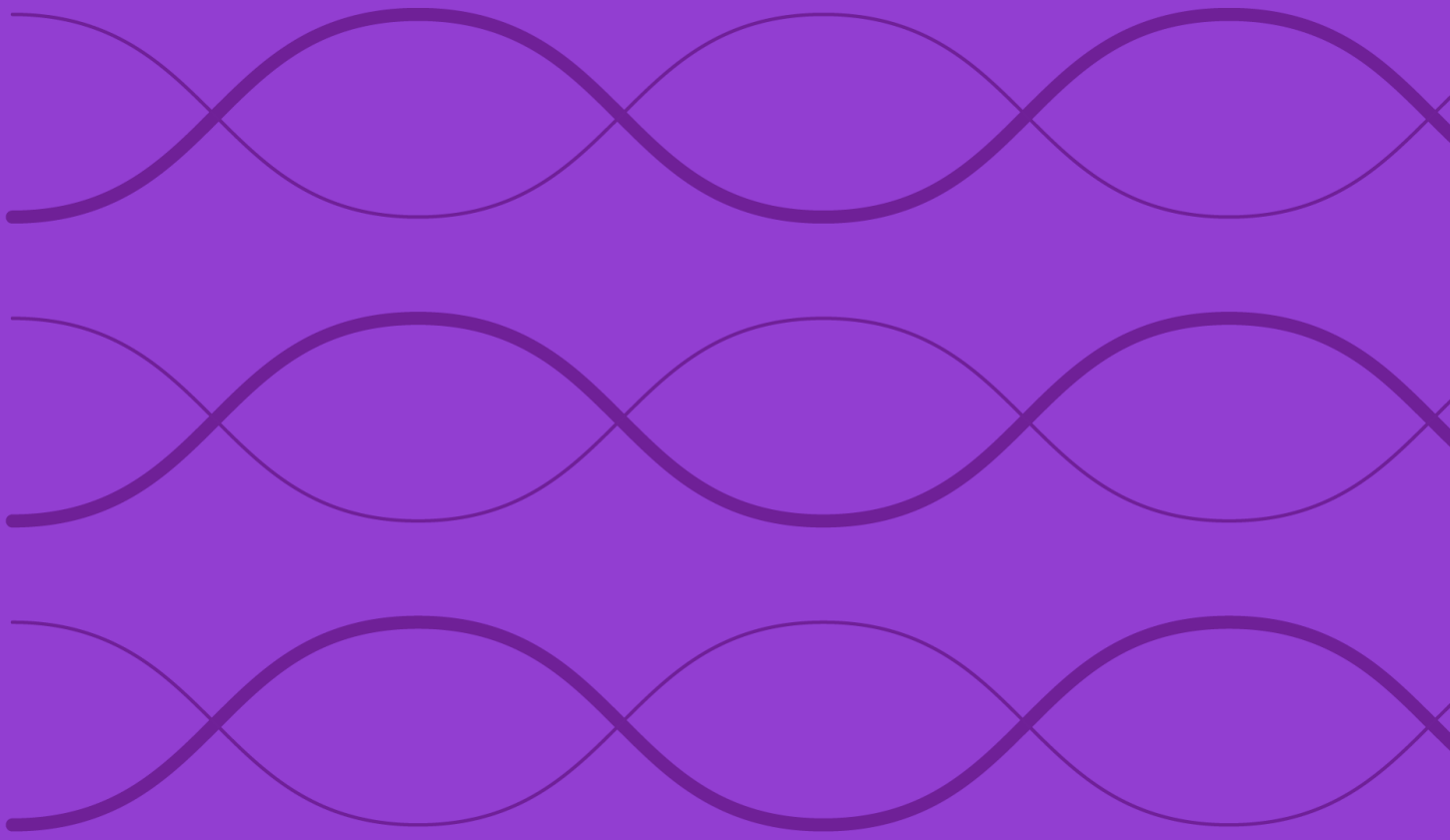
MORNINGSTAR Indexes

Construction Rules for the Morningstar® US Large Cap Dividend Select Index



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Overview

The Morningstar® US Large Cap Dividend Select Index is designed to deliver a higher dividend yield than its parent benchmark (Morningstar US Large Cap 500 Index) while minimizing expected tracking error. The index is constructed using a constrained optimization framework that aims to achieve a targeted dividend yield, improve diversification, mitigate active risk, and facilitate replication.

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

Index Inception and Performance Start Date

The index inception date is November 26, 2025, and the performance start date, when the first back-tested index value was calculated, is June 20, 2008.

