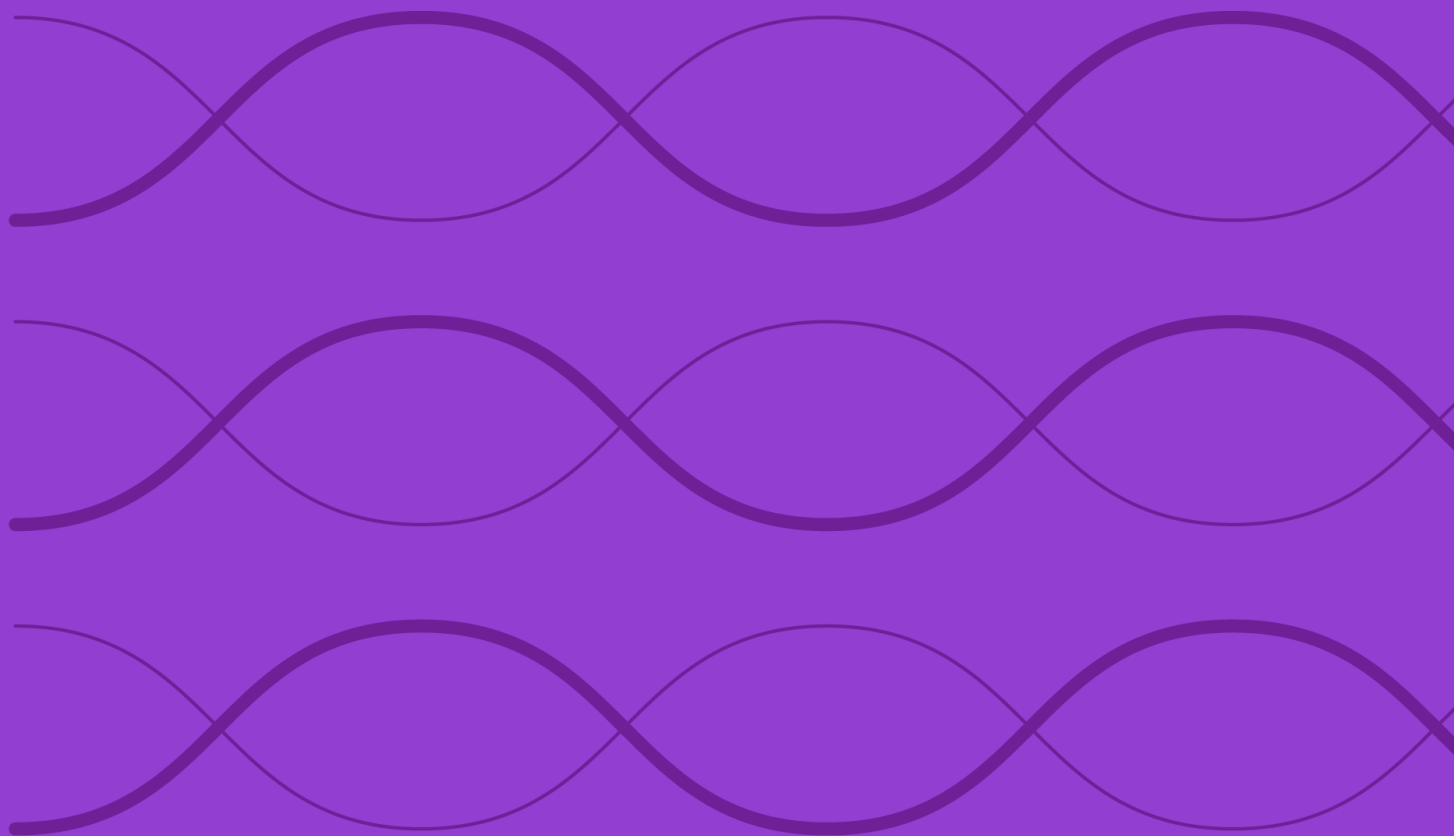


# Construction Rules for the Morningstar® Emerging Markets Government Bond Local Currency Index<sup>SM</sup>



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## Overview

The Morningstar® Emerging Markets Government Bond Local Currency Index<sup>SM</sup> is a broadly diversified index that provides global exposure to sovereign debt issued by emerging market countries in their local currency.

