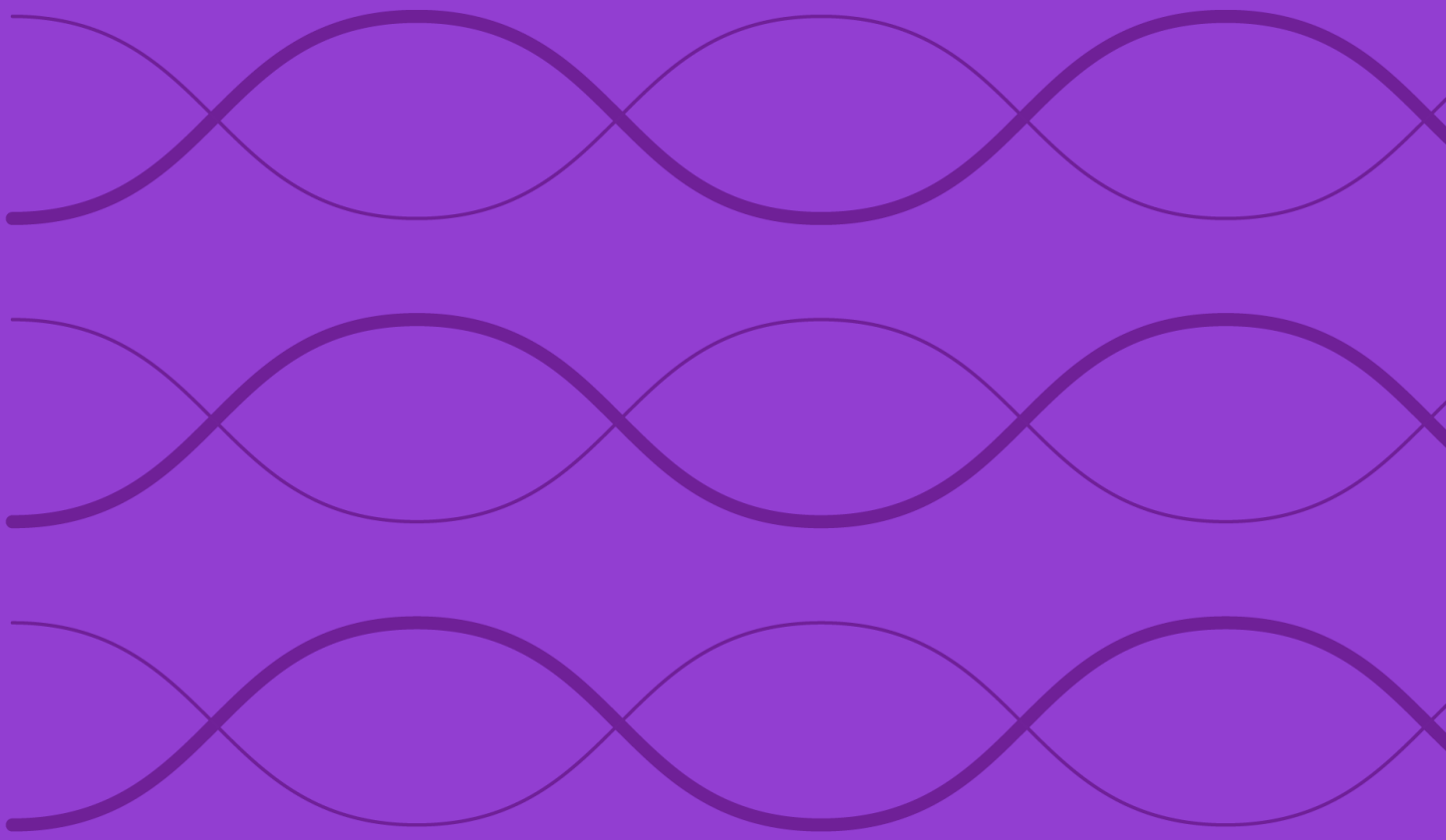
MORNINGSTAR Indexes

Construction Rules for the Morningstar Wide Moat Focus Index



November 2026

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Overview

The Morningstar Wide Moat Focus Index targets companies with Morningstar® Economic Moat™ Ratings of wide that are trading at the lowest current market price/fair value ratios, using a rules-based methodology. Moat ratings and fair value estimates are forward-looking assessments determined independently by Morningstar Equity Research. Morningstar Indexes does not produce or influence these assessments.

