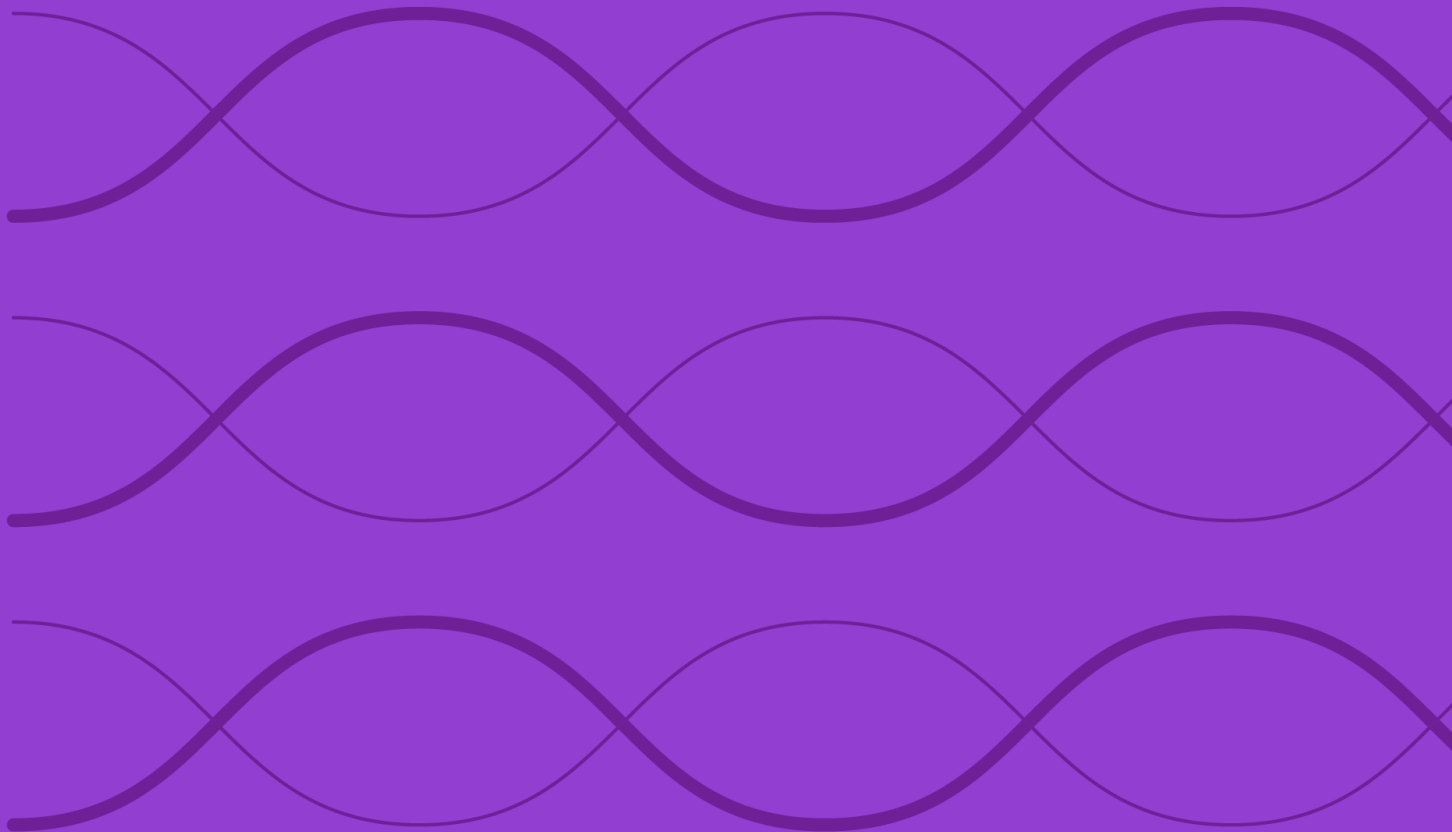


# Construction Rules for the Morningstar<sup>®</sup> US Healthcare Innovation Index



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## Overview

The Morningstar® US Healthcare Innovation Index is designed to deliver unparalleled thematically pure exposure to the healthcare innovation theme by drawing on the in-depth knowledge and forward-looking insights of Morningstar's equity research team.

