
Morningstar Indexes Methodology Change Policy

Morningstar Indexes

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Overview

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-tested and/or academically validated results.

The Morningstar Indexes team periodically reviews the methodology of its indexes to ensure that they continue to achieve the stated investment objectives relative to current market conditions. Any change made to the index construction, calculation rules, or corporate action treatment that affects the index selection universe, portfolio composition and weights, or its ongoing maintenance is deemed a methodology change.

This document details the systematic process Morningstar Indexes follows 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 ensures compliance with the industry's voluntary standards, such as the International Organization of Securities Commissions guidelines and regional regulations.

Methodology Change Policy

Morningstar indexes are constructed using transparent rules-based methodologies that prescribe the reconstitution and rebalancing frequency, typically quarterly. Methodologies are reviewed during an index's regularly scheduled maintenance to ensure that it reflects the underlying economics of the market or the strategy it intends to represent. The effectiveness of index methodologies can be affected by a number of factors, such as changes to the liquidity profile of the relevant market, regulatory changes, and market accessibility change. In addition, methodologies may change to incorporate the evolution of industry best practices, input data points, or improvements to methodology design. These conditions could affect an index and require a methodology change.

In addition to the periodic methodology reviews performed during regularly scheduled maintenance, the indexes team conducts a formal review annually that thoroughly analyzes the index and ensures it aligns with its stated investment objectives.

On occasion, off-cycle methodology reviews are conducted at the request of market participants or stakeholders outside of Morningstar Indexes operations.

Methodology Change Process

All methodology change proposals are first reviewed by the Morningstar Index Methodology Committee, or IMeC. Each proposal is accompanied by a rigorous impact analysis to understand the rationale and extent of the change. IMeC is responsible for classifying each change as minor or major. A methodology change is considered major or material when the comparability of the time series data across the change date is disjointed relative to the historical trend. Major changes are escalated to the Morningstar Index Product Committee, or MIPC for further review and approval.

For specific process roles and responsibilities see Appendix 1: Methodology Roles and Responsibilities.

To inform the decision-making process and ensure outside stakeholders have a voice when there is a downstream impact, IMeC or MIPC may, if deemed necessary, initiate a consultation process. If a consultation is required, a consultation document highlighting the proposed changes and relevant analysis is broadly distributed to market participants, including, but not limited to, clients and external stakeholders. For additional details, see Appendix 2: Content Framework of Client Consultation. The duration of the consultation varies depending on the impact, complexity of the change, and time-sensitive nature of change. When the consultation window has closed, the feedback from the market participants are analyzed and presented to MIPC.

Given a thorough analysis of the methodology change proposal, including outside consultation feedback, the MIPC owns the final and authoritative decision on the methodology change. The committee will account for criteria in the best interest of the end investor, including, but not limited to, the following:

- ▶ The change is consistent with the design of the index.
- ▶ The index continues to align with the stated objectives.
- ▶ The index continues to measure the underlying market.
- ▶ The impact to market participants.
- ▶ Cost and turnover associated with the change.
- ▶ Constituents' underlying data changes.

The final decision, including the rationale for the change, is communicated to all the market participants at the same time and will be implemented in the upcoming reconstitution after providing a three-month notice.

Communication of Methodology Change Statement

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

- ▶ The methodology change and its rationale.

- ▶ List of affected indexes and an impact analysis, as deemed appropriate.
- ▶ Effective date of the approved change.

Recipients and mode of Communication

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

Appendixes

Appendix 1: Methodology Roles and Responsibilities

Steps	Owners*
Identifying candidates for the methodology change	Clients/IMA/NPD/ Other
Propose solutions and analyze impact	IMA/NPD
Presentation to methodology committee/product committee	IMA/NPD
Client consultation	
Prepare client consultation documents	IMA/NPD
Share the final documents with the product manager	IMA/NPD
Sending consultation document to market participants	PM
Building internal consensus on client feedback for review	IMA/NPD
Review client feedback and recommendations	IMeC, MIPC, IMA/NPD
Communicate the methodology change	IMA/NPD & PM
Implementation of methodology change	IMA/NPD

*IMeC—Methodology Committee; MIPC—Index Product Committee; IMA—Index Management & Analytics; NPD—New Product Development; PM—Product Management; Other includes but is not limited to Market Participants, Morningstar Investment Management, Morningstar Equity Research, Morningstar Quantitative Research.

Additional Notes

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

Appendix 2: Content Framework of Client Consultation

The client consultation document covers these points:

- ▶ Information on the driving force for the change.
- ▶ Proposed methodology changes.
- ▶ List of affected indexes and an impact analysis as deemed appropriate.
- ▶ Due date for providing feedback.
- ▶ Contact details for responding to the survey.

The product management team may conduct the client consultation through any or all of the following mediums:

- ▶ Meeting with clients or through a telephone call.
- ▶ Mailing clients.
- ▶ Conducting a survey.

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 Methodology Index Committee

The Morningstar Index Methodology Committee oversees all new indexes development, index methodology changes, the annual review of existing index methodologies and cessation of indexes. The IMeC reports to Index Leadership, escalating major and material methodology matters to the Index Oversight and Index Product Committees as warranted. The group consists of members of the index team with index research experience and product and business operations professionals who provide the first layer of governance over the index business, with regard to index design and methodology.

Morningstar Index Product Committee

The Morningstar Index Product Committee is responsible for governance of the creation and maintenance of all Morningstar branded Indexes, ensuring the highest standards are continuously met. The committee works with the Index Methodology Committee (IMeC), the Index Oversight Committee and additional Morningstar, Inc. committees, soliciting suggestions and feedback as needed. All groups are comprised of informed and qualified professionals who seek to challenge information provided to them and/or make recommendations based on information provided to them.

For More Information

For any queries, reach out to us at indexes@morningstar.com



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