Morningstar® Wide Moat Focus Index℠

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The Morningstar® Wide Moat Focus Index℠ is designed to provide exposure to U.S. stocks deemed to have a wide moat and that trade at a discount to our analysts' fair value estimates. The index contains 40 stocks that receive equal weights. The number of holdings may fluctuate based on market conditions and the reconstitution process discussed later in this piece.

What is an Economic Moat?
In a free market economy, capital seeks the areas of highest return. Whenever a company develops a profitable product or service, it doesn't take long before competitive forces drive down its economic profits. Only companies with an economic moat are able to hold competitors at bay and generate economic profits over an extended period of time.

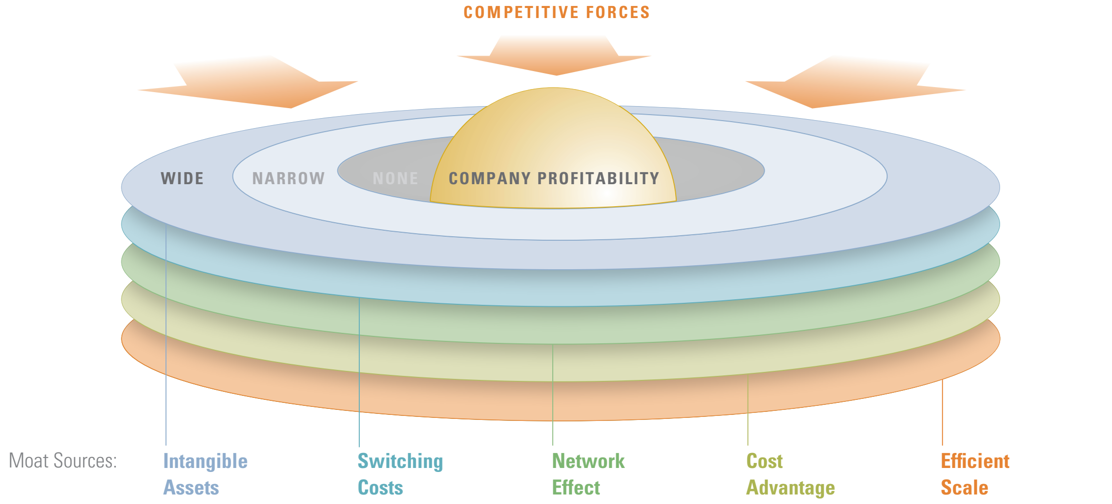
To help investors identify companies that possess an economic moat, Morningstar assigns one of three economic moat ratings: none, narrow, or wide. There are two major requirements for firms to earn either a narrow or wide rating: 1) the prospect of earning above average returns on capital, and 2) some competitive edge that prevents these returns from quickly eroding. A firm must possess a competitive advantage inherent to its business in order to possess a moat.

The five sources of economic moats are network effect, cost advantage, efficient scale, intangible assets, and switching costs.

1. The Network Effect—Present when the value of a service grows as more people use a network.
2. Cost Advantage—Allows firms to sell at the same price as competition and gather excess profit and/or have the option to undercut competition.
3. Efficient Scale—When a company serves a market limited in size, new competitors may not have an incentive to enter. Incumbents generate economic profits, but new entrants would cause returns for all players to fall well below cost of capital.
4. Intangible Assets—Things such as brands, patents, and regulatory licenses that block competition and/or allow companies to charge more.
5. Switching Costs—Whether in time or money, the expenses that a customer would incur to change from one producer/provider to another.

The Morningstar® Wide Moat Focus Index℠
The Morningstar Wide Moat Focus Index selects wide-moat stocks representing the best value as determined by the ratio of Morningstar's estimate of fair value to the stock price. Index constituents therefore represent the most compelling values among the wide moat universe, according to Morningstar analysts. The index holds

Economic Moat: The Five Sources of Sustainable Competitive Advantage



Construction Process for Morningstar Wide Moat Focus Index

Morningstar® US Market Index℠	Morningstar Equity Analyst Assignments	Index Value Selection	Morningstar® Wide Moat Focus Index℠
▸ A broad market index, representing 97% of U.S. equity market cap.	▸ Morningstar equity analyst assigns: – Wide moat rating – Fair value price ▸ Company cannot be under review at time of stock assignment.	▸ The 40 securities with the lowest current market price/fair value price are selected for inclusion in the index.	

40 or more stocks and reconstitutes semi-annually on a staggered quarterly schedule. Therefore, half the index reconstitutes quarterly. This allows for more frequent hunting for undervalued stocks than does traditional semi-annual reconstitution. But it reduces trading by approximately half compared with quarterly reconstitution.

Methodology

The Morningstar Wide Moat Focus Index is a subset of the Morningstar US Market Index, a broad market index representing 97% of US equity market capitalization. To qualify for the Morningstar Wide Moat Focus Index, all US Market Index constituents must meet the following criteria:

- Company is assigned a wide moat classification by a Morningstar analyst
- Company is assigned a fair value price by a Morningstar analyst
- Company cannot be under review at time of stock assignment

Stocks that meet all of the above criteria are eligible for the index. At each reconstitution, the 40 wide moat rated stocks representing the lowest current price/fair value are selected from the list of eligible securities for the sub-portfolio that is reconstituting that quarter. Constituents are equal weighted within their sub-portfolio. Because of the staggered reconstitution schedule, the overall number of index constituents varies. Similarly, securities will not be equal weighted in the overall index.

Rebalancing and Reconstitution

The index will be divided into two sub-portfolios. Each typically contains 40 stocks. One sub-portfolio reconstitutes in December and June, the other in March and September. At each reconstitution, the 40 securities representing the lowest current market price/fair value are selected from the list of eligible securities for the sub-portfolio. The two sub-portfolios are brought back to equal weight in the overall index portfolio every December and June.

Turnover Buffer

To reduce turnover, the index implements a turnover buffer. At the time of reconstitution, current index constituents that still meet eligibility criteria are given a preference for inclusion in their sub-portfolio so long as they are within the 60 cheapest wide-moat-rated stocks.

Sector Capping

As a risk control, exposure to any Morningstar sector shall not exceed 40% of index weight. If the sector exposure of the reference benchmark, the Morningstar US Market Index, exceeds 30%, the index may maintain exposure to that sector of 10 percentage points higher than the benchmark weight.