Morningstar Indexes

Construction Rules for the Morningstar US Target Count Indexes

September 2026

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Overview

The Morningstar US Target Count Indexes are designed to measure the performance of distinct segments of the US equity market. Rather than defining market segments by capitalization coverage thresholds, eligible US companies are ranked by total company market capitalization and assigned to indexes based on predetermined rank-count breakpoints. Together, the indexes provide broad coverage of the US investable equity universe while maintaining transparent and objective construction rules. The indexes employ capitalization-band buffer rules to reduce unnecessary turnover and are weighted by float-adjusted market capitalization. This approach seeks to maintain accurate representation of the targeted market segments while supporting efficient replication.

These indexes do not incorporate environmental, social, or governance criteria.

Index Inception and Performance Start Date

The index inception dates and performance start dates are listed in Appendix 1.

Index Construction

Methodology Summary

Starting Universe	Eligibility	Portfolio Construction	
• Eligible share classes of US companies listed on the Nasdaq, NYSE, and NYSE Market LLC form the starting universe	• Securities with 10 or more nontrading days in the three months preceding reconstitution, or with 10% or less of their shares publicly floated, are excluded • Securities are assigned liquidity scores. Those that rank below the top 90% are ineligible	• Securities are ranked by market cap, and breakpoints are determined as follows, subject to buffer rules: ○ Morningstar US Large Cap 500: largest 500 stocks ○ Morningstar US Mid Cap 500: 501 to 1,000 largest stocks ○ Morningstar US Small Cap 2000: 1,001 to 3,000 largest stocks ○ Morningstar US • Constituents are weighted by float-adjusted market cap • Semi-annual reconstitution, quarterly rebalancing	Morningstar US Target Count Indexes

Starting Universe

At each reconstitution[1], securities for the Morningstar US Target Count Index are derived from the US equity universe described below:

- The security must be a common stock, REIT, or tracking stock.
- The security must trade on one of the three major US exchanges: the New York Stock Exchange, Nasdaq, or the NYSE Market LLC.
  - A company is classified in the US universe if its primary stock market activities are conducted in the US and any of the following conditions are met:
    - It is incorporated in the US or the following US territories: Guam, Puerto Rico, or the US Virgin Islands.
    - It is incorporated in any other country, but files a Form 10-K/10-Q or equivalent, and its primary business activities, as measured by the geographic distribution of revenue and assets, are

[1] Before December 2009 reconstitution, constituents of the Morningstar US Target Count Indexes were derived from the Morningstar US Market Extended Index (benchmark). For more details on benchmark construction, refer to the Construction Rules for the Morningstar US Market Extended Index.

conducted in the US. For cases where the distribution of revenue and assets does not indicate toward the US, Morningstar Indexes makes determinations on a best-efforts basis. Companies that remain unclassified at the end of the exercise are ineligible for the index.

- The following security types do not qualify:
  - fixed-dividend shares
  - convertible notes, warrants, and rights
  - limited partnership/master limited partnership and limited liability companies
  - business development companies
  - pooled investment vehicles
  - royalty and statutory trusts.

ADRs, are eligible for inclusion only if no local equity listing is available for the company.

Eligibility

To be eligible for inclusion in the indexes, all securities must meet the following criteria:

- Securities with more than 10 nontrading days in the prior quarter are excluded.
- Trading volume and turnover:
  - A security must be among the top 90% of the companies in the universe (after all the previous screens are applied) based on its liquidity score, which is the average of its rank on each of the following measures:
    - The average monthly trading volume in US dollars during the six calendar months immediately before reconstitution or, in the case of corporate entities younger than six months, since the security was first issued (partial month periods are prorated by the number of trading days in the month).
    - The lowest two months' total trading volume during the six calendar months immediately before reconstitution (the months need not be sequential).
- Free float: Each security should have a free float of greater than 10%. For more details on Morningstar's definition of free float, refer to Appendix 2.
- Companies with multiple share classes
  - All trading classes that meet the general eligibility criteria are considered for inclusion.
  - The market capitalization is determined by aggregating all listed share classes. This aggregate market capitalization is used to assign companies to market-capitalization bands, described in more detail in the following section.
  - The weight contribution of a given share class in the index is based on the free-float market capitalization of that share class.

Portfolio Construction

Calculating the Market Capitalization Breakpoints

All eligible securities are ranked by total company market capitalization in descending order, and the top 3,300 companies are targeted for inclusion in one of these indexes. Cumulative market capitalization percentages are calculated for each company, and market capitalization breakpoints are determined by company rank. At the initial construction, companies are segmented into the following capitalization bands based on their ranking:

- Morningstar US Large Cap 500 Index: Rank 1—Rank 500
- Morningstar US Mid Cap 500 Index: Rank 501—Rank 1000
- Morningstar US Small Cap 2000 Index: Rank 1001—Rank 3000

Two composite indexes are defined as follows:

- Morningstar US Large-Mid Cap 1000 Index: Comprised of the Morningstar US Large Cap 500 Index and the Morningstar US Mid Cap 500 Index.
- Morningstar US Small-Mid Cap 2500 Index: Comprised of the Morningstar US Mid Cap 500 Index and the Morningstar US Small Cap 2000 Index.

