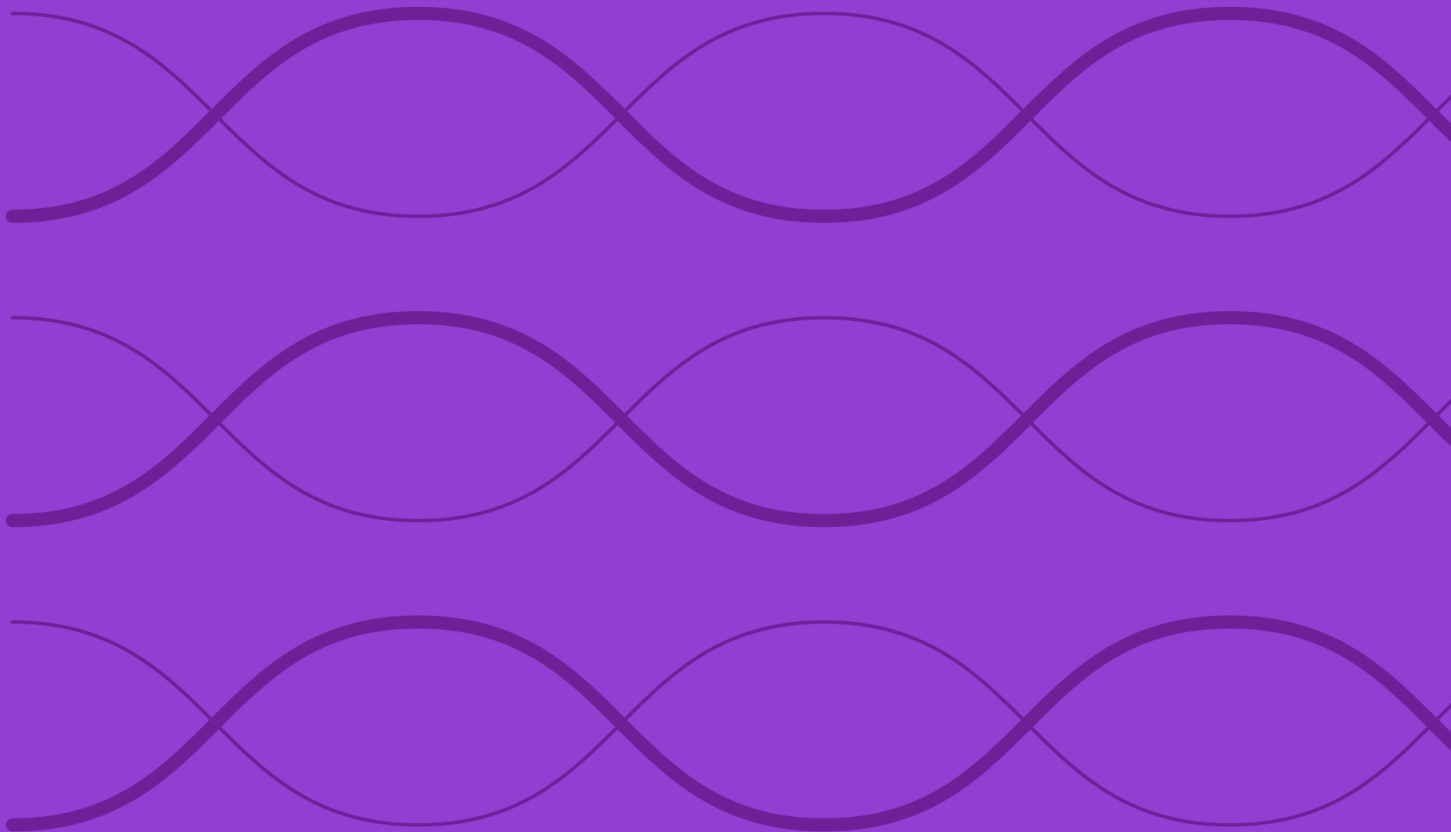


# Construction Rules for the Morningstar<sup>®</sup> US Market Indexes<sup>SM</sup>



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## Overview

Designed to facilitate performance benchmarking and efficient portfolio construction, the Morningstar® US Market Indexes<sup>SM</sup> cover stocks representing the top 97% of the investable U.S. equity market. The indexes are built and maintained according to a transparent set of rules, and only liquid stocks that are readily available to institutional investors are included, ensuring accurate and objective representation of the investment opportunity set for active managers and mitigating transaction costs for passive investors.

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

## Index Inception and Performance Start Date

The inception date of the Morningstar US Market Index is July 3, 2002, and the performance start date of the index is Dec. 31, 1991, when the first back-tested index value was calculated. This index is part of the Morningstar Global Markets Index family. The inception and performance start dates of the other Global Markets indexes are listed in the [Morningstar Global Markets Index rulebook](#).

