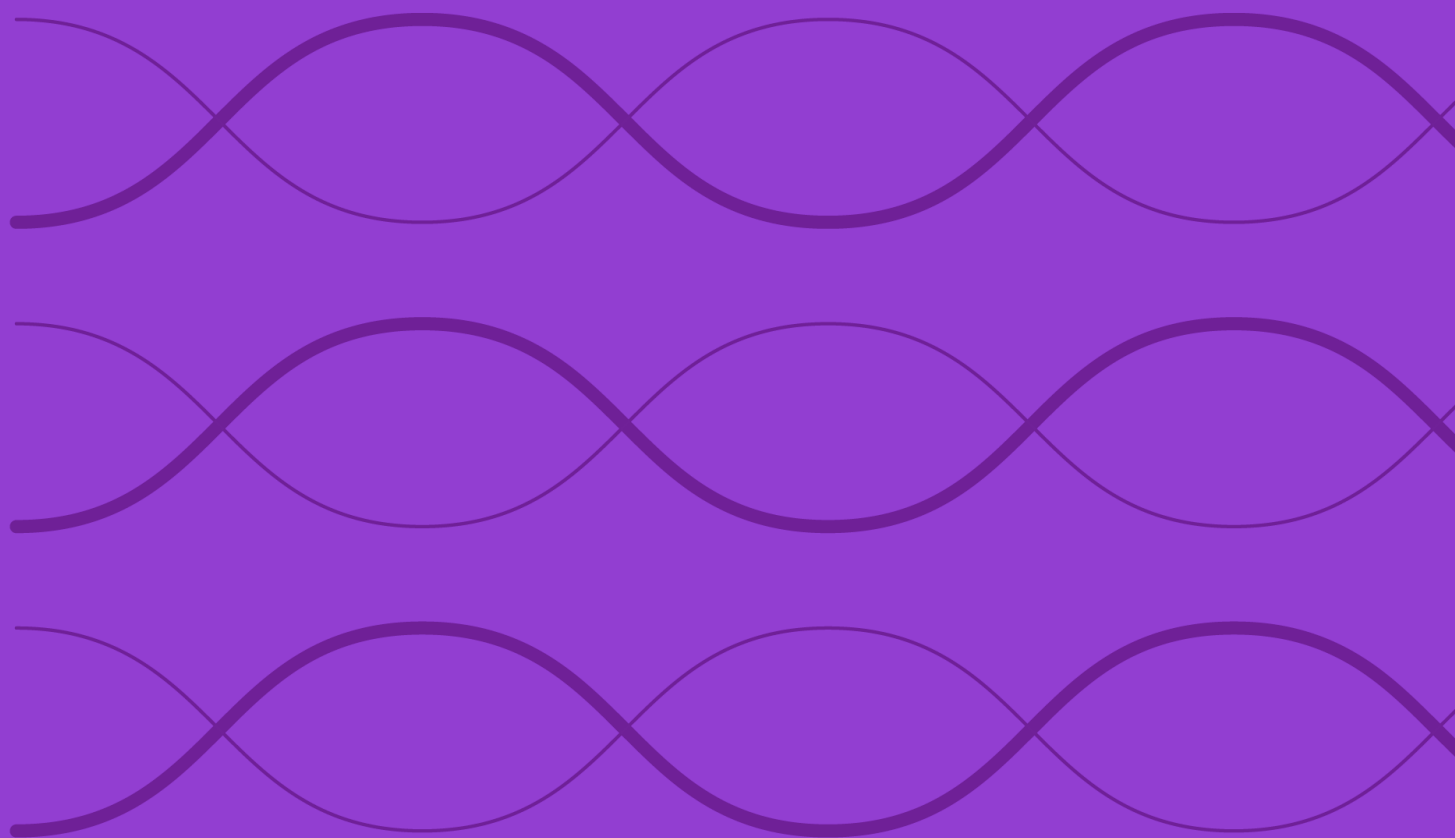


# Construction Rules for the Morningstar<sup>®</sup> Sector and Industry Decrement Indexes



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## Overview

The Morningstar® Global Sector and Industry Decrement Indexes are designed to target stocks from specific regions, sectors and industries, based on [Morningstar's Global Equity Classification Structure \(GECS\)](#). After the sector or industry indexes are created, a decrement overlay is applied.

At the top level, the stock universe is divided into three major economic spheres, or super sectors:

- Cyclical
- Defensive
- Sensitive

Each of these Morningstar Super Sectors is divided into groups, which collectively form the 11 Morningstar sectors. These sectors are further divided into 145 unique Morningstar industries.

