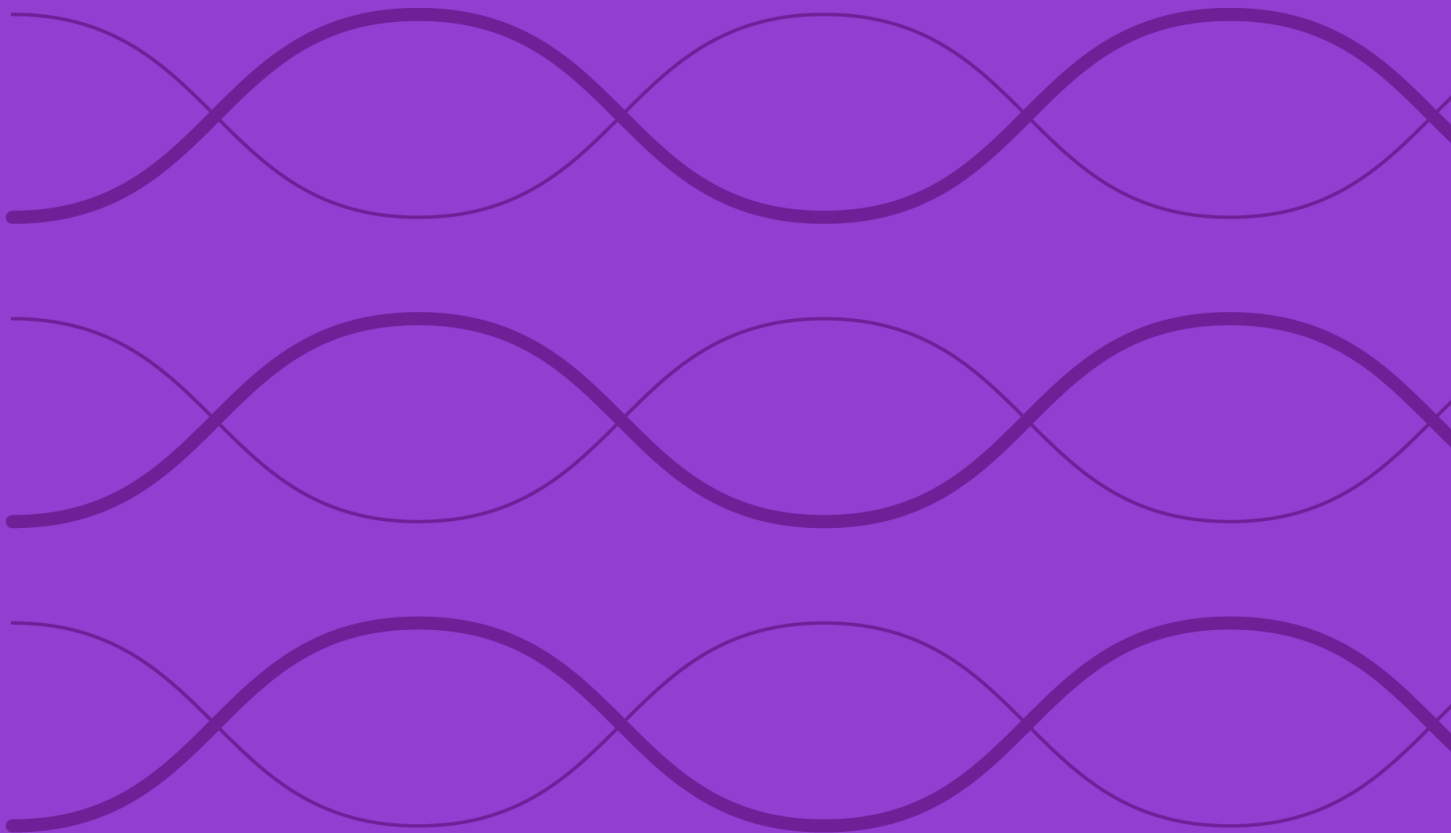


# Construction Rules for the Morningstar Sustainability Style Indexes



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## Overview

The Morningstar Sustainability Style Indexes are designed to deliver broad, diversified exposure to the growth and value segments of the market while significantly reducing environmental, social, and governance (ESG) risk by reweighting constituents of the parent index to favor companies with lower ESG risk, as measured by their Sustainalytics ESG Risk Ratings. Aligned with the Morningstar Style Box, the indexes are underpinned by a 10-factor model that paints a holistic picture of style.

The Morningstar Sustainability Style Index family consists of indexes that track each of the size segments within each of the respective style parent benchmarks. The family is built from the Morningstar US Broad Style and Morningstar Global Style Indexes, respectively. The composite variants are a combination of the individual size variants (for example, large-mid combines large and mid, respectively).