For more information on the moat rating process and fair value estimation performed by Morningstar Equity Research, refer to Morningstar Equity Research Methodology.

This index does not incorporate environmental, social, or governance criteria.

Index Inception and Performance Start Date

The index inception date is February 14, 2007, and the performance start date, when the first back-tested index value was calculated, is September 30, 2002.

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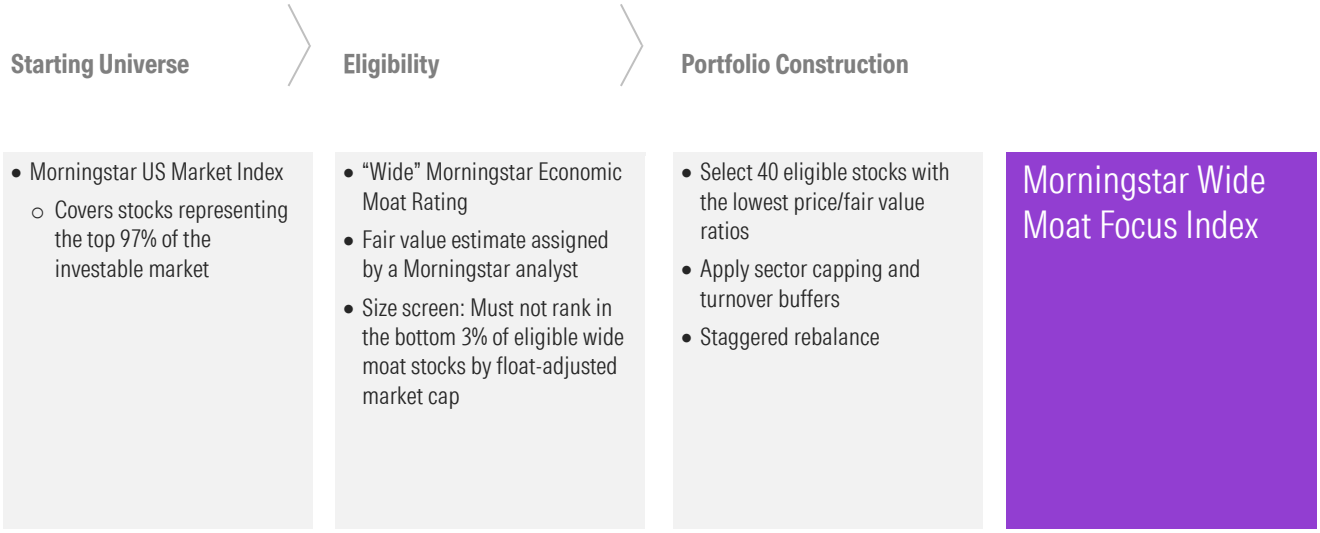
Index Construction

Methodology Summary



Starting Universe

At each reconstitution, securities for the Morningstar Wide Moat Focus Index are derived from the Morningstar US Market Index (benchmark). For more details on benchmark construction, refer to the Construction rules for the Morningstar US Market Index.

Moat and Fair Value Inputs

The index methodology applies a number of data inputs, including economic moat ratings and price/fair value ratios. Economic Moat ratings and fair value estimates are produced solely by Morningstar Equity Research, a business unit that is organizationally separate from, and operates independently of, Morningstar Indexes.

Equity Research develops the scoring framework and determines these scores using its own methodology, described in Appendices 5 and 6, and delivers them to Morningstar Indexes as final data points ready to be used in the construction and reconstitution of the index. Morningstar Indexes does not develop, assign, review, adjust, or override any score or determination, and does not participate in Equity Research's deliberations.

Morningstar Indexes applies the scores as received, together with the other data inputs, using the rules in this document. Eligibility, tier classification, ranking, and weighting are the results of applying these rules mechanically; Morningstar Indexes does not exercise any judgment about any company's expected future exposure to artificial intelligence.

Timing and missing data: Moat and price/fair value data as of the close of the first Friday of the reconstitution month is used for the reconstitution. A company without that data is ineligible.

Moat and price/fair value ratios are research data inputs. They are not investment recommendations, are not tailored to any person's circumstances, and a security's inclusion in the index is not a recommendation to buy, sell, or hold.

