

Morningstar Index Methodology Change Process

Morningstar Indexes

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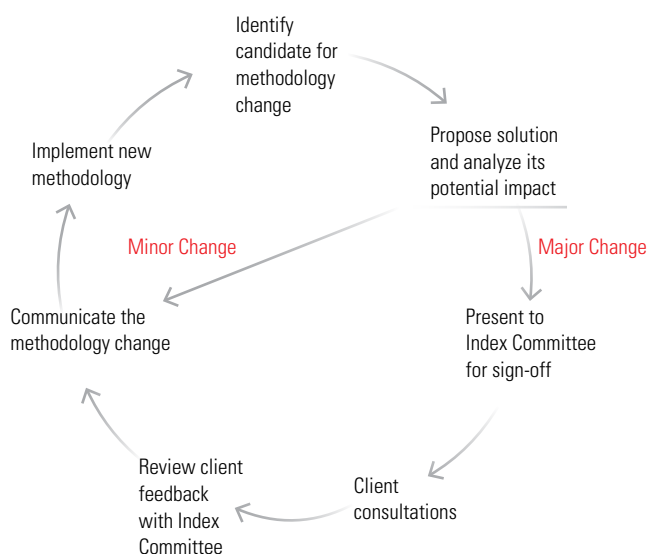
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Introduction

Morningstar Indexes combine the science and art of indexing to give investors a clearer view into the world's financial markets. Our mission is to create better outcomes for investors by adhering to Morningstar's investment principles: investors first, independent-minded, long term, minimize costs, and holistic portfolios. We focus on creating best-in-class benchmarks and innovative strategic beta indexes based on proprietary Morningstar intellectual property. Our indexes have transparent, rules-based methodologies backed by compelling empirical support from our intellectually honest back-test or academically validated results.

Morningstar Indexes continually reviews the methodology of its existing indexes to account for factors such as evolving market trends, feedback received from market participants, or as an endeavour to adopt evolving best practises in the industry. Any change made to the index construction, calculation rules, or corporate action treatment that can impact index's selection universe, portfolio composition, or its ongoing maintenance is deemed as a methodology change. This document explains in detail the systematic process followed by Morningstar Indexes for ongoing methodology enhancements, including key stakeholders involved and their responsibilities. A set of well-defined guidelines leads to robust outcomes as it ensures that methodology changes are put through consistent internal procedures and also brings about compliance with the industry's voluntary standards, such as the IOSCO guidelines.

Exhibit 1 Methodology Review Process



Types of Methodology Change

The Data Management & Analytics team (DMA) reviews the methodology change and its impact and categorizes it as either a major or minor change (refer Appendix 2). Minor changes are enhancements that do not require Index Committee feedback or a client consultation, whereas major changes require mandatory Index Committee feedback and a client consultation.

Implementing Methodology Change

Exhibit 2 The Detailed Process for Implementing Methodology Change

Task/Steps	Minor Change	Major Change	Owner*
1. Identifying candidates for methodology change	•	•	Clients/ DMA/NPD/ other internal teams
2. Propose solutions and analyze its potential impact	•	•	DMA
3. Presentation to Index Committee for sign-off		•	DMA
4. Client consultation		•	
Prepare client consultation document (refer Appendix 4)		•	DMA
Share the final document with the Product Manager (PM)		•	DMA
PM sends the consultation document to clients		•	PM
PM communicates client feedback to Data Management & Analytics Team		•	PM
Build internal consensus on client feedback for Index Committee sign off (compile)		•	DMA
5. Review client feedback with IC		•	IC & DMA
6. Communicate the methodology change	•	•	DMA & PM
7. Implementation new methodology	•	•	DMA
Update Rulebook	•	•	DMA
Upload Rulebook on website	•	•	PM
Upload methodology change statement on website and mail it to clients	•	•	PM

* IC – Index Committee | DMA – Data Management & Analytics | PM – Product Management | NPD – New Product Development | Other internal teams: Morningstar Investment Management (MIM), Morningstar Equity Research, Morningstar Quantitative Equity Research

Additional notes

1. Clients will be generally provided a period of one month to share their feedback.
2. A summary of client consultation will not be made public.
3. The methodology change is made effective at the upcoming reconstitution after providing a minimum of three months of notice period to clients.

