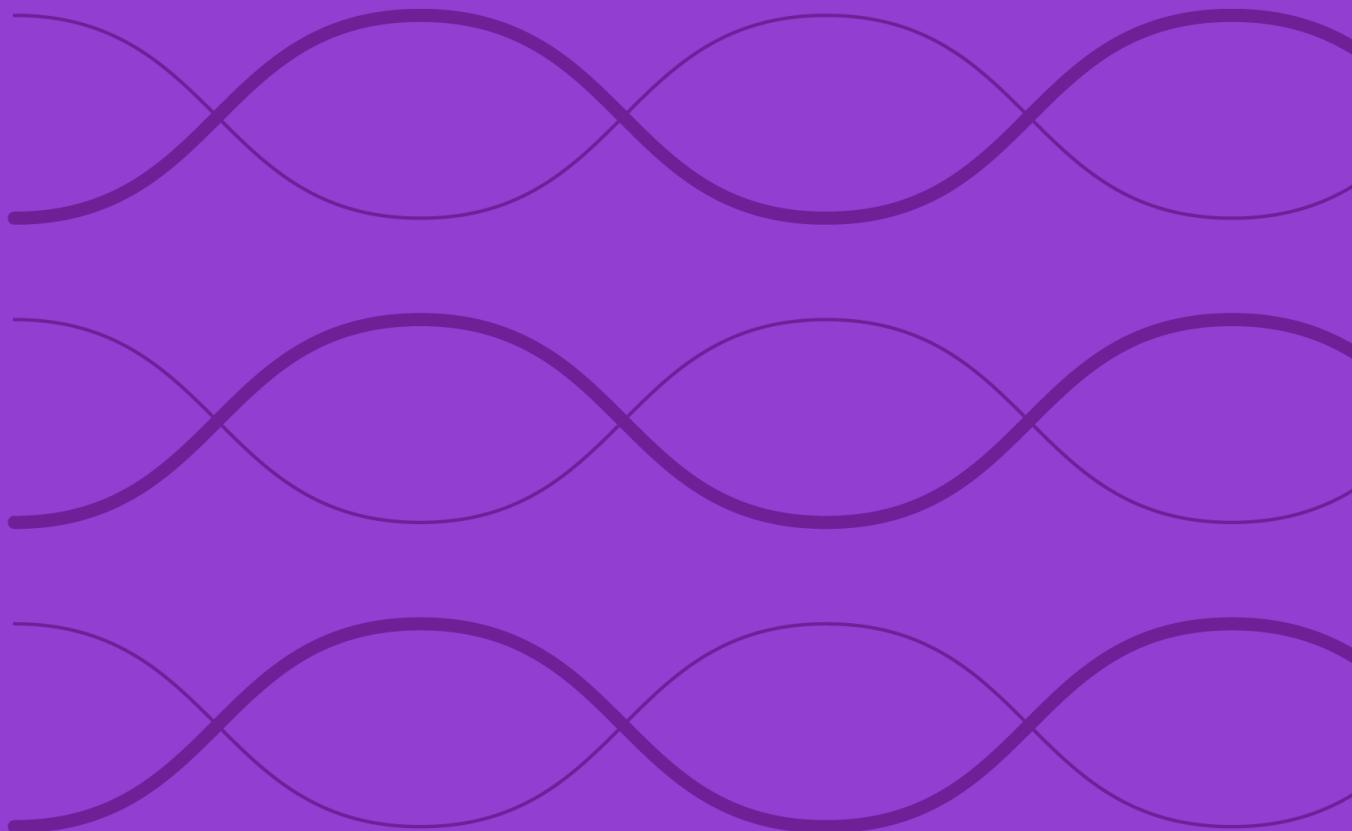


# Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF Index Methodology



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## Introduction

### Index objective and highlights

The Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF Index is designed to measure the performance of the global leveraged loan market. It is a fixed-weight composite index consisting of 70% weight from the Morningstar LSTA US Leveraged Loan Index and 30% weight from the Morningstar European Leveraged Loan Index, with each underlying currency hedged to CHF. This index does not incorporate environmental, social, or governance criteria.

This methodology document sets out the rules by which the Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF index is governed, including index calculation and management procedures, and the various formulas used to calculate index returns and other statistics.

### Supporting documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures, and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

| Supporting Document                            | URL  |
|--|--|
| Morningstar Leveraged Loan Indexes Methodology | <a href="#">Morningstar Leveraged Loan Index Series Rulebook   Morningstar Indexes</a> |
| Morningstar Currency Hedge Index Methodology   | <a href="#">Currency Hedge Index Methodology   Morningstar Indexes</a>                 |

## Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF Index

### Technical description

The Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF Index is designed to measure the performance of the global leveraged loan market. It is a fixed-weight composite index consisting of 70% weight from the Morningstar LSTA US Leveraged Loan Index and 30% weight from the Morningstar European Leveraged Loan Index, with each underlying currency hedged to CHF using the Morningstar Currency Hedge Index Methodology. This index does not incorporate environmental, social, or governance criteria.

