

Construction Rules for the Morningstar Sustainability Moat Focus Indexes



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Overview

The Morningstar Sustainability Moat Focus Indexes provide exposure to attractively valued companies with long-term competitive advantage and moderate to low exposure to environmental, social and governance risks. Economic Moat ratings and fair value estimates quantifying competitive advantage and valuation are determined through independent research conducted by the Morningstar Equity Research team. ESG Risk ratings and other ESG data inputs are provided by Sustainalytics.

For more information on the moat rating process and fair value estimation performed by Morningstar Equity Research, refer to [Morningstar Equity Research Methodology](#).

For more information on the Sustainalytics ESG Risk Rating and Morningstar Portfolio Sustainability Score and Rating, refer to the [Morningstar Sustainability Rating methodology](#). For further information on ESG data used in the index, please see the [Morningstar ESG Index Glossary](#).

Index Inception and Performance Start Date

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

Index Construction

Methodology Summary

Starting Universe

- Select constituents from the corresponding Morningstar Country/Region Index.

Eligibility

- Companies with a Wide or Narrow moat rating (Wide only in US) and a Fair Value estimate assigned
- ESG Risk Category of Medium, Low or Negligible
- Controversy 4 or lower in trailing 3 years
- Product Involvement Screens
- Exclude Thermal Coal
- Momentum in top 80% of the securities passing all criteria*

Portfolio Construction

- Select N companies based on lowest current market price to fair value ratio
- Apply buffer rule for the existing constituents
- Maintain sector/country constraints in selection
- Target Four Globe Sustainability Rating by iteratively removing worst ESG Risk Rating performers if needed

Morningstar
Sustainability Moat
Focus Indexes

*Momentum screen not applied for Morningstar US Sustainability Moat Focus Index

Starting Universe

At each reconstitution, securities for the Morningstar Sustainability Moat Focus Indexes are derived from the corresponding Morningstar Country/Region in the Morningstar Global Markets Index (benchmark). For more details on benchmark construction, refer to the [Construction rules for the Morningstar Global Markets Indexes](#).

Eligibility

To be eligible for inclusion in the indexes, all securities must meet the following criteria:

- Analyst Data
 - The security must be assigned an economic moat rating of Wide or Narrow by Morningstar's Equity Research team; in the US index, only Wide Moat companies are eligible
 - The security must be assigned a fair value estimate by Morningstar's Equity Research team.
 - Security's fair value estimate is not under review at the time of reconstitution.
- The security must have current ESG and controversy scores.
 - The controversy score must be 4 (out of 5) or lower throughout the trailing 3 years.
 - The security's ESG Risk Category must be below or equal to 30 (Medium, Low or Negligible category of Risk)
 - The company must not be noncompliant with the principles of the United National Global Compact.
- The company must
 - not have any tobacco production involvement by revenue
 - not have any involvement in production of controversial weapons

- not have any involvement in the manufacturing of firearms sold to civilian customers
- not have 10% or more of its revenue from oil & gas production and oil & gas supporting products/services
- not have 50% or more of its combined revenue from oil and gas generation and thermal coal power generation
- not have any involvement in Thermal Coal (extraction) and thermal coal supporting products/services
- The company must have 12 months of price history
- If a company has more than one eligible share class:
 - Select the one that is a current index constituent.
 - Otherwise, select the most liquid share class determined by Morningstar Indexes.
- Momentum Screen (*Not applied for the Morningstar US Sustainability Moat Index*)

Eligible securities are ranked by the percentage change in price from 12 months ago. The securities in the bottom 20% are screened out.
- Liquidity Filter

Non-index constituents with a three-month average daily trading value, or ADTV, of less than 5 Million USD (or equivalent currency) are screened out.

Portfolio Construction

- Valuation Ranking

Eligible stocks are ranked on their price to fair value ratio and those trading at the lowest valuations are targeted for inclusion until the index reaches its target constituent count (N).