Index Construction

Methodology Summary

Starting Universe	Eligibility	Portfolio Construction	
• The primary benchmark is the Morningstar US Large Cap 500 Index	• For companies with more than one eligible share class, the most liquid share class is included • Securities must be covered by the Morningstar Risk Model	• Weight stocks to minimize expected tracking error, subject to minimum dividend yield and other constraints, through an optimization process	Morningstar® US Large Cap Dividend Select Index

Starting Universe

At each reconstitution, constituents of the Morningstar® US Large Cap Dividend Select Index are derived from the Morningstar US Large Cap 500 Index (benchmark). For more details on benchmark construction, refer to the construction rules for the Morningstar US Target Count Indexes.

Eligibility

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

- Be covered by the Morningstar Risk Model
- If a company has more than one eligible share class, the most liquid share class as determined by Morningstar is used.

Both dividend- and non-dividend paying stocks are eligible for inclusion.

Portfolio Construction

Optimization Parameters

At each reconstitution, the Morningstar US Large Cap Dividend Select Index is constructed using optimization to minimize the ex-ante tracking error[1] to the parent benchmark index, and meet the constraints as follows:

- No short positions are allowed.
- Trailing Twelve Month (TTM) dividend yield of the portfolio must be greater than or equal to the target:
  - either two times of benchmark dividend yield, or 3.25% (whichever is higher)
- The maximum weight of a company is restricted to the lesser of 15 times the company weight in the parent and the company weight in the parent plus 2%.

- The minimum weight of a company is restricted to the greater of 0.2 times the company weight in the parent and the company weight in the parent minus 2%.
- The maximum one-way turnover is capped at 5% at the quarterly reconstitutions[2].

1. For more details on the optimized construction, please refer to Appendix 2.
2. The one-way turnover constraint is not implemented for the September 2025 reconstitution.

Number of Stocks

The number of stocks in the index is variable, subject to the size of the starting universe and the application of eligibility criteria at the time of reconstitution.

Index Weighting

The weights of index constituents are determined through an optimization process subject to the objective function and weight constraints described in the "Optimization Parameters" section above.

Index Maintenance and Calculation

Reconstitution and Rebalancing

The index is reconstituted, where the membership is reset, and rebalanced quarterly on the third Friday of March, June, September, and December. 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. The market data used for reconstitution is as of the last trading day of February, May, August, and November.

The Morningstar Industry Standard Risk Model used in index reconstitution is constructed as of the last Friday of the month preceding the month of reconstitution.

Index files are published according to the global calendar schedule. For more information, please refer to the Morningstar Indexes Holiday Calendar.

Corporate Actions

The treatment of corporate actions will be as per the alternatively weighted indexes corporate action methodology. 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.

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 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, geo-political events, and regulatory changes. In addition, factors such as low usage or methodology convergence may result in the cessation of an index.

Because 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.

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: Glossary

Term	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.

Appendix 2: Optimization Methodology

Ex-Ante Tracking Error

$$TE = (w_p^T - w_b^T)(X^T F X + \lambda D)(w_p - w_b)$$

Where:
w_p = vector of portfolio weights, unknown
w_b = vector of benchmark weights
X = matrix of asset factor exposures
F= factor covariance matrix
D = specific (idiosyncratic, residual) risk block of covariance matrix
$X^T F X$ = systematic (factor-driven) risk block of covariance matrix from the risk model
λ = 1.5, specific risk aversion parameter; λ=1 results in a specific risk-neutral volatility forecast; λ>1 implies greater penalty for asset-specific risk not modelled by systematic risk factor exposures

Any risk model will miss some systematic sources of risk due to bias-variance tradeoff. The model will therefore underestimate the contribution of specific risk to the risk of the overall portfolio, because it assumes the residual risk is perfectly uncorrelated and diversifiable. λ = 1.5 was chosen to compensate for the above effects based on empirical testing of ex-post tracking error.

Handling of Infeasible Optimizations

Constraints will be relaxed if a feasible solution is not obtained. The relaxation happens in the following order:

1. The maximum upweight tilt is increased from 15X to 20X in steps of 1X.
2. The turnover constraint is relaxed from 5% to 20% in increments of 1% while resetting the maximum upweight tilt setting.
3. The dividend yield target is reduced from the determined value to 3% in steps of 0.1%, while resetting the turnover constraint and maximum upweight tilt setting.

If a feasible solution is not found after the above constraint relaxation, the index will not be reconstituted for that quarterly review, and Index Committee review of the constraint methodology will be conducted and completed by the next quarterly reconstitution date.

