
Construction Rules for the Morningstar® Sustainability Leaders Index FamilySM

Morningstar Indexes

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Overview

The Morningstar Sustainability Leaders Index Family is designed to provide focused exposure to large-cap stocks that have the lowest environmental, social, and governance (ESG) risk in their parent universe. Each index is diversified across sectors and regions, targeting a fixed number of companies within the selection universe.

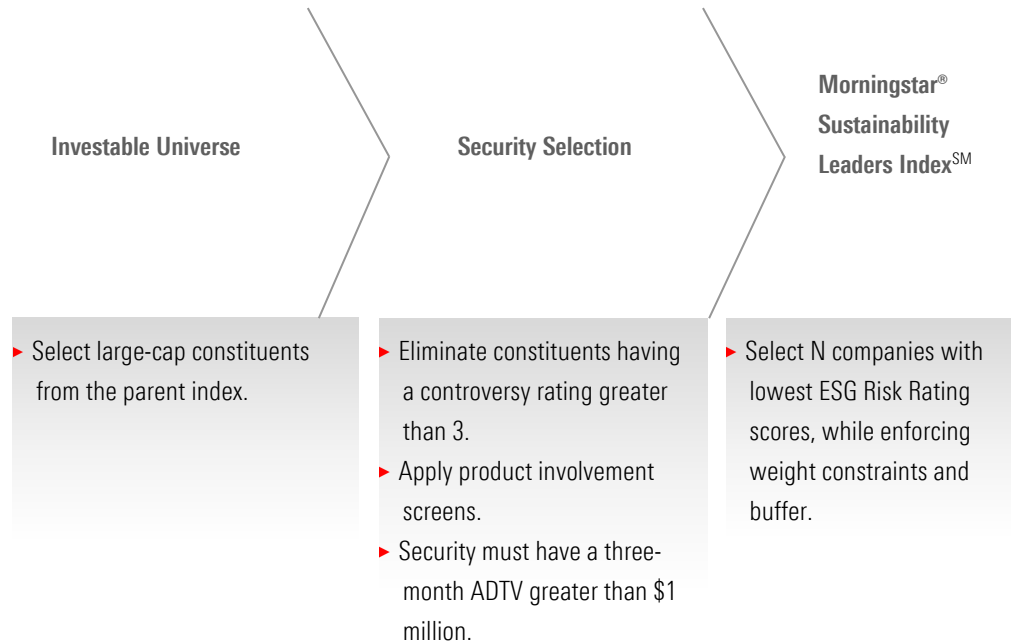
To assess company ESG risk, Morningstar uses the security ESG Risk Rating score from Sustainalytics. For more information on the Sustainalytics ESG Risk Rating, controversy scores, and Morningstar Portfolio Sustainability Score and Rating, please refer to the [Morningstar Sustainability Rating methodology](#).

Index Inception Date and Performance Inception Date

For the inception and performance inception dates of the Global Sustainability Leaders series, refer to Appendix 4.

Index Construction

Exhibit 1 Morningstar Sustainability Leaders Index Family Construction Process



For Additional Details, refer to "Assigning Stocks to the Index" Section.

Assigning Stocks to the Index

Selection Universe

At each reconstitution, securities for each Morningstar Sustainability Leaders Index are derived from its respective parent index.

Security Selection

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

- ▶ Security must be large-cap.
- ▶ Security must have current ESG and controversy scores.¹
- ▶ Security controversy score must be 3 (out of 5) or lower.
- ▶ Security must not belong to the Severe ESG Risk Rating Category.
- ▶ Security product involvement must be 0% for the following activities:
 - ▶ Tobacco production
 - ▶ Controversial weapons
 - ▶ Civilian firearms
 - ▶ Nuclear production

- ▶ Security product Involvement must be less than 50% for the following activities:
 - ▶ Gambling operations and supporting services
 - ▶ Alcohol
 - ▶ Adult entertainment production

- ▶ Security must be compliant with the principles of the United Nations Global Compact.

- ▶ Security must not have a Severe Carbon Risk Rating.¹

- ▶ Security must have an average three-month daily traded value of more than \$1 million. If a secondary line of the company doesn't satisfy this criterion, its weight will be distributed to the remaining liquid classes of the company in the index.

- ▶ Portfolio selection

Security with lowest ESG Risk Rating score is selected. The process is repeated until N companies are selected subject to the constraints below:

 - ▶ Region/sector active weight constraints: To minimize the deviation from corresponding weights in the parent index, the region and sector weights in the index are maintained within a lower and upper bound calculated as:
 - ▶ Lower bound = Max (Weight in benchmark - 15%, Weight in benchmark /15)
 - ▶ Upper bound = Min (Weight in benchmark + 15%, Weight in benchmark * 15)

¹ ESG, controversy scores and Carbon Risk Ratings are sourced from Sustainalytics

The constraints are enforced by the locally optimal (greedy) selection algorithm explained in Appendix 2. The maximum controversy, ESG Risk Rating Category and product involvement eligibility criteria described above take precedence over meeting the weight constraints if they are in conflict. If enough eligible securities are not available to meet the minimum region or sector weight constraint, the constraint is relaxed. Additionally, the 5-10-40 index weight capping rule may lead to relaxation of sector constraints.

