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# Construction Rules for the Morningstar® Developed Markets ex-Japan Gender Diversity Index<sup>SM</sup>

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## Morningstar Indexes

August 2020

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### Contents

#### 1 Overview

#### 2 Index Construction

2.1 Assigning Stocks to the Index

2.2 Index Weighting

#### 3 Index Maintenance and Calculation

3.1 Index Maintenance and Corporate Action Treatment

3.2 Index Calculation and Price Data

#### 4 Methodology Review and Index Cessation Policy

#### 5 Data Correction and Precision

5.1 Intraday Index Data Corrections

5.2 Index-Related Data and Divisor Corrections

5.3 Computational and Reporting Precision

#### 6 Appendixes

6.1 Equileap Gender Scorecard Calculation

6.2 Morningstar Regions and Sectors

#### 7 About Morningstar

### Overview

The Morningstar® Developed Markets ex-Japan Gender Diversity Index<sup>SM</sup> pursues objectives that align with environmental, social, and governance standards in reference to gender diversity. Built with the data and scoring methodology of Equileap, the index is designed to emphasize companies that have strong gender diversity policies embedded in their corporate culture and that ensure equal opportunities to employees, irrespective of their gender.

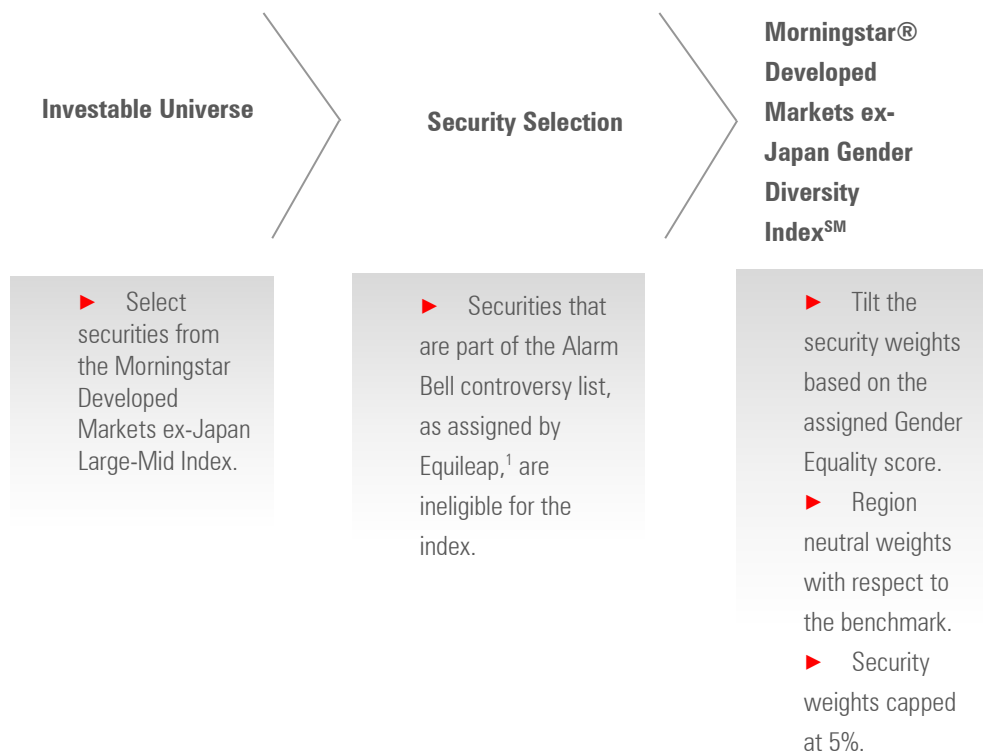
For more information on the Equileap Gender Scorecard and ranking, refer to Appendix 1.

### Performance Inception Date

The inception date of the index is Aug 10, 2020, and the performance inception date, when the first back-tested index values were calculated, is Dec. 19, 2014.

## Index Construction

**Exhibit 1** Morningstar Developed Markets ex-Japan Gender Diversity Index Construction Process



<sup>1</sup> Please refer to Appendix 1 for more details.