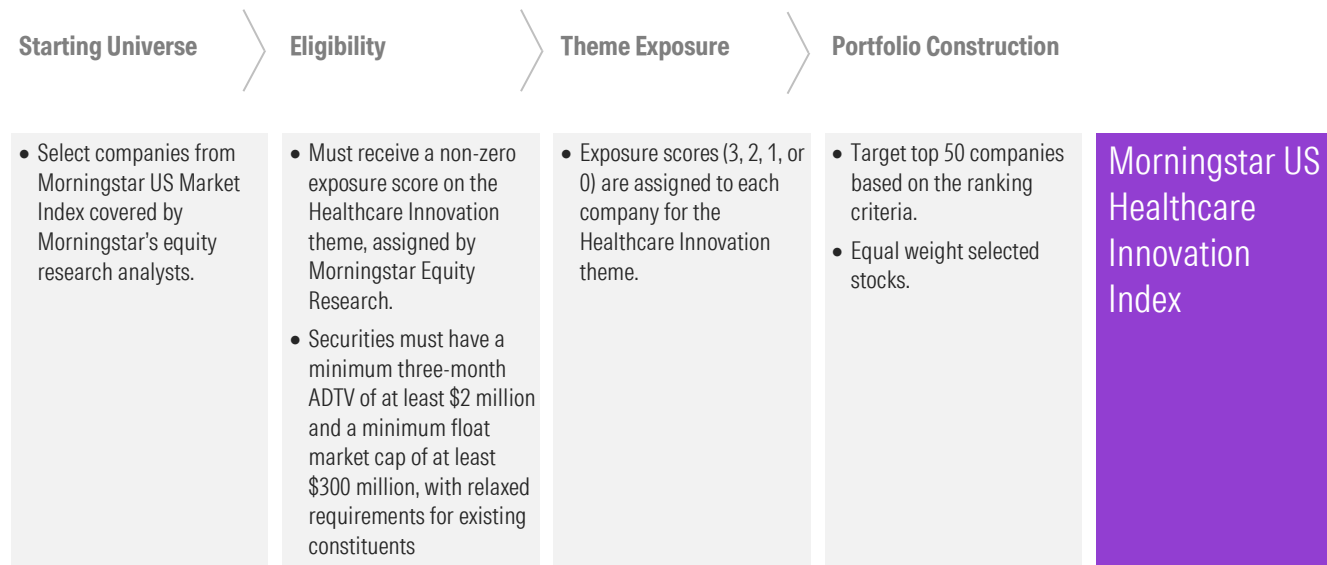
This index does not incorporate environmental, social, or governance criteria.

## Index Inception and Performance Start Date

The index inception date is February 1, 2021, and the performance start date, when the first back-tested index value was calculated, is Dec. 19, 2014.

## Index Construction

### Methodology Summary



### Starting Universe

At each reconstitution, securities for the Morningstar US Healthcare Innovation Index are derived from the Morningstar US Markets Index (benchmark). For more details on benchmark construction, refer to the [Construction Rules for the Morningstar US Market Indexes](#).

### Eligibility

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

- Companies with average three-month trailing daily trading volume less than \$2 million or free-float market capitalizations less than \$300 million are deemed ineligible for the index. Current index constituents are eliminated if they have average three-month trading volume less than \$1.5 million or free-float market capitalization less than \$200 million.
- If a company has more than one eligible share class:
  - Select the one that is a current index constituent.
  - Otherwise, select the most liquid share class determined by Morningstar Indexes.
- Companies must have a valid nonzero (4, 3, 2 or 1) exposure score to the Healthcare Innovation theme. Refer to Appendix 2 for more details on the theme scoring methodology.

## Portfolio Construction

- Qualifying potential constituents are ranked in order that emphasizes exposure to the Healthcare Innovation theme. The ranking criteria is given below by descending order of absolute preference:
  - Healthcare Innovation thematic exposure score (high to low)
  - In the event of a tie:
    - Current index constituents are given preference.
    - Company total market capitalization, preferring smaller over larger.
- Companies ranked in the top 50 are targeted for inclusion in the index.

### *Number of Stocks*

The index targets 50 stocks based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. However, if securities fall short of the selection and eligibility criteria, or if securities are added or deleted as a result of corporate actions after reconstitution, the indexes can have more or fewer than 50 securities. During reconstitution, if the number of securities is less than the target, all eligible securities would be selected, and the weight of the constituents will be determined based on the index weighting scheme. The reconstitution schedule is available in the "Index Maintenance and Calculation" section.

