GLOBAL X INSIGHTS

A Big Picture Approach to Investing in Corporate Governance – What A ‘Capital’ Idea

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The Global X Morningstar Capital Allocation Leaders ETF (CPTL) seeks to invest in companies that exhibit strong capital allocation practices, as measured by Morningstar’s proprietary Capital Allocation Rating (MCAR) framework. Global X is pleased to be working with Morningstar, an industry leader in data analytics, research, and indexing. Effective July 21, 2026, the Global X Conscious Companies ETF (KRMA) was updated to start tracking the Morningstar® US Capital Allocation Leaders Index, which uses MCAR framework and updated its name and ticker to the Global X Morningstar Capital Allocation Leaders ETF (CPTL).

In essence, MCAR’s framework evaluates how well a company’s leadership team uses cash, based on a forward-looking evaluation of management’s capital allocation decisions. MCAR emphasizes companies with disciplined, accountable management running resilient businesses positioned to create durable value.

Despite this change in investment strategy, what remains consistent is the fund’s emphasis on corporate governance. We believe MCAR provides a more holistic framework for delivering on corporate governance through its emphasis on evaluating capital allocation decisions, using both historical financial data and forward-looking assessments of financial strength. The new Morningstar index follows a float-adjusted market-capitalization-weighting scheme, versus an equal-weighting scheme from the prior underlying index.

Key Takeaways

- CPTL focuses on the ‘throughput’ of capital deployment, not just the ‘output’.
- The MCAR framework is built on three pillars of capital deployment: 1) Balance Sheet Strength, 2) Investment Efficacy, and 3) Shareholder Distributions.
- Companies demonstrating superior capital efficiency and allocation decisions have exhibited higher ‘Quality’ and lower ‘Volatility’ versus the broader market, a reflection of their resilient business models.

MCAR: A More Refined and Elegant Approach to Capturing Capital Efficiency

Morningstar designed MCAR as a more refined and elegant approach to investing in companies that have demonstrated superior capital allocation. MCAR’s framework sets itself apart from other dividend- and cashflow-based index methodologies that mostly focus on the ‘output’ of capital deployment.

In contrast, MCAR rates companies based on their ‘throughput,’ or how efficiently company management converts capital into shareholder returns. MCAR emphasizes companies with disciplined, accountable management running resilient businesses positioned to create durable value.

MCAR evaluates every covered company across these three pillars:

#1 Balance Sheet Strength

Morningstar analysts assess whether a company carries reasonable or excessive leverage, whether debt repayment is prioritized, and whether cash flow is sufficient to improve the balance sheet if needed. Critically, this assessment also considers how the balance sheet might evolve under economic stress or company-specific risk scenarios.

#2 Investment Efficacy

This pillar evaluates whether a company is likely to invest capital in ways that fortify or enhance its competitive position, and whether it is doing so at the right price, generating returns above the company’s estimated cost of capital. Execution quality is also factored in.

#3 Shareholder Distributions

Analysts assess the appropriateness and sustainability of capital returned to shareholders, examining dividend yield, dividend payout ratio, and buyback yield percentage.

Based on the combined assessment across these three pillars, each covered company receives one of three ratings: Exemplary, Standard, or Poor. Only companies rated “Exemplary” are eligible for inclusion in the Morningstar US Capital Allocation Leaders (MCAL) Index. The "Exemplary" threshold is a high bar, as most companies receive a "Standard" rating.

With respect to equity characteristics, the MCAL Index holds higher quality companies versus the broader market as indicated by greater profitability, such as higher operating margins and return on invested capital or ROIC. The MCAL Index is modeled with moderate projected tracking error versus the broad U.S. market, providing core U.S. equity exposure.[1] In addition, the MCAL Index is projected to hold securities with lower price volatility and lower earnings variability, according to the Bloomberg US Equity Risk Model.[2]

MORNINGSTAR US CAPITAL ALLOCATION LEADERS INDEX HOLDS HIGHER QUALITY COMPANIES VS US MARKET

Morningstar Index Characteristics		
	Morningstar US Capital Allocation Leaders Index	Morningstar US Target Market Exposure Index
Total Holdings	155	468
% Weight of Top 10	36%	36%
Sales 3-Yr Compounded Annual Growth Rate (CAGR) Median	10.6%	10.4%
Operating Margin 3-Yr Median	26.6%	26.3%
Return on Invested Capital 3-Yr Median	16.4%	16.4%
(Research & Development + Capital Expenditures) / Sales 3-Yr Median	13.3%	13.8%

Sources: Global X ETFs with information derived from Bloomberg as of 6/30/2026.

Conclusion: CPTL Provides Core Equity Exposure with Emphasis on Superior Capital Allocation

Investors have rewarded superior capital generators with higher equity valuations and lower risk premiums. The Global X Morningstar Capital Allocation Leaders ETF (CPTL), by tracking the Morningstar US Capital Allocation Leaders Index, leverages robust data and research insights from Morningstar, the underlying index provider. By focusing on capital efficiency and shareholder returns, this strategy is designed to serve as a durable, core equity program; the foundation to add other investment opportunities and risk exposures, whether thematic investments or market alternatives such as commodities.

Related ETFs

CPTL – Global X Morningstar US Capital Allocations ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. Projected (ex-ante) Tracking Error versus the Morningstar US Target Market Exposure Index is 3.7% per Bloomberg MAC3 Risk Model as of 6/30/2026.
2. Bloomberg US Equity Risk Model (MAC3 Version) based on ex-ante Bloomberg MAC3 model estimates as of 6/30/2026.

Glossary

Bloomberg MAC3 US Equity Risk Model: A multi-factor quantitative risk model developed by Bloomberg that decomposes the sources of equity portfolio risk into systematic factors (such as market, style, industry, and country exposures) and idiosyncratic security-specific risk. MAC3 produces ex-ante (forward-looking, projected) estimates of tracking error, volatility, and other risk metrics. Referenced in this piece to assess projected quality and volatility characteristics of the MCAL Index relative to the broader market.

Ex-Ante: Latin for "before the event." In finance, ex-ante refers to forward-looking, projected, or model-estimated metrics — such as projected tracking error or expected volatility — as distinguished from ex-post (historical, realized) measures.

Morningstar US Target Market Exposure Index measures the performance of large- and mid-cap stocks in the U.S., representing the top 85% of the investable universe by float-adjusted market capitalization.

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Investing involves risk, including the possible loss of principal. There is no guarantee that the companies identified through the Morningstar Capital Allocation Rating system will be properly assessed as Capital Allocation Leaders or will maintain strong capital allocation characteristics over time.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

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