These indexes do not incorporate environmental, social, or governance criteria.

## Index Inception and Performance Start Dates

The index inception and performance start dates, when the first back-tested values were calculated, are listed in Appendix 4.

## Index Construction

### Methodology Summary

#### Starting Universe

- Select securities from the respective Morningstar Parent Index.

#### Eligibility

- Screen for stocks tagged to the target sector or industries based on GECS

#### Portfolio Construction

- Securities are weighted by float-adjusted market cap.

Morningstar® Sector and Industry Decrement Indexes

### Starting Universe

At each reconstitution, constituents of the Morningstar® Sector and Industry Decrement Indexes are derived from the specific parent index (benchmark) as specified in Appendix 3. For more details on benchmark construction, refer to the construction rules for the parent indexes listed in Appendix 3.

### Eligibility

To be eligible for index inclusion, all constituents must meet the following criteria:

- The security must be assigned to one of the 145 industries and 11 sectors from Morningstar GECS.

### Portfolio Construction

Each eligible constituent is assigned to one of the 145 industries and 11 sectors. The sector/industry indexes are built by aggregating all securities from the eligible universe that are assigned to the target industries/sectors shown in Appendix 3.

#### *Number of Stocks*

The number of stocks in the indexes are subject to the selection and eligibility criteria at the time of reconstitution.

#### *Index Weighting*

The indexes are float-adjusted market capitalization-weighted. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

## Index Maintenance and Calculation

### Reconstitution and Rebalancing

The indexes are reconstituted, where the membership is reset, semi-annually on the third Friday of June and December. Adjustments are implemented after Friday's market close and reflected the following Monday. The market data used for reconstitution is as of the last trading day of May and November.

The indexes are rebalanced quarterly on the third Friday of March, June, September, and December. Adjustments are implemented after Friday's market close and reflected the following Monday. The market data used for rebalancing is as of the last trading day of February, May, August, and November.

Refer to Appendix 2 for details on reconstitution and rebalancing.

Index files are published according to the global calendar schedule. For more information, please refer to the [Morningstar Indexes Holiday Calendar](#).

### Corporate Actions

The treatment of corporate actions will be as per the float-adjusted market capitalization-weighted indexes corporate action methodology. For more details, please refer to the [Morningstar Indexes Corporate Actions Methodology](#).

### Index Calculation and Price Data

Details about index calculations and price data can be found in their respective rulebooks: [Morningstar Indexes Calculation Methodology](#) and [Morningstar Equity Indexes Price Methodology](#).

### **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 Indexes 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](#).

### 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 Index Methodology Committee, and in all instances, the application of a nonstandard process will be reported to the Morningstar Index Oversight Committee.

## Appendixes

### Appendix 1: Modifications to the Rulebook

| Section                     | Description of Change   | Updated Date   |
|-----------------------------|---|----------------|
| Entire rulebook             | Moved to updated template   | July 2024      |
| Corporate Action            | Transitioned Indexes to the standard Morningstar Corporate Action Methodology | July 2024      |
| Data Correction & Precision | Computational and Reporting Precision section removed                         | September 2024 |

### Appendix 2: Glossary

| Term           | Description   |
|----------------|---|
| Reconstitution | During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset. |
| Rebalance      | During each rebalance, the weights are adjusted for updated free-float and shares outstanding data.                             |

### Appendix 3: Parent Index – Sector and Industry

| Index Name   | Parent Index  | Morningstar Sectors or Industries Applied | Index Type                          |
|--|---|---|-------------------------------------|
| Morningstar Eurozone Large-Mid Banks Index   | <a href="#">Morningstar Eurozone Large-Mid Cap Index</a>                              | Industry: Banks – Diversified             | Price                               |
|  |   | Industry: Banks – Regional                | Gross Return<br>Net Return          |
| Morningstar Developed Markets Europe Large-Mid Oil & Gas Index                           | <a href="#">Morningstar Developed Europe Large-Mid Cap Index</a>                      | Sector: Oil & Gas                         | Price<br>Gross Return<br>Net Return |
|  |   |   |                                     |
| Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries          | <a href="#">Morningstar Global Markets Index</a>                                      | Industry: Auto                            | Price                               |
|  |   | Manufacturers                             | Gross Return                        |
|  |   | Industry: Auto Parts                      | Net Return                          |
| Morningstar Developed Markets Transatlantic* Healthcare Sector                           | <a href="#">Morningstar Developed Markets Healthcare Target Market Exposure Index</a> | Sector: Healthcare                        | Price<br>Gross Return<br>Net Return |
|  |   |   |                                     |
| Morningstar Developed Markets Europe Healthcare Sector                                   | <a href="#">Morningstar Developed Markets Europe Target Market Exposure Index</a>     | Sector: Healthcare                        | Price<br>Gross Return<br>Net Return |
|  |   |   |                                     |
| Morningstar Developed Markets Transatlantic* Technology & Communication Services Sectors | <a href="#">Morningstar Developed Markets Transatlantic Index</a>                     | Sector: Technology                        | Price                               |
|  |   | Sector: Communication Services            | Gross Return<br>Net Return          |



