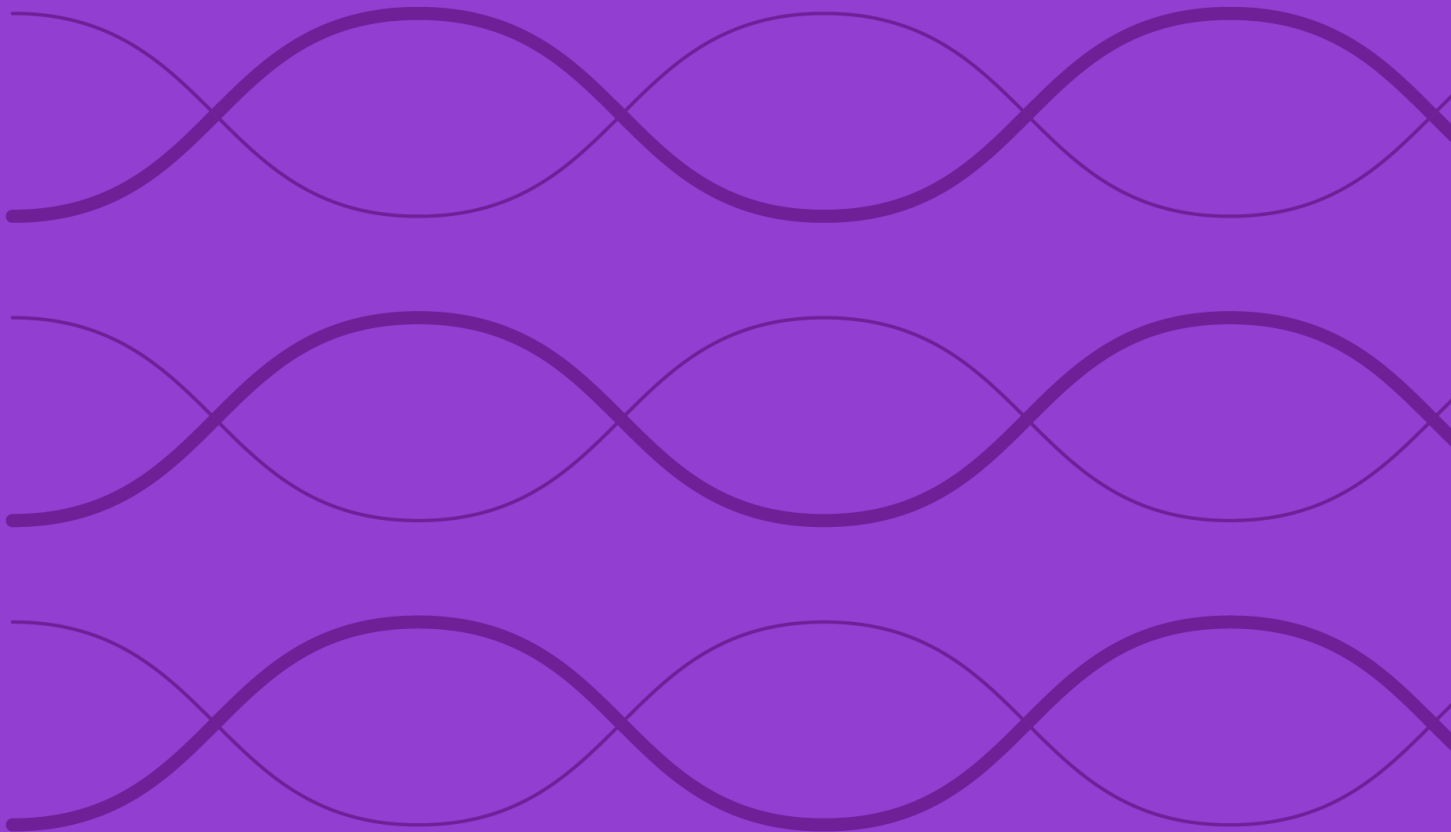


# Construction Rules for the Morningstar IISole24Ore Sustainability 24 Index



**Overview ..... 3**

**Index Construction..... 4**

Methodology Summary ..... 4

Starting Universe ..... 4

Eligibility..... 4

Portfolio Construction ..... 5

**Index Maintenance and Calculation ..... 7**

Reconstitution and Rebalancing ..... 7

Corporate Actions ..... 7

Index Calculation and Price Data ..... 7

**Methodology Review and Index Decommissioning Policy ..... 8**

**Data Correction and Precision ..... 9**

Intraday Index Data Corrections ..... 9

Index-Related Data and Divisor Corrections ..... 9

**Appendixes ..... 10**

Appendix 1: Modifications to the Rulebook ..... 10

Appendix 2: Glossary..... 10

Appendix 3: Construction Algorithm ..... 10

Appendix 4: Morningstar Sectors..... 11

**About Morningstar Indexes ..... 12**

## Overview

The Morningstar IISole24Ore Sustainability 24 Index is designed to provide focused exposure to Italian securities that have the lowest environmental, social, and governance risk in the Morningstar Italy Index. It aims to maintain diversification across sectors, targeting 24 companies in the Morningstar Italy Index.

## Index Inception and Performance Start Date

The index inception date is November 26<sup>th</sup>, 2021, and the performance start date, when the first back-tested index value was calculated, is December 21<sup>st</sup>, 2018.

## Index Construction

### Methodology Summary

#### Starting Universe

- Morningstar Italy Index
  - Covers stocks representing the top 97% of the investable market.

#### Eligibility

- Eliminate constituents with a Controversy Rating greater than 3.
- Apply product involvement screens.
- Security must have a three-month ADTV greater than \$1 million.

#### Portfolio Construction

- Target 24 companies with the lowest ESG Risk Ratings, while enforcing weight constraints and buffers.

**Morningstar  
IISole24Ore  
Sustainability 24  
Index**

### Starting Universe

At each reconstitution, constituents of the Morningstar® IISole24Ore Sustainability 24 Index are derived from the Morningstar Italy 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 index, all securities must meet the following criteria in sequence:

- Security must have current ESG and Controversy Ratings<sup>1</sup>.
- Security Controversy Rating must be 3 (out of 5) or lower.
- Security must not belong to the Severe ESG Risk Rating Category.
