

Construction Rules for the Morningstar Japan ex-REIT Gender Diversity Tilt Index



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Overview

The Morningstar Japan ex-REIT Gender Diversity Tilt Index pursues objectives that align with environmental, social, and governance standards in reference to gender diversity. Built with the data and scoring methodology of Equileap, the index is designed to provide exposure to companies that have strong gender diversity policies embedded in their corporate culture and that ensure equal opportunities to employees, irrespective of their gender.

For more information on the Equileap Gender Scorecard™ and ranking, refer to Appendix 2.

Index Inception and Performance Start Date

The index inception date is Mar. 27, 2023, and the performance start date, when the first back-tested index value was calculated, is Dec. 18, 2015.

Index Construction

Methodology Summary

Starting Universe

- Securities are derived from the Morningstar Japan ex-REIT Domestic Index

Eligibility

- All benchmark securities are eligible for inclusion in the index. Securities that are part of the Alarm Bell controversy list as assigned by Equileap,¹ are assigned to the lowest scoring group.

Portfolio Construction

- The index is tilt weighted based on the assigned gender equality score.
- Sector weights are neutralized with respect to the benchmark.
- Security weights are capped at 5%

Morningstar Japan
ex-REIT Gender
Diversity Tilt Index

¹ Please refer to Appendix 2 for more details.

Starting Universe

At each reconstitution, securities for the Morningstar Japan ex-REIT Gender Diversity Tilt Index are derived from the Morningstar Japan ex-REIT Domestic Index (benchmark). For more details on benchmark construction, refer to the [Construction Rules for the Morningstar Japan ex-REIT Domestic Index](#).

Eligibility

- All benchmark securities are eligible for the Morningstar Japan ex-REIT Gender Diversity Index.

Portfolio Construction

All the securities from the benchmark index are included and assigned a Gender Equality score and weighted as per the index weighting mentioned below.

Number of Stocks

The number of stocks in the Morningstar Japan ex-REIT Gender Diversity Tilt Index is variable, subject to the selection and eligibility criteria at the time of reconstitution.

Index Weighting

The constituent weighting scheme for the index is calculated and applied as noted in the following steps:

- All eligible constituents are sorted in descending order of their Equileap gender equality score, or GE score.¹
- For all securities with the same Equileap GE score, Category A data² is used to break the tie, starting with criterion 5 (promotion and career development) and continuing, where required, through criterion 4 (workforce), 3 (senior management), 2 (executive), and 1 (board). In case of securities having the same Category A score, the one with the higher GE score for the previous year is assigned a higher rank. Lastly, float market capitalization is used as the final tie-breaker preferring higher over lower float market capitalization.
- The securities are divided into five groups based on the ranks assigned using Equileap GE scores in earlier steps having equal number of securities in each of the five groups. Two or more securities with the same Equileap GE score, Category A scores, previous year GE scores and float market capitalization are always assigned to the same group. Thus, each of the five groups might not contain an equal number of securities, though this is the target.
- Securities that are part of the Alarm Bell controversy list, as assigned by Equileap,¹ are assigned to the lowest scoring group while maintaining equal number of securities in each of the five groups. The Alarm Bell securities will remain on the controversy list for 12 months from the date it was flagged by Equileap.
- Tilt factors of (0.50, 0.75, 1.00, 1.25, 1.50, in this respective order) are assigned to the security groupings with the worst to the best Equileap GE scores in the previous step.
- The tilted weight for each security is calculated based on the formula:

$$\text{Tilted Weight} = \frac{\text{Final Tilt Factor} * \text{Float Market Cap}_i}{\sum_1^n (\text{Final Tilt Factor} * \text{Float Market Cap}_i)}$$

- To minimize deviation from corresponding weights in the parent index, the sector weights in the index are set equal to sector weights in the benchmark index during each reconstitution. The weights of the securities within each sector are maintained in the proportion of their tilted weights after normalization, as assigned in the prior step.
- As a final step, individual security weights are capped at 5% to avoid concentration risk and the excess weights are redistributed over the other constituents of the portfolio in the proportion of their existing weights.

