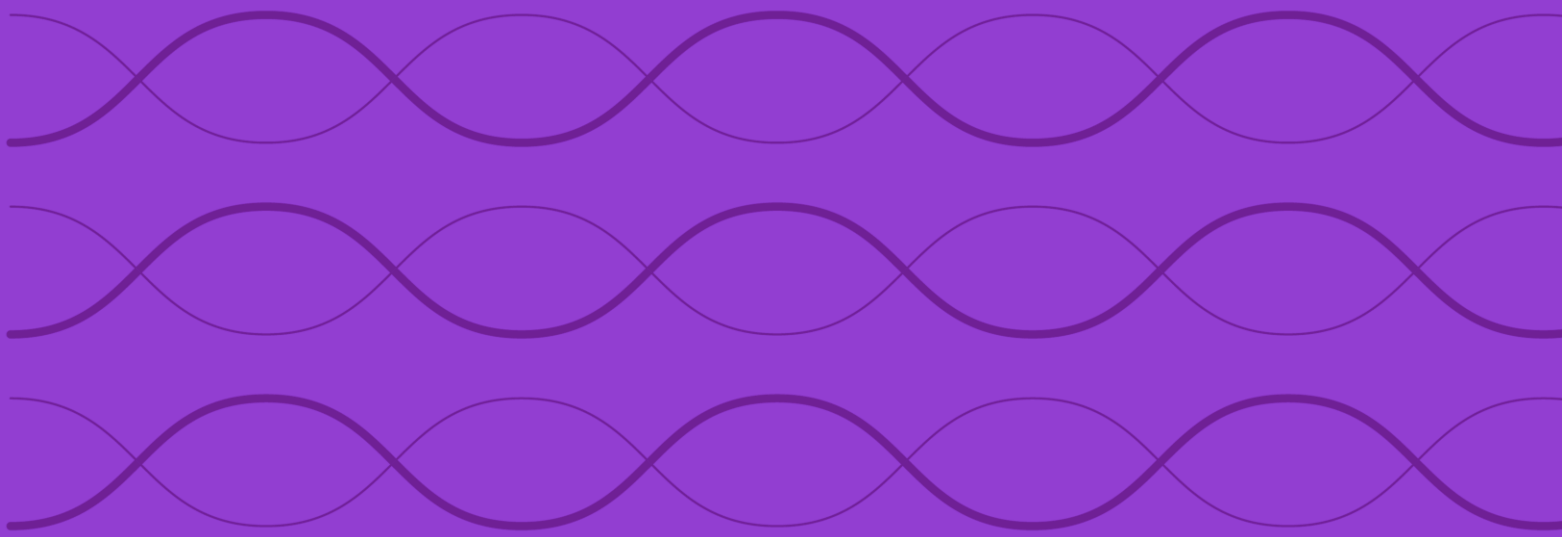
MORNINGSTAR Indexes

Construction Rules for the Morningstar® PH&C Developed Markets Low Carbon Select Index



November 2026

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Overview

The Morningstar® PH&C Developed Markets Low Carbon Select Index is designed to deliver a portfolio of stocks with lower emissions intensity relative to their parent benchmark while targeting low expected tracking error. The index is constructed using a constrained optimization framework that aims to minimize tracking error, improve diversification and lower portfolio emissions intensity relative to the parent benchmark.

To forecast tracking error of the index portfolios, Morningstar uses Morningstar Global Industry Standard Risk Model (the risk model and the currency is EUR). For more information on the risk model, refer to Morningstar Risk Model Methodology.

These indexes incorporate Carbon Emissions data provided by Sustainalytics, a Morningstar company that provides sustainability research.

Index Inception and Performance Start Date

The index inception date is October 29th, 2025. The performance start date, when the first back-tested index value was calculated, is December 19th 2014.

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Index Construction

Methodology Summary

Starting Universe

- Morningstar Developed Markets Target Market Exposure Index, which covers the top 85% of the investable market.

Eligibility

- Only primary share classes are included representing the full company weight.
- Securities part of custom exclusion list are excluded.
- Securities must be covered by Morningstar risk model.