The index does not incorporate Environmental, Social, or Governance (ESG) criteria.

## Index Inception and Performance Start Date

The inception date of the Morningstar Emerging Markets Government Bond Local Currency Index is April 16, 2024, and the performance start date, when the first back-tested index value was calculated is June 1, 2012.

## Index Construction

### Methodology Summary

#### Starting Universe

- Sovereign bonds issued in their local currency from eligible emerging market countries

#### Eligibility

- Within GNI per capital thresholds
- Issuers must have a rating of B3 or above
- Issuers must have a minimum par amount outstanding equivalent to USD 1 billion

#### Portfolio Construction

- Constituents are weighted according to market value
- Each country is capped at a maximum weight of 10%
- New countries will be phased-in over a 12-month period, if the capped weight is greater than 5%

Morningstar®  
Emerging Markets  
Government Bond  
Local Currency  
Index<sup>SM</sup>

## Starting Universe

At each reconstitution, constituents of the Morningstar Emerging Markets Government Bond Local Currency Index are derived from the eligible universe of sovereign bond issuers in local currency in eligible emerging market countries according to Morningstar's Fixed Income Market Classification. The list of emerging market countries can be found in Appendix 1 and country inclusion criteria is maintained in the [Morningstar Global Bond](#) rulebook.

## Eligibility

### Country Selection

Eligible countries are selected based on their GNI per capita provided by the World Bank (Atlas Method) in USD. Only countries with GNI per capita that falls between the upper and lower cut-offs will be considered for inclusion in the index.

Lower cut-offs:

- Investment Grade: 2,000 USD (2011)
- Non-Investment Grade: 4,000 USD (2011)

A buffer of 5% is applied on the lower cut-offs. Countries with GNI per capita exceeding 95% of the corresponding lower cut-off will be considered for inclusion in the index.

Upper cut-offs:

- Investment Grade: 20,000 USD (2011)
- Non-Investment Grade: 20,000 USD (2011)

The GNI cut-offs are adjusted each year by the average GNI per capita growth rates provided by the World Bank. The average GNI per capita growth rate is calculated after removal of outlier countries with GNI per capita growth rates below the 5<sup>th</sup> percentile and above the 95<sup>th</sup> percentile of GNI per capita growth rates. Included countries are eligible to remain in the index unless they breach the GNI per capita cut-offs for three consecutive years.

Countries with sovereign ratings of B3 or above are eligible for the index. Each country must have a minimum outstanding sovereign debt amount in their local currency equivalent to USD 10 billion for inclusion in the index. Each country must have a minimum outstanding sovereign debt amount in their local currency equivalent to USD 5 billion to remain in the universe. Additionally, countries will be subject to market accessibility checks to be eligible for the index.

### Security Selection

Securities from the eligible countries should meet the below eligibility criteria:

Bond asset class	Sovereign
Minimum maturity	At issuance: 18 months to final maturity To remain: 12 months to final maturity
Eligible currencies & minimum par amount outstanding	Securities must be denominated in the local currency of emerging market countries. Each security must have a minimum par amount outstanding in their local currency equivalent to USD 1 billion. Emerging market countries issuing local debt in hard currency (e.g, Euro) are not eligible.
Country of risk	May only have risk exposure to countries classified as emerging markets by Morningstar Indexes (see Appendix 1 for additional details)

Credit quality	The composite credit rating of each security must be B3 or above at time of inclusion.
Security types and features	<p>Eligible:</p> <ul style="list-style-type: none"> <li>• Bonds must have a fixed rate coupon and a final stated maturity.</li> <li>• Callable perpetual securities that are at least one year from the first call date.</li> <li>• Fixed-to-floating rate securities that are callable within the fixed rate period and are at least one year from last call date prior to date the bond transitions from a fixed to a floating rate security.</li> <li>• For India, only FAR eligible securities are eligible.</li> <li>• Brazil Treasury Bills that have at least one year to maturity at issue and meet all other size and maturity requirements.</li> <li>• Global securities issued in US and international markets.</li> </ul> <p>Excluded:</p> <ul style="list-style-type: none"> <li>• Treasury Bills apart from those mentioned above</li> <li>• Inflation-linked debt and strips</li> <li>• Securities issued or marketed primarily to retail investors</li> </ul>

## Portfolio Construction

### *Number of Securities*

The number of securities in the index is variable, subject to the selection and eligibility criteria at the time of rebalance/reconstitution.