- Security product involvement must be 0% for the following activities:
  - Tobacco production
  - Controversial weapons
  - Civilian firearms
  - Nuclear production

<sup>1</sup> ESG, Controversy, and Carbon Risk Ratings are sourced from Sustainalytics.

- Security product involvement must be less than 50% for the following activities:
  - Gambling operations and supporting services
  - Alcohol
  - Adult entertainment production
- Security must be compliant with the principles of the United Nations Global Compact.
- Security must have an average three-month daily traded value of more than \$1 million. If a secondary line of the company doesn't satisfy this criterion, its weight will be distributed to the remaining liquid classes of the company in the index.

### Portfolio Construction

The security with the lowest ESG Risk Rating is selected. The process is repeated until 24 companies are selected subject to the following constraints.

- Sector active weight constraints: To minimize the deviation from corresponding weights in the parent index, the sector weights in the index are maintained within the lower and upper bound calculated as:
  - Lower bound =  $\text{Max}(\text{Weight in benchmark} - 15\%, \text{Weight in benchmark} / 15)$
  - Upper bound =  $\text{Min}(\text{Weight in benchmark} + 15\%, \text{Weight in benchmark} * 15)$
  - The constraints are enforced by the locally optimal (greedy) selection algorithm explained in Appendix 3. The maximum Controversy Rating, ESG Risk Rating Category, and product involvement eligibility criteria described above take precedence over meeting the weight constraints if they are in conflict. If enough eligible securities are not available to meet the minimum sector weight constraint, the constraint is relaxed. Additionally, the 5-10-40 index capping rule may lead to relaxation of sector constraints. For more information on the sector considered, refer to Appendix 4.
- Buffer rules: A current constituent has absolute priority to remain in the portfolio over the new entrants, as long as its ESG Risk Score percentile rank is better than the portfolio's coverage of the benchmark in its peer group by weight plus a buffer margin of 25 percentage points. For example, if the index's constituents in a sector represent for 50% of the weight in the parent index, companies in that sector that are already members of the index are eligible to remain in the portfolio if they rank in the top 75% of the sector.

