Scharf Small Cap Low Volatility Index
Rules for Construction and Methodology

Version 1.1

Change History			
Version Number	Editor	Date	Comments
1.0	Scharf	1st August 2025	Live document.
1.1	Scharf	5th August 2026	Minor editorial adjustments.

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1 Product definition

1.1 The Scharf Small Cap Low Volatility Index

1.1.1 The Scharf Small Cap Low Volatility Index (hereinafter, also referred to as the "Index") is intended to measure the economic reality described below.

1.1.2 The Index is designed to provide exposure to U.S. small-cap stocks that collectively have lower volatility than the overall U.S. small-cap equity market. The proprietary GuardianKat framework selects companies with lower stock price volatility, better earnings quality, and more favourable valuations relative to other small-cap stocks. The Scharf Small Cap Low Volatility Index is comprised of the top 100 ranked stocks that meet these criteria.

1.1.3 The Index is owned, provided and administered by Scharf Index Group, LLC, and calculated and distributed by Morningstar Indexes GmbH.

2 Governance

2.1 Scharf Index Group, LLC

2.1.1 Scharf Index Group, LLC ("Scharf") is the index provider, owner, and administrator of the Scharf Small Cap Low Volatility Index.

2.2 Morningstar Indexes GmbH

2.2.1 Morningstar Indexes GmbH ("Morningstar Indexes"), a business unit of Morningstar, Inc., is the calculator of the Scharf Small Cap Low Volatility Index.

2.3 Scharf Governance

2.3.1 Scharf is responsible for the management of this methodology, for its continuing fitness for purpose, and therefore for any periodic amendments thereto.

2.3.2 Methodology management is carried out by Scharf, which may involve internal personnel or consultation with external index experts, as appropriate.

2.3.3 Scharf provides the necessary administrative and technical support to ensure effective governance of the Index and this methodology.

2.4 Morningstar Index Services Methodology & Administration Committee

2.4.1 The Morningstar Index Services Methodology & Administration Committee (hereinafter, referred to as "ISMA") supervises Morningstar Indexes' Index services calculation activities.

2.4.2 The ISMA is composed of at least five voting members (including the chair) each of whom must be employed in the Morningstar Indexes team and have significant experience in index governance, regulations, research, methodology or calculations.

2.4.3 The ISMA will meet at least monthly in person or by telephone.

2.5 Morningstar Index Operations Committee

2.5.1 The Morningstar Index Operations Committee (hereinafter, referred to as "OPS-Com") governs the processes, systems and exception handling of the day-to-day management of the Indexes, including the implementation of index rebalancings and reconstitutions, restatements and contingency management.

2.5.2 Where an Index-impacting event occurs the resolution of which is not clear from these rules, and that due to time constraints cannot be discussed with Scharf, as Index Administrator, the OPS-Com is empowered to decide on the most appropriate action to take to resolve the event. The action will be disclosed to the ISMA and Scharf for their review.

2.5.3 The OPS-Com will consist of at least six voting members (including the chair) each of whom must be employed in the Morningstar Indexes team and have significant experience in index operations, methodology or calculations.

2.5.4 The OPS-Com will meet at least monthly in person or by telephone.

2.6 Index Methodology Changes

2.6.1 Scharf, ISMA and other stakeholders may, at any time, recommend changes to this methodology (including the Index construction criteria). Proposals can be sent to Morningstar Indexes using the contact details provided in Section 8. All proposals will be reviewed and considered by Scharf.

2.6.2 Proposed rule changes that Scharf deems material will be publicly consulted on, according to the policy detailed within the Morningstar Indexes Methodology Change Policy.

2.6.3 Except in exceptional circumstances, or as otherwise advised in any consultation, new rules and rules adjustments will become effective after the following periodic review of Index constituents and weightings.

3 Index construction

3.1 Eligible securities

Geographic Eligibility

3.1.1 Securities must be incorporated in the U.S. and listed on one of the following U.S. exchanges:

- New York Stock Exchange (NYSE)
- NASDAQ Exchange (NASDAQ).

Small-Cap Universe Definition

3.1.2 The eligible universe consists of U.S. small-cap stocks, generally defined as companies ranked approximately between the 750th and 2250th by market capitalisation. The universe excludes the bottom 10% least liquid securities based on 3-month average daily dollar volume and typically excludes Banks and Business Development Companies.

3.2 Constituent Selection

GuardianKat Framework

3.2.1 Scharf applies the proprietary GuardianKat framework to evaluate all eligible securities on the basis of:

- Earnings: Preference is given to stocks with better earnings quality.
- Volatility: Preference is given to stocks with lower historical price volatility.

3.2.2 From the securities meeting the GuardianKat framework criteria, the top 100 ranked securities based on Favorability Ratio are selected for inclusion in the Index. Favorability Ratio is a proprietary Scharf metric based on valuation relative to historical ranges.