## Index Construction

### Methodology Summary

#### Starting Universe

- Eligible share classes of U.S. companies listed on the NASDAQ, NYSE, and NYSE Market LLC form the starting universe

#### Eligibility

- Securities with 10 or more nontrading days in the three months preceding reconstitution, or with less than 10% of their shares publicly floated are excluded
- Securities are assigned liquidity scores. Those that rank below the top 75% are ineligible

#### Portfolio Construction

- Securities are ranked by market cap in descending order size and a cumulative market cap percentage is calculated for each stock
- Breakpoints are determined as follows:
  - large cap: 70%
  - mid-cap: 90%
  - small-cap: 97%
- Constituents are weighted by float-adjusted market cap
- Semiannual reconstitution, quarterly rebalancing

Morningstar US  
Market Indexes

### Starting Universe

At each reconstitution, securities for the Morningstar US Market Index are derived from the U.S. equity universe described below:

- Security must be a common stock, REIT, or tracking stock.
- Security must trade on one of the three major U.S. exchanges: the New York Stock Exchange, Nasdaq, or the NYSE Market LLC.
  - A company is classified in the U.S. universe if its primary stock market activities are conducted in the U.S. and any of the following conditions are met: It is incorporated in the U.S. or the following U.S. territories: Guam, Puerto Rico, or U.S. Virgin Islands.
  - It is incorporated in any other country, but files a Form 10-K/10-Q or equivalent, and its primary business activities as measured by the geographic distribution of revenue and assets are conducted in the U.S. For cases where the distribution of revenue and assets do not indicate toward U.S., Morningstar Indexes makes determinations on a best efforts basis. Companies that remain unclassified at the end of the exercise are ineligible for the index.
- The following security types do not qualify:
  - American depository shares
  - fixed-dividend shares
  - convertible notes, warrants, and rights
  - limited partnership/master limited partnership and limited liability companies

- business development companies
- pooled investment vehicles
- royalty and statutory trusts.
- American depository receipts, or ADRs, are eligible for inclusion if no local equity listing is available for the company from the investable universe.

## Eligibility

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

- Securities with more than 10 nontrading days in the prior quarter are excluded. The resulting securities are referred to as the investable universe for the US Market Index.
- If securities representing more than 97.25% of the capitalization of the investable universe qualify for inclusion in the US Market Index following application of the above criteria, the securities with the lowest liquidity scores are removed from the index until 97.25% of the investable universe's total capitalization remains.
- Trading volume and turnover:
  - A security must be among the top 75% of the companies in the investable universe based on its liquidity score, which is the average of its rank on each of the following measures:
    - the average monthly trading volume in U.S. dollars during the six calendar months immediately before reconstitution or, in the case of corporate entities younger than six months, since the security was first issued (partial month periods are prorated by number of trading days in the month);
    - the lowest two months' total trading volume during the six calendar months immediately before reconstitution (the months need not be sequential).
  - The liquidity criterion is waived for corporate takeovers, spinoffs, or other corporate actions where the successor entity issues one or more securities that meet the following criteria:
    - the new entity is in either the mid- or large-cap band;
    - the new entity's float value is greater than or equal to the smallest float in the mid-cap band.
- Free float: Each security should have a minimum free float of 10%. For more details on Morningstar's definition of free float, refer to Appendix 2.
- Companies with multiple share classes
  - All trading classes that meet the general eligibility criteria are considered for inclusion.
  - The market capitalization is determined by aggregating all listed share classes. This aggregate market capitalization is used to assign companies to market-capitalization bands, described in more detail in the following section.
  - The weight contribution of a given share class in the index is based on the free-float market capitalization of that share class.

## Portfolio Construction

### *Calculating the Market Capitalization Breakpoints*

Securities in the investable universe are categorized in one of three market-capitalization bands: large, mid, and small. The Morningstar US Market Index targets those representing the largest 97% of the investable universe. Each company is ordered by market capitalization in descending order and the cumulative market-capitalization percentages for the companies are calculated. The market capitalization of the largest stock whose cumulative cap percentage is greater than the following values is taken as the capitalization breakpoint for that cap band:

- Large-cap: 70%
- Mid-cap: 90%
- Small-cap: 97%.

### *Capitalization Bands Buffer*

A buffer is applied around the capitalization bands to reduce turnover from small changes in market capitalization. The existing constituents of the index are provided a one-time buffer and are retained in their existing capitalization bands provided that the cumulative capitalization percentage of the constituents falls within the buffer zone.

- Large-cap/mid-cap upper buffer: 70%–1.0%
- Large cap/mid-cap lower buffer: 70%+1.0%
  - This means companies that were not classified as large-cap at the previous reconstitution must rank in the top 69% to be assigned to the large-cap band, while those that were previously classified as large-cap are eligible to remain in the large-cap band if their market cap ranks in the top 71%.
- Mid-cap/small-cap upper buffer: 90%–0.5%
- Mid-cap/small-cap lower buffer: 90%+0.5%
- Small-cap/micro-cap upper buffer: 97%–0.25%
- Small-cap/micro-cap lower buffer: 97%+0.25%

At each rebalance, significant initial public offerings, or IPOs, are included in the Morningstar US Market Index. Significant IPOs are broadly defined as IPOs that meet the general liquidity and investability criteria; and have full market value (in USD), greater than or equal to twice the mid-small segment cut-off of the U.S. market segment at the previous reconstitution.