For additional details, refer to the "Assigning Stocks to the Index" section.

### Assigning Stocks to the Index

#### Selection Universe

At each reconstitution, constituents of the Morningstar Developed Markets ex-Japan Gender Diversity Index are derived from the corresponding Morningstar Developed Markets ex-Japan Large-Mid Index (benchmark). For more details on benchmark construction, refer to the [Construction Rules for the Morningstar Global Markets Index](#).

#### Security Selection

All benchmark securities that are not part of the latest Alarm Bell controversy list of securities provided by Equileap are eligible for the Morningstar Developed Markets ex-Japan Gender Diversity Index. The Alarm Bell securities will continue to be part of the controversy list for the next 12 months from the date it was flagged by Equileap. No other negative screening is applied apart from the Alarm Bell controversy list.

### Number of Stocks

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

### Index Weighting

The constituent weighting scheme for the index is calculated and applied as noted in the following steps:

- ▶ All eligible constituents are sorted in the descending order of their Equileap Gender Equality, or GE, score.<sup>1</sup>
- ▶ For all securities with the same Equileap GE score, Category A data<sup>2</sup> is used to break the tie, starting with criterion 5 (promotion and career development) and continuing, where required, through criterion 4 (workforce), 3 (senior management), 2 (executive), and 1 (board). In case of securities having the same Category A score, the one with the higher GE score for the previous year is assigned a higher rank.
- ▶ Within each broader Region<sup>3</sup>, divide the securities into five groups based on the ranks assigned using Equileap GE scores in earlier steps having equal number of securities in each of the five groups. Two or more securities with the same Equileap GE score, Category A scores, and previous year GE scores are always assigned to the same group. Thus, each of the five groups across the regions might not contain an equal number of securities, though this is the target.
- ▶ Assign tilt factors of (0.50, 0.75, 1.00, 1.25, 1.50, in this respective order) to the security groupings with the worst to the best Equileap GE scores in the previous step.
- ▶ For securities that are part of the current eligible universe, which had been excluded due to the presence of the Alarm Bell controversy at the previous reconstitution, are assigned an additional factor of 0.5 such that

$$\text{Final Tilt Factor} = 0.5 \times \text{Tilt Factor}$$

- ▶ Calculate the tilted weight for each security based on the formula:

$$\text{Tilted Weight} = \frac{\text{Final Tilt Factor} * \text{Float Market Cap}_i}{\sum_1^n (\text{Final Tilt Factor} * \text{Float Market Cap}_i)}$$

- ▶ To minimize deviation from corresponding weights in the parent index, the region weights in the index are ensured to be equal to region weights in the benchmark index during each reconstitution. The weights of the securities within each region are maintained in the proportion of their tilted weights after normalization, as assigned in the prior step
- ▶ As a final step, individual security weights are capped at 5% to avoid concentration risk and the excess weights are redistributed over the other constituents of the portfolio in the proportion of their existing weights.

<sup>1</sup> Equileap GE score is prior to applying ESG exclusions or Alarm Bell controversy exclusions. For a security without an Equileap GE score, it is assigned a representative GE score, which is the average of scores assigned to all securities within the same sector in the country of classification for the security. Please refer to Appendix 2 for Morningstar sector definitions.

<sup>2</sup> Refer to Appendix 1 for more details on Category A data.

<sup>3</sup> Please refer to Appendix 2 for Morningstar region definitions.

## Index Maintenance and Calculation

### Scheduled Maintenance

The index is rebalanced quarterly in March, June, September, and December and reconstituted annually in December, on the Monday following the third Friday. If Monday is a holiday, it is effective on the immediate following business day.

Because the reconstitution of the Morningstar Developed Markets ex-Japan Gender Diversity Index is less frequent than the Morningstar Global Markets Index, the securities excluded from the Morningstar Global Markets Index at the reconstitution effective date are also deleted from the Morningstar Developed Markets ex-Japan Gender Diversity Index.

During quarterly reviews, weights are rebalanced to enforce 5% security capping. New securities are not added to the index, and region weights are not neutralized to be equal to region weights in the parent index during the quarterly reviews.