Appendices

Appendix 1 Specimen of Methodology Change

Change	Details
Index construction	Data cut-off date
	Eligibility criteria
Index calculation	Restatement policy
	Index calculation formula
Corporate actions	Fast inclusion of spun-off entity
	Treatment of suspended constituents

Appendix 2 Categorizing Methodology Changes

Change	Type	Comments
Countries reviewed for foreign ownership limit	Minor	This makes the investability criteria more favorable for foreign investors and therefore is treated as a minor change
Change in list of countries eligible for Morningstar Developed/Emerging Markets	Major	Morningstar Indexes annually reviews market classification status of countries based on its market classification framework
Change in list of eligible stock exchange for countries part of the global equity index series	Minor	Morningstar Indexes semi-annually reviews the eligible exchanges of an eligible country
Change in the list of eligible market segments for an eligible stock exchange	Minor	Morningstar Indexes semi-annually reviews the eligible market segments of an eligible exchange
Late corporate action announcement policy	Major	This potentially impacts the time that is available with clients to trade securities impacted due to snap corporate event
Change in buffer rules for Ex-U.S. market	Major	This potentially impacts the securities during market size segmentation
Change in liquidity criteria for U.S. and Canada value and momentum indexes	Major	This potentially impacts the eligibility of securities into the index

Appendix 3 Communication of Methodology Change Statement

The methodology change statement published on the Morningstar Indexes website should cover these points:

1. The methodology change and its rationale
2. List of impacted indexes and an impact analysis as deemed appropriate
3. Effective date of the proposed change

Recipients and mode of communication

Clients and internal teams will be contacted with an email containing the link to the methodology change statement.

Appendix 4 Content Framework of Client Consultation

The client consultation document covers these points:

1. Information on the driving force for the change
2. Proposed methodology changes
3. List of impacted indexes and an impact analysis as deemed appropriate
4. Due date for getting the feedback
5. Effective date of the proposed change
6. Contact details for responding to the survey

The Product Management team may conduct the client consultation through any or all of the following mediums:

1. Meeting with clients or through a telephonic call
2. Mailing clients
3. Conducting a survey

Appendix 5 Key Stakeholders Involved in Methodology Change

A brief description of the stakeholders involved in the Methodology change process:

1. The Data Management & Analytics team is mainly responsible for maintaining Morningstar indexes across asset classes and can be contacted at indexdma@morningstar.com
2. The Morningstar Index Committee is currently comprised of senior officials who possess the appropriate levels of knowledge in relation to Indexes. A wide array of business groups are represented to allow for a broad voice to be heard and for a wider view to be expressed in evaluating all subjects brought up during Committee meetings. The committee seeks to create indexes of the highest quality that meet the recognized qualities of a good benchmark.
3. Product Management is responsible for client relationship, coordinate marketing, legal, and compliance and can be contacted at indexes@morningstar.com

About Morningstar® Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Morningstar offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. Morningstar provides data on approximately 500,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 15 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services through its investment advisory subsidiaries.

About Morningstar Indexes

Morningstar Indexes combine the science and art of indexing to give investors a clearer view into the world's financial markets. Our indexes are based on transparent, rules-based methodologies that are thoroughly back-tested and supported by original research. Covering all major asset classes, our indexes originate from the Morningstar Investment Research Ecosystem—our network of accomplished analysts and researchers working to interpret and improve the investment landscape. Clients such as exchange-traded fund providers and other asset management firms work with our team of experts to create distinct, investor-focused products based on our indexes. Morningstar Indexes also serve as a precise benchmarking resource.

For More Information

For any queries reach us via our [communication page](#).



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