Appendix 3: Morningstar® US Large Cap Dividend Select Adjusted Return Indexes

Adjusted Return Index* Name	Total Return Index for Adjusted Return**	Base value	Base Date	Performance Start Date	Inception Date Adjusted Return	Inception Date Total Return
Morningstar® US Large Cap Dividend Select Adjusted Return 50 Point GR USD	Morningstar® US Large Cap Dividend Select GR USD	1250	Dec. 15, 2025	Jun. 20, 2008	Dec. 02, 2025	Nov. 26, 2025
Morningstar® US Large Cap Dividend Select Adjusted Return 4.5% GR USD	Morningstar® US Large Cap Dividend Select GR USD	1000	Jun. 20, 2008	Jun. 20, 2008	Dec. 02, 2025	Nov. 26, 2025
Morningstar® US Large Cap Dividend Select Adjusted Return 50 Point GR Hedged CAD	Morningstar® US Large Cap Dividend Select GR Hedged CAD***	1250	Dec. 26, 2025	Jun. 30, 2008	Dec. 26, 2025	Nov. 26, 2025

*Each Adjusted Return (AR) index is calculated by applying a return adjustment to its corresponding Total Return index. This adjustment only impacts the AR index level.

**Any hedging activity is implemented at the Total Return index level, which is subsequently used to derive the adjusted return. The AR index itself does not engage in any hedging activity, as all hedging effects are already reflected in the Total Return index level.

***Morningstar US Large Cap Dividend Select GR Hedged CAD represents the performance of the Morningstar US Large Cap Dividend Select GR CAD after hedging the currency exposure to CAD.

Appendix 4: Adjusted Return Levels

The index levels are adjusted by deducting a predetermined value of index points from the gross return, or GR, or fixed percentage point from the gross return, or GR, levels of the base index. These constant markdowns are applied to the base index daily.

Return Variant of the Base Index	Base Currency	Adjusted Return Type	Adjusted Return Frequency	Adjusted Return Application	Adjusted Return Value	Day Count Convention
Gross Total Return	USD	Fixed Percentage Adjusted Return or Fixed Point Adjusted Return based on the index version.	Daily	Geometric application for both Adjusted Return types.	4.5% Adjusted Return based on the Gross Total Return 50-point Adjusted Return based on Gross Total Return	*ACT/365

*ACT is the number of calendar days between two calculation days.

Formula for Fixed Point Adjusted Return

Geometric Adjusted Return Calculation

$$IV_t = (IV_{t-1} \times (U_t \div U_{t-1})) - (D \times (Act(t-1,t) \div DayCount))$$

Where:

IVt = The value of the Fixed Point Adjusted Return Index for calculation day t

IVt−1 = The value of the Fixed Point Adjusted Return Index for day t-1
Ut = The value of the base Index for calculation day t
Ut-1 = The value of the base Index for calculation day t-1
Act(t-1,t) = Number of calendar days between calculation day t-1 and calculation day t
D = The Adjusted Return value expressed in Index points
DayCount = Set to 365

**Base index = Total Return index as shown in Appendix 3*

Formula for Fixed Percentage Adjusted Return

Geometric Adjusted Return Calculation

$$IVt = IVt-1 \times ((Ut \div Ut-1) - (c \times (Act(t-1,t) \div DayCount))$$

Where:

IVt= The value of the Fixed Percentage Adjusted Return Index for calculation day t

IVt−1= The value of the Fixed Percentage Adjusted Return Index for day t-1
Ut = The value of the base Index for calculation day t
Ut-1 = The value of the base Index for calculation day t-1
Act(t-1,t) = Number of calendar days between calculation day t-1 and calculation day t
c = The Adjusted Return value expressed in Fixed Percentage
DayCount = Set to 365

**Base index = Total Return index as shown in Appendix 3*

Appendix 5: Index Hedging Methodology

Currency hedged indexes (applied at the Total Return level) are long the unhedged index, and short currency forwards whose notional amount is based on the weight of foreign currencies ("currency exposure") present in the unhedged index. The hedge ratio—the proportion of the portfolio's currency exposure that is hedged—can vary as per the Hedged Index specifications. No hedging occurs within the Adjusted Return (AR) index, as the AR index is calculated by applying the adjusted return factor to the already-hedged TR index level. For Morningstar US Large Cap Dividend Select GR Hedged CAD, the unhedged index level used to calculate the hedge ratio in the formulas below is based on Morningstar US Large Cap Dividend Select GR CAD.

