

Construction Rules for the Morningstar Wide Moat Focus & HSBC Dynamic US Fixed Income Target Volatility 7% Index



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Overview

The Morningstar Wide Moat Focus & HSBC Dynamic US Fixed Income Target Volatility 7% Index aims to achieve a target volatility of 7% by providing a varying exposure to a underlying “Base Index”. The Base Index is calculated as a blend of 70% HSBC FIDU Index and 30% Morningstar Wider Moat Focus GR ER Index.

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

Index Inception and Performance Start Date

The index inception date is April 3rd, 2024, and the performance start date, when the first back-tested index value was calculated, is Dec 16th, 2003.

Index Construction

Methodology Summary

Index Universe

- Index constituents for the Base Index are listed below:
 - HSBC Dynamic US Fixed Income Index ER
 - Morningstar Wide Moat Focus Index GR ER

Base Index Construction

- Base Index is constructed as an index of indexes with component indexes weighted as below:
 - HSBC Dynamic US Fixed Income Index ER - 70% weight
 - Morningstar Wide Moat Focus Index GR ER - 30% weight
- Base Index is rebalanced quarterly.

Index Construction

- Apply the standard Morningstar® Target Volatility methodology on the Base Index with the below parameters:
 - Target Volatility - 7%
 - Maximum Exposure - 200%
 - Tolerance - 5%
 - Trading Cost Adjustment Factor - 0.75%
 - Target Exposure Used Lag - 1 day
 - Cash/Borrowing Rate - Not used

Morningstar® Wide Moat Focus & HSBC Dynamic US Fixed Income Target Volatility 7% Index

Index Universe

Constituents of Morningstar® Wide Moat Focus & HSBC Dynamic US Fixed Income Target Volatility 7% Index are listed below. Rules governing security inclusion into the constituent index, index reconstitution/rebalancing, security splits/dividends/contract expirations, and other index mechanics are detailed in the rulebooks that govern each index.

- Morningstar Wide Moat Focus Index ER variant: This Index is Excess Return variant of the Morningstar Wide Moat Focus Gross Return Index. For more on the Morningstar Wide Moat Focus Index, please refer to the [Construction Rules for the Morningstar Wide Moat Focus Index](#). For details on Excess Return variant calculation, please refer to the Equity Excess Return calculation in the [Morningstar Indexes Calculation Methodology](#).
- HSBC Dynamic US Fixed Income Index ER variant : Please refer to the [HSBC Dynamic US Fixed Income Index rulebook](#).

Base Index Construction

To create the Base Index, the constituent Indexes i.e. the Morningstar Wide Moat Focus ER Index and the HSBC Dynamic US Fixed Income ER Index are assigned 30% and 70% weight in the Base Index respectively. The Base Index is rebalanced quarterly.

Index Construction

- Apply the standard Target Volatility Methodology on the base Index of Index with the below parameters:
 - Target Volatility - 7%

- Tolerance – 5%
- Maximum Exposure – 200%
- Trading Cost Adjustment Factor – 0.75%
- Target Exposure Used Lag – 1 day
- Cash/Borrowing Rate – Not used

For more details, refer to the Target Volatility Indexes section in the [Morningstar Indexes Calculation Methodology](#).

Index Maintenance and Calculation

Reconstitution and Rebalancing

The Index contains variable exposure to the Base Index of Index. This exposure is assessed daily, and Index is rebalanced subjected to tolerance limits.

For more information on reconstitution and rebalancing to the underlying Indexes, see the links below.

[Construction Rules for the Morningstar Wide Moat Focus Index.](#)

[HSBC Dynamic US Fixed Income Index rulebook.](#)

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

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](#).

In the event that performance data is missing from one of the underlying component Indexes, previous day Index levels will be used for calculation of the base Index.

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 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 be corrected upon detection. In addition, an incorrect divisor of an index, if discovered 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 methodology as described within this document, 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 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: ER calculation for Morningstar Wide Moat Focus GR Index

The excess return is equal to the index return minus the cash borrowing cost associated with holding the base equity index. This can be viewed as an opportunity cost of investing in the base equity index instead of cash.

$$ER_t = ER_{t-1} * \left(1 + \left(\frac{B_t}{B_{t-1}} - 1 \right) - \left(\frac{C_t}{C_{t-1}} - 1 \right) \right)$$

where,

B_t = Index Level of Base Equity Index at time t

C_t = Index capitalizing at the cash borrowing rate on date t with a base value of 1 on the inception date of the base index, calculated daily using value from date t-1, on (number of days/360).

ER_t = Excess return Index Level of Base Equity Index at time t

Appendix 2: Base Index

The Base Index is the Morningstar Wide Moat Focus & HSBC Dynamic US Fixed Income Index. The index inception date is April 3rd, 2024, and the performance start date, when the first back-tested index value was calculated, is Sept. 19, 2003.

Appendix 3: Modifications to the Rulebook

| Section | Description of Change | Update Date |
|-------------------------------|---|--------------|
| Data Correction and Precision | Computational and Reporting Precision section removed | January 2025 |

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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