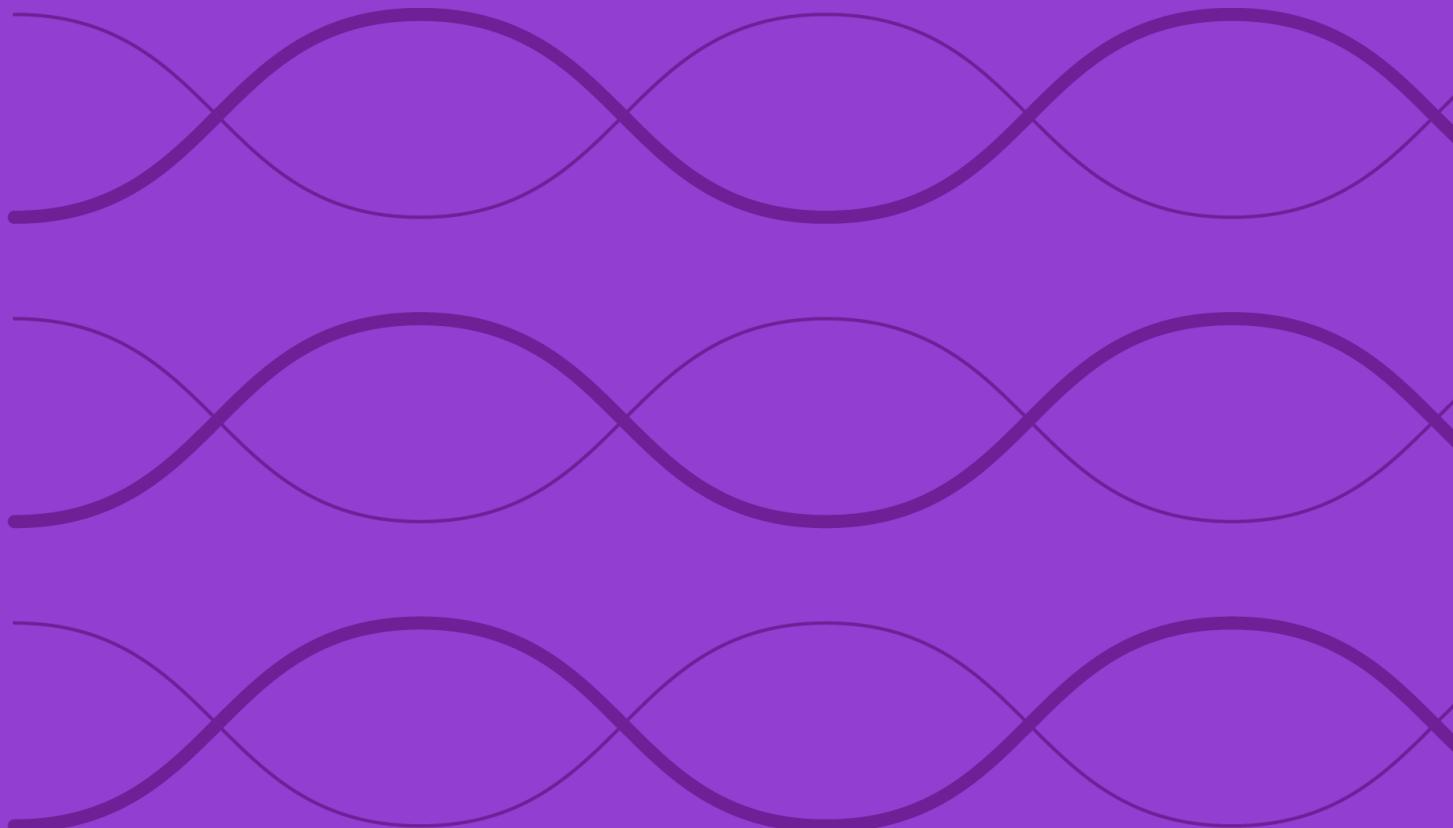


Construction Rules for the Morningstar Sustainability Leaders Indexes



Overview	3
Index Construction	4
Methodology Summary	4
Starting Universe	4
Eligibility	4
Portfolio Construction	5
Index Maintenance and Calculation	6
Scheduled Maintenance	6
Corporate Actions	6
Index Calculation and Price Data	6
Methodology Review and Index Cessation Policy	7
Data Correction and Precision	8
Intraday Index Data Corrections	8
Index-Related Data and Divisor Corrections	8
Exceptions	8
Appendices	9
Appendix 1: Modifications to the Rulebook	9
Appendix 2: Glossary	9
Appendix 3: Construction Algorithm	9
Appendix 4: Index Target N, Inception Date, and Performance Start Date	10
Appendix 5: Morningstar Regions and Sectors	10
About Morningstar Indexes	12

Overview

The Morningstar Sustainability Leaders Indexes are designed to provide exposure to large-cap stocks that have the lowest environmental, social, and governance risk in their respective sector. Each index is diversified across sectors and regions, targeting a fixed number of companies within the selection universe.

To assess sustainability company risk, Morningstar uses the company level ESG Risk Rating scores from Sustainalytics. For more information on the Sustainalytics ESG Risk Rating, controversy scores, and Morningstar Portfolio Sustainability Score and Rating, please refer to the [Morningstar Sustainability Rating methodology](#).

