

# Construction Rules for the Morningstar<sup>®</sup> Eurozone ESG Risk Management Leaders Select 35 Index<sup>SM</sup>

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## Overview

The Morningstar Eurozone ESG Risk Management Leaders Select 35 index is designed to deliver exposure to companies who are leaders in managing their ESG risks.

The index makes use of product Involvement and ESG Controversy data provided by Sustainalytics' to exclude companies which are involved in controversial weapons, thermal coal production, animal testing, alcohol beverage business or non-compliant companies with UNGC principles.

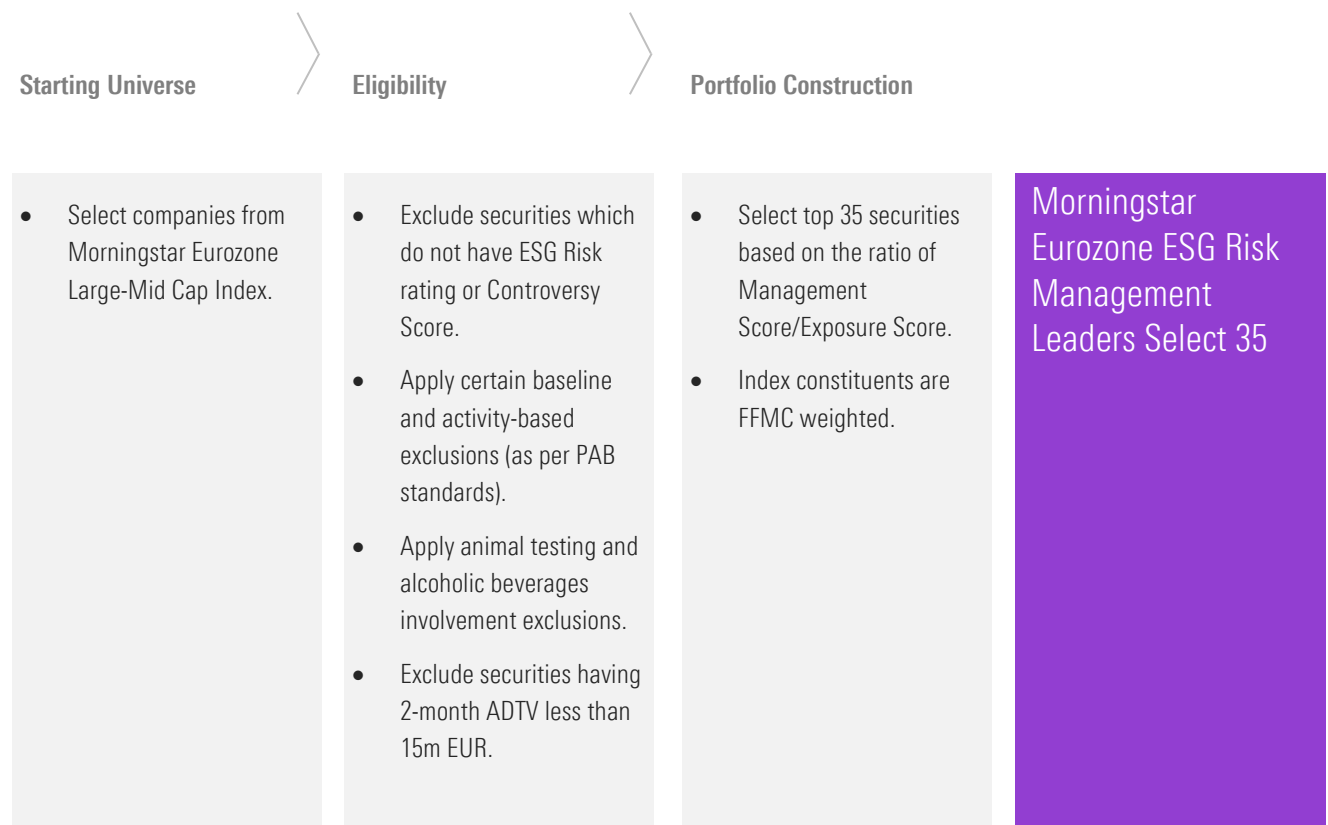
For more information on the Sustainalytics ESG Risk Rating and Morningstar Portfolio Sustainability Score and Rating, please refer to the [Morningstar Sustainability Rating Methodology](#).

### Index Inception Date and Performance Inception Date

The index inception date is September 07, 2023, and the performance start date, when the first back-tested index value was calculated, is June 19, 2015.

## Index Construction

### Exhibit 1: Construction Process



### Assigning Stocks to the Index

#### Starting Universe

At each reconstitution, securities for Morningstar Eurozone ESG Risk Management Leaders Select 35 Index are derived from the Morningstar Eurozone Large-Mid Cap Index (benchmark). For more details on benchmark construction, refer to the Construction Rules for the [Morningstar Eurozone Large-Mid Cap Index](#).

#### Eligibility

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

- Baseline Exclusions:
  - The security must not have a missing or severe ESG Risk Rating.
  - The security must not have a missing or severe controversy rating (or a level of 5).
  - The security must not be non-compliant with the principles of the United Nations Global Compact.
  - The security must not have any revenue involvement in controversial weapons, essential or non-essential.
- Activity-Based Exclusions:

- The company must not have any revenue involvement in thermal coal extraction, thermal coal supporting products/services and tobacco production.
  - The company must not have 10% or more of its revenue from oil & gas production and oil & gas supporting products/services.
  - The company must not have 50% or more of its combined revenue from oil and gas generation and coal and power generation.
  - The company must not have any involvement in Animal Testing.
  - The company must not have 5% or more of its revenue from alcoholic beverages production & retail and related product & services.
- Liquidity Screen: Each security's two-month Average Daily Traded Value (ADTV) must be greater than or equal to 15 million EUR.

