asset class	Morningstar index
Domestic equity	Morningstar Canada GR CAD Index
US equity	Morningstar US Market NR CAD Index
International ex-North America equity	Morningstar Developed Markets ex-North America NR CAD Index
Emerging markets equity	Morningstar Emerging Markets NR CAD Index
Domestic fixed income	Morningstar Canada Core Bond GR CAD Index
International investment grade fixed income (hedged)	Morningstar Global ex-Canada Core Bond GR Hedged CAD Index
US high yield fixed income (hedged)	Morningstar US High Yield GR Hedged CAD Index
Cash	Morningstar Canadian Dollar 1-Month Cash GR CAD 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.

Please visit indexes.morningstar.com for more information.

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