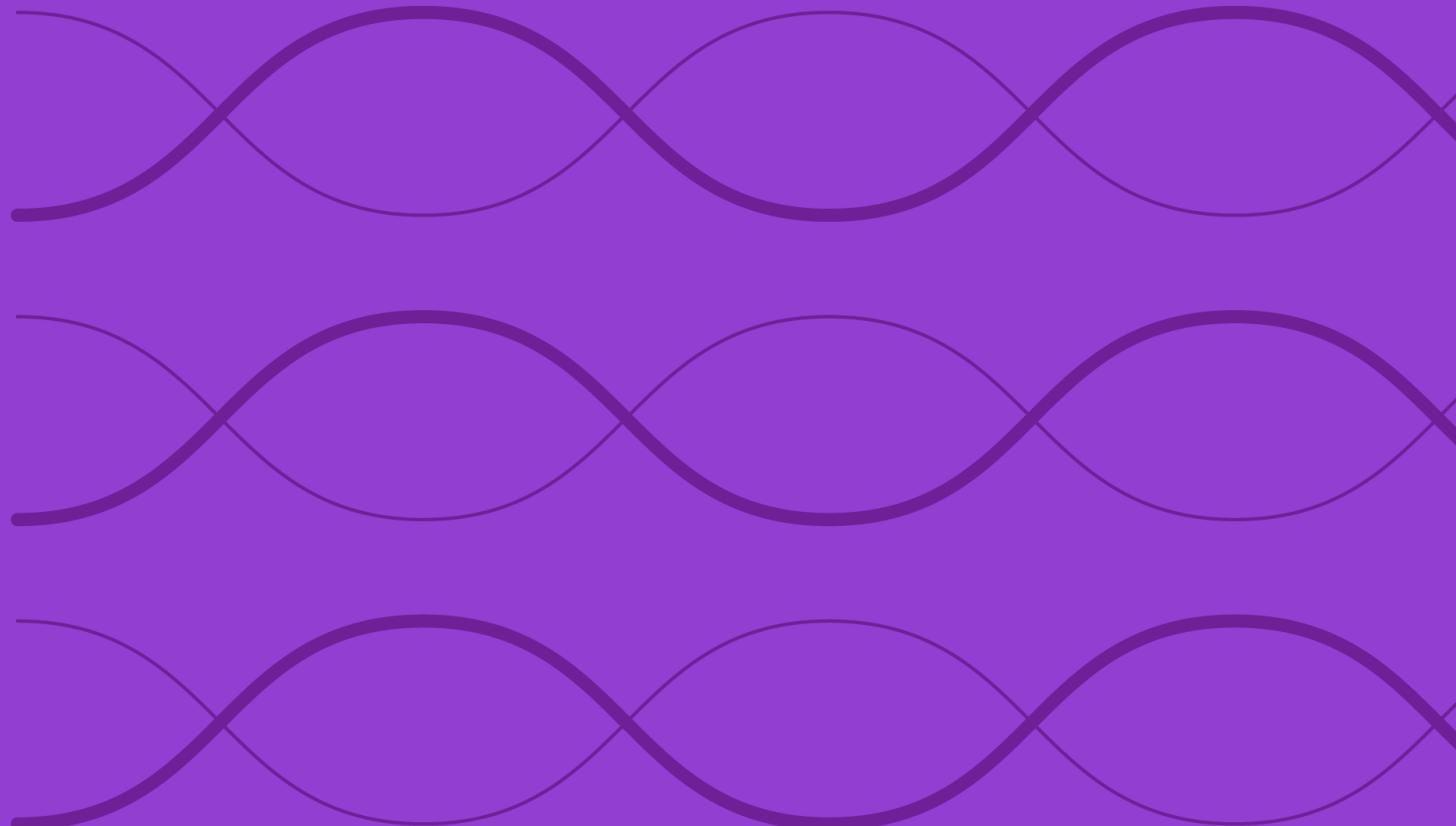




# Construction Rules for the Morningstar Luxury Goods Static Select 10 Index



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## Overview

The Morningstar Luxury Goods Static Select 10 Index tracks the performance of 10 public companies with significant exposure to luxury goods and services, as of September 2022. The index constituents should not change outside of changes derived from corporate actions.

This index does not incorporate environmental, social, or governance criteria.

## Index Inception and Performance Start Date

The inception date of the indexes as well as performance inception dates, when the first back-tested index value was calculated, are provided in the appendix. Back-tested performance is generated using the same securities found in Appendix 4. If a security did not exist during the back-test, the weights are proportionally redistributed to the other securities.

## Index Construction

### Methodology Summary



- Morningstar Global Markets Index.
- Must be included from the fixed list during the back-test period.
- Ten securities are selected as mentioned in Appendix 4.
- Securities are equal weighted.