Capitalization Bands Buffer

At the following reconstitutions, a buffer is applied around the capitalization bands to reduce turnover from small changes in market capitalization. The existing constituents of the index are retained in their existing capitalization bands provided that the cumulative capitalization percentage of the constituents falls within the buffer zone.

- Large-mid upper buffer: 500th company percentile minus 3.5%
- Large-mid lower buffer: 500th company percentile plus 3.5%
- Mid-small upper buffer: 1,000th company percentile minus 3.5%
- Mid-small lower buffer: 1,000th company percentile plus 3.5%
- No buffer is applied at the lower end of the Morningstar US Small Cap 2000 Index.

Buffer implementation process:

- The top 3,300 companies are sorted according to the total company market capitalization in descending order.
- The percentile for each company is calculated by dividing its respective cumulative total market capitalization by the total market capitalization of all 3,300 companies.
- The percentile cut off at the large-mid and the mid-small breakpoints, that is, at the 500th and the 1,000th company, is determined.
- The buffer range is determined by adding and subtracting the respective buffer widths to the breakpoints determined in the step above.

For the large-mid buffer, all companies with cumulative market capitalization percentiles below the large-mid upper buffer are first assigned to the Morningstar US Large Cap 500 Index. Existing constituents of the Morningstar US Large Cap 500 Index that fall within the buffer zone—that is, between the large-mid upper buffer and the large-mid lower buffer—are retained. Additionally, any newly qualifying companies (not currently in the Morningstar US Mid Cap 500 Index) that fall within the range from the large-mid upper buffer to the original large-mid breakpoint are also included. A similar approach is followed for the mid-small buffer: companies with percentiles below the mid-small upper buffer are assigned to the Mid Cap 500 Index. Existing Morningstar US Mid Cap 500 Index constituents within the mid-small buffer range are retained, and newly qualifying companies (not currently in the US Small Cap 2000 Index) within the range from the mid-small upper buffer to the original mid-small breakpoint are also included.

As an example, if the 500th company at the large-mid breakpoint has its corresponding market capitalization percentile as 85%, then all the companies within the 81.5% percentile are first assigned to be part of the Morningstar US Large Cap 500 Index. Next, any existing large-cap company within the 81.5% to 88.5% percentile would be selected to be part of the Morningstar US Large Cap 500 Index, irrespective of the total count. Next, any newly added company (that is, not already part of the Morningstar US Mid Cap 500 Index) within the 81.5% to 85% percentile is selected, irrespective of the total count.

At each rebalance, significant IPOs are included in the Morningstar US Target Count Indexes. Significant IPOs are broadly defined as IPOs that meet the general liquidity and investability criteria and have full market value (in USD), greater than or equal to twice the mid-small segment cutoff of the US market segment at the previous reconstitution.

Number of Stocks

The indexes target a fixed number of stocks based on a transparent ranking system, subject to the application of eligibility criteria at reconstitution. However, due to the size segment buffering rules, corporation actions, and eligibility of multiple share classes per company, the constituent count may deviate from the targeted number. During reconstitution, if the number of eligible securities is less than the targeted constituent count, all eligible securities are selected. The reconstitution schedule is provided in the Index Maintenance and Calculation section. The target counts for the indexes are provided in Appendix 1.

Index Weighting

The indexes are weighted by float-adjusted market capitalization. For more details, refer to the Morningstar Indexes Calculation Methodology rulebook.

Index Maintenance and Calculation

Reconstitution and Rebalancing

The indexes are reconstituted, where the membership is reset, semiannually on the third Friday of June and December. Adjustments are implemented after Friday's market close and are reflected the following Monday. The market data used for reconstitution is as of the last trading day of April and October.

The indexes are rebalanced quarterly on the third Friday of March, June, September, and December. Adjustments are implemented after Friday's market close and are reflected the following Monday. The market data used for rebalancing is described in the Free Float Calculation Methodology.

Refer to Appendix 2 for details on reconstitution and rebalancing.

Index files are published according to the global calendar schedule, meaning index files will be published every day from Monday to Friday throughout the year, even on local market holidays. For more information, please refer to the Morningstar Indexes Holiday Calendar.

IPO Treatment

At each reconstitution in June and December, securities with IPOs listed on or before the last trading day of April and October are eligible for inclusion in Morningstar indexes if they meet all other eligibility criteria. The liquidity criteria are assessed on a pro rata basis based on the IPO date.

At each rebalance in March and September, significant IPOs are included in the indexes. Significant IPOs are broadly defined as securities that meet the general liquidity and investability criteria and have full market value (in USD), greater than or equal to twice the mid-small segment from the previous reconstitution. The data cutoff date for significant IPOs is the last trading day of February and August. This treatment for significant IPOs is effective from September 2026, on.

