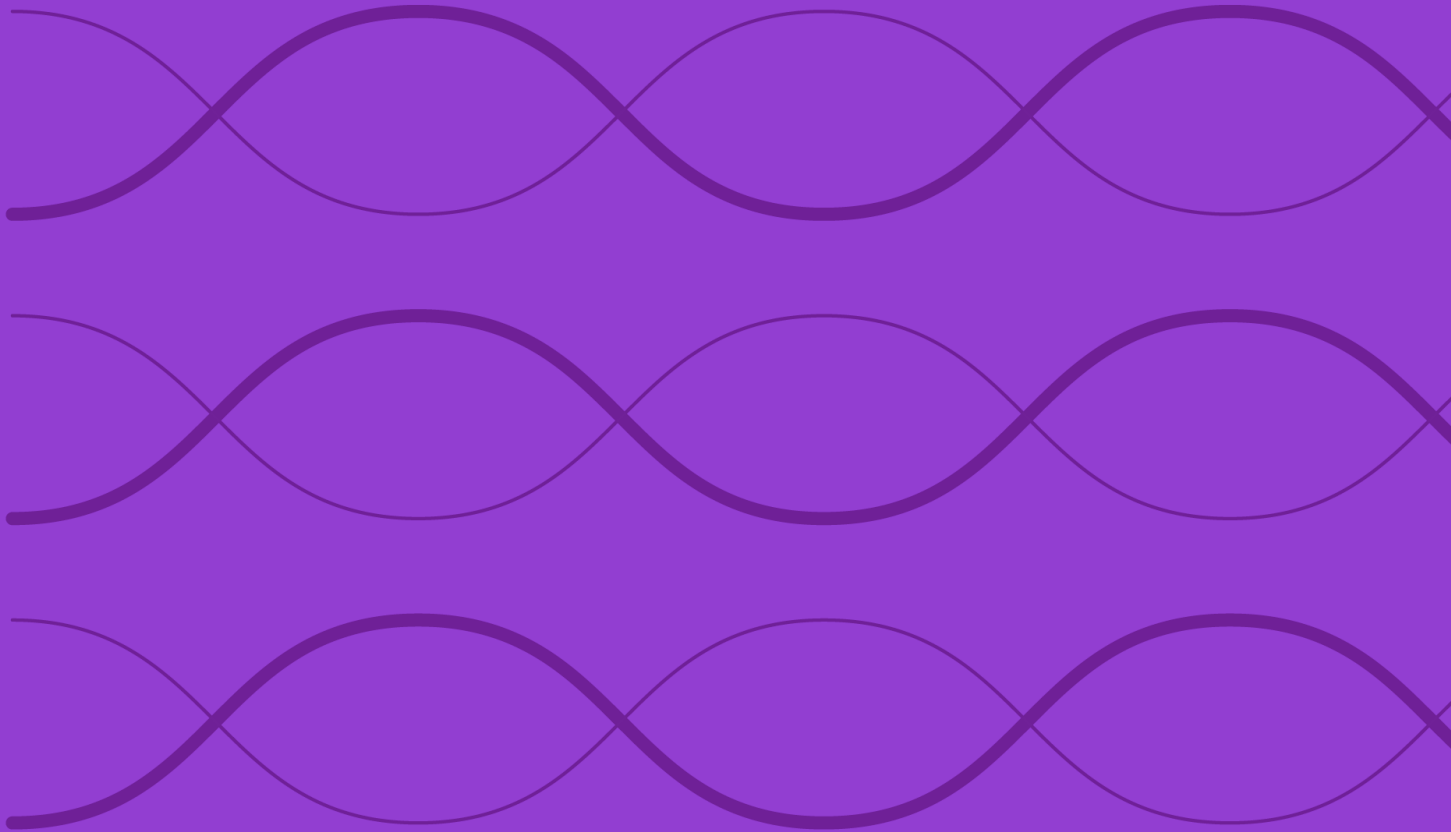


Construction Rules for the Morningstar Sector and Industry Decrement Indexes



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Overview

The Morningstar Global Sector and Industry Decrement Indexes are designed to target stocks from specific regions, sectors and industries, based on [Morningstar's Global Equity Classification Structure \(GECS\)](#). After the sector or industry indexes are created, a decrement overlay is applied.

At the top level, the stock universe is divided into three major economic spheres, or super sectors:

- Cyclical
- Defensive
- Sensitive

Each of these Morningstar Super Sectors is divided into groups, which collectively form the 11 Morningstar sectors. These sectors are further divided into 145 unique Morningstar industries.

The indexes do not incorporate environmental, social, or governance criteria.

Index Inception and Performance Start Dates

The index inception and performance start dates, when the first back-tested values were calculated, are listed in Appendix 4.