These indexes are rebalanced monthly, usually on the last trading day of the month, using foreign currency weights and corresponding notional amounts determined as of one business day before the rebalance date. This approach ensures that index calculation closely resembles the actual implementation lag investors face. New forward positions are effective at the rebalance effective date, which is at the opening on the next business day after the rebalancing day.

To account for the difference in the rebalance date and the date on which the notional amounts are determined, a monthly adjustment factor is applied in the hedge return calculation. The notional amounts hedged remain constant throughout the month and are not modified on account of price movement, corporate action, or rebalance and reconstitution of the unhedged index. The daily index calculation marks the one-month forward contracts to market using a linear interpolation of spot and forward prices based on the one-month forwards. All the spot and forward rates are denominated in terms of foreign

currency per unit of home currency. The unhedged index levels and the hedged index levels are denominated in the home currency (CAD).

Daily (End-of-Day) Currency Hedge Index Calculations

The daily hedge impact is calculated as follows:

1. $$HR_t = MAF * \sum_i^n p_i * \{W_{i1-1d} * FXRate_{i1-1d} * \left(\frac{1}{FFRate_{i1}} - \frac{1}{FFRateInterpolated_{i,t}}\right)$$

2. $$FFRateInterpolated_{i,t} = FXRate_{i,t} + \left(\frac{D-d_t}{D} * \left(FFRate_{i,t} - FXRate_{i,t}\right)\right)$$

3. $$MAF = \frac{HedgedIndex_{1\text{-}1d}}{HedgedIndex_1}$$

4. $$HedgedIndex_t = HedgedIndex_1 * \left(\frac{UnhedgedIndex_t}{UnhedgedIndex_1} + HR_t\right)$$

Where:

HR_t	=	Hedge Return on day t
p_i	=	Hedge Ratio of currency i in the index (proportion of the foreign currency exposure hedged)
n	=	Number of foreign currencies underlying the index
W_{i1-1d}	=	Weight of currency i in the index as of one business day before the previous rebalance date, after incorporating corporate actions and rebalancing in the unhedged index, effective at the open of the rebalance effective date (if calculated by Cirrus), or at the open of the rebalance date (rebalance effective date t-1: if calculated by Amber).
$FXRate_{i1-1d}$	=	Spot rate of currency i as of one business day before the previous rebalance date
$FXRate_{i,t}$	=	Spot rate of currency i on day t
$FFRate_{i1}$	=	Forward rate of currency i as of the previous rebalance date
$FFRate_{i,t}$	=	One-month forward rate of currency i on day t
$FFRateInterpolated_{i,t}$	=	Forward rate of currency i interpolated for intramonth performance of the hedge
t	=	Calculation date
D	=	Number of calendar days between next rebalance date and previous rebalance date
d_t	=	Number of calendar days between calculation date and previous rebalance date
MAF	=	Monthly adjustment factor to account for the one-day lag between the rebalance date and the date on which notional amounts are determined
$HedgedIndex_{1\text{-}1d}$	=	Hedged index level as of one business day before the previous rebalance date
$HedgedIndex_1$	=	Hedged index level as of the previous rebalance date
$HedgedIndex_t$	=	Hedged index level as on day t
$UnhedgedIndex_1$	=	Morningstar US Large Cap Dividend Select GR CAD index level as of the previous rebalance date
$UnhedgedIndex_t$	=	Morningstar US Large Cap Dividend Select GR CAD index level as on day t

Data Source for FX Rate

The source data for forward and spot rates used in this methodology is WMR London 4 p.m. fixing rates. WMR foreign exchange rates are taken daily at 4 p.m. London time and used in the calculation of the indexes. Unless otherwise noted, this is applicable for all sections where FX Rate is used.

For all non-USD currency pairs, the spot and forward rates are calculated from respective USD rates.

Missing Data

If forward rate data for a currency is missing on the reference date, that currency will not contribute to the hedge impact for the next period. Morningstar Indexes will use the spot rate on the reference date to convert the returns of securities denominated in that currency, leaving that currency portion of each index unhedged for the month. If the daily forward rate data is not available on a given day (between reference dates) at the time of production, the latest available forward rate will be applied when updated values are not available between reference dates. Should the daily forward rate become available subsequently, the levels will be restated according to our index recalculation policy.

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 Benchmarks Regulation ("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 Benchmarks Regulation ("BMR"), providing independent oversight of all aspects of the governance of benchmark administration as required by the 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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