|  |   |                                |                            |
|--|---|--------------------------------|----------------------------|
| Morningstar Developed Markets                      | <a href="#">Morningstar Developed</a>                 | Sector: Technology             | Price                      |
| Europe Technology & Communication Services Sectors | <a href="#">Markets Europe Target Market Exposure</a> | Sector: Communication Services | Gross Return<br>Net Return |

For more detail regarding sectors, industries, and super sectors, please refer to the [Morningstar's Global Equity Classification Structure \(GECS\) Rulebook](#).

\*Morningstar Develop Markets Transatlantic indexes are rebalanced quarterly on a 50%/50% between the U.S. and Developed Europe such that each region holds a 50% weighting in the index at the date of the rebalancing.

#### Appendix 4: Morningstar Sector and Industry Decrement Indexes

| Index Name   | Underlying Index   | Base Value | Base Date     | Performance Inception Date | Inception Date |
|--|--|------------|---------------|----------------------------|----------------|
| Morningstar Eurozone Large-Mid Banks Decrement 5%  | Morningstar Eurozone Banks NR EUR  | 1,000      | Jan. 1, 2020  | June 20, 2008              | Dec. 1, 2021   |
| Morningstar Eurozone Large-Mid Banks Decrement 50 Point  | Morningstar Eurozone Banks GR EUR  | 1,000      | Jan. 1, 2020  | June 20, 2008              | Dec. 1, 2021   |
| Morningstar Developed Markets Europe Large-Mid Oil & Gas Decrement 5%                              | Morningstar Developed Markets Europe Oil & Gas NR EUR                                  | 1,000      | Jan. 1, 2020  | June 20, 2008              | Dec. 1, 2021   |
| Morningstar Developed Markets Europe Large-Mid Oil & Gas Decrement 50 Point                        | Morningstar Developed Markets Europe Oil & Gas GR EUR                                  | 1,000      | Jan. 1, 2020  | June 20, 2008              | Dec. 1, 2021   |
| Morningstar Eurozone Large-Mid Banks Decrement 50 Point Series 2 GR EUR                            | Morningstar Eurozone Large-Mid Banks GR EUR  | 1,000      | Jun. 13, 2022 | June 20, 2008              | Dec. 1, 2021   |
| Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries Decrement 4%       | Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries NR EUR | 1,000      | Aug. 29, 2022 | June 30, 1998              | Sept. 19, 2022 |
| Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries Decrement 5%       | Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries NR EUR | 1,000      | Aug. 29, 2022 | June 30, 1998              | Sept. 19, 2022 |
| Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries Decrement 50 Point | Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries GR EUR | 1,000      | Aug. 29, 2022 | June 30, 1998              | Sept. 19, 2022 |
| Morningstar Developed Markets Transatlantic Healthcare Sector Decrement 4%                         | Morningstar Developed Markets Transatlantic Healthcare Sector NR EUR                   | 1,000      | Aug. 26, 2022 | June 20, 2008              | Sept. 19, 2022 |