### *Number of Stocks*

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

### *Index Weighting*

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

## Index Maintenance and Calculation

### Scheduled Maintenance

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 April and October.

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 described in the [Free Float Calculation Methodology](#).

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.

### *IPO Treatment*

At each reconstitution in June and December, securities with initial public offerings, or IPOs, listed on or before the last trading day of April and October are eligible for inclusion in Morningstar indexes if they meet all other eligibility criteria. The liquidity criteria are assessed on a pro-rata basis based on the IPO date.

At each rebalance in March and September, significant IPOs are included in the indexes. Significant IPOs are broadly defined as securities that meet the general liquidity and investability criteria and have full market value (in USD), greater than or equal to twice the mid-small segment from the previous reconstitution. The data cutoff date for significant IPOs is the last trading day of February and August.

### Corporate Actions

The treatment of corporate actions will be as per the float market-capitalization-weighted indexes.

For more details, please refer to the "Treatment for float market capitalization indexes" section in 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, selection, 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 also notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to the index, or a possible cessation of the index. Circumstances that could lead to an index cessation include, but are not limited to: market structure change; product definition change; inadequate supply of data; insufficient revenue associated with the index; insufficient number of clients using the index; and/or other external factors beyond the control of the Morningstar Index Methodology Committee.

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 be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within two days of its occurrence, will always 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	Update Date
Multiple Share Classes	<ul style="list-style-type: none"> <li>All eligible trading classes are considered for the index from the December 2015 reconstitution.</li> </ul>	December 2015
Selection Universe	<ul style="list-style-type: none"> <li>ADR may be considered for the inclusion in the index if no equity listing is available for the company</li> </ul>	December 2015
Entire rulebook	<ul style="list-style-type: none"> <li>Moved to new template</li> </ul>	December 2022
Overview	<ul style="list-style-type: none"> <li>Revised index description</li> </ul>	December 2022
Exhibit 1	<ul style="list-style-type: none"> <li>Revised exhibit</li> </ul>	December 2022
Exceptions	<ul style="list-style-type: none"> <li>Added Exceptions section</li> </ul>	February 2023
Index Maintenance & Calculation	<ul style="list-style-type: none"> <li>Updated calendar from US to global</li> </ul>	February 2024
Data Correction and Precision	<ul style="list-style-type: none"> <li>Computational and Reporting Precision section removed</li> </ul>	September 2024
Index Maintenance and Calculation	<ul style="list-style-type: none"> <li>IPO Treatment section added</li> </ul>	December 2024

### Appendix 2: Glossary

Terms	Description
Reconstitution	<p>Each reconstitution involves the following:</p> <ul style="list-style-type: none"> <li>updating the global market's investable equity universe.</li> <li>reviewing the economic segment- and country-level size segment breakpoints</li> <li>assigning companies to capitalization bands considering the buffer zones</li> <li>changes in index shares (free float, total shares outstanding, index-specific adjustment factor) of each constituent.</li> </ul>
Rebalance	<p>Each rebalancing involves the following:</p> <ul style="list-style-type: none"> <li>changes in index shares (free float, total shares outstanding, index-specific adjustment factor) of each constituent</li> <li>addition of U.S. spinoffs/IPOs.</li> </ul>

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**Free Float**

Free float is defined as a security's outstanding shares adjusted by block ownership to reflect only truly tradable and investable shares. A security's outstanding shares are adjusted if an entity owns 5% or more of the security through one of the following types of block ownership:

- cross ownership—shares that are owned by other companies (including banks and life insurance companies)
- government ownership—shares that are owned by governments (central or municipal) or their agencies.
- private ownership—shares that are owned by individuals or families
- restricted shares—shares that cannot be traded during a certain period.

However, a security's outstanding shares are not adjusted for institutional investors' holdings, which include, but are not limited to, the following categories:

- custodian nominees
- trustee companies
- mutual funds
- investment companies
- pension fund holdings

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**Country market capitalization and county market capitalization/GDP ratio**

- The size of a country's equity markets should be material, or above \$5 billion. The market should exhibit financial depth, that is, the ratio of the size of the country's equity markets to its gross domestic product should be high. Countries that fall in the bottom 20% are removed from index eligibility.

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**Additional Country Inclusion Criteria**

The following criteria are considered when determining country eligibility:

- the country's allowance of foreign investors to easily enter and exit the market, as well as to repatriate capital and dividends
  - timely and accurate availability of real-time and historical market data
  - the level of interest attracted by the market from international investors.
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## 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 indexes 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 is comprised of 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 UK & EU Benchmark Regulations “BMR”), ensuring methodologies remain fit for purpose and continue to achieve their stated investment objectives. The group is comprised of 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 UK & 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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