3.3 Constituent Weighting

3.3.1 Index constituents are weighted according to their market capitalisation.

4 Quarterly review of the Index

4.1 Timings

4.1.1 The Index is reviewed quarterly, using the selection and weighting process described in Sections 3.2 and 3.3.

4.1.2 Dates applicable to reviews are detailed below:

Date	Name	Definition
Last U.S. business day of March, June, September and December	Determination date	Date on which data is collected for use in the Index review.
3 U.S. business days following the Determination Date	Review release date	Date on which the results of the review are published to licensees.
6 U.S. business days following the Determination Date	Implementation date	Date on which the results of the review are implemented in the Index.

4.1.3 Where U.S. markets are closed on a determination date, review release date or implementation date, the previous day on which U.S. markets are open will be used instead of the indicated date.

5 Calculation of the Index

5.1 Index versions calculated

5.1.1 Price, total return and net total return versions of the Index are calculated.

5.1.2 Closing Index values are published shortly after the close of U.S. markets.

5.1.3 The Index is calculated in USD.

5.2 Index formula & divisor calculations

5.2.1 For details of the Index calculation formula and related processes, please refer to the Morningstar Equity Indexes Calculation Methodology. The Index is treated as a market capitalisation weighted index.

5.3 Errors

5.3.1 If an error is discovered in an Index value, Morningstar Indexes will follow the process outlined in the Morningstar Indexes Recalculation Guidelines.

5.4 Corporate Actions and Events

5.4.1 The constituents of the Index are proactively maintained to reflect changes that may result from corporate actions.

5.4.2 The management of corporate events follows the processes and procedures outlined in the Morningstar Equity Indexes Corporate Action Methodology. The Index is treated as a market capitalisation weighted index.

5.4.3 Constituents removed from the Index will not be replaced between reviews.

5.5 Distribution

5.5.1 The Index is published via various data vendors. Each vendor determines whether they will distribute/display the Index data via their respective information systems.

6 Exceptions and amendments to these Rules

6.1 Exceptions

6.1.1 Morningstar Indexes shall apply the method described above for the composition and calculation of the Index. However, it cannot be excluded that the market environment, supervisory, legal, financial or tax reasons may require unforeseen changes to be made to the Index. Where possible, such changes will be made in conjunction with the ISMA and Scharf, and in all instances, reported to both.

6.1.2 Wherever exceptions are required, Morningstar Indexes will endeavour to ensure a calculation method is applied that is as consistent as possible with the method described in this document.

6.2 Amendments

6.2.1 Scharf notifies users of the Index that whilst it is the policy of Scharf as administrator of the Index to consult fully on any material change to the Index, it is possible that circumstances, particularly external events beyond the control of Scharf and Morningstar Indexes, may necessitate immediate changes to, or the cessation of, the Index. Therefore, any financial contracts or other financial instruments that reference the Index, or any market participants that use the Index in valuations should plan to be able to manage the possibility of changes to, or cessation of, the Index. Please consult the Morningstar Indexes Methodology Change Policy and Morningstar Indexes Index Decommissioning Policy for further details.

6.2.2 Scharf may prescribe changes to the selection criteria and other rules governing the Index and the method applied to calculate the Index, which it deems to be necessary and desirable in order to prevent material errors or to remedy, correct or supplement the rules currently described in this methodology document.

6.2.3 Scharf shall notify all persons who have licensed the use of the Index as far in advance of such implementation as reasonably practicable and shall ensure that any amendments to the methodology are updated and published as soon as possible after any changes to the Index are implemented.

7 Data publication

7.1.1 The composition of the Index, as well as the respective weightings of Index constituents is made available on https://indexes.morningstar.com/.

8 Contact details

8.1.1 The Index calculator, Morningstar Indexes, can be contacted at indexes@morningstar.com. More information is available at https://indexes.morningstar.com/.

9 Legal

9.1.1 Scharf or any successor thereto (the "Index Owner") owns intellectual property rights in the Scharf Small Cap Low Volatility Index and its methodology (excluding methodological elements not developed specifically for the creation of the Index). Any use or publication of such intellectual property, as well as of the Scharf trademark or any other Scharf-related methodologies, provisions or values must be with the prior written consent of the Index Owner.

9.1.2 The Index Owner assumes no obligation, duty or liability to any person in relation to the Index save as provided in any written agreement with such person. The Index Owner makes no express or implied warranty as to:

a) the advisability of purchasing or assuming any risk in connection with any transaction related to the Index;

b) the levels at which the Index stands at any particular time on any particular date;

c) the results to be obtained by any party from the use of the Index or any data included in it for the purposes of issuing securities or carrying out any financial transaction;

d) any other matter.

9.1.3 The Index Owner may assign the proprietary rights in the Index to a third party in its reasonable discretion.

9.2 Licensing

9.2.1 Licenses to use the Index as the underlying value for investment products and derivative instruments may be issued to stock exchanges, banks, financial services providers and investment houses by the Index Owner.

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