### Index history

- Performance inception date (includes back tested history): May 2, 2013
- Live inception date: October 31, 2013<sup>1</sup>

<sup>1</sup> Since the live inception, the index was calculated daily until May 31, 2023. Calculation was temporarily halted from June 1 to December 2023, but resumed on a daily basis from December 7, 2023 onwards. History during the halted calculation period was backfilled prior to the resumption of daily calculation.

## Starting universe

The Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF Index derives constituents from two parent indexes, the Morningstar LSTA US Leveraged Loan Index and the Morningstar European Leveraged Loan Index. Refer to the [Morningstar Leveraged Loan Index Series Rulebook](#) for the methodology and eligibility requirements of the parent indexes.

## Index eligibility

All securities that are included in the two parent indexes of the starting universe are eligible for inclusion in the Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF Index.

Note: a loan in default will remain in the index (but does not accrue interest and is excluded from yield calculations) unless it fails to meet the stated eligibility criteria or has been repaid or restructured.

## Base currency

The base currency of calculation for the Morningstar Global Leveraged Loan 70/30 Currency Hedged CHF Index is US dollars. Each underlying currency is hedged to CHF using the Morningstar Currency Hedge Index Methodology.

## Base rate

Each loan uses a base rate in the calculation of interest. The base rate for US loans is the average of the:

- 30-day rolling average of 1-month CME Term SOFR; and
- 90-day rolling average of 3-month CME Term SOFR

For European loans, it is 3-month SONIA for GBP denominated loans and 3-month Euribor for EUR denominated loans.

The base rate is determined and applied on Friday<sup>2</sup>.

## Loan interest rate

For each loan in the index, the loan interest rate is the base rate plus the spread for each loan. At the index level, it is the market value weighted average of all loan interest rates in the index.

## Ratings

The index uses ratings from S&P Global Ratings, however a facility rating is not required for eligibility in the index.

## Index weighting

The index is fixed-weighted at 70% weight from the Morningstar LSTA US Leveraged Loan Index and 30% weight from the Morningstar European Leveraged Loan Index. Weighting is based on market value in USD.

## Index pricing

Average bid price from LSTA/Refinitiv Mark-to-Market Pricing is used to determine the market value of each loan in the Morningstar LSTA US Leveraged Loan Index. Average bid price from IHS Markit (LoanX) is used to determine the market value of each loan in the Morningstar European Leveraged Loan Index.

The index is priced daily.

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<sup>2</sup> Prior to December 27, 2024, the base rate for US loans was calculated as the average of the 1-month synthetic USD LIBOR, 3-month synthetic USD LIBOR, 1-month Term SOFR, and 3-month Term SOFR contracted rates on institutional loans according to the Markit WSO Database. See Appendix II for additional details on the US base rate methodology change.

## Rebalancing

The index is rebalanced on a weekly basis every Friday (or the last trading day of the week in the case of a holiday) to ensure the index maintains the target 70%/ 30% weights from the Morningstar LSTA US Leveraged Loan Index and Morningstar European Leveraged Loan Index, respectively. Par amounts of index loans are adjusted on the weekly rebalancing date due to partial pre-payments, pay-downs, and other activities impacting par amount for each facility.

- **Additions:** Index additions are reviewed on a weekly basis for each underlying sub-index.
- **Deletions:** Loans are removed from the index when they are repaid, are no longer priced, or no longer meet the stated index eligibility criteria for each underlying sub-index.

## Currency Hedging

The index utilizes the [Morningstar Currency Hedge Index Methodology](#), which hedges each foreign currency back to the home currency (CHF). In order to account for the difference in the rebalance date and the date on which the notional amounts are determined, a monthly adjustment factor is applied on the hedge ratio.

## Index Policies

### Base rate floor

For US loans with a LIBOR or SOFR floor or European loans with a SONIA or Euribor floor as part of the loan's terms and conditions, the spread for the loan will be reduced by the difference between the floor and the base rate in the event that the index base rate falls below the loan's stated base rate floor.

### Defaults

Defaulted loans remain in the index unless they no longer meet any of the other criteria for inclusion. A defaulted loan is not included in the aggregation of index characteristics, such as yield, during the default period.

### Currency of calculation and additional index return series

WM/Refinitiv foreign exchange rates are taken daily at 4:00 P.M. London time and used in the calculation of the indexes and to convert index or constituent values to the stated currency, where applicable. These mid-market fixings are calculated by the WM Company based on Refinitiv data and appear on Refinitiv pages. WMRA.WM/Refinitiv foreign exchange rates are used to convert index constituents to U.S. dollars. WM/Refinitiv one month forward rates are used for hedging purposes.

### Cash flows

WM/Interest payments are considered paid on a rolling 90-day basis from the date each loan enters the index and are reinvested in the index, on a relative weight basis, after 90 days. Pre-payments, pay-downs, and most other forms of cash flow (other than scheduled interest payments) are reconciled at each rebalance.

### Ratings changes

Ratings changes on a loan in between rebalancing may carry for up to week until the next rebalancing. Defaults are reflected same day.

### End-of-day calculation

Index levels are calculated at the end of each business day.

