Morningstar Indexes

# Construction Rules for the Morningstar Renewable Energy Indexes

August 2026

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## Overview

The Morningstar Renewable Energy Indexes are designed to provide exposure to companies that are leaders in the transition to a low-carbon economy. To pursue environmental objectives, the indexes target companies that derive revenue from renewable energy or green transportation and/or use renewable energy for their energy requirements.

### Index Inception and Performance Start Date

The inception date and the performance inception date of the indexes are mentioned in Appendix 5.

## Index Construction

### Methodology Summary

| Starting Universe | Eligibility | Portfolio Construction | |
|---|---|---|---|
| • Appropriate regional benchmark from the Morningstar Global Market Indexes.<br>• Covers stocks representing the top 97% of the investable universe. | • Sleeve 1: Companies must generate at least 5% of revenue from renewable energy or green transportation.<br>• Sleeve 2: Companies must use renewable energy for at least 2 of their energy requirements | • Assign a 75% allocation to sleeve 1 and 25% to sleeve 2.<br>• Securities are equal weighted within each sleeve. | Morningstar Renewable Energy Indexes. |

### Starting Universe

At each reconstitution, securities for the index are derived from the respective region parent index (the benchmark). For more details on benchmark construction, please refer to the Construction Rules for the Morningstar Global Markets Index.

### Eligibility

At every reconstitution, the selection universe is divided into two sleeves:

- Sleeve One: This Sleeve constitutes of 75% of total portfolio weight. It includes following companies:
    - Companies that derive at least 5% of their revenues from renewable energy.
    - Companies that derive at least 10% of their revenues from green transportation.

Revenue involvement data is sourced from Sustainalytics's Sustainable Activities Involvement dataset. For more details, please refer Appendix 3.

- Sleeve Two: This sleeve constitutes 25% of the total index weight. It includes the following companies:
    - Companies that have a carbon own operations1 exposure less than 10 and meet at least 50% of their primary energy requirement from renewable energy.
    - Companies that have a carbon own operations exposure more than or equal to 10 and meet at least 25% of their primary energy requirement from renewable energy.

Carbon exposure and renewable energy use are determined by Sustainalytics.

### Portfolio Construction

Assign a 75% allocation to sleeve 1 and 25% to sleeve 2. Securities are equal weighted within each sleeve.

*Number of Stocks*

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

*Index Weighting*

Companies in each sleeve are equal-weighted. Sleeve one constitutes 75% of the total weight, while sleeve two contributes to 25% of the index weight. Sector weights are capped at 20% within sleeve two. If a company has multiple share classes, the most liquid share class as determined by Morningstar is selected. The weight of securities is adjusted for their liquidity, and the residual weights are distributed to the remaining securities in the portfolio. For more details, please refer to Appendix 4.

## Index Maintenance and Calculation

### Reconstitution and Rebalancing

The index is 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 April and October.

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. 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 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 |
|---|---|---|
| Entire Rulebook | Updated to new template | June 2023 |
| Appendix | Transitioned from Sustainable Product research to sustainable activities involvement dataset. | December 2023 |
| Data Correction and Precision | Computational and Reporting Precision Section removed | June 2025 |
| Appendix 5 | Corrected performance start and inception dates | August 2026 |

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

### Appendix 3: Sustainable Activities Involvement.

Sustainable Activities Impact Metrics is a set of company-level metrics that provide investors with useful measures of companies' environmental and social impact. The metrics are aligned to Sustainalytics' proprietary ESG Impact Framework and the United Nations Sustainable Development Goals, or SDGs. Due to global initiatives such as the SDGs, client demand, and changing regional disclosure requirements, investors need a consistent way to evaluate the broader impact of their investments on the world.

Sustainable Activities Impact Metrics solution allows investors to analyse the impact of their investee companies' operations and economic activities in line with Sustainalytics Impact Themes and the UN SDGs. The offering includes both revenues based sustainable activities metrics, signalling positive Impact Theme and SDG contribution, and operational and governance metrics, used to analyse a company's impact performance based on how it operates and governs itself.

Metrics provide insights on which companies engage in economic activities that contribute to a more just and sustainable world and the revenue derived from it. An economic activity is considered sustainable if it fulfils a sustainability criterion, which is determined based on our analysis of industry norms, market standards, and other widely accepted certification schemes. Examples of sustainable activities revenue that contribute to our Impact Themes and SDGs include the provision of credit for low-income or disadvantaged borrowers or manufacturing of low carbon technologies for pollution prevention. Prior to June 2022, revenue exposures are sourced from Sustainable Product Research (SPR) Data corresponding to SAI.

