MORNINGSTAR Indexes

Morningstar Optimized Fixed Count Indexes

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The Morningstar Optimized Fixed Count Indexes are designed to deliver exposure to select broad equity markets through a smaller portfolio of stocks than their parent broad-based benchmarks. The indexes are constructed with an optimization framework that uses the Morningstar Risk Model,[1] which includes sector, regional, currency, and style factors to forecast expected tracking error, subject to constraints on the number of constituents and turnover. This approach ensures accurate and objective representation of the market while simplifying implementation for passive investors.

Index eligibility

The Morningstar Optimized Fixed Count Indexes derive their constituents from the Morningstar Global Market Indexes, which represent the top 97% of the investable global equity market and provide extensive building blocks across geographical regions, developed and emerging markets, individual countries, sectors, and currencies.

The Morningstar Global Markets Indexes are segmented into large, mid, and small cap by ranking stocks in descending order by float adjusted market cap within their respective region. The breakpoints to determine size segmentation are as follows:

- Large cap: Top 70%
- Mid cap: 70–90%
- Small cap: 90–97%

To qualify for inclusion in the Morningstar Optimized Fixed Count Indexes, companies in the parent indexes must be covered by the Morningstar Risk Model.

Portfolio construction

At each reconstitution, the constituents of the Morningstar Optimized Fixed Count Indexes are selected and weighted using an optimizer designed to minimize tracking error to the parent index. The optimizer uses the Morningstar Risk Model and must meet the following constraints:

- No short positions
- Number of holdings is equal to the target count
- Maximum one-way turnover is less than 3% plus the turnover resulting from the exclusion of current holdings that were removed from the parent benchmark

Morningstar Optimized Fixed Count Indexes: Parent indexes and target constituent counts

Index name	Parent index	Target constituent count
Morningstar US Large Cap 70 Index	Morningstar US Large Cap Index	70
Morningstar US Small-Mid Cap 150 Index	Morningstar US Small-Mid Cap Index	150

Reconstitution

The indexes are reconstituted quarterly in March, June, September, and December. Reconstitutions are implemented after the close of business on the third Friday of the reconstitution month and are effective the following Monday. If Monday is a holiday, they are effective on the following business day.

[1] For more information, please refer to the Morningstar Risk Model methodology.

Construction process

Starting universe	Eligibility criteria	Portfolio construction	
• Morningstar Global Markets Indexes • Represents 97% of the investable market	• Must be covered by the Morningstar Risk Model	• Select and weight stocks through an optimization process that seeks to minimize expected tracking error to the parent index, subject to constraints	Morningstar Optimized Fixed Count Indexes

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.

Please visit indexes.morningstar.com for more information.