

# Construction Rules for the Morningstar Sustainability Indexes



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## Overview

The Morningstar Sustainability Indexes are designed to deliver diversified, broad exposure to the market with lower environmental, social, and governance (ESG) risk. The index targets stocks representing the top 50% of the parent index by market cap with the lowest ESG Risk Ratings, while limiting sector and regional tilts relative to the broad market.

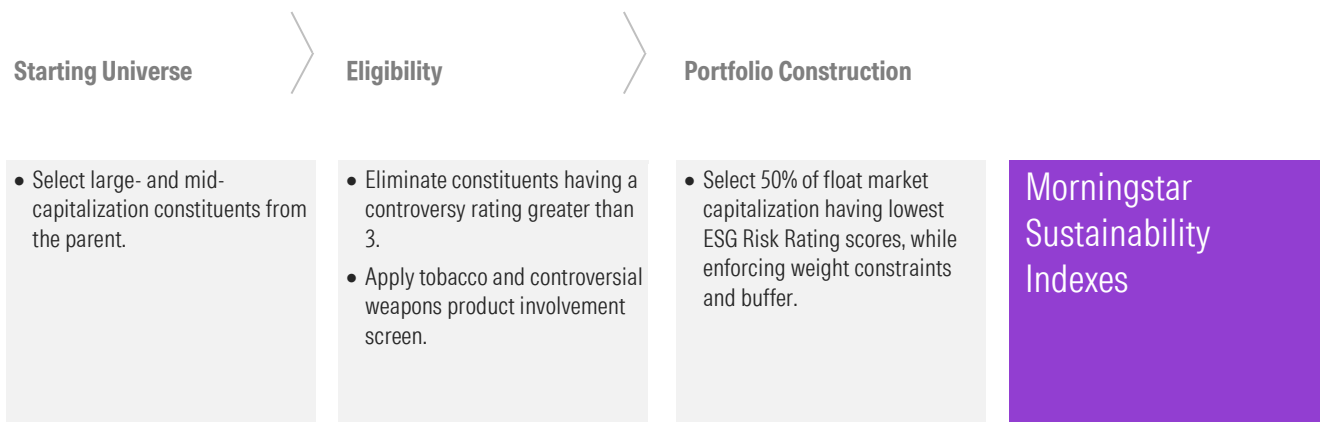
For more information on the Sustainalytics ESG Risk Rating, controversy scores, and Morningstar Portfolio Sustainability Score and Rating, please refer to the [Morningstar Sustainability Rating methodology](#).

## Index Inception and Performance Start Date

For inception and performance inception date of the Global Sustainability series refer to Appendix 4.

## Index Construction

### Methodology Summary



### Starting Universe

At each reconstitution, securities for each Morningstar Sustainability Index are derived from its respective parent index (benchmark) from the Morningstar Global Market Indexes, as shown in Appendix 4. For further details on benchmark construction, refer to the [Construction rules for the Global Markets Indexes](#).

### Eligibility

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

- Security must have current ESG Risk Rating and controversy scores<sup>1</sup>.
- Security controversy score must be 3 (out of 5) or lower.
- Security must not belong to the 'Severe' ESG Risk Rating Category.
- The company must
  - not have more than 50% tobacco products involvement by revenue.
  - not have any involvement in production of controversial weapons (as defined by third-party Sustainalytics Global Compact Compliance Service exclusionary lists)
  - not have any involvement in the manufacturing and sale of firearms to civilian customers.
  - not have any involvement in the manufacturing and sale of key components of small arms.

### Portfolio Construction

- Eligible securities with the lowest ESG Risk Rating scores are targeted for inclusion until 50% coverage of the parent index by float-adjusted market capitalization is reached, subject to the constraints below:

<sup>1</sup> ESG and Controversy Scores are sourced from Sustainalytics.

- 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 =  $\text{Max}(\text{Weight in benchmark} - 2\%, \text{Weight in benchmark} / 2)$
  - Upper bound =  $\text{Min}(\text{Weight in benchmark} + 2\%, \text{Weight in benchmark} * 2)$

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.

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*

The number of stocks in the index is variable, subject to the selection and eligibility criteria at the time of reconstitution.

#### *Index Weighting*

The index is float market capitalization weighted. Partial weight is taken of the security that traverses the 50% market capitalization. Partial weights may be taken for one security in each region and sector if necessary to satisfy region/sector weight constraints. The index applies 5-10-40 company capping. Individual company weights at reconstitution time cannot exceed 10%, and companies with weights above 5% in weight cannot combine to over 40% of the 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. The market data used for rebalancing is as of the last trading day of February, May, August, and November. Apart from incorporating share and float factor adjustments, index constituents having controversy rating greater than 3 are deleted from the index. Weight constraints are, however, not enforced.