Index Construction

Methodology Summary



Starting Universe

At each reconstitution, constituents of the Morningstar Sector and Industry Decrement Indexes are derived from the specific parent index (benchmark) as specified in Appendix 3. For more details on benchmark construction, refer to the construction rules for the parent indexes listed in Appendix 3.

Eligibility

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

- The security must be assigned to one of the 145 industries and 11 sectors from Morningstar GECS.

Portfolio Construction

Each eligible constituent is assigned to one of the 145 industries and 11 sectors. The sector/industry indexes are built by aggregating all securities from the eligible universe that are assigned to the target industries/sectors shown in Appendix 3.

Number of Stocks

The number of stocks in the indexes are subject to the selection and eligibility criteria at the time of reconstitution.

Index Weighting

The indexes are float-adjusted market capitalization-weighted. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

Index Maintenance and Calculation

Reconstitution and Rebalancing

The indexes are 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 May and November.

The indexes are 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.

Refer to Appendix 2 for details on reconstitution and rebalancing.

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-adjusted market capitalization-weighted indexes corporate action methodology. For more details, please refer to the [Morningstar Indexes Corporate Actions Methodology](#).

Index Calculation and Price Data

Details about index calculations and price data can be found in their respective rulebooks: [Morningstar Indexes Calculation Methodology](#) and [Morningstar Equity Indexes Price Methodology](#).

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	Updated Date
Entire rulebook	Moved to updated template	July 2024
Corporate Action	Transitioned Indexes to the standard Morningstar Corporate Action Methodology	July 2024
Data Correction & Precision	Computational and Reporting Precision section removed	September 2024
Appendix 4	Morningstar Developed Markets Europe Technology & Communication Service Sector Decrement 50 Point GR EUR, Morningstar Developed Markets Europe Healthcare Sector Decrement 50 Point GR EUR and Morningstar Developed Markets Transatlantic Healthcare Sector Decrement 50 Point GR EUR indexes rebased to updated base values	January 2026

Appendix 2: Glossary

Term	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.
Rebalance	During each rebalance, the weights are adjusted for updated free-float and shares outstanding data.

Appendix 3: Parent Index – Sector and Industry

Index Name	Parent Index	Morningstar Sectors or Industries Applied	Index Type
Morningstar Eurozone Large-Mid Banks Index	Morningstar Eurozone Large-Mid Cap Index	Industry: Banks – Diversified Industry: Banks – Regional	Price Gross Return Net Return
Morningstar Developed Markets Europe Large-Mid Oil & Gas Index	Morningstar Developed Europe Large-Mid Cap Index	Sector: Oil & Gas	Price Gross Return Net Return
Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries Index	Morningstar Global Markets Index	Industry: Auto Manufacturers Industry: Auto Parts	Price Gross Return Net Return
Morningstar Developed Markets Transatlantic* Healthcare Sector Index	Morningstar Developed Markets Healthcare Target Market Exposure Index	Sector: Healthcare	Price Gross Return Net Return

Morningstar Developed Markets Europe Healthcare Sector Index	Morningstar Developed Markets Europe Target Market Exposure Index	Sector: Healthcare	Price Gross Return Net Return
Morningstar Developed Markets Transatlantic* Technology & Communication Services Sectors Index	Morningstar Developed Markets Transatlantic Index	Sector: Technology Sector: Communication Services	Price Gross Return Net Return
Morningstar Developed Markets Europe Technology & Communication Services Sectors Index	Morningstar Developed Markets Europe Target Market Exposure	Sector: Technology Sector: Communication Services	Price Gross Return Net Return

For more detail regarding sectors, industries, and super sectors, please refer to the [Morningstar's Global Equity Classification Structure \(GECS\) Rulebook](#).

*Morningstar Develop Markets Transatlantic indexes are rebalanced quarterly on a 50%/50% between the U.S. and Developed Europe such that each region holds a 50% weighting in the index at the date of the rebalancing.

Appendix 4: Morningstar Sector and Industry Decrement Indexes

Index Name	Underlying Index	Base Value	Base Date	Performance Inception Date	Inception Date
Morningstar Eurozone Large-Mid Banks Decrement 5%	Morningstar Eurozone Banks NR EUR	1,000	Jan. 1, 2020	June 20, 2008	Dec. 1, 2021
Morningstar Eurozone Large-Mid Banks Decrement 50 Point	Morningstar Eurozone Banks GR EUR	1,000	Jan. 1, 2020	June 20, 2008	Dec. 1, 2021
Morningstar Developed Markets Europe Large-Mid Oil & Gas Decrement 5%	Morningstar Developed Markets Europe Oil & Gas NR EUR	1,000	Jan. 1, 2020	June 20, 2008	Dec. 1, 2021
Morningstar Developed Markets Europe Large-Mid Oil & Gas Decrement 50 Point	Morningstar Developed Markets Europe Oil & Gas GR EUR	1,000	Jan. 1, 2020	June 20, 2008	Dec. 1, 2021
Morningstar Eurozone Large-Mid Banks Decrement 50 Point Series 2 GR EUR	Morningstar Eurozone Large-Mid Banks GR EUR	1,000	Jun. 13, 2022	June 20, 2008	Dec. 1, 2021
Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries Decrement 4%	Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries NR EUR	1,000	Aug. 29, 2022	June 30, 1998	Sept 19, 2022
Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries Decrement 5%	Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries NR EUR	1,000	Aug. 29, 2022	June 30, 1998	Sept. 19, 2022

Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries Decrement 50 Point	Morningstar Developed Markets Europe Auto Manufacturers & Auto Parts Industries GR EUR	1,000	Aug. 29, 2022	June 30, 1998	Sept. 19, 2022
Morningstar Developed Markets Transatlantic Healthcare Sector Decrement 4%	Morningstar Developed Markets Transatlantic Healthcare Sector NR EUR	1,000	Aug. 26, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Transatlantic Healthcare Sector Decrement 5%	Morningstar Developed Markets Transatlantic Healthcare Sector NR EUR	1,000	Aug. 26, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Transatlantic Healthcare Sector Decrement 50 Point	Morningstar Developed Markets Transatlantic Healthcare Sector GR EUR	875	Jan. 5, 2026	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Europe Healthcare Sector Decrement 4%	Morningstar Developed Markets Europe Healthcare Sector NR EUR	1,000	Aug. 26, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Europe Healthcare Sector Decrement 5%	Morningstar Developed Markets Europe Healthcare Sector NR EUR	1,000	Aug. 26, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Europe Healthcare Sector Decrement 50 Point	Morningstar Developed Markets Europe Healthcare Sector GR EUR	875	Jan. 5, 2026	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors Decrement 4%	Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors NR EUR	1,000	Aug. 29, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors Decrement 5%	Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors NR EUR	1,000	Aug. 29, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors Decrement 50 Point	Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors GR EUR	1,000	Aug. 29, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Europe Technology & Communication Services Sectors Decrement 4%	Morningstar Developed Markets Europe Technology & Communication Services Sectors NR EUR	1,000	Aug. 29, 2022	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Europe Technology & Communication Services Sectors Decrement 5%	Morningstar Developed Markets Europe Technology & Communication Services Sectors NR EUR	1,000	Aug. 29, 2022	June 20, 2008	Sept. 19, 2022

Morningstar Developed Markets Europe Technology & Communication Services Sectors Decrement 50 Point	Morningstar Developed Markets Europe Technology & Communication Services Sectors GR EUR	875	Jan. 5, 2026	June 20, 2008	Sept. 19, 2022
Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors Decrement 50 Point Series 2	Morningstar Developed Markets Transatlantic Technology & Communication Services Sectors GR EUR	950	Oct. 29, 2024	June 20, 2008	Nov. 01, 2024

Appendix 5: Decrement Levels

The index levels are adjusted by deducting a predetermined value of index points from the gross return (GR) or fixed percentage point from the net return (NR) levels of the base index. These constant markdowns are applied to the base Index daily.

Return Variant of the Base Index	Base Currency	Decrement Type	Decrement Frequency	Decrement Application	Decrement Value	Day Count Convention
Net Total Return	EUR	Fixed	Daily	Geometric	5%	*ACT/365
Gross Total Return		Percentage Decrement or Fixed Point Decrement based on the index version.		application for both decrement types.	decrement based on the Net Total Return 50- point decrement based on Gross Total Return	

*ACT is the number of calendar days between two calculation days.

Formula for Fixed Point Decrement

Geometric Decrement Calculation

$$IV_t = (IV_{t-1} \times (U_t \div U_{t-1})) - (D \times (Act(t-1, t) \div DayCount))$$

Where:

IV_t	=	The value of the Fixed Point Decrement Index for calculation day t
IV_{t-1}	=	The value of the Fixed Point Decrement Index for day t-1
U_t	=	The value of the base Index for calculation day t
U_{t-1}	=	The value of the base Index for calculation day t-1
$Act(t-1, t)$	=	Number of calendar days between calculation day t-1 and calculation day t
D	=	The Decrement value expressed in Index points
$DayCount$	=	Set to 365

Formula for Fixed Percentage Decrement

Geometric Decrement Calculation

$$IV_t = IV_{t-1} \times ((U_t \div U_{t-1}) - (c \times (Act(t-1, t) \div DayCount)))$$

Where:

IV_t	=	The value of the Fixed Percentage Decrement Index for calculation day t
IV_{t-1}	=	The value of the Fixed Percentage Decrement Index for day t-1
U_t	=	The value of the base Index for calculation day t
U_{t-1}	=	The value of the base Index for calculation day t-1
$Act(t-1,t)$	=	Number of calendar days between calculation day t-1 and calculation day t
c	=	The Decrement value expressed in Fixed Percentage
DayCount	=	Set to 365

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 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.

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