### *Index Weighing*

Constituents are weighted in accordance with their market value. Country weights are capped at 10%.

### *New Country Additions Phase-in Approach*

New countries added to the index will be gradually phased into the index if the capped weight as of the June reconstitution is greater than 5%. The newly added countries will be phased in over a period of 12 months based on the following criteria:

1. If on the day of inclusion, the capped weight is less than 5%: phase-in is not required
2. If on the day of inclusion, the capped weight is  $\geq 5\%$ : the new country will be phased-in over a period of 12 months using the following formula:
  - a. Weight of newly added country at month 'N' =  $N/12 \times \text{latest capped weight}$ ; where  $N = \{1, 2, 3, \dots, 12\}$
  - b. Re-distribute remainder weight to existing countries
  - c. Check country capping is maintained. If country cap is breached, apply capping again but do not change the weight of the newly added country calculated in point (2.a)

## Index Maintenance and Calculation

### Base Currency

The base currency for the calculation of security, portfolio, and index values is USD.

### Scheduled Maintenance

Rebalances occur monthly and are implemented after the last calendar day of each month, based on information available up to and including the rebalancing lockout date, which is the third business day before the last business day of the month. The term information available includes information received and/or processed after the rebalancing lockout date but that was announced or publicly available before the rebalancing lockout date.

Except as otherwise noted, no changes will be made to the index constituents after the rebalancing lockout date unless Morningstar considers a change to be necessary to be consistent with changing market conditions. Changes that occur after the rebalancing lockout date will be deferred until the following month-end rebalancing. This includes new issues, rating changes, balance changes, and noncritical corporate actions.

New index eligible bonds will be included in the index at the rebalance immediately after the date when pricing is available for these bonds. At each monthly rebalancing, all index selection rules, except country selection, are reapplied. Qualification for country inclusion is determined annually in August or September when the World Bank data is available and incorporated in June the following year, except in cases of significant market events. Changes to the portfolio reflect repayments, new issuance, exchanges, exercised options, or rating changes. The beginning of month weights for the forward month are fixed, after the close, on the last calendar day of each month.

### Index Calculation and Price Data

#### *Overview*

Morningstar partners with a third-party calculation agent, ICE Data Indices, to calculate the indexes. This agency calculates the actual change in all measured characteristics of the respective indexes daily. All of the index measures are calculated for all levels of the aggregate indexes, including the individual bonds that make up the indexes.

Market value weighting is used for all index characteristics. The rebalanced weights are determined as of the last business day of each month.

#### *Pricing, Trading, Settlement, and Transaction Costs*

Indicative bid side prices are used for all index calculations and are provided daily by outside pricing sources. Bid prices are used when securities are added to an index. Transaction costs and tax consequences are ignored.

#### *Index Calculations*

Details on index calculations can be found in the [Morningstar Global Bond rulebook](#).

Trading and settlement of these securities follow local market conventions. The indexes do not take transaction costs (bid-offer spreads) or tax withholdings into account.

### *Holiday Rules*

Weekdays on which WM Reuters does not publish closing foreign exchange rates are treated as “global holidays.” Indexes are not published on Global Holidays unless they fall on the last calendar day of the month. In that case, prices are updated in all local markets that are open. In markets that are closed, prices will be carried forward (rolled) from the prior business day and accrued interest will be calculated for the new settlement date.

Effective September 30, 2023, indexes will be calculated on days designed as Global Holidays when there is a Securities Industry and Financial Markets Association (SIFMA) recommendation of trading in fixed income securities in the US. On certain occasions around the timing of key economic data releases, SIFMA will recommend a partial trading day for US fixed income on what would otherwise be a Global Holiday. Since FX fixing rates would not be available from the source on these days, the FX spot and forward rates would be rolled from the prior Global Business Day.