Buffer Rules Index constituents of the sub-portfolio ranked within the top 1.5 times of N in the eligible universe based on current market price/fair value ratio are given preference in subsequent steps. For region indexes with $N \geq 100$, the buffer width is set as 2 times N.

Country and Sector Capping The maximum weight of an individual country or sector in the index is capped at 10% plus its corresponding weight in the benchmark, or 40%, whichever is higher. This constraint is enforced through constituent selection.

Maximum Sector Weight = $\text{Max}(40\%, \text{benchmark weight} + 10\%)$ Maximum Country Weight = $\text{Max}(40\%, \text{benchmark weight} + 10\%)$
- All buffered constituents are retained in each index. From among the remaining companies, those representing the lowest current market price/fair value ratios are included in the index until the number of constituents reaches N. The two sub-portfolios are consolidated to form the aggregate portfolio.

- Portfolio Sustainability Rating Volatility Safeguard
 - If Sustainability Rating of a portfolio tracking the index appears at risk of drifting below Four Globes, iterative process outlined below is employed to reduce ESG Risk of the portfolio.
 - Maximum allowed ESG Risk score of the index portfolio is set to the maximum score required to achieve the Morningstar Four Globe Sustainability Rating for the relevant fund category, minus 0.5-point safety margin to allow for portfolio and breakpoint score drift over time to the next scheduled reconstitution.
 - The Morningstar Fund Category used for finding the maximum score to achieve the Four Globe Sustainability Rating will be the same as that of the exchange-traded fund or mutual fund tracking the index. If not available at the time of reconstitution, the Morningstar category will be assumed to be as given in Appendix 4.
 - ESG Risk score of the portfolio is calculated after all reconstitution steps have been completed and the reconstituted tranche is combined with the drifted tranche.
 - Eligible universe is the set of all securities in the selection universe that passed all Moat and ESG screening criteria, prior to selection of top N securities by price to Fair Value ratio.
 - If the ESG Risk score of the reconstituted portfolio is above the allowed maximum, 5% of securities with worst ESG Risk Rating scores in the eligible universe become ineligible, and the remaining construction steps of top N portfolio selection and constraint enforcement are repeated using the reduced eligible universe.
 - Until the portfolio meets the portfolio sustainability criterium, additional securities are removed from the eligible universe in 5% increments, up to the limit of 50% of the original eligible universe by worst ESG Risk.
 - Buffer rules: Current constituents must meet relaxed criterium in this process, equal to one iteration step lag. For example, if 10% of the original eligible universe are currently being excluded from selection, current constituents in the worst 5% of eligible universe are excluded.

Number of Stocks

Each reconstituted sub-portfolio targets N constituents based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. These target counts are shown in Appendix 4. 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 sub-portfolio can hold more or fewer than N companies. In addition, securities that are deleted from the corresponding benchmark Index after June and December reconstitutions are simultaneously deleted from the Morningstar Sustainability Moat Focus Index. The aggregate portfolio can contain between N and (2*N) constituents.

Index Weighting

The indexes are equal weighted, subject to the constraints outlined above. 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 on the third Friday of June and December. Adjustments are implemented after Friday's market close and reflected the following Monday. The sustainability data used for reconstitution is as of the last trading day of May and November. In addition, the sub-portfolio weights are reset to 50% each in June. Refer to Appendix 3 for the staggered reconstitution implementation process.

The analyst data (moat rating and fair value estimates) used to reconstitute the index is as of the first Friday of the reconstitution month.

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 alternatively-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](#).