Index Inception and Performance Start Date

For the inception and performance start dates of the Morningstar Global Sustainability Leaders indexes, refer to Appendix 4.

Index Construction

Methodology Summary



- Select large-cap constituents from the Morningstar Global Markets Index.

- Eliminate constituents having a controversy rating greater than 3.
- Apply product involvement screens.
- Security must have a three-month ADTV greater than \$1 million.

Portfolio Construction

- Select N companies with lowest ESG Risk Rating scores, while enforcing weight constraints and buffer.

Morningstar
Sustainability
Leaders Indexes

Starting Universe

At each reconstitution, securities for each Morningstar Sustainability Leaders Index are derived from its respective Morningstar country/region parent (benchmark) from the Morningstar Global Markets Indexes. For more details on benchmark construction, refer to the [Construction Rules for Morningstar Global Markets Index](#).

Eligibility

To be eligible for inclusion in each index, all constituents must meet the following criteria:

- Security must be large-cap.
- Security must have current ESG and controversy scores.
- Security controversy score 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
- 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 securities with the lowest ESG Risk Ratings are selected until the target constituent count (N) is reached, subject to the constraints below:
 - Region/sector active weight constraints: To minimize the deviation from corresponding weights in the parent index, the region and sector weights in the index are maintained within a lower and upper bound calculated as:
 - Lower bound = Max (Weight in benchmark - 15%, Weight in benchmark / 15)
 - Upper bound = Min (Weight in benchmark + 15%, Weight in benchmark * 15)
 - The constraints are enforced by the locally optimal (greedy) selection algorithm explained in Appendix 3. The maximum controversy, 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 region or sector weight constraint, the constraint is relaxed. Additionally, the 5-10-40 index weight capping rule may lead to relaxation of sector constraints.
 - Buffer rules: A current constituent has absolute priority to remain in the portfolio over the new entrants, so long as its ESG Risk Rating score percentile rank is better than the portfolio's coverage of the benchmark in its peer group plus the buffer margin of 17% (or 25% margin in the case of single-region parent index, where only sector constraints apply).

Number of Stocks

Each index targets a fixed constituent count (N) based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. The actual number of securities may be higher than N in case of multiple share classes of a company. Corporate actions can also take the actual constituent count away from the target. Refer to Appendix 4 for more details on the target constituent counts.

Index Weighting

Each index is float market capitalization weighted. Partial weights may be taken for one company in each region and sector if necessary to satisfy region/sector weight constraints. The indexes apply 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 an individual company weight exceeds 10%, the weight is redistributed among remaining companies in the same sector. The 5-40 capping is later applied on the resulting portfolio. 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 market data used for reconstitution is as of the last trading day of April and October.

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. Apart from incorporating share and float factor adjustments, index constituents with a controversy rating greater than 3 are deleted from the index. Weight constraints are, however, not enforced.

The ESG Risk Rating and controversy data used for reconstitution and rebalancing is the latest available data 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 float market capitalization 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 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.

Appendices

Appendix 1: Modifications to the Rulebook

Section	Description of Change	Update Date
Entire Rulebook	Moved rulebook to new template	August 2023
Eligibility	Removed Carbon Risk Rating	December 2023
Data Correction and Precision	Computational and Reporting Precision Section removed	June 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 and adjusted for updated free-float and shares outstanding data.

Appendix 3: Construction Algorithm

MS – highest stock Risk score 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: Index Target N, Inception Date, and Performance Start Date

Index Name	Target N	Performance Start Date	Inception Date	Parent Benchmarks
Morningstar Global Markets Sustainability Leaders	100	12/21/2012	8/06/2018	Morningstar Global Markets Large Cap
Morningstar Developed Markets Sustainability Leaders	75	12/21/2012	8/06/2018	Morningstar Developed Markets Large Cap
Morningstar Global Markets ex-US Sustainability Leaders	75	12/21/2012	8/06/2018	Morningstar Global Markets ex-US Large Cap
Morningstar Developed Markets ex-US Sustainability Leaders	50	12/21/2012	8/06/2018	Morningstar Developed Markets ex-US Large Cap
Morningstar Developed Europe Sustainability Leaders	50	12/21/2012	8/06/2018	Morningstar Developed Europe Large Cap
Morningstar Emerging Markets Sustainability Leaders	50	12/21/2012	8/06/2018	Morningstar Emerging Markets Large Cap
Morningstar US Market Sustainability Leaders	50	12/21/2012	8/06/2018	Morningstar US Market Large Cap
Morningstar Asia ex-Japan Sustainability Leaders	50	12/21/2012	8/06/2018	Morningstar Asia ex-Japan Large Cap
Morningstar Nordic Sustainability Leaders	25	12/21/2012	8/06/2018	Morningstar Nordic Large Cap
Morningstar Japan Sustainability Leaders	25	12/21/2012	8/06/2018	Morningstar Japan Large Cap

Appendix 5: Morningstar Regions and Sectors

The following regions and sectors are considered while applying the active sector/region constraints.

Regions

- Developed Markets Americas
- Developed Markets Europe and Middle East
- Developed Markets Asia Pacific
- Emerging Markets Asia
- Emerging Markets Europe
- Emerging Markets Americas
- Emerging Markets Middle East and Africa

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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