

# Morningstar Global Wide Moat VC 7% Index

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The Morningstar Global Wide Moat VC 7% Index measures the performance of a multi-asset-class strategy focusing on global equity, US Treasury market and a commodity carry component, with a volatility control overlay. The multi-asset index allocates weight to three top level component indexes, each representing a single asset class with dynamic proportions based on a risk budgeting optimization. A target volatility of 7.0% overlay is implemented over the multi-asset index. The index and its top-level components contain embedded transaction costs and carry costs as well as a 0.5% per annum embedded fee deducted on a daily basis.

### Morningstar Global Wide Moat VC 7% Index construction

The base index is the Morningstar Global Wide Moat MA Index, which is an index of indexes made up of the following three components weighted based on a risk budget optimization using a fixed risk budget as outlined below:

- 60%: Morningstar Global Wide Moat Composite Index
- 20%: UBS US Dynamic Bond Index
- 20%: UBS Beta Switcher COSI Ex Precious Metals 2.5x Leverage Net Excess Return Index

A risk control overlay is then applied on the base index with a target volatility of 7.0% and the leverage on the base index capped at 250%.

### Reconstitution and rebalancing

The base index is rebalanced monthly. The index exposure to the base index is assessed daily and rebalanced subject to tolerance limits.

### Global equity component

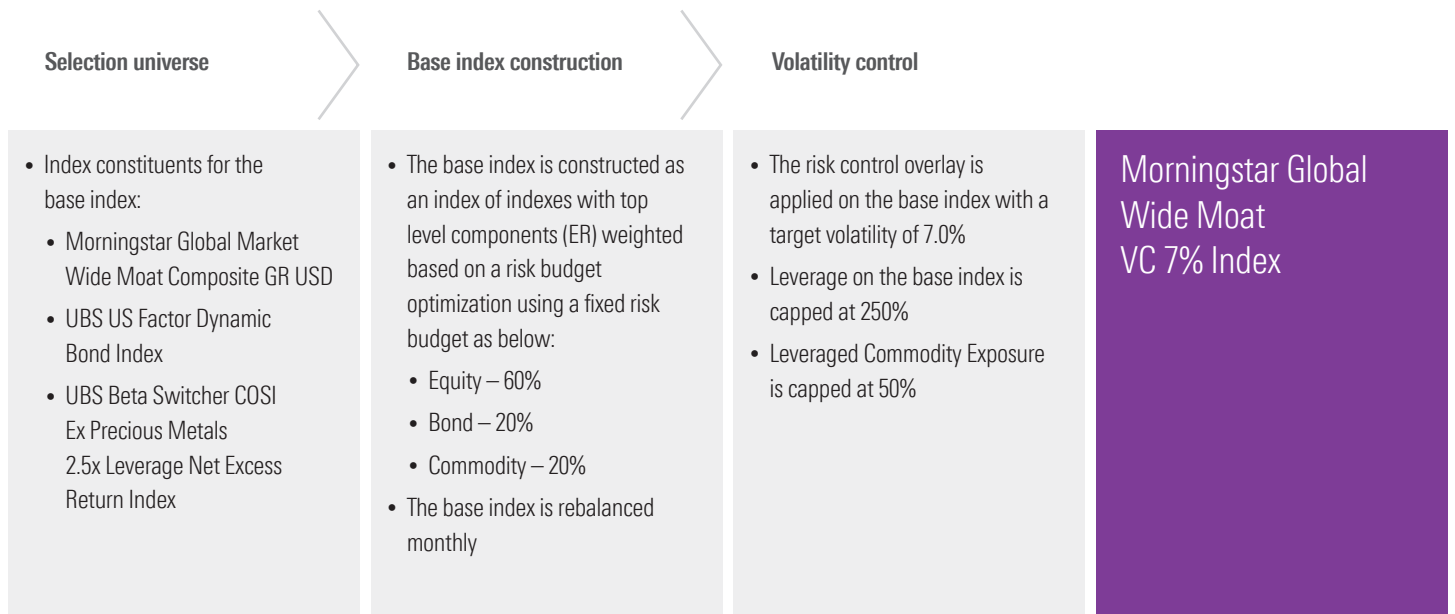
The Morningstar Global Markets Wide Moat Composite Index represents the equity portion of the Morningstar Global Wide Moat VC 7% Index. This underlying index provides global market cap-weighted exposure to companies with a Morningstar Economic Moat Rating of "wide", indicating that they enjoy a durable competitive advantage. Moat ratings are determined through independent research conducted by the Morningstar Equity Research Team.

### What is an economic moat?

An economic moat is a durable competitive advantage that allows a firm to keep competitors at bay and generate economic profits over an extended period. To help investors identify companies that possess an economic moat, Morningstar's equity research team assigns one of three Morningstar Economic Moat Ratings: "wide," "narrow," or "none." There are two major criteria that must be satisfied for a company to earn a moat rating of "wide" or "narrow:" 1) it must be likely to generate returns on invested capital above its weighted average cost of capital for at least the next twenty years for wide or the next ten years for narrow; and 2) it must have one of the following economic moat sources, each of which is a driver of structural competitive advantage:

- **Network effect** Present when the value of a network increases for new and existing users as the network grows.
- **Cost advantage** Allows a firm to sell at the same price as competition but still enjoy economic profits thanks to lower unit costs of production.
- **Efficient scale** When a company serves a market limited in size, new competitors may not have an incentive to enter, particularly when the cost of market entry is high. New entrants would cause returns for all players to fall well below the cost of capital.
- **Intangible assets** Brands, patents, and regulatory licenses that block competition and/or convey meaningful pricing power.
- **Switching costs** Whether in time or money, the expenses that a customer would incur to change from one producer/provider to another.

## Construction process



## 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.

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