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

## Index Inception and Performance Start Dates

The inception dates of the indexes as well as performance inception dates, when the first back-tested index value was calculated, are provided in Appendix 6.

## Index Construction

### Methodology Summary

#### Starting Universe

- Securities are selected from the Morningstar US Broad Style or Global Style Parent Index.

#### Eligibility

- Securities with null ESG Risk / Controversy scores are excluded.
- Securities with a Controversy Score greater than 3 are excluded.
- Securities that are not compliant with UNGC are excluded.
- Securities cannot have product involvement in civilian firearms, small arms, and controversial weapons.
- Securities with greater than 50% product involvement in tobacco production are excluded.

#### Portfolio Construction

- Tilt weighting, based on parent benchmark weight and ESG Risk Rating.
- Weights subject to security, region, and sector active weight constraints at +/-5% relative to the parent benchmark.

Morningstar Sustainability Style Indexes

### Starting Universe

At each reconstitution, all the securities for the Morningstar Sustainability Style Indexes are derived from the relevant parent benchmark from the Morningstar US Broad Style Indexes (for the US Sustainability Style Indexes) or the Morningstar Global Style Indexes (for the Global Sustainability Style Indexes). For more details on benchmark construction, refer to the construction rules for [Morningstar US Broad Style Indexes](#) and [Morningstar Global Style Indexes](#). Additional details are provided in Appendix 7.

### Eligibility

To be eligible for inclusion in the indexes<sup>1</sup>, all securities must meet the following criteria:

- Baseline Exclusions:
  - The security must not have a null ESG Risk Rating and Controversy Score.

<sup>1</sup> The Morningstar Developed Markets Sustainability Mid Cap Growth Select Indexes follow a different approach and are covered under the section

- The security Controversy score must be 3 (out of 5) or lower.
  - The security must be compliant with the principles of the United Nations Global Compact.
  - The security must not have any revenue involvement in controversial weapons, essential or non-essential.
- Activity-Based Exclusions:
    - The security must not have any revenue involvement in manufacturing and sales of civilian (assault and non-assault) firearms.
    - The security must not have any revenue involvement in manufacturing and sales of small (key components, assault and non-assault) arms.
    - The security must not have more than 50% of its revenue from tobacco production.

## Portfolio Construction

### Number of Stocks

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

### Index Weighting

The index constituents are weighted in proportion to both their ESG Risk Ratings and their weighting in the parent index subject to active security, region, and sector weight constraints. Refer to Appendix 2 and 3 for additional details.

$$W_{i,PORT} = (W_{i,BMK} * T_{i,ESG}) / \Sigma(W_{i,BMK} * T_{i,ESG})$$

$$T_{i,ESG}(Z_{i,ESG}) = CN(Z_{i,ESG} \text{ winsorized at } +/- 3)$$

$$Z_{i,ESG} = -(ESG_i - median_{ESG}) / standard\ deviation_{ESG}$$

$W_{PORT}$ : Weight of the security in the sustainability styles index before region/sector weight constraints are applied

$W_{BMK}$ : Weight of the security in the respective style benchmark

$T_{ESG}$ : Sustainability tilt factor

$Z_{ESG}$ : z-score of ESG Risk Score

CN: Cumulative normal distribution function

ESG: Security ESG Risk Score from Sustainalytics

$median_{ESG}$ : Median of security ESG Risk scores in the benchmark index at a specific time.

$standard\ deviation_{ESG}$ : Standard deviation of security ESG Risk scores in the benchmark index at a specific time.

The security weights in the index are maintained within a lower and upper bound calculated as:

Lower bound = Max (weight in benchmark - 5%, 0)

Upper bound = weight in benchmark + 5%

The region and sector weights in the index are maintained within a lower and upper bound calculated as:

Lower bound = weight in benchmark - 5%

Upper bound = weight in benchmark + 5%

### *Weighting Algorithm*

Morningstar employs the following iterative algorithm to assign weights to each constituent such that security/region/sector active weight constraints are satisfied.

- Step 1: Assign sustainability tilt weights to securities based on the formula mentioned above.
- Step 2: Adjust the weights of securities by capping/flooring sector weights at upper/lower bounds respectively, distributing extra weight to remaining sectors, and adjusting securities weights within sector proportionally.
- Step 3: Calculate the new region weights based on the new security weights calculated in the step above.
- Step 4: If the active region weight constraint is not satisfied, adjust the weight of the securities by capping/flooring region weights at tighter upper/lower bounds respectively for convergence, distributing the extra weight to remaining regions and adjusting the securities weights within region proportionally.
  - Tighter lower bound = weight in benchmark - 4.5%
  - Tighter upper bound = weight in benchmark + 4.5%
- Step 5: Calculate the new sector weights based on the new security weights calculated in the step above. If the active sector constraint is not satisfied, return to step 2.
- Step 6: If the region/sector active weight constraints are both fulfilled, the process is complete.