Index files will not be delivered on New Year’s Day, Christmas Day, or Good Friday.

### **Methodology Review and Index Cessation Policy**

The index methodology is continually reviewed to ensure it achieves all stated objectives. These reviews consider 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 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 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 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](#).

## Computational and Reporting Precision

For reporting purposes, index values are rounded to eight decimal places and divisors are rounded to appropriate decimal places.

## Sanctions

Morningstar Indexes reviews and addresses treatment of debt securities from issuers that have been sanctioned or put on a trading prohibition list by US, European Union, or other regulatory authorities on a case-by-case basis.

New debt issuances from sanctioned entities are not eligible for the Morningstar Indexes. Clients will be notified of identified issuers that require blockage of new issuances from entering the Morningstar Fixed Income Indexes and effective implementation date of the block. Existing debt issuances may remain in the Indexes unless sanctions require divestiture, or liquidity and investibility does not meet a sufficient level, as determined by Morningstar Indexes.

The removal of securities from sanctioned entities in between or at upcoming rebalance periods may be required to ensure the ongoing investibility of the indexes. Morningstar Indexes may consult clients on any such removals deemed necessary. Removal decisions will be reviewed and approved by the Morningstar Indexes Methodology Committee and will be communicated to clients via notifications and proforma files where available.

In the event that sanctions are removed, the Morningstar Indexes Methodology Committee will review securities from the previously restricted entities to determine whether such securities meet all index eligibility criteria. If approved to enter or re-enter the Morningstar Indexes, clients will receive notifications and the addition will be reflected in proforma files where available.

## Exceptions

While Morningstar will seek to apply the methodology as described within this document, 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 Morningstar Index Methodology Committee, and in all instances, the exception will be reported to the Morningstar Index Oversight Committee.

## Appendixes

### Appendix 1: Emerging Market Countries

Country	Code
Argentina	ARG
Azerbaijan	AZE
Bahrain	BHR
Bangladesh	BGD
Bosnia and Herzegovina	BIH

Brazil	BRA
Bulgaria	BGR
Chile	CHL
China	CHN
Colombia	COL
Costa Rica	CRI
Cote d'Ivoire	CIV
Croatia	HRV
Dominican Republic	DOM
Ecuador	ECU
Egypt	EGY
El Salvador	SLV
Gabon	GAB
Ghana	GHA
Georgia	GEO
Guatemala	GTM
Hungary	HUN
India	IND
Indonesia	IDN
Islamic Republic of Iran	IRN
Israel	ISR
Jamaica	JAM
Jordan	JOR
Kazakhstan	KZN
Kuwait	KWT
Lebanon	LBN
Malaysia	MYS
Mauritania	MRT
Mexico	MEX
Morocco	MAR
Nigeria	NGA
Oman	OMN
Pakistan	PAK
Panama	PAN
Paraguay	PRY
Peru	PER
Philippines	PHL
Poland	POL
Qatar	QAT
Romania	ROM
Saudi Arabia	SAU
Senegal	SEN

Serbia	SRB
South Africa	ZAF
South Korea (Republic of)	KOR
Sri Lanka	LKA
Taiwan	TWN
Thailand	THA
Trinidad and Tobago	TTO
Turkey	TUR
Ukraine	UKR
United Arab Emirates	ARE
Uruguay	URY
Venezuela	VEN
Vietnam	VNM

## Appendix 2: Modifications to the Rulebook

Section	Description of Change	Update Date
Scheduled Maintenance	Clarified the timing of the annual country selection review	October 2024

## 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 Indexes Methodology Committee

The Morningstar Indexes Methodology Committee oversees all new indexes 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 is comprised of 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 Indexes 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 UK & EU Benchmark Regulations “BMR”), ensuring methodologies remain fit for purpose and continue to achieve their stated investment objectives. The group is comprised of 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 Indexes Oversight Committee**

The Morningstar Indexes Oversight Committee is responsible for the index oversight function as per the requirements of the UK & 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.

[www.indexes.morningstar.com](http://www.indexes.morningstar.com)

### **Contact Us**

[indexes@morningstar.com](mailto:indexes@morningstar.com)

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