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Eligibility

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

- Analyst Data
  - The company must be assigned an economic moat rating of wide by Morningstar's Equity Research team.
  - The company must be assigned a fair value estimate by Morningstar's Equity Research team.
  - The fair value estimate must not be under review at the time of reconstitution.

    Note: The moat and fair value estimates are provided by Morningstar Equity Research. Morningstar Equity Research is independent of Morningstar Indexes. Morningstar Indexes does not develop, determine, review, or influence these inputs and applies them as received.
- Minimum float market capitalization filter
  - At each reconstitution date in the sub-portfolio getting reconstituted, securities with a wide moat rating and fair value estimate from the Morningstar US Market Index will be ranked on float market capitalization and those securities ranking in the bottom three percent (by count) based on lowest float market capitalization will no longer be eligible for inclusion in the index.
- If a company has more than one eligible share class:
  - Preference is given to the one that is a current index constituent.
  - Otherwise, the most liquid share class determined by Morningstar Indexes is used.

Portfolio Construction

- Buffer Rules
  - Index constituents of the sub-portfolio ranked within the top 150% (60) of target count (40) in the eligible universe based on lowest current market price/fair value ratio are given preference in subsequent steps.
- Sector Capping
  - At the time of reconstitution, the maximum weight of an individual sector in each sub-portfolio is capped at its corresponding weight in the benchmark + 10% or 40%, whichever is higher. This constraint is enforced through stock selection.

    Maximum Sector Weight = Max (40%, benchmark weight + 10%)
- Portfolio Selection
  - The aggregate portfolio is formed from two sub-portfolios. All buffered constituents are retained in the reconstituted sub-portfolio. The remaining eligible companies are ranked by their current market price/fair value ratios (from low to high) and those trading at the lowest ratios are included in the index sub-portfolio until the number of constituents reaches 40.

Number of Stocks

The Morningstar Wide Moat Focus Index consists of two sub-portfolios, reconstituted on staggered quarters, which each target 40 companies based on a transparent ranking system subject to selection and eligibility criteria at reconstitution.

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Because the reconstitution of the two sub-portfolios is staggered, the index may have between 40 and 80 constituents. However, if securities fall short of the selection and eligibility criteria, or if securities are added or deleted as a result of corporate actions after reconstitution, the indexes can have more or fewer than the targeted number. In addition, securities that are deleted from the Morningstar US Market Index after June and December reconstitutions are simultaneously deleted from the Morningstar Wide Moat Focus Index.

Index Weighting

The index is equal weighted. For more details, refer to the Morningstar Indexes Calculation Methodology rulebook.

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Index Maintenance and Calculation

Scheduled Maintenance

The sub-portfolios are reconstituted semi-annually with a quarterly staggered schedule. Consequently, about half of the total index membership is reset every quarter in March, June, September, and December after the market close on the third Friday. Adjustments are implemented after Friday's market close and reflected the following Monday. If Monday is an index holiday, reconstitution is reflected the next business day. In addition, the sub-portfolio weights are reset to 50% each in June and December. Refer to Appendix 3 for the staggered reconstitution implementation process.

The analyst data (moat rating and fair value estimates) used to reconstitute the index is as of the first Friday of the reconstitution month.

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.

Corporate Actions

The treatment of corporate actions will be as per the alternatively-weighted indexes. For more details, please refer to 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.

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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. Reviews by Morningstar Indexes cover the rules in this document only.

To the extent the index methodology incorporates thematic or research-based inputs from Morningstar Equity Research, Morningstar Sustainalytics or any other third party, index methodology reviews by Morningstar Indexes do not extend to the content of such third party inputs or the methodology underlying such third party inputs. Any changes to third party inputs are made by the relevant provider and are reflected in this rulebook only in accordance with the Methodology Change Policy. Subscribers to the index will be notified before any index methodology changes are made. For more details, refer to the Morningstar Index 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.

As the decommissioning of the index or benchmark index could disrupt subscriber products that reference this index, all subscribers are encouraged to have robust fallback procedures in the event an index is decommissioned. For more details, refer to the Morningstar Index Decommissioning Policy.

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Data Correction

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 Methodology Committee, and in all instances, the application of a non-standard process will be reported to the Morningstar Index Oversight Committee.