Morningstar Luxury Goods Static Select 10 Index

### Starting Universe

The constituents of the Morningstar Luxury Goods Static Select 10 Index are derived from the Morningstar Global Markets Index (benchmark). For more details on benchmark construction, refer to the construction rules for [Morningstar Global Markets Index](#).

### Eligibility

The constituents of Morningstar Luxury Goods Static Select 10 are constant, based on the 10 stocks that were held during the back-testing period.

### Portfolio Construction

Securities were selected in September 2022, as listed in Appendix 4. Constituents should not change over time. If a security were to cease to exist, no constituent would replace it, and the index will continue to use equal weighting.

#### Number of Stocks

The number of stocks is fixed to 10 at the time of launch. For back-testing purposes, the 10 stocks found in Appendix 4 were held constant during the back-testing period. If a stock did not have data available or was not incepted at that time in history, the weight on the constituent was rescaled proportionally to the other index constituents. No additional index constituents should be added on a go-forward basis. If one of the 10 fixed constituents were to delist, the index would be reweighted, and the constituent would not be replaced.

#### Index Weighting

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

## Index Maintenance and Calculation

### Reconstitution and Rebalancing

Because this is a static index, it does not reconstitute. The eligibility criteria were applied as of September 2022. From this point forward, the constituents should not change, unless changes are required due to corporate actions.

The index is 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. If Monday is an index holiday, the rebalance is reflected the next business day. 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 Actions

The treatment of corporate actions will be as per the equal weighted indexes. In case of spin-off, the spun-off entity is not added to the index, and its weight is distributed proportionately across the rest of the index constituents. Details can be found 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](#).

## **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 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 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.

## Appendices

### Appendix 1: Modifications to the Rulebook

| Section          | Description of Change                            | Update Date |
|------------------|--|-------------|
| Entire Rulebook  | Moved to new template                            | April 2024  |
| Corporate Action | Updated link to Morningstar Standard Methodology | July 2024   |

### Appendix 2: Glossary

| Terms            | Description   |
|------------------|---|
| <b>Rebalance</b> | During each rebalancing, the weights are adjusted for updated free-float and shares outstanding data. |

### Appendix 3: Inception Date

| Index   | Performance Inception Date | Inception Date  |
|---|----------------------------|-----------------|
| Morningstar Luxury Goods Static Select 10 Index | June 15, 2012              | October 5, 2022 |

### Appendix 4: Security List

#### Individual Securities

| Constituent Name                      | Initial Index Weight (%) |
|---------------------------------------|--------------------------|
| Mercedes-Benz Group AG                | 10                       |
| Bayerische Motoren Werke AG           | 10                       |
| Cie Financiere Richemont              | 10                       |
| Tapestry Inc.                         | 10                       |
| Burberry Group PLC                    | 10                       |
| Kering                                | 10                       |
| Essilor Luxottica                     | 10                       |
| LVMH - Moët Hennessy Louis Vuitton SE | 10                       |
| VF Corp                               | 10                       |
| L'Oréal                               | 10                       |

## Appendix 5: Decrement Indexes

| Index Name   | Underlying Index  | Base Value | Base Date         | Performance Inception Date | Inception Date     |
|--|---|------------|-------------------|----------------------------|--------------------|
| Morningstar® Luxury Goods Static Select 10 Decrement 5% NR Index       | Morningstar® Luxury Goods Static Select 10 Index NR EUR | 1000       | February 09, 2022 | June 15, 2012              | September 23, 2022 |
| Morningstar® Luxury Goods Static Select 10 Decrement 50 Point GR Index | Morningstar® Luxury Goods Static Select 10 Index GR EUR | 1000       | February 09, 2022 | June 15, 2012              | September 23, 2022 |

## Appendix 5: Decrement Levels

The Index Levels are adjusted by deducting a pre-determined value of index points or fixed percentage point from the Net Return (NR) levels of the base index based on the index version. These constant markdowns are applied to the underlying Index daily.

| Return Variant of the Base Index | Base Currency | Decrement Type                     | Decrement Frequency | Decrement Application          | Decrement Value  | Day Count Convention |
|----------------------------------|---------------|------------------------------------|---------------------|--------------------------------|--|----------------------|
| Net Total Return                 | EUR           | Fixed Percentage                   | Daily               | Geometric application for both | 5% decrement based on the  | *ACT/365             |
| Gross Total Return               |               | Decrement or Fixed Point Decrement |                     | decrement types.               | Net Total Return; 50-point decrement based on Gross Total Return |                      |
|                                  |               | based on the index version.        |                     |                                |  |                      |

\*ACT is the number of calendar days between two calculation days.

### Formula for Fixed Point Decrement

#### Geometric Decrement Calculation

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

Where:

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

$IV_{t-1}$  = The value of the Fixed Point 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

$D$  = The Decrement value expressed in Index points

$DayCount$  = Set to 365

### Formula for Fixed Percentage Decrement

#### Geometric Decrement Calculation

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

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

## 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.

[www.indexes.morningstar.com](http://www.indexes.morningstar.com)

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