### *Index Weighting*

The index is equal weighted. 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, and rebalanced annually. Adjustments are made on the Monday following the third Friday of December. If the Monday is a holiday, reconstitution occurs on the next business day.

Because the reconstitution of the Morningstar US Healthcare Innovation Index is less frequent than the parent index, the securities excluded from the parent index at the reconstitution effective date are also deleted from Morningstar US Healthcare Innovation Index. For clarity, this means that any constituent excluded in the parent index during its reconstitution is also excluded from the Morningstar US Healthcare Innovation Index at the same date. It will not be replaced, and its weight is reallocated among existing constituents in the proportion of their existing weights.

Index files are published according to the U.S. 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 alternatively-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, eligibility requirements, 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 decommissioning of the index or benchmark index could disrupt subscriber products that reference this index, all subscribers are encouraged to have robust fallback procedures in the event an index is decommissioned. 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 daily highs or lows, it is corrected retroactively as soon as is feasible.

### Index-Related Data and Divisor Corrections

Incorrect pricing and corporate action data for individual issues in the database will generally 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 method described above, 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 relevant 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
Security Selection	Medicine & Neuroscience was replaced with Healthcare Innovation as one of the themes represented in the index.	December 2021
Security Selection	Market capitalization replaced float-market capitalization as the final security selection tiebreaker.	December 2021
Appendix 2	Themes included were updated.	December 2021
Appendix 2	Addition information was added to explain the scoring framework.	November 2022
All	Moved to new rulebook template.	June 2023
Portfolio Construction	Updated ranking criteria to reflect new scoring scale and company level market cap tiebreak rule	October 2023
Appendix 2	Updated thematic scoring framework, moving to a 0-4 scale from 0-3 and capping scores of downstream users at 0 rather than 1.	October 2023
Data Correction and Precision	Computational and Reporting Precision Section removed	May 2025
Portfolio Construction	Removed bioinformatics as a distinct target theme separate consideration for security inclusion; bioinformatics is included as a sub-theme under the Healthcare Innovation theme	November 2025
Index Name	The index name was updated to Morningstar US Healthcare Innovation from Morningstar US Exponential Technologies Healthcare	December 2025

### Appendix 2: Morningstar Global Equity Research Technology Theme Identification and Scoring

- Step 1

The Exponential Technologies Steering Committee within Morningstar's Global Equity Research team identifies technologies with the potential to provide significant economic benefits to their producers and suppliers of those producers. These themes are reviewed annually by the equity research team and can be subject to change over time as they evolve and new themes emerge.

As of June 2025, seven themes have been identified:

- **Artificial Intelligence:** The Artificial Intelligence theme encompasses the development, deployment, and integration of AI technologies across content creation, infrastructure, software, and services to drive innovation and efficiency. Related subthemes are Generative AI, AI Data and Infrastructure, AI Software and AI Services.