¹ The Mar-2022 GE scores are used to fill any missing GE scores during the annual reconstitutions from Dec-2015 to Dec-2022. Equileap covered all securities included in the Morningstar Japan Index in Mar-2022 as a one-time exercise and all securities in the Morningstar Japan Index will be covered during Equileap's 2023 research cycle and onwards. The Dec'17 scores range from 0-35 and was the first time Equileap provided Gender Equality (GE) scores. From Dec'18 onwards Equileap provides GE score ranging from 0 to 100. Also Equileap provides simulated scores till Dec'16 with range of 0 to 100. So the Dec'17 GE scores have been normalized to 0-100 range to maintain consistency with data from other years. For a security without an Equileap GE score, it is assigned a representative GE score, which is the average of scores assigned to all securities within the same sector in the country of classification for the security. Securities that are part of the alarm bell controversy list and REITs are considered for the calculation of the sector average scores. Please refer to Appendix 3 for Morningstar sector definitions. Morningstar GECS is periodically reviewed and updated, so for maintaining representativeness and continuity of the history for the index strategy, these changes may be backfilled retrospectively where appropriate for indexes created after the effective date of such changes.

² Refer to Appendix 2 for more details on Category A data.

Index Maintenance and Calculation

Reconstitution and Rebalancing

The index is reconstituted, where the membership is reset, annually and implemented after the close of business on the third Friday of December and is effective the following Monday. The market data and Equileap data used for reconstitution is as of the last trading day of November.

The index is rebalanced quarterly and implemented after the close of business 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 and Equileap data used for rebalancing is as of the last trading day of February, May, August, and November.

As the reconstitution of the Morningstar Japan ex-REIT Gender Diversity Tilt Index is less frequent than the Morningstar Japan ex-REIT Domestic Index (parent index), the securities excluded from the parent index at its reconstitution effective date would also be deleted from Morningstar Japan ex-REIT Gender Diversity Tilt Index.

During quarterly reviews, securities that are newly added to the Alarm Bell controversy list will still be included in the index, but will be assigned to the lowest scoring group with a tilt factor of 0.5. The securities other than the ones newly added to the Alarm Bell controversy list retain their tilt factors from the previous reconstitution. The weights are reweighted using these tilt factors and updated float market capitalization to enforce 5% security capping. New securities are not added to the index, and region weights are not neutralized to be equal to region weights in the parent index during the quarterly reviews.

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 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 [Morningstar Equity Indexes Price Methodology](#).³

³ For non-JPY Index levels, London 4 PM WM/Refinitiv rates are used in the back-test period until the December 2022 reconstitution period. Post the December 2022 reconstitution period, Japan close spot FX rate is used

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 Decommissioning Policy](#).

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
Starting Universe	Updated the parent benchmark from Morningstar Japan ex-REIT Index to Morningstar Japan ex-REIT Domestic Index	September 2024
Index Construction	Inclusion of Alarm Bell securities and assigning them to the lowest scoring group	December 2024
Index weighting	Deletion: securities that are part of the current eligible universe, which had been excluded due to the presence of the alarm bell controversy at the previous reconstitution, are assigned an additional factor of 0.5 such that Final Tilt Factor = 0.5 X Tilt Factor	December 2024

Appendix 2: Equileap Gender Scorecard™ Calculation

- Headquartered in Amsterdam, Equileap is the leading provider of data and insights on gender equality in the corporate sector. Equileap researches and ranks over 3,000 public companies around the world using a unique and comprehensive Gender Equality Scorecard™ with 19 criteria, including the gender balance of the workforce, senior management, and board of directors, as well as the pay gap, parental leave, and sexual harassment.
- Equileap was launched in 2016 by Diana van Maasdijk and Jo Andrews, two professionals who have significant experience in philanthropy and specialize in women's rights. Their mission was to take a leap toward gender equality in the workplace and lay out the data to show why that leap was so important.
- Companies are ranked according to 19 gender criteria in four categories:
 - Category A: Gender balance in leadership and the workforce.
 - Category B: Equal compensation and work-life balance.
 - Category C: Policies promoting gender equality.
 - Category D: Commitment, transparency, and accountability.
- Equileap monitors incidents involving sexual harassment and gender discrimination. If an identified incident signals structural or systemic problems according to Equileap's methodology, the company receives an alarm bell. The alarm bell securities will continue to be part of the controversy list for the next 12 months from the date it was flagged by Equileap.
- Companies involved in controversies below within the past two years are assigned to the alarm bell controversy list:
 - One legal judgment or official ruling regarding gender discrimination or sexual harassment against the company or an employee.
 - Two or more settled legal cases, or one settled class action regarding gender discrimination or sexual harassment against a company or an employee.
 - Two or more legal judgments or official rulings regarding gender discriminatory practices in a company's marketing and advertising.

For more details, please visit: <http://equileap.com/>

Appendix 3: Morningstar Sectors

The following sectors are considered while calculating the index:

- Sectors
- Basic materials
- Communication services
- Consumer cyclical
- Consumer defensive
- Energy
- Financial services
- Healthcare
- Industrials
- Real estate
- Technology
- Utilities

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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