As the final step, implement the individual security bounds on the final security weights calculated above on a region-sector level.

### **Morningstar Developed Markets Sustainability Mid Cap Growth Select Indexes**

- The Morningstar Developed Markets Sustainability Mid Cap Growth Select Indexes are regional carve-outs of the Morningstar Developed Markets Sustainability Mid Cap Growth Index. These indexes include all constituents from the Morningstar Developed Markets Sustainability Mid Cap Growth Index from their respective target regions:
  - US
  - Eurozone
  - Developed Markets, excluding the US and Eurozone
- These Morningstar Developed Markets Sustainability Mid Cap Growth Select indexes adopt the relative weightings from the Morningstar Developed Markets Sustainability Mid Cap Growth Index and rescale.

## Index Maintenance and Calculation

### Reconstitution and Rebalancing

The indexes are reconstituted, where the membership is reset, semi-annually and are rebalanced quarterly. Adjustments are implemented after the close of business the third Friday of June and December, effective on the following Monday. The market and Sustainalytics data used for reconstitution is as of the last trading day of May and November. During quarterly reviews, constituents with a controversy rating of greater than 3 or non-compliant with the principles of the United Nations Global Compact are deleted from the index. Any constituents for which controversy rating or the United Nations Global Compact data is unavailable will also be deleted from the index. Parent index eligibility is maintained during the quarterly reviews. Shares and float factor adjustments are made during the quarterly 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 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
Appendix 6 and Appendix 7	<ul style="list-style-type: none"> <li>Extended the sustainability styles family to include small cap stocks for US and Global region</li> </ul>	November 2023
Data Correction and Precision	<ul style="list-style-type: none"> <li>Computational and Reporting Precision section removed</li> </ul>	October 2024
Appendix 6 & 7	<ul style="list-style-type: none"> <li>Add Morningstar Developed Markets Sustainability Mid Cap Growth Select Indexes</li> </ul>	October 2024

### 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 reset and adjusted for updated free-float and shares outstanding data.

### Appendix 3: Morningstar Sectors

The sector assignments from Morningstar Global Equity Classification Structure are considered while applying the active sector constraints:

- Basic Materials
- Communication Services
- Consumer Cyclical
- Consumer Defensive
- Energy
- Financial Services
- Healthcare
- Industrials
- Real Estate
- Technology
- Utilities

## Appendix 4: Region Cohorts Used in Weighting Algorithm

### Global Sustainability Style Indexes

- Developed Markets North America
- Developed Markets Europe (Developed Middle East included)
- Developed Markets Asia Pacific
- Emerging Markets

## Appendix 5: Product Involvement-Based Exclusions

Detailed Criteria	Revenue Threshold for Sustainability Indexes
Small Arms Civilian Customers (Assault Weapons)	0%
Small Arms Civilian Customers (Non-Assault Weapons)	0%
Small Arms Retail/Distribution (Assault Weapons)	0%
Small Arms Retail/Distribution (Non-Assault Weapons)	0%
Small Arms Key Components	0%
Controversial Weapons Tailor Made & Essential	0%
Controversial Weapons Non-Tailor Made or Nonessential	0%
Tobacco Production	<= 50%

- The null values prior to December 2019 for small arms, controversial weapons and tobacco screens have been backfilled based on the latest available data.
- Securities with null values prior to December 2019 for small arms, controversial weapons and tobacco have been included for the activity-based exclusions.
- Securities with null values prior to December 2019 for United Nations Global Compact data have been included for the baseline exclusions.

## Appendix 6: Index Inception Date and Performance Inception Date

Index Name	Performance Inception Date	Inception Date
Morningstar US Sustainability Large Cap Broad Value Index	Jun 19, 2015	Nov. 25, 2022
Morningstar US Sustainability Large Cap Broad Growth Index	Jun 19, 2015	Nov. 25, 2022
Morningstar US Sustainability Mid Cap Broad Value Index	Jun 19, 2015	Nov. 25, 2022
Morningstar US Sustainability Mid Cap Broad Growth Index	Jun 19, 2015	Nov. 25, 2022
Morningstar US Sustainability Small Cap Broad Value Index	Jun 16, 2017	Nov. 29, 2023
Morningstar US Sustainability Small Cap Broad Growth Index	Jun 16, 2017	Nov. 29, 2023
Morningstar US Sustainability Large-Mid Cap Broad Value Index	Jun 19, 2015	Nov. 25, 2022
Morningstar US Sustainability Large-Mid Cap Broad Growth Index	Jun 19, 2015	Nov. 25, 2022
Morningstar Global Sustainability Large Cap Value Index	Jun 19, 2015	Nov. 25, 2022
Morningstar Global Sustainability Large Cap Growth Index	Jun 19, 2015	Nov. 25, 2022