### Number of Stocks

The index targets 24 stocks based on a transparent ranking system subject to the application of eligibility criteria at reconstitution. However, if fewer than the targeted number of securities from the starting universe meet eligibility criteria, or if securities are added or deleted as a result of corporate actions after reconstitution, the constituent count may deviate from the targeted number. The actual number of securities may be higher than 24 if a company has multiple share classes. During reconstitution, if the number of eligible securities is less than the targeted constituent count, all eligible securities are selected. The reconstitution schedule is provided in the "Index Maintenance and Calculation" section.

### *Index Weighting*

The index is weighted by float-adjusted market capitalization, subject to the constraints described above. Partial weights may be taken for one company in each sector if necessary to satisfy sector weight constraints. The index applies 5-10-40 capping on individual companies; that is, individual company weight at the time of reconstitution cannot exceed 10% and constituents greater than 5% in weight cannot combine to over 40% of the portfolio. If individual company weights exceed 10%, weights are redistributed among remaining companies belonging to the same sector. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

## Index Maintenance and Calculation

### Reconstitution and Rebalancing

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. If Monday is an index holiday, reconstitution is reflected the next business day. The market data used for reconstitution is as of the last trading day of May and November.

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. Apart from incorporating share and float factor adjustments, constituents' parent index (Morningstar Italy Index) membership is checked, index constituents with a Controversy Rating greater than 3 are deleted from the index, and the weight is redistributed within the securities of the same sector. Sector constraints are not enforced again; however, 5-10-40 weight constraints are enforced.

The ESG Risk Rating and Controversy Rating used for reconstitution and rebalancing is the latest available data as of the last trading day of February, May, August, and November.

Refer to Appendix 2 for more 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 float-adjusted market capitalization-weighted indexes corporate action methodology. 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 Decommissioning 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: Modifications to the Rulebook

Section	Description of Change	Update Date
Entire Rulebook	Moved to new template	May 2024
Removal of Carbon Risk Rating Screen	Screen no longer used	December 2023
Corporate Action	Transitioned Indexes to the standard Morningstar Corporate Action Methodology	July 2024
Data Correction and Precision	Computational and Reporting Precision Section Removed	May 2025

### Appendix 2: Glossary

Term	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 adjusted for updated free float and shares outstanding data.

### Appendix 3: Construction Algorithm

MS – highest stock Risk Rating in cap-only portfolio (upper bound highest score for collar constraint)

NC – number of grouping constraints (for only sector constraint, NC = 1)

TGT – target coverage of the benchmark index by market cap (weighting scheme)

Initialize TGT to target number of stocks, N, divided by number of stocks in the benchmark index.

Build portfolio achieving TGT coverage of benchmark:

Phase 1: Achieving Minimum Weights Per Each Peer Group

For n in NC...1:

While any group minimum weights not met

    and best qualifying stock Risk score < MS or n = 1

    and target market cap not reached

Add best scoring stock from the opportunity set that doesn't violate any group maximum and at least n of the groups it belongs to are under minimum

Phase 2: Filling the Remaining Portfolio

While target market cap not reached

Add best scoring stock from the opportunity set that doesn't violate any group maximum

While number of stocks in the constructed portfolio is not equal to N and binary search step size is above threshold, perform binary search of TGT space, repeating construction algorithm above for the new value of TGT at each step.

#### **Appendix 4: Morningstar Sectors**

The following sectors are considered while applying the active sector constraints.

- 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.

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

## Contact Us

[indexes@morningstar.com](mailto:indexes@morningstar.com)

The information in this document is the property of Morningstar, Inc. Reproduction or transcription by any means, in whole or part, without the prior written consent of Morningstar, Inc., is prohibited. While data contained in this report are gathered from reliable sources, accuracy and completeness cannot be guaranteed. All data, information, and opinions are subject to change without notice. This document may contain back-tested or simulated performances, and the subsequent results achieved by the investment strategy may be materially different.