Portfolio Construction

- Select and weight stocks to minimize the tracking error, subject to emissions intensity reduction and diversification constraints, through an optimization process.
- The index is reconstituted quarterly.

Morningstar® PH&C Developed Markets Low Carbon Select Index

Starting Universe

At each reconstitution, securities for Morningstar® PH&C Developed Markets Low Carbon Select Index is derived from the relevant Morningstar Developed Markets Target Market Exposure Indexes. For more details on benchmark construction, refer to the Construction rules for the Morningstar Target Market Exposure Indexes.

Eligibility

To be eligible for index inclusion, all constituents must meet the following criteria. Securities contained within the Pensioenfonds Horeca & Catering (PHC) exclusions* framework are excluded. For a company with multiple share classes, all securities will be excluded if any of the share classes is part of the exclusions list. The list of excluded securities is provided to the Morningstar Indexes Operations team in advance of each quarterly reconstitution before the first business day of March, June, September, and December.

Securities not covered by the Morningstar Risk Model will not be eligible for inclusion. Additionally, the secondary share classes are excluded with the primary share classes representing the full company weight. In this document, we refer to these primary share classes as “security” going forward.

*If the Morningstar Indexes Operations Team does not receive the custom exclusions list by the above specified date, then the most recent exclusions lists would be applied for the reconstitution.

Portfolio Construction

At every reconstitution, the Morningstar® PH&C Developed Markets Low Carbon Select Index portfolio is created using optimization to minimize the ex-ante tracking error of the Index and meet the constraints as follows:

Objective Function:

- Minimize ex-ante tracking error relative to parent index.

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Constraints:

- No short position allowed.
- The maximum weight of the security is restricted to lesser of 15 times the security benchmark weight and the security benchmark weight + 2% and 6.1%.
- The minimum weight of the security is restricted to the security benchmark weight – 2%
- Sector active weight constraints: To limit deviation from corresponding weights in the parent benchmark, the sector weights in the index are maintained within a lower and upper bound, calculated as:
  - o Lower bound = Weight in the benchmark - 1%
  - o Upper bound = Weight in the benchmark + 1%
- Country active weight constraints: To limit deviation from corresponding weights in the parent benchmark, the country of classification weights in the index are maintained within a lower and upper bound, calculated as:
  - o Lower bound = Weight in the benchmark - 1%
  - o Upper bound = Weight in the benchmark + 1%
- Currency active weight constraints: To limit deviation from corresponding weights in the parent benchmark, the currency weights in the index are maintained within a lower and upper bound, calculated as:
  - o Lower bound = Weight in the benchmark - 1%
  - o Upper bound = Weight in the benchmark + 1%
- The maximum one-way turnover is less than 2.5% at the quarterly reconstitutions
- Weighted average carbon intensity (Scope 1+2) of the portfolio to be lesser than or equal to 30% of weighted average carbon intensity of the parent benchmark

For more details on optimized construction, please refer to Appendix 3.

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

The company weights of index constituents are determined through an optimization process subject to the objective function and weight constraints described in the "Optimization Parameters" section above.

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Index Maintenance and Calculation

Reconstitution and Rebalancing

The index is rebalanced and reconstituted quarterly and implemented after the close of business on the third Friday of March, June, September, and December and is effective the following Monday. If Monday is a holiday, rebalance is effective on the next business day. The market, EVIC, and Emissions 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.

IPO Treatment

IPOs are only eligible for inclusion at the June and December reconstitutions, provided they meet all other eligibility criteria. The parent index's fast-track IPO additions at the March and September rebalances do not apply to this index.

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 Morningstar Equity Indexes Price Methodology.

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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 decommissioning of the index or benchmark index could disrupt subscriber products that reference this index, all subscribers are encouraged to have robust fallback procedures in the event an index is decommissioned. For more details, refer to the Morningstar Index Decommissioning Policy.

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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.