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

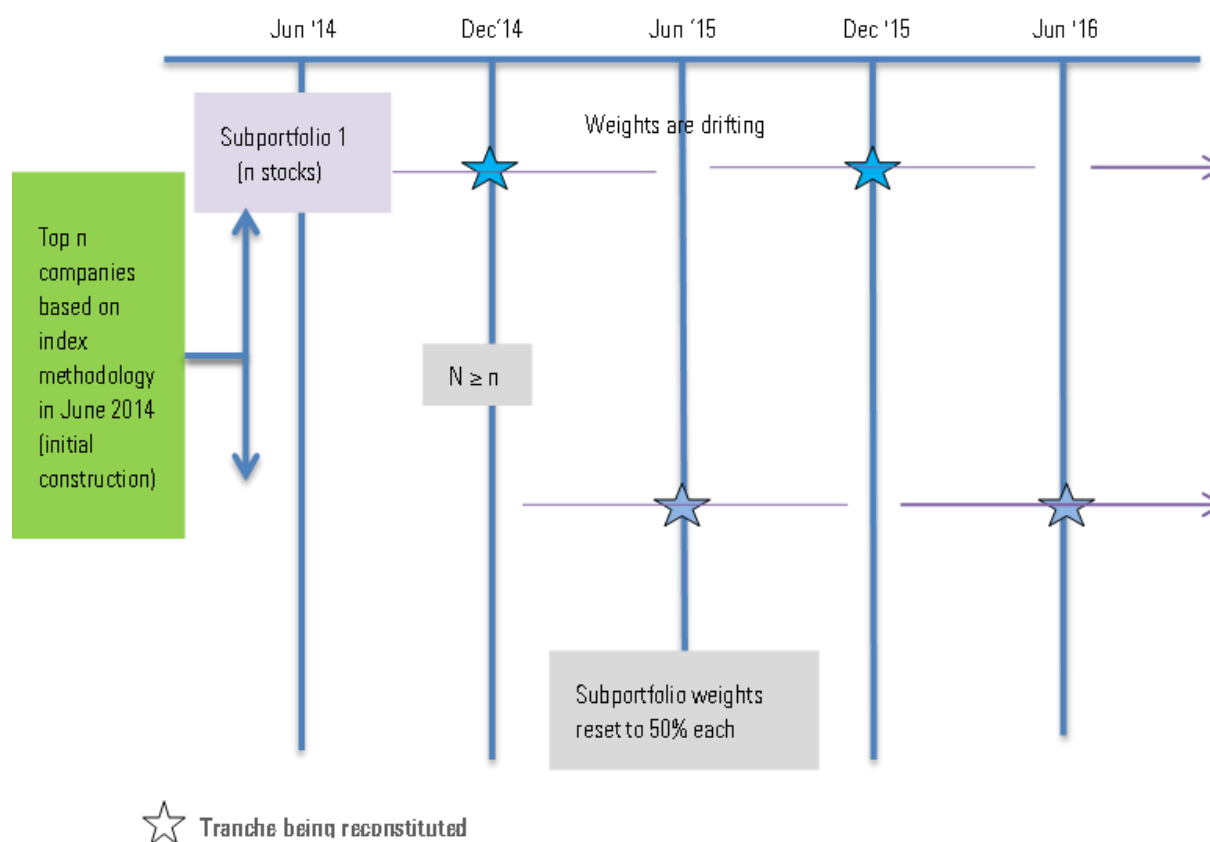
Appendix 1: Modifications to the Rulebook

Section	Description of Change	Update Date
Entire Rulebook	Moved rulebook to new template	June 2023
Index Construction	Remove Carbon Risk Rating Screen	December 2023
Security Selection	Remove Momentum Screen from US Sustainability Moat	December 2024
Security Selection	Included additional ESG screens: <ul style="list-style-type: none"> Oil & Gas/Oil & Gas Supporting Products Lowered Tobacco Threshold from 50% to 0% Thermal Coal Extraction/Thermal Coal Supporting Products Combined 50% Threshold of Oil & Gas and Thermal Coal Power Generation 	December 2024
Scheduled maintenance	Noted that Sustainability data is as of last trading day of May and November	December 2024
Index Maintenance & Calculation	Analyst data used for reconstitution updated from the Tuesday before the second Friday of the reconstitution month to the first Friday of the reconstitution month	May 2025

Appendix 2: 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 to their target based on the approach outlined in the weighting section.

