

Construction Rules for the Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight

Overview 3

Index Construction 4

Methodology Summary.....4

Starting Universe.....4

Eligibility4

Portfolio Construction.....4

Index Maintenance and Calculation.....6

Reconstitution and Rebalancing6

Corporate Actions.....6

Index Calculation and Price Data.....6

Methodology Review and Index Cessation Policy7

Data Correction and Precision8

Intraday Index Data Corrections.....8

Index-Related Data and Divisor Corrections8

Exceptions.....8

Appendixes9

Appendix 1: Glossary9

Appendix 2: Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight Decrement Indexes9

Appendix 3: Decrement Levels9

Appendix 4: Modifications to the Rulebook10

About Morningstar Indexes11

Overview

The Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight Index seeks exposure to the 10 largest companies by market capitalization in Eurozone and UK as of April 2024 in an equal weighting scheme. The index constituents do not change, outside of changes derived from corporate actions.

Index Inception and Performance Start Date

The index inception date is 29th April 2024, and the performance start date, when the first back-tested index value was calculated, is 20th June 2008.

Index Construction

Methodology Summary



Starting Universe

Constituents of the Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight are derived from the Morningstar Eurozone Large-Mid Cap and Morningstar UK Index (benchmark). For more details on benchmark construction, refer to the construction rules for the [Morningstar Global Markets](#).

Eligibility

The following eligibility criteria were applied effective April 2024 and constituents were selected as of this date. From this point forward, the constituents should not change, unless changes are required due to corporate actions.

- The company's controversy rating must be 4 or lower
- The company must be in the following sector as per GECS¹
 - Healthcare

Portfolio Construction

- Select the 10 largest securities by market capitalization
- Apply an equal weighting scheme
- Apply a 40% cap to UK securities

Number of Stocks

The index targets a fixed number of stocks based on a transparent ranking system subject to the application of eligibility criteria. However, if fewer than the targeted number of securities from the starting universe meet eligibility criteria, or if

¹ Morningstar GECS is periodically reviewed and updated, so for maintaining representativeness and continuity of the history for the index strategy, these changes may be backfilled retrospectively where appropriate for indexes created after the effective date of such changes

securities are added or deleted as a result of corporate actions after initial construction, the constituent count may deviate from the targeted number. If the number of eligible securities is less than the targeted constituent count, all eligible securities are selected. The rebalance schedule is provided in the "Index Maintenance and Calculation" section. The target count for this index is 10.

Index Weighting

The index is equal weighted. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

Index Maintenance and Calculation

Reconstitution and Rebalancing

Because this is a static index, it does not reconstitute. The eligibility criteria were applied as of April 2024. From this point forward, the constituents should not change, unless changes are required due to corporate actions.

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. If Monday is an index holiday, the rebalance is reflected the next business day. The market data used for rebalancing is as of the last trading day of February, May, August, and November.

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 alternatively-weighted indexes corporate action methodology. 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 Cessation 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 Cessation Process](#).

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 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: Glossary

Term	Description
Rebalance	During each rebalance, the weights are adjusted for updated free-float and shares outstanding data.

Appendix 2: Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight Decrement Indexes

Index Name	Underlying Index	Base value	Base Date	Performance Inception Date	Inception Date
Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight Decrement 50 Point GR	Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight GR	930	Nov. 04, 2021	Jun. 20, 2008	Apr. 29, 2024
Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight Decrement 5% NR	Morningstar Eurozone and UK Healthcare Static Select 10 Equal Weight NR	1000	Jun. 20, 2008	Jun. 20, 2008	Apr. 29, 2024

Appendix 3: Decrement Levels

The index levels are adjusted by deducting a predetermined value of index points from the gross return, or GR, or fixed percentage point from the net return, or 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 Gross Total Return	EUR	Fixed Percentage Decrement or Fixed Point Decrement based on the index version.	Daily	Geometric application for both decrement types.	5% decrement based on the Net Total Return 50-point decrement based on Gross Total Return	*ACT/365

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

Formula for Fixed Point Decrement Geometric Decrement Calculation

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

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

Appendix 4: Modifications to the Rulebook

Section	Description of Change	Update Date
Corporate Action	Updated link to Morningstar Standard Methodology	July 2024

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.

www.indexes.morningstar.com

Contact Us

indexes@morningstar.com

The information in this document is the property of Morningstar, Inc. Reproduction or transcription by any means, in whole or part, without the prior written consent of Morningstar, Inc., is prohibited. While data contained in this report are gathered from reliable sources, accuracy and completeness cannot be guaranteed. All data, information, and opinions are subject to change without notice. This document may contain back-tested or simulated performances, and the subsequent results achieved by the investment strategy may be materially different.