Morningstar Global Sustainability Mid Cap Value Index	Jun 19, 2015	Nov. 25, 2022
Morningstar Global Sustainability Mid Cap Growth Index	Jun 19, 2015	Nov. 25, 2022
Morningstar Global Sustainability Small Cap Value Index	Jun 16, 2017	Nov. 29, 2023
Morningstar Global Sustainability Small Cap Growth Index	Jun 16, 2017	Nov. 29, 2023
Morningstar Global Sustainability Large-Mid Cap Value Index	Jun 19, 2015	Nov. 25, 2022
Morningstar Global Sustainability Large-Mid Cap Growth Index	Jun 19, 2015	Nov. 25, 2022
Morningstar Developed Markets Sustainability Mid Cap Growth Index	Jun 19, 2015	June 5, 2024
Morningstar US Sustainability Mid Cap Growth Select	Jun 19, 2015	Oct. 21, 2024
Morningstar Eurozone Sustainability Mid Cap Growth Select	Jun 19, 2015	Oct. 21, 2024
Morningstar Developed Markets ex-US ex-Eurozone Sustainability Mid Cap Growth Select	Jun 19, 2015	Oct. 21, 2024

### Appendix 7: Parent Benchmarks for Sustainability Style Indexes

Index Name	Parent Benchmark Index	Market Cap Bands
Morningstar US Sustainability Large Cap Broad Value Index	Morningstar US Large Cap Broad Value Index	Top 70%
Morningstar US Sustainability Large Cap Broad Growth Index	Morningstar US Large Cap Broad Growth Index	
Morningstar US Sustainability Large-Mid Cap Broad Value Index	Morningstar US Large-Mid Cap Broad Value Index	Top 90%
Morningstar US Sustainability Large-Mid Cap Broad Growth Index	Morningstar US Large-Mid Cap Broad Growth Index	
Morningstar US Sustainability Mid Cap Broad Value Index	Morningstar US Mid Cap Broad Value Index	70% - 90%
Morningstar US Sustainability Mid Cap Broad Growth Index	Morningstar US Mid Cap Broad Growth Index	
Morningstar US Sustainability Small Cap Broad Value Index	Morningstar US Small Cap Broad Value Extended Index	90% - 99.5%
Morningstar US Sustainability Small Cap Broad Growth Index	Morningstar US Small Cap Broad Growth Extended Index	
Morningstar Global Sustainability Large Cap Value Index	Morningstar Global Value Target Market Exposure Index	Top 70%
Morningstar Global Sustainability Large Cap Growth Index	Morningstar Global Growth Target Market Exposure Index	
Morningstar Global Sustainability Large-Mid Cap Value Index	Morningstar Global Value Target Market Exposure Index	Top 85%
Morningstar Global Sustainability Large-Mid Cap Growth Index	Morningstar Global Growth Target Market Exposure Index	
Morningstar Global Sustainability Mid Cap Value Index	Morningstar Global Value Target Market Exposure Index	70% - 85%

Morningstar Global Sustainability Mid Cap Growth Index	Morningstar Global Growth Target Market Exposure Index	
Morningstar Global Sustainability Small Cap Value Index	Morningstar Global Value Small Cap Target Market Exposure Index	85% - 99%
Morningstar Global Sustainability Small Cap Growth Index	Morningstar Global Growth Small Cap Target Market Exposure Index	
Morningstar Developed Markets Sustainability Mid Cap Growth Index	Morningstar Developed Markets Growth Target Market Exposure Index	70%-85%
*Morningstar US Sustainability Mid Cap Growth Select	Morningstar Developed Markets Sustainability Mid Cap Growth Index	70% - 85%
*Morningstar Eurozone Sustainability Mid Cap Growth Select	Morningstar Developed Markets Sustainability Mid Cap Growth Index	
*Morningstar Developed Markets ex-US ex-Eurozone Sustainability Mid Cap Growth Select	Morningstar Developed Markets Sustainability Mid Cap Growth Index	

\*These select indexes are carveouts of the Morningstar Developed Markets Sustainability Mid Cap Growth Index

## 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 indexes 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 is comprised of 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 methodologies remain fit for purpose and continue to achieve their stated investment objectives. The group is comprised of 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 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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