Appendix 3: Stagger Reconstitution



The portfolio construction process is described below:

1. At initial construction (eg. June 2014), both subportfolios are reconstituted at the same time and therefore have an identical portfolio composition. The subportfolios are set to equal weights at 50% each.
2. In December, only the first subportfolio is reconstituted, while the second is not (drifted leg). As a result, the composition of the subportfolios may not remain identical.
3. In next June, the second subportfolio is reconstituted and the first forms the drifted leg. In addition, the subportfolio weights are reset to 50% each and distributed among the securities within them in proportion to their weights.
4. In December, the first subportfolio is reconstituted again.
5. In next June, the second subportfolio is reconstituted. In addition, the subportfolio weights are reset to 50%.
6. The process is repeated (go to Step 2).

*Due to a methodology change in December 2024: The tranche due for reconstitution in June 2025 would be subjected to the updated ESG screens and the securities which would fail the criteria would be excluded. Weights will be rescaled proportionally to securities within this tranche that do not fail the ESG screen. The tranche going through reconstitution in December 2024 will go through a full reconstitution using the updated methodology.

Appendix 4: Individual Indexes

Index	Performance Inception Date	Calculation Inception Date	Number of constituents (N) ¹
US Sustainability Moat Focus Index	June 20, 2014	February 11, 2021	40
Global Sustainability Moat Focus Index	June 20, 2014	March 03, 2021	200
Global ex-US Sustainability Moat Focus Index	June 20, 2014	March 03, 2021	75
Developed Markets Sustainability Moat Focus Index	June 20, 2014	March 03, 2021	100
Developed Europe Sustainability Moat Focus Index	June 20, 2014	March 03, 2021	25

Appendix 5: Baseline & Activity Based Inclusions

Detailed Criteria	Missing Data Treatment	Threshold
Highest controversy score	Excluded	Controversy Rating of 5 excluded
UNGC Compliance Status	Include before Dec 19, exclude from Dec 19	Non-compliant securities are excluded
Controversial Weapons Tailor Made & Essential - Category of Involvement Id	Include before Dec 19, exclude from Dec 19	CW1 companies excluded
Controversial Weapons Non-Tailor Made or Nonessential - Category of Involvement Id	Include before Dec 19, exclude from Dec 19	CW3 companies excluded
Oil & Gas (Production) - Level of Involvement Id	Include before Dec 19, exclude from Dec 19	< 10%
Oil & Gas (Supporting Products & Services) - Level of Involvement Id	Include before Dec 19, exclude from Dec 19	< 10%
Tobacco Products (Production) - Level of Involvement Id	Include before Dec 19, exclude from Dec 19	0%
Thermal Coal Extraction-Level of Involvement Id	Include before Dec 19, exclude from Dec 19	0%
Thermal Coal (Supporting Products & Services) - Level of Involvement	Include before Mar 22, exclude from Mar 22	0%
ESG Risk Score	Excluded	<= 30

¹ Number of constituents is targeted for each sub-portfolio.

Small Arms Civilian customers (Assault weapons)-Level of Involvement Id	Include before Dec 19, exclude from Dec 19	0%
Small Arms Civilian customers (Non-assault weapons)-Level of Involvement Id	Include before Dec 19, exclude from Dec 19	0%
Thermal Coal Power Generation Revenue – Revenue Percentage	Include before Dec 20, exclude from Dec 20	a%*
Oil & Gas Power Generation Revenue – Revenue Percentage	Include before Mar 21, exclude from Mar 21	b%*

*a+b% is greater than or equal to 50%

Appendix 6: Morningstar Category Default Assignment

Index	Morningstar Global Fund Category
US Sustainability Moat Focus Index	US Equity Large-Cap Blend
Global Sustainability Moat Focus Index	Global Equity Large-Cap
Global ex-US Sustainability Moat Focus Index	Global Equity Large-Cap
Developed Markets Sustainability Moat Focus Index	Global Equity Large-Cap
Developed Europe Sustainability Moat Focus Index	Europe Equity Large-Cap

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.

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