

# Construction Rules for the Morningstar<sup>®</sup> Developed Markets Large Cap Dividend Leaders Screened Select<sup>SM</sup>

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## Overview

The Morningstar® Developed Markets Large Cap Dividend Leaders Screened Select Index<sup>SM</sup> selects securities that pay dividends consistently and sustainably in dividend payments. The securities are selected from the Morningstar Developed Markets Large Cap Index. The dividend-leaders index consists of the 100 top-yielding securities that satisfy the screening criteria. The Index also incorporates a number of different Environmental, Social, or Governance (ESG) criteria screens from Morningstar Sustainalytics.

For more information on the Sustainalytics ESG Risk Rating, controversy scores, and Morningstar Portfolio Sustainability Score and Rating, please refer to the [Morningstar Sustainability Rating methodology](#).

## Index Inception and Performance Start Date

The inception date of the index is April 15, 2016, and the performance inception date of the index is December 16, 2005, when the first back-tested index value was calculated.

## Index Construction

### Exhibit 1: Construction Process



### Assigning Stocks to the Index

#### Starting Universe

At each reconstitution, securities for the index are derived from the Morningstar Developed Markets Large Cap Index (benchmark). For more details on benchmark construction, refer to the construction rules of the [Morningstar Global Markets ex-US Index Family](#) and [Morningstar US Markets Index](#).

#### Security Selection

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

- Dividend payment screen: Trailing 12-month dividend per share is positive
- Dividend growth screen: Five-year trailing 12-month dividend per share growth is not negative. i.e. 12-month trailing dividend per share for current year is compared with the 12-month trailing dividend per share of 5- years back. (For example: 2017 December reconstitution, data used is as of November 2017 to calculate 12-month trailing dividend per share and it will be compared with same period 2012 dividend per share and their growth should not be negative)

- Dividend sustainability screen: Forward dividend payout ratio is less than 75%.

$$\text{Forward dividend payout ratio} = \frac{\text{TTM DPS}}{\text{Consensus EPS estimate}}$$

- REIT screen: Real estate investment trusts are ineligible.
- Multiple share class screen: Only the most liquid share class as determined by Morningstar is eligible.
- ESG Exclusions:
  - The security must not have a null ESG Risk Rating or Controversy Score.
  - Security must not belong to the Severe ESG Risk Rating Category.
  - Security controversy score must be 4 (out of 5) or lower.
  - Security must not be non-compliant with the principles of the United Nations Global Compact.
  - Security product involvement must be 0% for the following activities:
    - Tobacco Products Production
    - Controversial Weapons
    - Small Arms Civilian
    - Small Arms Key Components
  - Security involvement must be less than 5% for the following activities:
    - Thermal coal extraction
    - Thermal coal power generation
- Current index constituents ranked within the top 125 by trailing 12-month dividend yield in the eligible universe are retained in the index.
- From among the remaining securities, the top-yielding ones are selected until the number of constituents reaches 100.

### *Number of Stocks*

The index contains 100 stocks based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. 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 index can have more or fewer than 100 securities. During reconstitution, if the number of securities is less than the target, the weight of the constituents will be determined based on the index weighting scheme. The schedule for reconstitution and corporate actions is available in the "Index Maintenance and Calculation" section.

### *Index Weighting*

The index is trailing 12-month dividend dollar weighted with maximum security weight capping at 5%. For more details, refer to the [Morningstar Indexes Calculation Methodology](#).

In addition, the weight of an individual sector in the index is constrained to a maximum of 40%. For sector definitions, please refer to the [Morningstar Global Equity Classification Structure](#).

## **Index Maintenance and Calculation**

### **Scheduled Maintenance**

The index is reconstituted and rebalanced semiannually and is implemented after the close of business on the third Friday of June and December and is effective the following Monday. If Monday is a holiday, it is effective on the immediate following business day. The market data used for reconstitution and rebalance is as of the last trading day of May and November.

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 float market capitalization 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](#).

## 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 also notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to the index or a possible cessation of the index. Circumstances that could lead to an index cessation include, but are not limited to, market structure change, product definition change, inadequate supply of data, insufficient revenue associated with the index, insufficient number of clients using the index, and/or other external factors beyond the control of the Morningstar Index Methodology Committee.

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 daily highs or lows, it is corrected retroactively as soon as is feasible.

### 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 five 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 two decimal places and divisors are rounded to appropriate decimal places.

### 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: Modifications to the Rulebook

Section	Description of Change	Update Date
Security Selection	<ul style="list-style-type: none"> <li>• Addition of ESG Screens: <ul style="list-style-type: none"> <li>○ The security must not have a null ESG Risk Rating or Controversy Score.</li> <li>○ Security must not belong to the Severe ESG Risk Rating Category.</li> <li>○ Security controversy score must be 4 (out of 5) or lower.</li> <li>○ Security must not be non-compliant with the principles of the United Nations Global Compact.</li> <li>○ Security product involvement must be 0% for the following activities: <ul style="list-style-type: none"> <li>▪ Tobacco Products Production</li> <li>▪ Controversial Weapons</li> <li>▪ Small Arms Civilian</li> <li>▪ Small Arms Key Components</li> </ul> </li> <li>○ Security involvement must be less than 5% for the following activities: <ul style="list-style-type: none"> <li>▪ Thermal coal extraction</li> <li>▪ Thermal coal power generation</li> </ul> </li> </ul> </li> <li>• Removal of screens:</li> <li>• United Nations Global Compact screen: The five worst-performing companies in the EIRIS universe for each of the categories (human rights, labor, environment, and anti-corruption) are ineligible.</li> <li>• Munitions screen: Companies that are substantially involved in the production or distribution of cluster ammunition systems are ineligible.</li> </ul>	June 2023

## Index Name

- Name updated to Morningstar Developed Markets Large Cap Dividend Leaders Screened Select from Morningstar Developed Markets Large Cap Dividend Leaders

June 2023

## Appendix 2: Glossary

Terms	Description
<b>Reconstitution</b>	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.
<b>Rebalance</b>	During each rebalance, the weights are adjusted for updated free float and shares outstanding data.

## 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 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.

## 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.

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

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