Morningstar® High Dividend Low Volatility Indexes℠

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Investing in a portfolio of stocks with high dividend yield can be appealing for many reasons. For example, dividend strategies can potentially generate extra income. In addition, if reinvested, dividends can significantly increase the total return of an investment portfolio over time. Dividend-focused strategies can also help cushion declines in times of market downturns. However, aggressively chasing dividend yield can lead to unintended risk. For example, the highest-yielding stocks may have weak or deteriorating fundamentals that could threaten their price performance. For this reason, considering financial quality and stock volatility in addition to dividend yield can paint a more complete picture and may lead to better outcomes.

The Morningstar® High Dividend Low Volatility Indexes are designed target high quality, financially healthy stocks with attractive dividend yields, while favoring those with lower volatility.

Index eligibility
The Morningstar High Dividend Low Volatility Indexes derive their constituents from an appropriate regional parent benchmark from the Morningstar Dividend Yield Focus Indexes, which screen for dividend yield as well as financial quality.

To be eligible for inclusion in the parent benchmarks, stocks must be assigned a Morningstar Economic Moat Rating or a Quantitative Moat Rating and a Morningstar Distance to Default Score.[1] In addition, securities must have paid a dividend in the last 12 months, and that dividend must be considered "qualified income." Thus, real estate investment trusts (REITs) are excluded.

To provide an accurate gauge of their volatility, securities must also have at least 126 daily returns in the one-year window prior to the reconstitution date to be eligible for inclusion in the Morningstar High Dividend Low Volatility Indexes.

Quality and financial health screens
The parent benchmarks apply the following screens to target high-quality, financially healthy stocks:

- Companies that are assigned a Morningstar Economic Moat Rating of "Wide" or "Narrow" must rank in the top 50% of their region-sector cohort by Morningstar Distance to Default Score. To reduce turnover, current index constituents that drop below the 50% threshold will remain eligible if they score in the top 60% of their region-sector cohort.

- Companies that do not have a Morningstar Economic Moat Rating or a Morningstar Quantitative Moat Rating must have a Distance to Default Score in the top 30% of their Region-Sector cohort, with relaxed constraints for existing constituents.[2]

Portfolio construction
If the parent benchmark has at least 40 constituents, stocks that rank in the bottom 30% (by count) by volatility over the past 12 months are not eligible for inclusion. If the parent benchmark has fewer than 40 constituents, they are all eligible.

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[1] The parent benchmark for the Morningstar US High Dividend Low Volatility Index only considers the analyst-assigned Morningstar Economic Moat Rating, not the Quantitative Moat Rating. It also requires that companies covered by the equity research team not be assigned an Uncertainty Rating of very high or extreme.
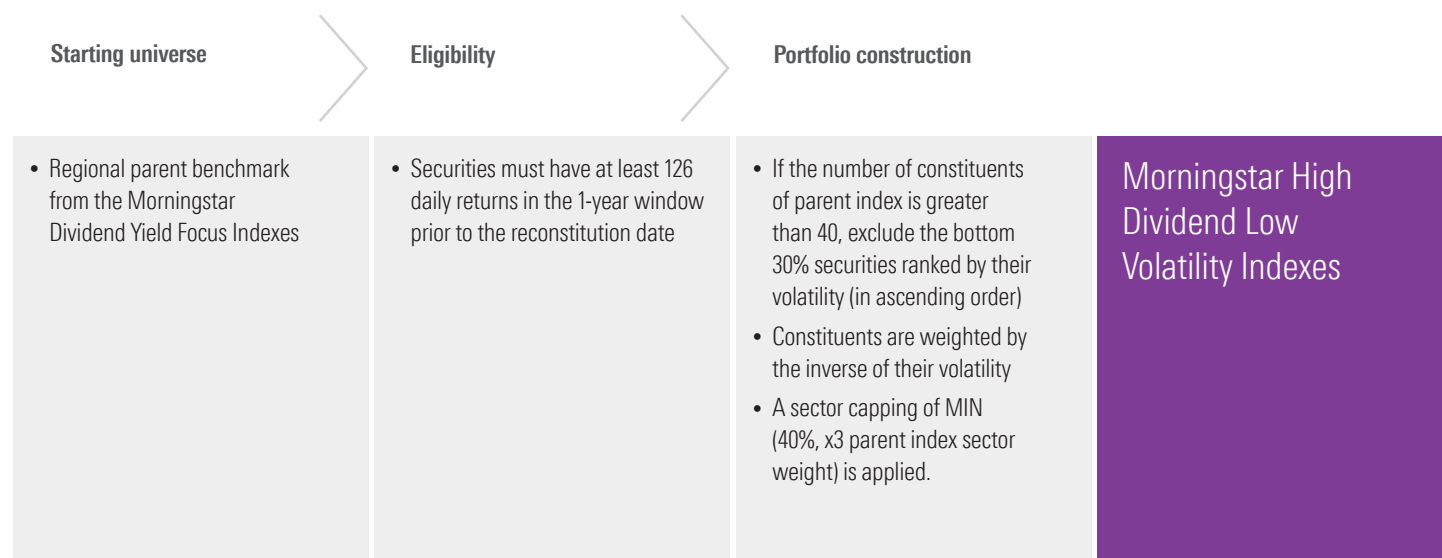
[2] This constraint is not relaxed for the US parent benchmark.

Eligible stocks are weighted by the inverse of their volatility over the past 12 months, giving the largest weightings to the least volatile stocks. Sector weightings are constrained relative to the parent benchmark to mitigate unintended biases.

Reconstitution and rebalancing

The indexes are reconstituted and rebalanced semiannually in June and December.

Construction process

Starting universe ❯ **Eligibility** ❯ **Portfolio construction**

Starting universe	Eligibility	Portfolio construction	
• Regional parent benchmark from the Morningstar Dividend Yield Focus Indexes	• Securities must have at least 126 daily returns in the 1-year window prior to the reconstitution date	• If the number of constituents of parent index is greater than 40, exclude the bottom 30% securities ranked by their volatility (in ascending order) • Constituents are weighted by the inverse of their volatility • A sector capping of MIN (40%, x3 parent index sector weight) is applied.	Morningstar High Dividend Low Volatility Indexes

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.

Please visit indexes.morningstar.com for more information.

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