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.



## Appendixes

### Appendix 1: Modifications to the Rulebook

Section	Description of Change	Update Date
Index Weighting	Security capping rules for UCITS compliance.	December 2016
Appendix 3	Algorithm relaxation rules when target market cap is not achieved.	December 2016
Security Selection	Added Product Involvement screens for the manufacture and sale of firearms.	January 2019
Overall Methodology	Replaced Sustainability scores with ESG Risk Rating Scores	December 2019
Entire Rulebook	Moved rulebook to new template	July 2023
Data Correction and Precision	Computational and Reporting Precision Section removed	June 2025
Index Weighting	Capping rules updated to apply at the company level, rather than the security level, from December 22, 2025, on.	November 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 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)

TMC - target market cap coverage of the portfolio

NC – number of grouping constraints (for sector and region constraints, NC = 2)

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 TMC not reached

    and any stocks left in the opportunity set

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 TMC not reached

    and any stocks left in the opportunity set

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

If 90% of TMC not reached subject to constraints by algorithm above, repeat Phase 2 while allowing violation of group maximums until 90% of TMC is reached.

If the above algorithm is not able to satisfy region or sector constraints or target market cap while including stocks at full float market cap weight, the algorithm is re-run while taking a single security per region and sector at partial weight to satisfy the regional constraint exactly. If the resulting portfolio meets constraints or results in 20% or greater improvement in gap, the portfolio allowing partial weights is selected.

#### Appendix 4: Index Inception Date, Performance Start Date and Parent Benchmark Indexes

Index Name	Performance Start Date	Inception Date	Parent Benchmark
Morningstar Developed Markets ex-US Sustainability	9/18/2009	9/29/2016	Morningstar Developed Markets ex-US Large-Mid Cap
Morningstar Global Markets Sustainability	9/18/2009	9/29/2016	Morningstar Global Markets Large-Mid Cap
Morningstar US Sustainability	9/18/2009	9/29/2016	Morningstar US Large-Mid
Morningstar Developed Europe Sustainability	9/18/2009	10/5/2016	Morningstar Developed Markets Europe Large-Mid Cap
Morningstar Europe Sustainability	9/18/2009	10/5/2016	Morningstar Europe Large-Mid Cap
Morningstar Global Markets ex-US Sustainability	9/18/2009	10/5/2016	Morningstar Global Markets ex-US Large-Mid Cap
Morningstar Eurozone Sustainability	9/18/2009	10/6/2016	Morningstar Eurozone Large-Mid Cap
Morningstar Germany Sustainability	9/18/2009	10/7/2016	Morningstar Germany Large-Mid Cap
Morningstar Australia Sustainability	9/18/2009	10/27/2016	Morningstar Australia Large-Mid Cap
Morningstar Canada Sustainability	9/18/2009	10/27/2016	Morningstar Canada Large-Mid Cap
Morningstar Japan Sustainability	9/18/2009	10/27/2016	Morningstar Japan Large-Mid Cap
Morningstar Nordic Sustainability	9/18/2009	10/27/2016	Morningstar Nordic Large-Mid Cap
Morningstar UK Sustainability	9/18/2009	10/27/2016	Morningstar UK Large-Mid Cap
Morningstar Emerging Markets Sustainability	12/16/2011	9/29/2016	Morningstar Emerging Markets Large-Mid Cap
Morningstar Asia Pacific Sustainability	12/16/2011	10/5/2016	Morningstar Asia Pacific Large-Mid Cap
Morningstar Asia Sustainability	12/16/2011	10/5/2016	Morningstar Asia Large-Mid Cap
Morningstar Asia ex-Japan Sustainability	12/16/2011	10/6/2016	Morningstar Asia ex-Japan Large-Mid Cap
Morningstar Asia Pacific ex-Japan Sustainability	12/16/2011	10/6/2016	Morningstar Asia Pacific ex-Japan Large-Mid Cap
Morningstar Emerging Markets Americas Sustainability	12/16/2011	10/24/2016	Morningstar Emerging Markets Americas Large-Mid Cap
Morningstar India Sustainability	12/16/2011	10/27/2016	Morningstar India Large-Mid Cap
Morningstar Developed Markets ex-NA Sustainability	12/18/2009	04/13/2018	Morningstar Developed Markets ex-NA Large-Mid Cap
Morningstar Brazil Sustainability	12/19/2014	09/17/2021	Morningstar Brazil
Morningstar Developed Markets Sustainability	12/19/2014	08/17/2022	Morningstar Developed Markets Large-Mid Cap

## 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 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 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)

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