|   |   |       |                  |               |                   |
|---|---|-------|------------------|---------------|-------------------|
| Morningstar Developed Markets<br>Transatlantic Healthcare Sector<br>Decrement 5%                                    | Morningstar Developed<br>Markets Transatlantic<br>Healthcare Sector NR EUR                              | 1,000 | Aug. 26,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Transatlantic Healthcare Sector<br>Decrement 50 Point                              | Morningstar Developed<br>Markets Transatlantic<br>Healthcare Sector GR EUR                              | 1,000 | Aug. 26,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Europe Healthcare Sector Decrement<br>4%   | Morningstar Developed<br>Markets Europe Healthcare<br>Sector NR EUR                                     | 1,000 | Aug. 26,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Europe Healthcare Sector Decrement<br>5%   | Morningstar Developed<br>Markets Europe Healthcare<br>Sector NR EUR                                     | 1,000 | Aug. 26,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Europe Healthcare Sector Decrement<br>50 Point                                     | Morningstar Developed<br>Markets Europe Healthcare<br>Sector GR EUR                                     | 1,000 | Aug. 26,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Transatlantic Technology &<br>Communication Services Sectors<br>Decrement 4%       | Morningstar Developed<br>Markets Transatlantic<br>Technology & Communication<br>Services Sectors NR EUR | 1,000 | Aug. 29,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Transatlantic Technology &<br>Communication Services Sectors<br>Decrement 5%       | Morningstar Developed<br>Markets Transatlantic<br>Technology & Communication<br>Services Sectors NR EUR | 1,000 | Aug. 29,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Transatlantic Technology &<br>Communication Services Sectors<br>Decrement 50 Point | Morningstar Developed<br>Markets Transatlantic<br>Technology & Communication<br>Services Sectors GR EUR | 1,000 | Aug. 29,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Europe Technology &<br>Communication Services Sectors<br>Decrement 4%              | Morningstar Developed<br>Markets Europe Technology &<br>Communication Services<br>Sectors NR EUR        | 1,000 | Aug. 29,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Europe Technology &<br>Communication Services Sectors<br>Decrement 5%              | Morningstar Developed<br>Markets Europe Technology &<br>Communication Services<br>Sectors NR EUR        | 1,000 | Aug. 29,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |
| Morningstar Developed Markets<br>Europe Technology &<br>Communication Services Sectors<br>Decrement 50 Point        | Morningstar Developed<br>Markets Europe Technology &<br>Communication Services<br>Sectors GR EUR        | 1,000 | Aug. 29,<br>2022 | June 20, 2008 | Sept. 19,<br>2022 |

## Appendix 5: Decrement Levels

The index levels are adjusted by deducting a predetermined value of index points from the gross return (GR) or fixed percentage point from the net return (NR) levels of the base index. These constant markdowns are applied to the base Index daily.

| Return Variant of the Base Index | Base Currency | Decrement Type   | Decrement Frequency | Decrement Application                                    | Decrement Value   | Day Count Convention |
|----------------------------------|---------------|--|---------------------|--|---|----------------------|
| Net Total Return                 | EUR           | Fixed  | Daily               | Geometric  | 5%  | *ACT/365             |
| Gross Total Return               |               | Percentage<br>Decrement<br>or Fixed<br>Point<br>Decrement<br>based on<br>the index<br>version. |                     | application for decrement<br>both<br>decrement<br>types. | based on<br>the Net<br>Total<br>Return 50-<br>point<br>decrement<br>based on<br>Gross Total<br>Return |                      |

\*ACT is the number of calendar days between two calculation days.

### Formula for Fixed Point Decrement

Geometric Decrement Calculation

$$IVt = (IVt-1 \times (Ut \div Ut-1)) - (D \times (Act(t-1,t) \div DayCount))$$

Where:

$IVt$  = The value of the Fixed Point Decrement Index for calculation day t

$IVt-1$  = The value of the Fixed Point Decrement Index for day t-1

$Ut$  = The value of the base Index for calculation day t

$Ut-1$  = The value of the base Index for calculation day t-1

$Act(t-1,t)$  = Number of calendar days between calculation day t-1 and calculation day t

$D$  = The Decrement value expressed in Index points

$DayCount$  = Set to 365

### Formula for Fixed Percentage Decrement

Geometric Decrement Calculation

$$IVt = IVt-1 \times ((Ut \div Ut-1) - (c \times (Act(t-1,t) \div DayCount)))$$

Where:

$IVt$  = The value of the Fixed Percentage Decrement Index for calculation day t

$IVt-1$  = The value of the Fixed Percentage Decrement Index for day t-1

$Ut$  = The value of the base Index for calculation day t

$Ut-1$  = The value of the base Index for calculation day t-1

$Act(t-1,t)$  = Number of calendar days between calculation day t-1 and calculation day t

$c$  = The Decrement value expressed in Fixed Percentage

$DayCount$  = Set to 365

## 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 Index Methodology Committee

The Morningstar Index 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 Index Operations Committee

The Morningstar Index 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 Index Oversight Committee

The Morningstar Index 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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