The Morningstar Renewable Energy Index Family focuses on the following research areas:

| SAI Metric | SAI Theme | SPR Theme: Category | SAI Metric Description |
|---|---|---|---|
| Bioenergy Renewable Energy Generation | Climate Action | Renewable Energy: Generation | Revenue from renewable electricity generation from bioenergy. |
| Bioenergy Renewable Energy Support | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from activities supporting renewable electricity generation from bioenergy. |
| CSP Renewable Energy Generation | Climate Action | Renewable Energy: Generation | Revenue from renewable electricity generation from concentrated solar power (CSP). |
| CSP Renewable Energy Support | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from activities supporting renewable electricity generation from concentrated solar power (CSP). |
| Geothermal Renewable Energy Generation | Climate Action | Renewable Energy: Generation | Revenue from renewable electricity generation from geothermal energy. |
| Geothermal Renewable Energy Support | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from activities supporting renewable electricity generation from geothermal energy. |
| Hydropower Renewable Energy Generation | Climate Action | Renewable Energy: Generation | Revenue from renewable electricity generation from hydropower. |
| Hydropower Renewable Energy Support | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from activities supporting renewable electricity generation from hydropower. |
| Ocean Renewable Energy Generation | Climate Action | Renewable Energy: Generation | Revenue from renewable electricity generation from ocean energy. |
| Ocean Renewable Energy Support | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from activities that support renewable electricity generation from ocean energy. |
| Solar PV Renewable Energy Generation | Climate Action | Renewable Energy: Generation | Revenue from renewable electricity generation from solar photovoltaics. |
| Solar PV Renewable Energy Support | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from activities that support renewable electricity generation from solar photovoltaics. |
| Technologies Maintenance Renewable Energy | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from the installation, maintenance, and/or repair of on-site renewable energy technologies. |
| Technologies Renewable Energy | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from the manufacture of low carbon technologies that support renewable energy generation. |
| Wind Renewable Energy Generation | Climate Action | Renewable Energy: Generation | Revenue from renewable electricity generation from wind power. |
| Wind Renewable Energy Support | Climate Action | Renewable Energy: Supporting Products/Services | Revenue from activities supporting renewable electricity generation from wind power. |
| Batteries Green Transportation | Climate Action, Resource Security | Green Transportation: Technologies/Servi ce s | Revenue from the manufacture of rechargeable batteries, accumulators, battery packs, and their key components, used in green transportation vehicles. |
| Interurban Passengers Green Transportation | Climate Action, Resource Security | Green Transportation: Services | Revenue from green rail interurban passenger transportation. |
| Low Carbon Infrastructure Green Transportation | Climate Action, Resource Security | Green Transportation: Infrastructure | Revenue from the construction and operation of low- carbon infrastructure for green transportation. |
| Rail Infrastructure Green Transportation | Climate Action, Resource Security | Green Transportation: Infrastructure | Revenue from the construction and operation of railways and associated infrastructure dedicated to low carbon transport. |
| Technologies Green Transportation | Climate Action, Resource Security | Green Transportation: Technologies/Servi ces | Revenue from the manufacture of low carbon technologies that support green transportation. |
| Technologies Green Vehicles | Climate Action, Resource Security | Green Transportation: Vehicles | Revenue from the manufacture of green transportation vehicles, such as purely electrically powered cars, buses, trucks and tractors, trams, motorbikes, scooters, plug-in electric hybrids, electric trains, and metros/subway trains. |
| Urban Green Transportation | Climate Action, Resource Security | Green Transportation: Services | Revenue from green transportation services by urban or suburban transport systems or interurban passenger transport. |

### Appendix 4: Weight adjustments for liquidity.

Assuming a hypothetical funds asset under management (described in appendix 4 for each index) for which the manager trades no more than 20% of any security's three-month average daily traded value, or ADTV, security weights are adjusted based on their liquidity such that:

$$|w_i - cw_i| \leq \frac{Days\ to\ trade * ADTV * Percentage\ ADTV\ being\ traded\ in\ a\ day}{AUM}$$

Where,
$cw_i$ = Current Weight of the $i^{th}$ security in the index.
$ADTV_i$ = Average Daily Traded Volume of the $i^{th}$ security.
*Days to Trade* = 4
*AUM* = Refer Appendix 5
*Percentage ADTV being traded in a day* = 20%

For additions, the current weight in the portfolio $cw_i$ is 0. Note that if a security is deleted from the benchmark or the eligible universe, the same would be deleted from the index, irrespective of its liquidity.

The residual weights are redistributed to remaining liquid securities within the portfolio. The security weights are adjusted based on their liquidity for semi-annual reconstitution. Due to limited universe, this was not done at the performance inception of the index. If a security does not pass the selection criteria, the same would be deleted from the index, irrespective of its liquidity. Also, weighting constraints will be relaxed if a feasible solution is not obtained.

### Appendix 5: List of Indexes

| Index | Inception Date | Performance Inception Date | Hypothetical AUM |
|---|---|---|---|
| Morningstar Global Renewable Energy Index | June 10, 2020 | Dec 18, 2015 | USD 100m |
| Morningstar Developed Markets Renewable Energy Index | June 10, 2020 | Dec 18, 2015 | USD 100m |
| Morningstar Developed Europe Renewable Energy Index | June 10, 2020 | Dec 18, 2015 | USD 100m |
| Morningstar Developed North America Renewable Energy Index | June 10, 2019 | June 15, 2018 | USD 100m |

## 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 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 Benchmark 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.

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## Contact Us

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