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# Construction Rules for the Morningstar<sup>®</sup> US Large Cap Select Index<sup>SM</sup>

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## Morningstar Indexes

February 2021

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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 Glossary
- 7 **About Morningstar**

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### Overview

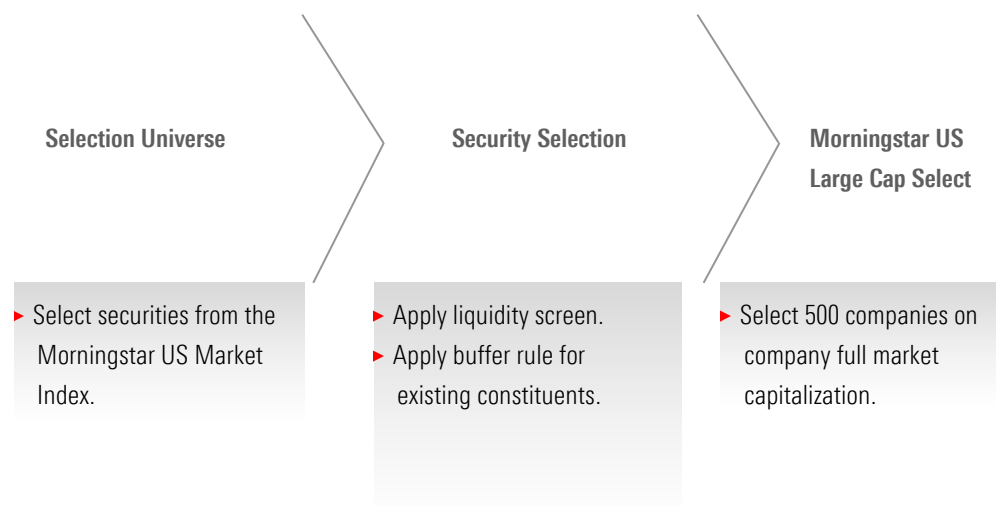
The Morningstar US Large Cap Select Index is designed to provide exposure to the 500 largest U.S. stocks by market capitalization.

### Index Inception Date and Performance Inception Date

The inception date of the index is March 2, 2021, and the performance inception date of the index is June 20, 2008, when the first back-tested index value was calculated.

## Index Construction

**Exhibit 1** Morningstar US Large Cap Select Index Construction Process



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

### Assigning Stocks to the Index

#### Selection Universe

- ▶ At each reconstitution, securities for the index are derived from the Morningstar US Market Index (benchmark). For more details on benchmark construction, refer to the construction rules for the [Morningstar US Market Index](#).

#### Security Selection

To be eligible for the index, all constituents must meet the following criteria in sequence:

- ▶ Security must be a member of the Morningstar US Market Index.
- ▶ Security must have a three-month average daily traded value, or ADTV, of at least \$5 million.
- ▶ Portfolio selection

At each quarterly reconstitution, 500 companies are selected in the following order:

- ▶ Current constituents within the buffer zone of 20% (that is, the top 600 companies) are preferred.
- ▶ The remaining companies from the eligible universe to reach the target count of 500 companies.

- ▶ Within each tier, companies with higher full market capitalization receive higher priority. The portfolio is assembled by priority until the target count is achieved.
  
- ▶ If a company has more than one eligible share class, both share classes will be included in the portfolio if they are members of the benchmark and satisfy other security screens. If the main line, as classified by Morningstar Indexes, doesn't satisfy any one of the above screens, other classes are deemed ineligible.

### **Number of Stocks**

The index targets 500 companies based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. If a company has more than one share class, the index will have more than 500 constituents. However, if securities are added or deleted as a result of corporate actions after reconstitution, the index can have more or fewer than 500 securities.

### **Index Weighting**

The index is float market capitalization weighted. For more details, refer to the [Morningstar Indexes Calculation Methodology](#).

## **Index Maintenance and Calculation**

### **Scheduled Maintenance**

The index is reconstituted and rebalanced 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, it is effective on the immediate following business day. The market data used for reconstitution and rebalance is as of the last trading day of February, May, August, and November.

For more details, please refer to Appendix 1 for details on reconstitution and rebalancing.

### **Corporate Action**

The index follows a market-cap-weighted corporate action treatment policy. 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

Terms	Description
<b>Reconstitution</b>	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.
<b>Rebalance</b>	During each rebalancing, the weights are adjusted for updated free-float and shares outstanding data.

### 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).



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