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Appendixes

Appendix 1: Modifications to the Rulebook

Section	Description of Change	Update Date
Overview	Removed Morningstar Equity Research's analyst data assignment process and started referring to it in a separate document.	April 2015
Assigning Stocks to the Index	Removed reference made to the Morningstar Wide Moat Index and linked it to the Morningstar US Market Index.	April 2015
Assigning Stocks to the Index	As announced in April 2016, methodology changes to the index were implemented for the June 2016 reconstitution. Current index levels that have been published will not be adjusted retroactively and only the index levels from June 20 on will reflect the updated methodology.	June 2016
Assigning Stocks to the Index	As Announced in March 2022, the minimum float market capitalization filter will be applied to the sub-portfolio getting reconstituted at each reconstitution	June 2022
Entire Rulebook	Moved to new template.	March 2023
Index Maintenance & Calculation	Updated calendar from US to global	February 2024
Data Correction and Precision	Computational and Reporting Precision Section Removed	May 2025
Index Maintenance & Calculation	Analyst data used for reconstitution updated from the Tuesday before the second Friday of the reconstitution month to the first Friday of the reconstitution month	May 2025
Moat and Fair Value Inputs	Section added to clarify the distinction between the role of Morningstar Equity Research and Morningstar Indexes.	November 2026

Appendix 2: 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 reset.

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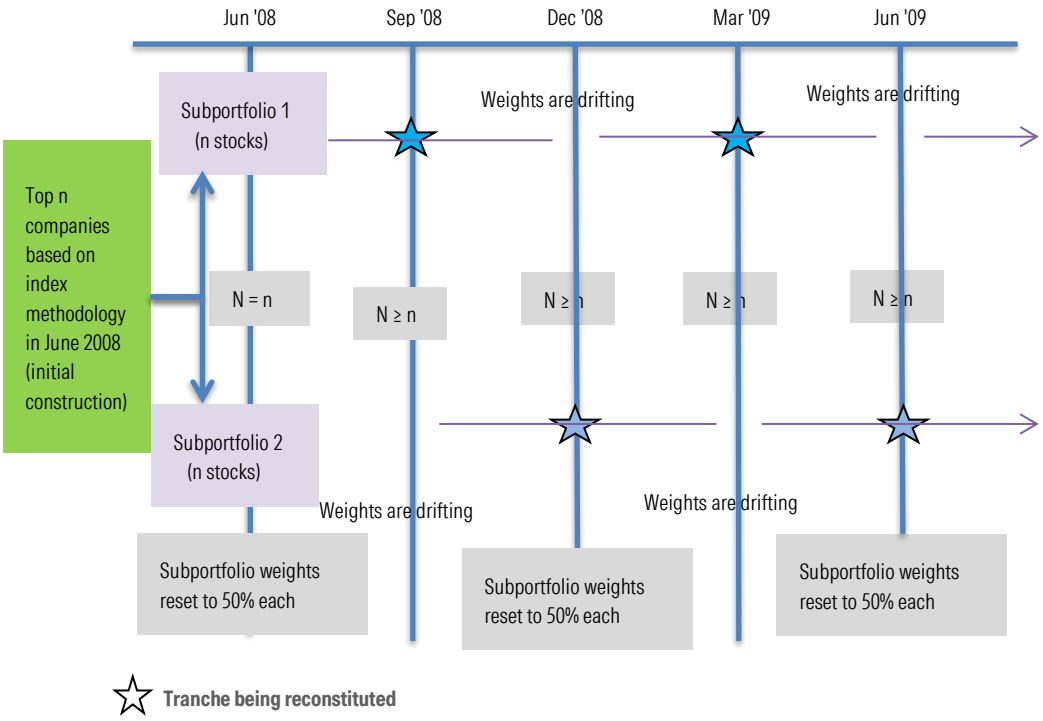
Appendix 3: Staggered Reconstitution Process

Exhibit 2 Staggered Reconstitution Schematic



The portfolio construction process is described below.