#### *Index Selection*

Select top 35 securities based on the Management Score/Exposure Score ratio. In case of same Management Score/ Exposure Score ratio, security with highest 2M ADTV will be selected.

#### *Number of Stocks*

This index targets a fixed number of stocks (35) based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. 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. During reconstitution, if the number of securities is less than the target, all eligible securities would be selected, and the weight of the constituents will be determined based on the index weighting scheme. The reconstitution schedule is available in the "Index Maintenance and Calculation" section.

#### *Index Weighting*

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

## Index Maintenance and Calculation

### Scheduled Maintenance

The index is reconstituted, where the membership is reset, semi-annually in June and December. Adjustments are made on the Monday following the third Friday of June and December. If the Monday is a holiday, reconstitution occurs on the next business day.

The market and Sustainalytics data used for reconstitution is as of the last trading day of May and November.

The index is rebalanced quarterly and implemented after the close of business on the third Friday of March, June, September, and December and is effective the following Monday. If Monday is a holiday, rebalance is effective on the next business day. The market data used for rebalancing is as of the last trading day of February, May, August, and November. During quarterly reviews, constituents with missing or severe (or level of 5) controversy rating or non-compliant with the principles of the United Nations Global Compact are deleted from the index. Any constituents for which United Nations Global Compact data is unavailable will also be deleted from the index. Parent index eligibility is maintained during the quarterly reviews. The weights of the remaining stocks are readjusted in proportion to their existing weights so that they sum up to 1.

The market data used for rebalancing is as of the last trading day of February, May, August, and November.

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

### Corporate Action

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



## Appendix

**Appendix 1: 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 and adjusted for updated free-float and shares outstanding data.

**Appendix 2: Product Involvement-Based Exclusions**

Detailed Criteria	Threshold for Product Involvement Screens
Controversial Weapons Tailor Made & Essential	0%
Controversial Weapons Non-Tailor Made or Nonessential	0%
Thermal Coal Extraction	0%
Tobacco Production	0%
Thermal Coal Supporting Product/Services	0%
Oil & Gas Production	< 10%
Oil & Gas Supporting Product/Services	< 10%
Thermal Coal Power Generation Revenue	a%*
Oil & Gas Power Generation Revenue	b%*
Animal Testing	0%
Alcoholic Beverages Production Revenue	<= 5%
Alcoholic Beverages Related Products/Service Revenue	<= 5%
Alcoholic Beverages Retail-Revenue Percentage Revenue	<= 5%

\* (a+b)% < 50%

The missing values for the above mentioned ESG data points are backfilled in history using the values on the backfill date (please refer Appendix 3 for backfill dates).

Securities with missing values post backfilling have been removed from the starting universe. Missing values for United Nations Global Compact (UNGC) are not backfilled and any security missing UNGC data is not removed from Starting Universe till November 2019, if eligible as per other criteria.

**Appendix 3: Backfill Dates for Product Involvement Screens**

Product Involvement Screens	Backfill Dates
Controversial Weapons Tailor Made & Essential	Dec-19
Controversial Weapons Non-Tailor Made or Nonessential	Dec-19
Thermal Coal Extraction	Dec-19
Tobacco Production	Dec-19
Thermal Coal Supporting Product/Services	Mar-22
Oil & Gas Production	Dec-19
Oil & Gas Supporting Product/Services	Dec-19
Thermal Coal Power Generation Revenue	Dec-20

Oil & Gas Power Generation Revenue	Mar-21
Animal Testing	Dec-19
Alcoholic Beverages Production Revenue	Mar-21
Alcoholic Beverages Related Products/Service Revenue	Mar-21
Alcoholic Beverages Retail-Revenue Percentage Revenue	Mar-21

#### Appendix 4: Morningstar® Eurozone ESG Risk Management Leaders Select 35 Decrement Indexes

Index Name	Underlying Index	Base value	Base Date	Performance Inception Date	Inception Date
Morningstar Eurozone ESG Risk Management Leaders Select 35 Decrement 5% NR	Morningstar Eurozone ESG Risk Management Leaders Select 35	1,000	Sep. 07, 2023	Jun. 19, 2015	Sep. 07, 2023
Morningstar Eurozone ESG Risk Management Leaders Select 35 Decrement 50 Point GR	Morningstar Eurozone ESG Risk Management Leaders Select 35	900	Mar. 12, 2025	Jun. 22, 2015	Mar. 18, 2025

#### Appendix 5: Decrement Indexes

The index levels are adjusted by deducting a predetermined value of index 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 Gross Total Return	EUR	Fixed Percentage Decrement or Fixed Point Decrement based on the index version.	Daily	Geometric application for both decrement types.	5% decrement based on the Net Total Return 50-point decrement based on Gross Total Return	*ACT/365

#### Formula for Fixed Percentage Decrement Geometric Decrement Calculation

$$IV_t = IV_{t-1} \times ((U_t \div U_{t-1}) - (c \times (Act(t-1, t) \div DayCount))) \quad IV_t = IV_{t-1} \times ((U_t \div U_{t-1}) - (c \times (Act(t-1, t) \div DayCount)))$$

Where:

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

$IV_{t-1}$  = The value of the Fixed Percentage Decrement Index for day t-1

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

$U_{t-1}$  = 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

## Appendix 6: Modifications to the Rulebook

Section	Description of Change	Update Date
Corporate Action	Updated link to Morningstar Standard Methodology	July 2024

## 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 Indexes 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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