Background
The goal of Morningstar's Strategic Beta and Index attribute data is to provide a more granular view of how indexes are constructed. Morningstar first introduced its strategic beta taxonomy in 2014; it aimed to provide additional detail on strategic-beta products through assignment of one or more Strategic Beta Attributes as well as assignment of a Strategic Beta Group. Our updated methodology replaces Strategic Beta Attributes with Index Selection and Index Weighting attributes for all eligible index-tracking products and uses a more descriptive list of Strategic Beta Groups for strategic-beta index-tracking products.

Frequently Asked Questions

1. What changes is Morningstar making to its Strategic Beta data set?

   - Strategic Beta Attributes will be retired and replaced with two new data points: Index Selection and Index Weighting. Index Selection and Index Weighting will be collected for all eligible index-tracking products, not just Strategic Beta products. One or more Index Selection attributes and Index Weighting attributes can be assigned per index and the eligible products that track them.

   - Strategic Beta Group will be expanded to include a more granular set of choices. Strategic Beta Attributes that only described the overall strategy and not index construction (such as “Fixed Income”) will move under the updated Strategic Beta Group choices.

   - The Strategic Beta tag will be simplified to “Yes” or “No” for all exchange-traded products and open-end funds, rather than the current “Yes, No, Not Applicable, [blank].” Indexes will be simplified to “Yes, No, [blank].” We include a [blank] option for indexes because Morningstar will only collect Index Strategy and Strategic Beta data points when an eligible investment product tracks the index.

2. Why is Morningstar implementing changes to its Strategic Beta data set?
The updated data set reflects how the industry has evolved. We have continued to see an increase in the number of products marketing themselves as strategic beta, as well more-nuanced index-construction methodologies within the strategic-beta universe. As the industry becomes granular for index methodology of these products, so should our data and tools.

The new data structure increases utility for clients. Strategic Beta Attributes represented a combination of index selection, index weighting, and general grouping, making it difficult to understand what role a certain attribute (like Growth) plays in the index methodology. These attributes were only collected for strategic-beta products, so clients could not use them to compare with products tracking a standard index. By breaking down Strategic Beta Attributes into Index Selection and Index Weighting for all index-tracking products, clients can better compare standard versus strategic-beta products, as well as distinguish strategic-beta products that may otherwise seem similar.

In addition to a more granular structure of the data points, there are more detailed choices within each one. Strategic Beta Attributes consists of 19 attributes, whereas Index Selection and Index Weighting each have 25-plus different attributes. Strategic Beta Group previously denoted three choices (Return-Oriented, Risk-Oriented, and Other), which are too broad for the current offerings of strategic-beta products. As a result, Strategic Beta Group will expand to 11 choices.

3. What types of indexes and products are affected?

- Exchange-traded products, open-end funds, and indexes are affected.

4. What types of indexes and products are eligible or excluded from collection?

- The data points reflect the methodology of an index, so that any two eligible investment products tracking the same index will also display the same data. Eligibility for collection is based off the investment product, though, so not all indexes Morningstar covers will have the Strategic Beta and Index Strategy data points populated.

Eligible

- We include global index-tracking exchange-traded products and open-end funds that do not track a blended benchmark and are not included in our “trading” categories, such as leveraged and inverse funds
- An index will be assigned only when an eligible investment product is tracking it
- If the investment product and its index are strategic beta, a Strategic Beta Group is assigned. Standard benchmarks are assigned as “Not Applicable” for the Strategic Beta Group.

Excluded
► We do not populate Index Selection, Index Weighting, or Strategic Beta Group for excluded products
► We exclude actively managed investment products
► We exclude investment products outside of ETPs and open-end funds
► We exclude index-tracking products that track a blended benchmark
► We exclude index-tracking products that are included in our “trading” categories, such as leveraged and inverse funds
► We exclude indexes that do not have an eligible investment product tracking them yet

5. Where can I find more-detailed information on the new data points?

➢ Additional details, including the full list and definitions of Index Selection, Index Weighting, and Strategic Beta Group, can be found in the Morningstar Strategic Beta and Index Strategy Attributes methodology paper.

6. When will Morningstar implement the changes for its Strategic Beta data set?

➢ Replacing the existing Strategic Beta Attributes and Strategic Beta Group with Index Selection, Index Weighting, and the expanded Strategic Beta Group data points will occur over the course of fourth-quarter 2018 to first-quarter 2019, depending on which Morningstar product a client subscribes to. Clients should contact their Relationship Manager or Morningstar product contact to confirm when the changes will take place for their specific solution.

7. Will these changes affect which products are tagged as Strategic Beta?

➢ In some cases, yes, but these are considered a data correction.

➢ Why would an ETP or mutual fund change to Strategic Beta = Yes?
  • A product that is considered strategic beta may have not been tagged as “Yes” if the previous Strategic Beta Attributes and Strategic Beta Group data points did not have the choices available to assign to the index and product.

➢ Why would an ETP or mutual fund change to Strategic Beta = No?
  • The most common examples are products that may have exhibited certain index-construction rules, such as a dividend screen or equal weighting, but are not considered strategic beta in our broader definition. Because Index Selection and Index Weighting are assigned to all eligible index-tracking products, we can still recognize selection and weighting beyond market capitalization while accurately reflecting that the product is not considered strategic beta.

8. Why is a data point blank for an ETP, mutual fund, or index?
For ETPs and open-end funds, excluded products will not display Index Selection, Index Weighting, or Strategic Beta Group, even if the index may have these data points. For example, if an active and passive fund both list the same benchmark, the data displays for the passive fund but not the active fund.

For indexes, data is collected only if it is the benchmark of one or more eligible index-tracking products.

9. What should clients or asset managers do if they believe the assignment of an Index Selection, Index Weighting, Strategic Beta Group, or Strategic Beta tag should be revised?

- Appeals can be submitted only by fund or index representatives and not by third parties.
- We accept appeals for existing assignments throughout the year. Morningstar reviews all appeals but generally rejects those based on a difference in definition. We do not have a required form for appeals but stress that successful appeals typically provide information demonstrating that our analysis is incomplete or inaccurate. Fund and index representatives may send a request to appeal by emailing surveyedoperations@morningstar.com

10. How does Morningstar decide what choices are available for Index Selection, Index Weighting, and Strategic Beta Group? Is there a process to regularly review these?

- We conduct, at a minimum, an annual review process to assess what products and indexes have been assigned as Other within these three data points to decide whether a new choice is warranted.

11. What should clients or asset managers do if they believe a new choice should be added for the Index Selection, Index Weighting, or Strategic Beta Group?

- Morningstar will review requests for new attributes and group choices but generally rejects those based on a difference in definition. We ask that clients or asset managers provide information demonstrating why a new choice is warranted. These requests may be emailed to surveyedoperations@morningstar.com

12. Why is ESG not an Index Selection option?

- Morningstar recognizes the value in identifying and understanding environmental, social, and governance-themed products and offers a variety of data points to help clients navigate them. We currently recognize ESG selection or weighting methodologies as “Other” for Index Selection and Index Weighting as to not create redundancy with our existing suite of ESG attributes. Additionally, an ESG mandate does not qualify an index and the products that track them as Strategic Beta, mainly because ESG products are not necessarily aiming to increase return or reduce risk relative to a standard index.