MORNINGSTAR Indexes

Morningstar Broad Style Wide Moat Focus Indexes

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Shaped by the forward-looking insights of Morningstar's equity analysts, the Morningstar Broad Style Wide Moat Focus Indexes are designed to target value or growth stocks with durable competitive advantages and attractive valuations. This unique approach combines fundamental insights with objective portfolio construction, which facilitates consistency and investability. Aligned with the Morningstar Style Box,™ these indexes are underpinned by a 10-factor model that paints a holistic picture of style.

Style scores

1. Determine a Value Score

Factors		Weight %
Forward-Looking	Price-to-Projected Earnings	50.00
Historical	Price-to-Book	12.5
	Price-to-Sales	12.5
	Price-to-Cash-Flow	12.5
	Dividend Yield	12.5

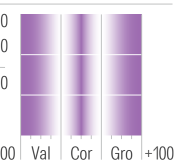
2. Determine a Growth Score

Factors		Weight %
Forward-Looking	Long-Term Projected Earnings Growth	50.00
Historical	Earnings Growth	12.5
	Sales Growth	12.5
	Cash Flow Growth	12.5
	Book Value Growth	12.5

3. Determine a Style Score

Subtract the Value Score from the Growth Score.

Growth Score	0 to 100
Value Score	0 to 100
Style Score	-100 to 100



Morningstar Equity Research

Morningstar's equity analysts assign each company a Morningstar® Economic Moat Rating,™ which reflects the strength and durability of its competitive position. Analysts also create fair value estimates for companies based on a three-staged discounted cash flow model that incorporates their in-depth knowledge and expectations for future growth. This forward-looking valuation assessment reflects long-term cash flow forecasts.

What is an economic moat?

An economic moat is a durable competitive advantage that allows a firm to keep competitors at bay and generate economic profits over an extended period. To help investors identify companies that possess an economic moat, Morningstar's equity research team assigns one of three economic moat ratings: "wide," "narrow," or "none." There are two major criteria that must be satisfied for a company to earn a moat rating of "wide": 1) it must be likely to generate returns on invested capital above its weighted average cost of capital for at least the next twenty years; and 2) it must enjoy one of the following economic moat sources, each of which is a driver of structural competitive advantage:

- Network effect Present when the value of a network increases for new and existing users as the network grows
- Cost advantage Allows a firm to sell at the same price as competition but still enjoy economic profits thanks to lower unit costs of production.
- Efficient scale When a company serves a market limited in size, new competitors may not have an incentive to enter, particularly when the cost of market entry is high. New entrants would cause returns for all players to fall well below the cost of capital.
- Intangible assets Brands, patents, and regulatory licenses that block competition and/or convey meaningful pricing power.
- Switching costs Whether in time or money, the expenses that a customer would incur to change from one producer/ provider to another.

Portfolio Construction

The Morningstar Broad Style Wide Moat Focus Indexes derive their constituents from the Morningstar US Market Index, which represents 97% of the investable US equity market. To be eligible for inclusion, constituents of the parent index must:

- Be assigned a fair value estimate
- Be assigned an economic moat rating of "Wide" by Morningstar analysts
- Have a valid style score that does not correspond to the opposite pure style category the index is designed to target

The 30 stocks with the lowest price-to-fair value ratios are selected for inclusion in each subportfolio (the aggregate portfolio is formed from two subportfolios). The indexes are then tilted from equal weight based on the style scores.

Pure value and growth stocks are included at full weight in the Morningstar US Broad Value Wide Moat Focus and Morningstar US Broad Growth Index, respectively. Blend stocks are weighted with a partial inclusion factor based on the strength of their style characteristics.

Reconstitution

The subportfolios are reconstituted according to quarterly staggered schedule. Consequently, about half of the total index membership is reset every quarter in March, June, September, and December.

Because of the staggered reconstitution schedule, the overall number of constituents can deviate from the target count, and the weightings of the two subportfolios may not always be equal. The two subportfolios are brought back to equal weight in June and December.

Construction process

Starting universe	Eligibility criteria	Portfolio construction	

• Morningstar US Market Index
  • Represents 97% of the investable US equity market
	• Companies must have:
	  • Wide economic moat rating
	  • Fair value estimate
	  • Style score corresponding to targeted style or blend
	  • Minimum ADTV of $5 million
	  • Must not rank in the bottom 3% of the eligible list by float market cap
		• The 30 eligible stocks with the lowest price/fair value ratios are selected for index membership
		• Weightings are tilted from equal weight based on style scores
		• Sector capping and turnover buffers are applied
			Morningstar Broad Style Wide Moat Focus Indexes

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.

Please visit indexes.morningstar.com for more information.