1. At initial construction (e.g., June 2008) both subportfolios are reconstituted at the same time and therefore have an identical portfolio composition. The sub-portfolios are set to equal weights at 50% each.
2. In September, the first subportfolio is reconstituted, while the second is not (drifted leg). As a result, the composition of the sub-portfolios may not remain identical.
3. In December, the second subportfolio is reconstituted and the first forms the drifted leg. In addition, the sub-portfolio weights are reset to 50% each and distributed among the securities within them in proportion to their weights.
4. In March, the first subportfolio is reconstituted again.
5. In June, the second subportfolio is reconstituted. In addition, the subportfolio weights are reset to 50%.
6. The process is repeated (go to Step 2)

Appendix 4: Strategies Based on the Index

The Morningstar Wide Moat Focus Index is used as a base index for the Morningstar® Wide Moat Focus Target Volatility Indexes. For details on calculation methodology, please refer to the Morningstar Target Volatility Methodology Paper.

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Appendix 5: Morningstar Economic Moat Rating

The concept of an economic moat plays a vital role not only in the qualitative assessment of a firm's long-term investment potential but also in the calculation of the fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period. Morningstar Equity Research defines excess profits as returns on invested capital (ROIC) above its estimate of a firm's weighted average cost of capital (WACC). Without a moat, profits are more susceptible to competition. The assumptions about a firm's economic moat play a vital role in determining how quickly any excess profits might erode.

Narrow-moat companies are those Morningstar Equity Research believes are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those for which Morningstar Equity Research has very high confidence that excess returns will persist for 10 years, and which are more likely than not to sustain them for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The normalized returns of low-quality, no-moat companies are expected to gravitate toward the cost of capital more quickly than those of companies with moats. Morningstar Equity Research has identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

When considering a company's moat, Morningstar Equity Research also assesses whether there is a substantial threat of value destruction stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. A risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If the probability of occurrence is sufficiently high, the firm is rated no-moat.

Appendix 6: Morningstar Fair Value Estimate

At the heart of Morningstar Equity Research's valuation methodology is a detailed projection of a company's future cash flows, based on our analysts' independent primary research. Analysts create custom industry and company assumptions, which feed the income statement, balance sheet, and capital investment inputs of our globally standardized, proprietary discounted cash flow (DCF) modeling templates. This process is augmented with scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools. The model is divided into three distinct stages.

Stage I: Explicit Forecast

In the first stage, which can last five to 10 years, analysts make full financial statement forecasts, including revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. From these projections, Morningstar Equity Research calculates earnings before interest, after taxes (EBI) and net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage represents the period it takes for the company's return on new invested capital (RONIC), the return on the next dollar invested, to decline (or rise) to its cost of capital. During this stage, Morningstar Equity Research uses a formula to approximate cash flows rather than explicitly modeling the income statement, balance sheet, and cash flow statement as in Stage I. The length of the second stage depends on the strength of the company's economic moat. Morningstar Equity Research forecasts this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, analysts forecast cash flows using four assumptions: an average growth rate for EBI, a normalized investment rate, an average RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and RONIC decline until a perpetuity value is calculated. For firms that do not earn their cost of capital, Morningstar Equity Research assumes marginal ROICs rise to the cost of capital (usually because of reduced reinvestment), and may truncate the second stage.

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Stage III: Perpetuity

Once a company's RONIC reaches its cost of capital, Morningstar Equity Research calculates a continuing value using a standard perpetuity formula. At perpetuity, it is assumed that any growth or decline in revenue is a net present value (NPV) = 0 proposition. In other words, the assumption is that growth, decline, or investment in the business during the perpetuity period neither creates nor destroys value, and that any new investment provides a return in line with the estimated WACC.

Discount Rates

Because a dollar earned today is worth more than a dollar earned tomorrow, Morningstar Equity Research discounts the projected cash flows to arrive at the total present value of expected future cash flows. Because analysts model free cash flow to the firm, which represents cash available to provide a return to all capital providers, future cash flows are discounted using the WACC. The WACC is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future long-term, market-value weights. For mainly financial companies, Morningstar Equity Research uses a free cash flow to equity model and discount free cash flows by the company's cost of equity.

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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 index methodologies meet Morningstar Indexes' governance and methodology standards. 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 Indexes 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 U.K. and EU benchmark regulations, or 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. Exception handling does not extend to equity research inputs, which are provided by Morningstar Equity Research and applied as received.

Morningstar Index Oversight Committee

The Morningstar Index Oversight Committee is responsible for the index oversight function as per the requirements of the U.K. and European 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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