

Morningstar Exponential Technologies Index

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Investing in transformational technologies possesses inherent appeal. Companies like Alphabet, Amazon, and Meta have changed the way we work and live, reaping healthy profits and delivering attractive returns to investors along the way. Companies with significant exposure to innovative technologies can disrupt industries, create new markets, and enjoy strong growth, which can make them attractive investments.

The Morningstar Exponential Technologies Index is designed to target companies poised to benefit from a range of innovative technologies with exponential growth potential. It offers unparalleled exposure to seven key technology themes by drawing on the in-depth experience and forward-looking insights of Morningstar's equity research team.

Exponential technology themes

The Morningstar Equity Research Team's Exponential Technology steering committee has identified seven key themes. Themes are reviewed annually and can evolve as new themes emerge.

- **Artificial intelligence:** This encompasses the development, deployment, and integration of AI technologies across content creation, infrastructure, software, and services to drive innovation and efficiency. Sub-themes include Generative AI, AI Data & Infrastructure, AI Software, and AI Services.
- **Cybersecurity & defense tech:** This includes goods and services that protect against cyberthreats and advance military capabilities through cutting-edge technologies like AI, autonomous systems, and hypersonic weapons. These innovations enhance security, efficiency, and strategic advantage while reducing long-term operational costs. Sub-themes include Cybersecurity and Next Gen Defense Technologies.
- **Energy innovation:** The quest to abate global climate change and reduce greenhouse gases has led to a surge of new energy technologies, investment, and innovation. Sub-themes include Renewable Energy, Carbon Capture Technologies, Energy Storage, Hydrogen, Smart Grid Technologies, and Next Gen Nuclear Technologies.

- **Fintech innovation:** The search for and acknowledgement of nontraditional emerging funding sources, platforms, currency, and stored and transferred value. In some cases, traditional financial services companies are expanding their offerings with innovative, technology-enabled services to meet consumer preferences. On other cases, companies are building new platforms that could potentially transform the industry.
- **Healthcare innovation:** The Healthcare theme focus on breakthrough innovations in bioinformatics, therapies, and medical devices that improve disease treatment, diagnostics, and overall human health, with the potential for exponential impact on longevity and quality of life. Sub-themes include Bioinformatics, Innovative Devices & Diagnostics, and Innovative Therapies.
- **Next gen transportation:** Technologies replacing traditional human-operated, internal combustion engine-based vehicles. This includes a wide variety of applications. Examples include traditional light vehicles, public transportation vehicles, scooters/bikes, and drones. Sub-themes include Autonomous Driving Technologies and Electric Vehicles
- **Robotics:** The branch of technology that deals with the design, construction, operation, and application of robots. Advances in robotics have seemingly infinite potential applications, spanning technology, industrial, medical, and consumer-facing channels.

Theme exposure scores

Through a thorough, standardized scoring process conducted by Morningstar Equity Analysts, companies are assigned thematic exposure scores for each theme. This unique, forward-looking framework incorporates insights to assign scores between 0 and 4, with higher scores representing a higher degree of thematic purity. During the scoring process, subject matter experts consider each company's role in the supply chain, expected revenue exposure to the sub-theme five years into the future, and whether the company is expected to experience a net profit increase from its exposure to the theme over the next five years.

Index eligibility and portfolio construction

The Morningstar Exponential Technologies Index derives its constituents from the Morningstar Global Markets Index. Companies must be assigned a thematic exposure score of 1 or higher in at least one of the themes and pass minimum liquidity screens to be eligible for index membership.

To ensure a minimum level of representation across each theme, up to the 10 top scoring stocks within each theme are prioritized for inclusion

The remaining eligible securities are ranked to emphasize exposure across exponential technology themes. The ranking criteria are given below in descending order of preference:

- Number of themes in which a constituent scores 4
- Number of themes in which a constituent scores 3
- Number of themes in which a constituent scores 2
- Number of themes in which a constituent scores 1
- Current index constituents are given preference
- Company total market capitalization, preferring smaller over larger. This is based on the idea that smaller stocks tend to be more thematically pure at the margin. This may also help mitigate turnover.

Companies are added to the list of theme leaders until 200 constituents are reached.

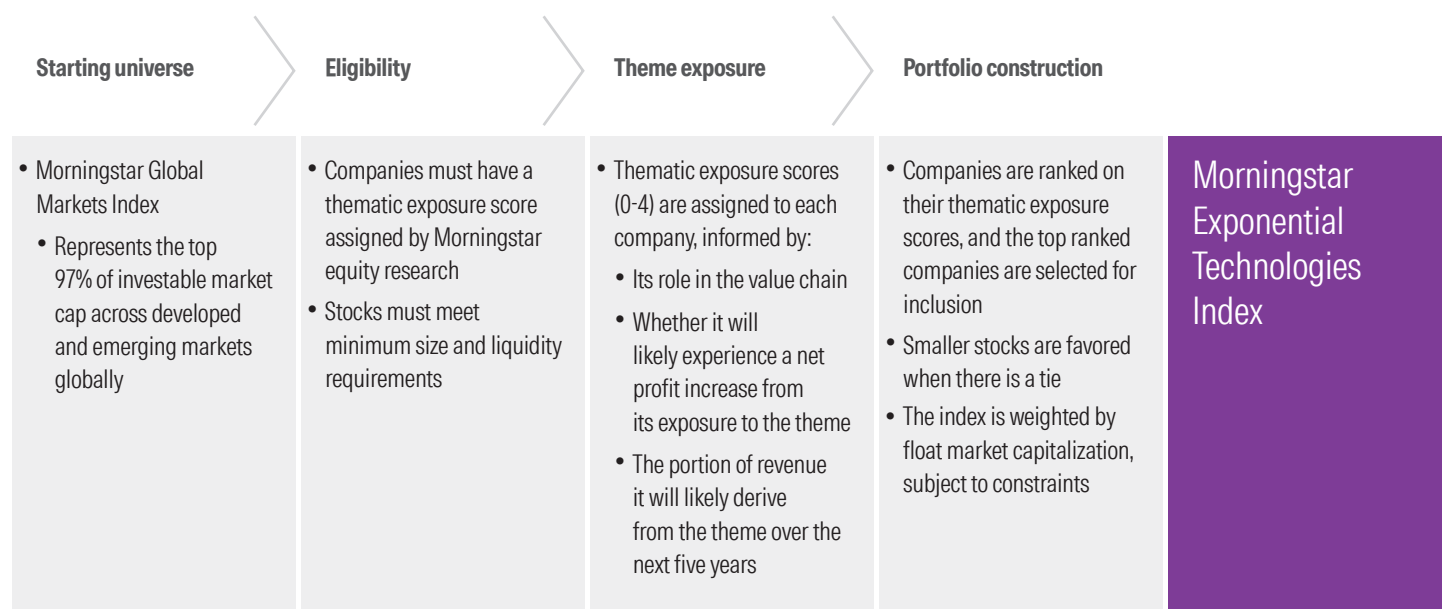
Weighting and caps

The index is weighted by float-adjusted market capitalization and is subject to constraints at the time of each rebalance. 90% of the index weight must be allocated to stocks that have a 5-year forward non-overlapping revenue exposure forecast of at least 25% (i.e. a score of 2 in at least one theme). Individual security weights cannot exceed 4%, and core exposure to each theme is capped at 25%, where the weights of stocks that receive a score of 2 or higher on each theme count toward this limit.

Reconstitution

The index is reconstituted annually in December and rebalanced quarterly in March, June, September, and December.

Construction process



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.