Corporate Actions

The treatment of corporate actions will be as per the float-adjusted market-capitalization-weighted indexes' corporate action methodology. For more details, please refer to the Morningstar Indexes Corporate Actions Methodology.

Index Calculation and Price Data

Details about index calculations and price data can be found in their respective rulebooks: Morningstar Indexes Calculation Methodology and Morningstar Equity Indexes Price Methodology.

Methodology Review and Index Decommissioning Policy

The index methodology is continually reviewed to ensure it achieves all stated objectives. These reviews consider corporate action treatment, eligibility requirements, and maintenance procedures. Subscribers to the index will be notified before any methodology changes are made. For more details, refer to the Morningstar Indexes Methodology Change Policy.

Morningstar Indexes notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to, or a possible cessation of, the index. These circumstances are generally not within Morningstar's control and may include significant changes to the underlying market structure, inadequate access to necessary data, geopolitical events, and regulatory changes. In addition, factors such as low usage or methodology convergence may result in the cessation of an index.

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 Indexes Decommissioning Policy.

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 affects index calculations, corrections are applied prospectively.

Index-Related Data and Divisor Corrections

Incorrect pricing and corporate action data for individual issues in the database will generally be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within two days of its occurrence, will 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.

Exceptions

While Morningstar will seek to apply the method described above, the market environment, supervisory, legal, financial, or tax reasons may require an alternative approach to be adopted. A decision to take an alternative approach will be made by the relevant Morningstar Index Methodology Committee, and in all instances, the application of a nonstandard process will be reported to the Morningstar Index Oversight Committee.

Appendixes

Appendix 1: Inception Dates, Performance Start Dates and Target Counts

Index	Inception Date	Performance Start Date	Target Count
Morningstar US Large Cap 500 Index	2025-05-30	1998-07-01	500
Morningstar US Mid Cap 500 Index	2025-05-30	1998-07-01	500
Morningstar US Small Cap 2000 Index	2025-07-04	1998-07-01	2,000
Morningstar US Large-Mid Cap 1000 Index	2025-05-30	1998-07-01	1,000
Morningstar US Small-Mid Cap 2500 Index	2025-07-04	1998-07-01	2,500

Appendix 2: Glossary

Section	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in a membership reset.
Rebalance	During each rebalancing, the weights are adjusted for updated free-float and shares outstanding data.
Free Float	Free float is defined as a security's outstanding shares adjusted by block ownership to reflect only truly tradable and investable shares. A security's outstanding shares are adjusted if an entity owns 5% or more of the security through one of the following types of block ownership: • Cross-ownership—shares that are owned by other companies (including banks and life insurance companies). • Government ownership—shares that are owned by governments (central or municipal) or their agencies. • Private ownership—shares that are owned by individuals or families. • Restricted shares—shares that cannot be traded during a certain period. However, a security's outstanding shares are not adjusted for institutional investors' holdings, which include, but are not limited to, the following categories: • Custodian nominees • Trustee companies • Mutual funds • Investment companies • Pension fund holdings

Appendix 3: Modifications to the Rulebook

Section	Description	Update Date
Index Maintenance and Calculation	Updated the IPO treatment to clarify that the quarterly addition logic for significant IPOs is effective from September 2026 on.	September 2026

About Morningstar Indexes

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers, and advisors in navigating investment opportunities across major asset classes, styles, and strategies. From traditional benchmarks and unique IP-driven indexes to index design, calculation, and distribution services, our solutions span an investment landscape as diverse as investors themselves.

Morningstar Index Methodology Committee

The Morningstar Index Methodology Committee oversees all new index development, index methodology changes, and cessation of indexes for any indexes where Morningstar owns the intellectual property. This committee is also charged with ensuring that indexes align with Morningstar Research principles and values. The group comprises members of the index team with index research, product development, product management, client service, index implementation, and operation expertise who provide the first layer of governance over index design and methodology.

Morningstar Index Operations Committee

The Morningstar Index Operations Committee governs the processes, systems, and exception handling of the day-to-day management of all live indexes, including index rebalancing and reconstitution, restatements, market classification, and contingency management. The committee oversees the annual review of index methodology as required by the European Benchmark Regulations ("BMR"), ensuring that methodologies remain fit for purpose and continue to achieve their stated investment objectives. The group comprises members of the index team with data, operations, corporate actions, product development, index launch, client service, and index management experience who provide the first layer of governance over index operations.

Morningstar Index Oversight Committee

The Morningstar Index Oversight Committee is responsible for the index oversight function as per the requirements of the European Benchmark Regulation ("BMR"), providing independent oversight of all aspects of the governance of benchmark administration as required by the relevant BMR. Its remit extends to all calculation and administration-related business activities of Morningstar Indexes, including administration of Morningstar-owned benchmarks as well as client-owned benchmarks and index calculation. The oversight function is part of the organizational structure of Morningstar but is separate and independent from the index business, index management, and the other index committees.

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