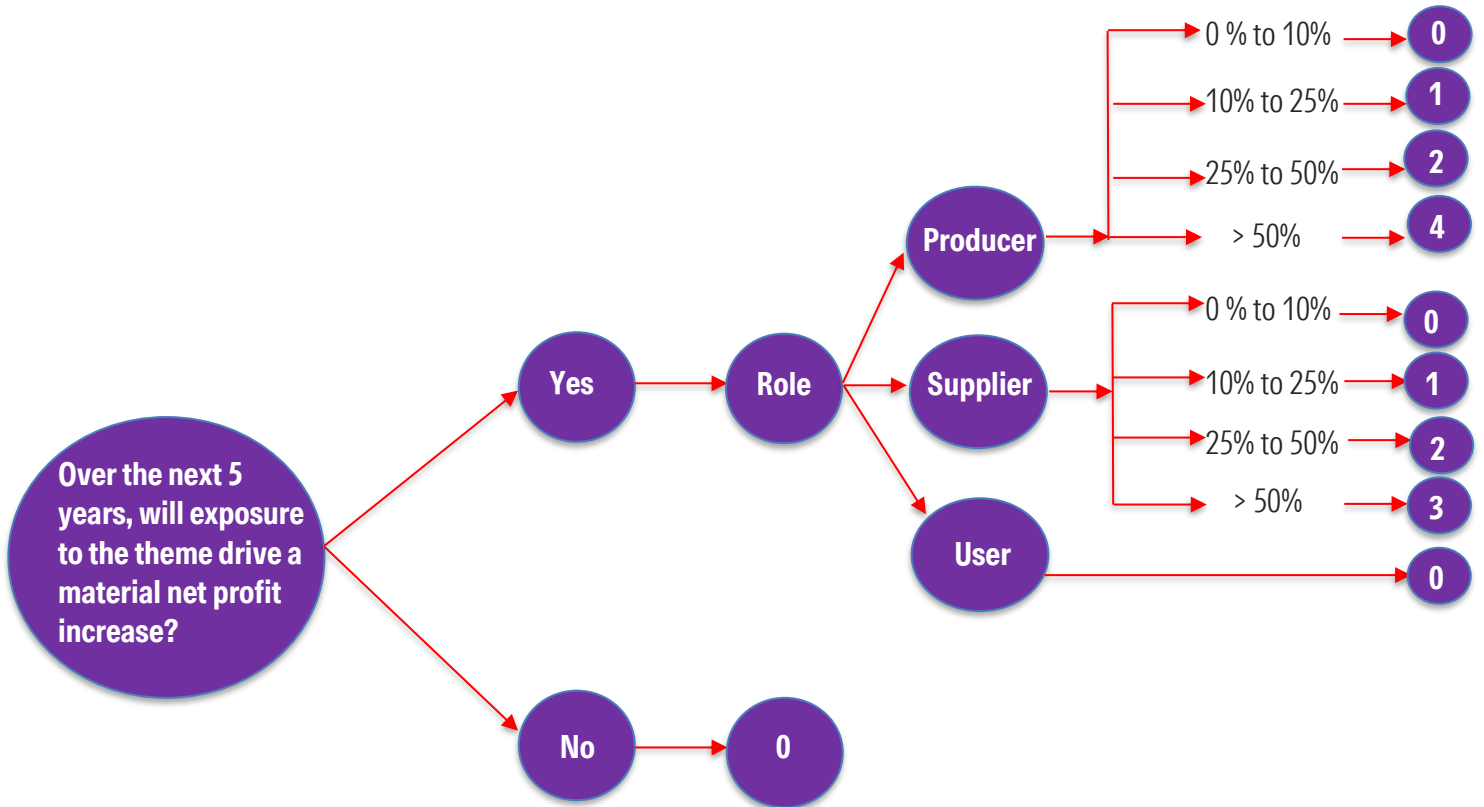
- **Energy Innovation:** The quest to abate global climate change and reduce greenhouse gases has led to a surge of new energy technologies, investment, and innovation. Related subthemes include Carbon Capture Technologies, Energy Storage, Hydrogen, Smart Grid Technologies, Next Gen Nuclear Technologies and Renewable Energy.
  - **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. Related subthemes include Bioinformatics, Innovated Devices & Diagnostics and Innovative Therapies.
  - **Cybersecurity and Defense Tech:** The Cybersecurity & Defense Tech theme focuses on protecting against cyberthreats and advancing 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. Related subthemes include Cybersecurity and Next Gen Defense Technologies.
  - **Next Gen Transportation:** Technologies replacing traditional human-operated, internal combustion engine-based vehicles. This includes a wide variety of applications like traditional light vehicles, public transportation vehicles, scooters/bikes, and drones, to name just a few. Related subthemes 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.
- Step 2

The Exponential Technologies Steering Committee trains analysts on the themes and scoring framework. Rather than relying on single point-in-time metrics, analysts provide forward-looking data points that translate to thematic exposure scores of 0, 1, 2, 3 or 4 across each theme or subtheme.

To garner a thematic exposure score above zero for a given theme, a firm must be classified as being likely to enjoy a material net profit increase from its exposure to that theme over the next five years, based on Morningstar equity analysts' assessments. Analysts then estimate the percent of revenue a firm will likely derive from its exposure to each subtheme at a point in time five years forward and determine each firm's role in the supply chain. These inputs translate into thematic exposure scores in the following manner:

- 0 - A downstream user or less than 10% revenue for a producer or supplier
- 1 - 10%-25% revenue for a producer or supplier
- 2 - 25% -50% revenue for a producer or a supplier
- 3 - Greater than 50% revenue for a supplier
- 4 - Greater than 50% revenue for a producer

Exhibit 1: Thematic Scoring Framework



## 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 the European Benchmarks Regulation (“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 Benchmarks Regulation (“BMR”), providing independent oversight of all aspects of the governance of benchmark administration as required by the 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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