## **Holiday schedule**

Price return is calculated on all business days of the year following the Securities Industry and Financial Markets Association (SIFMA®) holiday schedule for US and UK market schedules for the US and European loan indexes, respectively. On holidays, prices are rolled from the prior business day. Interest return and total return is calculated daily, regardless of holidays.

## **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 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.

## Contact Information

For questions regarding an index, please contact: [indexes@morningstar.com](mailto:indexes@morningstar.com).

## Appendix I

### Defined Terms

#### *Announcement Date*

The date on which changes to the index are published, as further described in the section on index maintenance.

#### *Repricing*

Change in spread via an amendment.

#### *Close*

The end of a calendar or business day for the purpose of calculating index values and other statistics.

#### *Facility*

A syndicated loan (or credit) is comprised of facilities (or tranches). Each facility can have different maturities, sizes, spreads, and terms to fulfil a variety of borrowing needs.

#### *First lien*

A loan where the holder has first claim on collateral.

#### *Index loan*

A facility that is included in the index.

#### *Investable weight factor (IWF)*

The adjustment factor used to reduce the weight of a particular security in the index if it exceeds the designated percentage cap. Unstated, an IWF's default is 1.0.

#### *PE-sponsored*

An issuer that is majority owned by a private equity firm. In the case of the European index, this is referred to as an LBO Loan.

#### *Par amount*

The total par or "face value" amount outstanding of an index loan or an eligible loan, net of partial calls and tenders.

#### *Rebalancing date*

Every Friday (or the last trading day of the week in the case of a holiday) when the changes to the index become effective.

#### *Second lien*

A loan where the holder has a second priority claim on collateral.

#### *Term A loan*

Amortizing term loan. These tranches generally have a gradual amortization until maturity.

*Term B loan*

Institutional term loan. These tranches traditionally have a bullet repayment with little (1% per annum) or no amortization.

*Term C loan*

Institutional term loan. These tranches traditionally have a bullet repayment with little (1% per annum) or no amortization.

**Appendix II**

**Methodology changes**

| Change                              | Effective Date<br>(After Close) | Previous Methodology   | Updated Methodology  |
|-------------------------------------|---------------------------------|--|--|
| US base rate methodology            | December 27, 2024               | Each loan uses a base rate in the calculation of interest. The base rate is the average of the 1-month synthetic USD LIBOR, 3-month synthetic USD LIBOR, 1-month Term SOFR, and 3-month Term SOFR contracted rates on institutional loans according to the Markit WSO Database. The base rate is determined on the Wednesday prior to the upcoming rebalance and is applied on Friday. | Each loan uses a base rate in the calculation of interest. The base rate is the average of: <ul style="list-style-type: none"> <li>• 30-day rolling average of 1-month CME Term SOFR; and</li> <li>• 90-day rolling average of 3-month CME Term SOFR</li> </ul> The base rate is determined and applied on Friday. |
| Calculation and Hedging methodology | May 31, 2023                    | Calculation was performed by S&P Dow Jones Indices using the S&P "Constituents Hedged" methodology.  | Calculation is performed by Morningstar using the Morningstar Currency Hedge Index Methodology.  |

**Appendix III**

**Index calculations**

Please refer to the [Morningstar Leveraged Loan Indexes Methodology](#) and [Morningstar Currency Hedge Index Methodology](#) for information on standard calculations.

**Calculation of index par and market values**

The par and market values for each index loan are calculated as of the close on each calendar day using the same approach as in the underlying index, with the only exception that interpolated FX rates are used instead of the spot FX rates to do the conversions from the local currency of a loan to the index calculation currency.

The par value ( $PAR_t$ ), clean market value ( $MVClean_t$ ) and market value ( $MV_t$ ) of an index loan on day  $t$  are calculated as follows:

$$PAR_t = PARLocal_t * InterpolatedFX_t$$

$$MVClean_t = ARLocal_t * \frac{P_t}{100} * InterpolatedFX_t$$

$$MV_t = PARLocal_t * \frac{(P_t + AI_t)}{100} * InterpolatedFX_t$$

where:

|                    |  |
|--------------------|--|
| $PARLocal_t$       | = The par amount of Index Loan in the local currency as of the last weekly rebalancing, adjusted for principal pre-payments, etc., up to and including day $t$ |
| $P_t$              | = The price of Index Loan on day $t$   |
| $AI_t$             | = The accrued interest on Index Loan up to and including day $t$   |
| $InterpolatedFX_t$ | = The interpolated FX rate from the Index Loan currency to the Index Calculation currency on day $t$   |

If the valuation date is not a business day, the market values are based on the price as of the immediate prior business day, plus interest accrued to the valuation date.

The index level par and market values are calculated as sums of the respective constituent values.

#### Appendix IV

Summary of clarifications and other updates to the index methodology document.

| Version date     | Description   |
|------------------|---|
| January 14, 2025 | Corrected the description of base rate application for European loans             |
| June 3, 2025     | Minor formatting changes<br>Removed Computational and Reporting Precision Section |

#### About Morningstar Indexes

Morningstar Indexes were 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)

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