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# Construction Rules for the Morningstar<sup>®</sup> Developed Europe 100 Index<sup>SM</sup>

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## Morningstar Indexes

July 2017

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### Overview

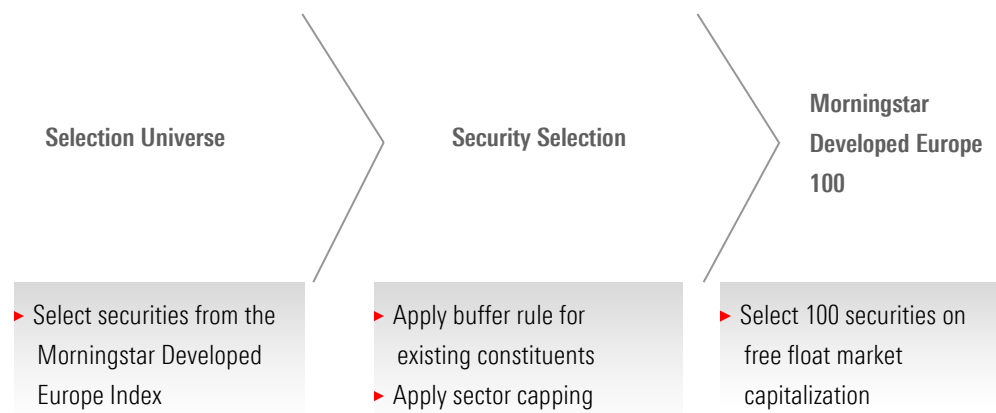
The Morningstar Developed Europe 100 Index is designed to provide exposure to largest and most liquid companies in the developed market (DM) Europe region, while maintaining sector weights similar to the Morningstar Developed Europe Index.

### Index Inception Date and Performance Inception Date

The inception date of the Index is June 30 2017 and the performance inception date of the Index is June 16th 2000, when the first back-tested index value was calculated.

## Index Construction

**Exhibit 1** Morningstar Developed Europe 100 Index Construction Process



For additional details, refer "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 Developed Europe Index (benchmark). For more details on benchmark construction, refer to the construction rules of the Morningstar Global Markets ex-US Index.

#### Security Selection

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

- ▶ Must be a member of the Morningstar Developed Europe Index
- ▶ If a company has more than one eligible share class:
  - ▶ Select the one that is a current index constituent.
  - ▶ Otherwise, select the most liquid share class determined by Morningstar Indexes
- ▶ Portfolio Selection
 

At each quarterly reconstitution, there are three tiers of priority, from highest to lowest.

  - ▶ The largest 40 securities ranked by free float market capitalization.
  - ▶ Current constituents within the buffer zone are preferred:
    - ▶ June and December buffer zone; current index constituents ranked in the top 120 by free float market capitalization.

- ▶ March and September buffer zone: current index constituents ranked in the top 140 by free float market capitalization.
- ▶ The remaining securities from the eligible universe.

Within each tier, securities with higher float market capitalization receive higher priority. The portfolio is assembled by priority until the target count is achieved.

#### ▶ Sector Capping Rules

After initial portfolio selection is performed, sector capping is applied. The maximum weight of an individual sector in the index is capped at 4% plus its corresponding weight in the broad benchmark. In the event a sector cap is breached that smallest security from the offending sector is removed and the next largest security from the most underweight sector is selected instead.

*Maximum Sector Weight = benchmark weight + 4%*

#### **Number of Stocks**

The index targets 100 stocks based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. However, if securities are added or deleted as a result of corporate actions after reconstitution, the index can have more or fewer than 100 securities.

#### **Index Weighting**

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

#### **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.

- ▶ Refer Appendix 1 for details on reconstitution and rebalancing.

##### **Corporate Action**

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

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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.

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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.

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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 Committee**

The [Morningstar Index Committee](#) is currently comprised of senior officials who possess the appropriate levels of knowledge in relation to Indexes. A wide array of business groups are represented to allow for a broad voice to be heard and for a wider view to be expressed in evaluating all subjects brought up during Committee meetings. The Committee seeks to create indexes of the highest quality that meet the recognized qualities of a good benchmark.

**For More Information**

For any queries, reach out to us via our [communication page](#).



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