

Morningstar Broad Style IndexesSM

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Since its creation in 1992, the Morningstar Style BoxTM has served as a reference point for investors. The style box characterizes investments by their fundamental attributes, dividing the equity market along dimensions of size and valuation. Investors use the style box for diversification, asset allocation, and performance evaluation.

Morningstar Broad Style Indexes align with the equity style box methodology by design. Size index assignments are determined targeting a fixed percentage of market capitalization, which maintains consistency over time. Style index assignments are underpinned by a 10-factor model. The indexes reflect that companies can display both growth and value characteristics.

The broad style indexes are part of a larger suite. By targeting broad style segments and allowing for overlap in their constituents, they more closely reflect the behavior of active investment managers, facilitating accurate benchmarking. As a modular system with a reasonable number of building blocks, they simplify asset allocation.

Morningstar Broad Style Indexes

The Morningstar Broad Style Index family consists of 12 U.S. equity indexes (see overview section) that track the U.S. equity market by capitalization and investment style.

- ▶ Four indexes represent size segments based on their coverage of the U.S. equity market—US Large Cap, US Large-Mid Cap, US Mid Cap, and US Small Cap Extended
- ▶ Eight indexes represent style segments within each of the size segments:

- ▶ US Large Cap Broad Growth, US Large Cap Broad Value
- ▶ US Large-Mid Broad Growth, US Large-Mid Broad Value
- ▶ US Mid Cap Broad Growth, US Mid Cap Broad Value
- ▶ US Small Cap Broad Growth Extended, US Small Cap Broad Value Extended

Index Eligibility

Index constituents are drawn from the Morningstar US Market Extended Index. Constituents must trade on one of the major U.S. exchanges. Several security types are ineligible. Each style index is derived from a capitalization-based parent index.

Liquidity Requirements

Securities that have more than 10 nontrading days in the prior quarter or that have average daily trading volume over the preceding six months in the bottom quartile of the investable universe are excluded from the indexes.

Constituent Weighting

Index constituents are weighted according to modified free float of shares outstanding which is defined as a company's outstanding shares adjusted for block ownership to reflect only shares available for investment.

Stability Buffers

To help ensure that index turnover reflects only significant events, stocks are reallocated across indexes only if they move sufficiently beyond the target breakpoint between styles or capitalization. Short-term movements do not result in index turnover.

Overview of the Broad Style Index Family

Capitalization Indexes

Large Cap



Large-Mid



Mid-Cap



Small Cap Extended



Large Cap: 70% of market capitalization

Mid Cap: 70%–90% market capitalization

Small Cap Extended: 90%–99.5% market capitalization

Broad Style Indexes

Large Cap Broad Growth



Large Cap Broad Value



Large-Mid Broad Growth



Large-Mid Broad Value



Mid Cap Broad Growth



Mid Cap Broad Value



Small Cap Broad Growth Extended



Small Cap Broad Value Extended



Each constituent of the parent index is assigned to a value index, a growth index, or both, based on a style score. Value and growth indexes each target 50% of their respective size segments.

Rebalancing and Reconstitution

The indexes are reconstituted (stocks are added or removed) twice annually in June and December. Morningstar rebalances constituent shares quarterly. Immediate rebalancing occurs if two constituents merge or a company’s free float changes by 10% or more.

Determining a Stock’s Index Assignment

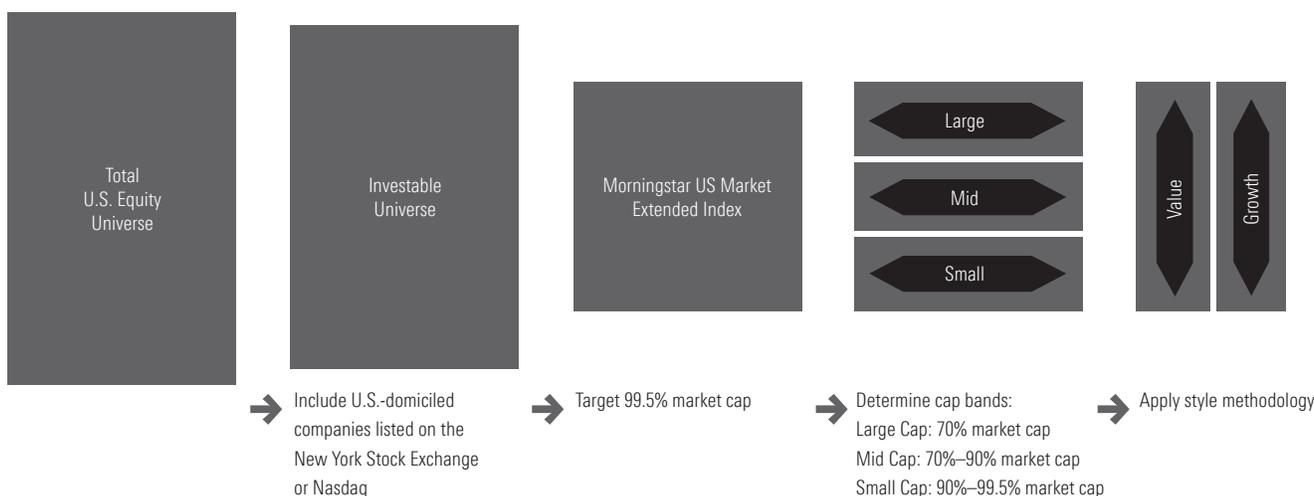
A stock’s style score is determined by measuring a stock’s value and growth characteristics using 10 distinct historical and forward-looking variables (five for value and five for growth). Value and growth scores are combined so that each accounts for one half of a stock’s final style score. Stocks are then assigned to pure growth, pure

value, or a blend based on the relative strength of their style score. Each group comprises roughly one third of the market capitalization within its respective size.

Companies in the blend segment can be assigned to both growth and value indexes. Security weight is a function of market value in the parent index and style tilt. Stocks with a higher growth tilt will have higher weight in the growth index than value. The market value of stocks assigned to the growth and value indexes is allocated on a pro rata basis; the sum of each stock’s market value in the growth index and the value index equals its market value in the parent index.

Morningstar Index Construction Process

The index construction process begins by defining the investable portion of the U.S. equity market. Next, liquidity screens are applied to create the Morningstar US Market Extended Index, which targets 99.5% of equity market capitalization. The index is divided into three market cap segments by defining each as a percentage of the market capitalization.



Determining a Stock’s Style

1. Determine a Value Score

Factors		Weight %
Forward-Looking	Price-to-Projected Earnings	50.0
Historical:	Price-to-Book	12.5
	Price-to-Sales	12.5
	Price-to-Cash Flow	12.5
	Dividend Yield	12.5

2. Determine a Growth Score

Factors		Weight %
Forward-Looking	Long-Term Projected Earnings Growth	50.0
Historical:	Earnings Growth	12.5
	Sales Growth	12.5
	Cash Flow Growth	12.5
	Book Value Growth	12.5

3. Determine a Style Score

Subtract the value score from the growth score.

Growth Score	0 to 100
Value Score	0 to 100
Style Score	-100 to 100