- ▶ Buffer rules: A current constituent has absolute priority to remain in the portfolio over the new entrants, so long as its ESG Risk Rating score percentile rank is better than the portfolio's coverage of the benchmark in its peer group plus the buffer margin of 17% (or 25% margin in the case of single-region parent index, where only sector constraints apply).

Number of Stocks

The index targets top N companies based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. The actual number of securities may be higher than N in case of multiple share classes of a company. For more details on target N, please refer to Appendix 4.

Index Weighting

The index is float market cap-weighted. Partial weights may be taken for one company in each region and sector if necessary to satisfy region/sector weight constraints. The index applies 5-10-40 capping on individual companies; that is, individual company weight at the time of reconstitution cannot exceed 10%, and constituents greater than 5% in weight cannot combine to over 40% of the portfolio. If individual company weights exceed 10%, weights are redistributed among remaining companies belonging to the same sector. The 5-40 capping is later applied on the resultant portfolio weights. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

Index Maintenance and Calculation

Scheduled Maintenance

The index is reconstituted semiannually and implemented after the close of business on the third Friday of June and December and is effective the following Monday. If Monday is a holiday, reconstitution is effective on the immediate following business day. The market data used for reconstitution is as of the last trading day of April and October.

The index is 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, rebalance is effective on the immediate following business day. Apart from incorporating share and float factor adjustments, index constituents with a controversy rating greater than 3 are deleted from the index. Weight constraints are, however, not enforced.

The ESG Risk Rating and controversy data used for reconstitution and rebalancing is the latest available data as of the last trading day of February, May, August, and November.

Corporate Action

The treatment of corporate actions 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 Index Methodology Change Process](#).

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 affect index daily highs or lows, they are 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: Glossary

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

Appendix 2: Construction Algorithm

MS – highest stock Risk score in cap-only portfolio (upper bound highest score for collar constraint)

NC – number of grouping constraints (for only sector constraint, NC = 1)

TGT - target coverage of the benchmark index by market cap (weighting scheme).

Initialize TGT to target number of stocks, N, divided by number of stocks in the benchmark index.

Build portfolio achieving TGT coverage of benchmark:

Phase 1: Achieving Minimum Weights Per Each Peer Group

For n in NC...1:

While any group minimum weights not met

and best qualifying stock Risk score < MS or n = 1

and target market cap not reached

Add best scoring stock from the opportunity set that doesn't violate any group maximum

and at least n of the groups it belongs to are under minimum

Phase 2: Filling the Remaining Portfolio

While target market cap not reached

Add best scoring stock from the opportunity set that doesn't violate any group maximum

While number of stocks in the constructed portfolio is not equal to N and binary search step size is above threshold, perform binary search of TGT space, repeating construction algorithm above for the new value of TGT at each step.

Appendix 3: Index Target N, Inception Date and Performance Inception Date

Index Name	Target N	Performance Inception Date	Inception Date
Morningstar Global Markets Sustainability Leaders	100	12/21/2012	8/06/2018
Morningstar Developed Markets Sustainability Leaders	75	12/21/2012	8/06/2018
Morningstar Global Markets ex-US Sustainability Leaders	75	12/21/2012	8/06/2018
Morningstar Developed Markets ex-US Sustainability Leaders	50	12/21/2012	8/06/2018
Morningstar Developed Europe Sustainability Leaders	50	12/21/2012	8/06/2018
Morningstar Emerging Markets Sustainability Leaders	50	12/21/2012	8/06/2018
Morningstar US Market Sustainability Leaders	50	12/21/2012	8/06/2018
Morningstar Asia ex-Japan Sustainability Leaders	50	12/21/2012	8/06/2018
Morningstar Nordic Sustainability Leaders	25	12/21/2012	8/06/2018
Morningstar Japan Sustainability Leaders	25	12/21/2012	8/06/2018

Appendix 4: Morningstar Regions and Sectors

The following regions and sectors are considered while applying the active sector/region constraints

- ▶ Regions
 - ▶ Developed Markets Americas
 - ▶ Developed Markets Europe and Middle East
 - ▶ Developed Markets Asia Pacific
 - ▶ Emerging Markets Asia
 - ▶ Emerging Markets Europe
 - ▶ Emerging Markets Americas
 - ▶ Emerging Markets Middle East and Africa

▶ 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 our [communication page](#).



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