Securities that are part of the Alarm Bell controversy list will be removed during the quarterly reviews and reintroduced at the next reconstitution if they are no longer part of the Alarm Bell controversy list.

### Corporate Action

The treatment of corporate actions will be as per the market-capitalization-weighted indexes. Details can be found in 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 take into account 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 Indexes Methodology Change Policy](#).

Morningstar also notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to the index, or a possible cessation of the index. Circumstances that could lead to an index cessation include, but are not limited to, market structure change, product definition change, inadequate supply of data, insufficient revenue associated with the index, insufficient number of clients using the index, and/or other external factors beyond the control of the Morningstar Index Committee.

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 daily highs or lows, it is corrected retroactively as soon as is feasible.

### **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 within five days of its occurrence, will always 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](#).

### **Computational and Reporting Precision**

For reporting purposes, index values are rounded to two decimal places and divisors are rounded to appropriate decimal places.

## Appendixes

### Appendix 1: Equileap Gender Scorecard Calculation

- ▶ Headquartered in Amsterdam, Equileap is the leading provider of data and insights on gender equality in the corporate sector. Equileap researches and ranks over 3,000 public companies around the world using a unique and comprehensive Gender Equality Scorecard™ with 19 criteria, including the gender balance of the workforce, senior management, and board of directors, as well as the pay gap, parental leave, and sexual harassment.
- ▶ Equileap was launched in 2016 by Diana van Maasdijk and Jo Andrews, two professionals who have significant experience in philanthropy and specialize in women's rights. Their mission was to take a leap toward gender equality in the workplace and lay out the data to show why that leap was so important.
- ▶ Companies are ranked according to 19 gender criteria in four categories:
  - ▶ Category A: Gender balance in leadership and the workforce.
  - ▶ Category B: Equal compensation and work-life balance.
  - ▶ Category C: Policies promoting gender equality.
  - ▶ Category D: Commitment, transparency, and accountability.
- ▶ Equileap monitors incidents involving sexual harassment and gender discrimination. If an identified incident signals structural or systemic problems according to Equileap's methodology, the company receives an Alarm Bell and becomes ineligible for the index.
- ▶ Companies involved in below controversies within the past two years are assigned to the Alarm Bell controversy list:
  - ▶ One legal judgment or official ruling regarding gender discrimination or sexual harassment against the company or an employee.
  - ▶ Two or more settled legal cases, or one settled class action regarding gender discrimination or sexual harassment against a company or an employee.
  - ▶ Two or more legal judgments or official rulings regarding gender discriminatory practices in a company's marketing and advertising.

For more details, please visit: <http://equileap.com/>

### Appendix 2: Morningstar Regions and Sectors

The following regions and sectors are considered while calculating the index:

- ▶ Regions
  - ▶ Developed markets Americas
  - ▶ Developed markets Europe and Middle East
  - ▶ Developed markets Asia-Pacific
- ▶ Sectors
  - ▶ Basic materials
  - ▶ Communication services
  - ▶ Consumer cyclical

- ▶ Consumer defensive
- ▶ Energy
- ▶ Financial services
- ▶ Healthcare
- ▶ Industrials
- ▶ Real estate
- ▶ Technology
- ▶ Utilities

**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 510,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 17 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.

**Morningstar Index Product Committee**

The Morningstar Index Product Committee is comprised of members who possess a wide array of knowledge in relation to Indexes. The Product Committee is responsible for the governance over the creation and maintenance of all Morningstar branded Indexes, ensuring the highest standards are continuously met. Any matters arising from exceptional or undocumented events will be resolved at the discretion of the Morningstar Index Product Committee.

**Morningstar Index Oversight Committee**

The Morningstar Index Oversight Committee is comprised of informed and qualified professionals who are responsible for the process governance of Morningstar branded Indexes. The Oversight Committee assesses and where appropriate challenges the decisions of Morningstar Indexes with regards to benchmark decisions.



**For More Information**

For any queries, reach out to us via [indexes@morningstar.com](mailto:indexes@morningstar.com).

<https://indexes.morningstar.com/our-products/gender-diversity>



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