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Appendixes

Appendix 1: 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 2: Calculation of Target Metrics

Calculation of Carbon, or Greenhouse Gas, Intensity

Carbon reduction models leverage emissions data from Sustainalytics an ESG data and research company owned by Morningstar. Sustainalytics captures the most up-to-date reported Scope 1 (direct) and 2 (indirect) emissions plus companies' historical emissions (including restatements). Data is collected from company disclosure or reporting. It includes, but is not limited to, data reported on annual reports, Corporate Sustainability Responsibility (CSR) reports, regulatory reporting and disclosure on company-owned websites. Where emissions data is not reported by a company, Sustainalytics uses a number of estimation methods. These include a multi-factor regression model which considers sub-industry, geographical location, and a company's size. Estimations are run on an annual basis. The carbon emissions of a company are normalized for size by dividing annual carbon emissions by Enterprise Value including Cash (EVIC) using data from Morningstar's Equity Data set.

The carbon intensity of a security is defined as the ratio of the total emissions (Scope 1 + 2) (in metric tons) and the EVIC of the company (in millions of U.S. dollars).

$$Enterprise\ Value\ Including\ Cash\ (EVIC) = (MktCapOrdinary_{Shares} + MktCap_{Preferred\ Shares} + BV_{Debt} + NCI$$

$$Security\ Carbon\ Intensity = \frac{Absolute\ Emissions\ (Scope\ 1+2)\ (in\ metric\ tonnes)}{Enterprise\ Value\ Including\ Cash\ (in\ Mn\ USD)}$$

$$Weighted\ Average\ Carbon\ Intensity = \sum(Index\ Weight * Security\ Level\ Carbon\ Intensity)$$

For securities where carbon intensity is not available, the median scope 1+2 carbon intensity of all the constituents of the parent index in the same industry in which the constituent belongs is used respectively.

Companies with null carbon intensity after the above treatment are excluded.

Appendix 3: Optimization Methodology

Ex-Ante Tracking Error

$$TE = (w_p^T - w_b^T)(X^T F X + \lambda D)(w_p - w_b)$$

Where:
w_p = vector of portfolio weights, unknown
w_b = vector of benchmark weights
X = matrix of asset factor exposures

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F= factor covariance matrix
D = specific (idiosyncratic, residual) risk block of covariance matrix
$X^T FX$ = systematic (factor-driven) risk block of covariance matrix from the risk model
λ = 1.5, specific risk aversion parameter; λ=1 results in a specific risk-neutral volatility forecast; λ>1 implies greater penalty for asset-specific risk not modelled by systematic risk factor exposures

Any risk model will miss some systematic sources of risk due to bias-variance trade off. The model will therefore underestimate the contribution of specific risk to the risk of the overall portfolio, because it assumes the residual risk is perfectly uncorrelated and diversifiable. λ = 1.5 was chosen to compensate for the above effects based on empirical testing of ex-post tracking error.

Handling of Infeasible Optimizations
Constraints will be relaxed if a feasible solution is not obtained. The relaxation happens in the following order**:**

1) The currency constraint is relaxed up to 3% in increments of 0.5%.
2) The sector constraint is relaxed up to 3% in increments of 0.5% while resetting the currency constraint
3) The country constraint is relaxed up to 3% in increments of 0.5% while resetting the currency and sector constraints
4) The asset based multiple of 15x is relaxed till 20x in steps of 1x while resetting the currency, sector and country constraints
5) The turnover constraint is relaxed till 30% in increments of 0.5% while resetting the currency, sector, country and asset-based constraints
6) The currency, sector, country and asset-based constraints are relaxed and only the turnover constraint is applied.

The turnover constraint has been relaxed for September 2025 rebalance effective portfolio. If a feasible solution is not found after the above constraint relaxation, the index will not be reconstituted for that quarterly review, and Index Committee review of the constraint methodology will be conducted and completed by the next quarterly reconstitution date.

Appendix 4: Modifications to the Rulebook

Section	Description of Change	Update Date
Portfolio Construction	A maximum-security weight constraint of 6.1% was added	May 2026
Data Correction and Precision	Computational and Reporting Precision section removed	May 2026
Index Maintenance & Calculation	Added IPO Treatment section	November 2026

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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 the 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 BMR, providing independent oversight of all aspects of the governance of benchmark administration as required by the 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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