



# Morningstar® Dividend Yield Focus Index<sup>SM</sup>

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## Contact us

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

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 the sustainability of their dividend payments as well as their price performance.

The Morningstar Dividend Yield Focus Index is designed to target high quality, financially healthy stocks with attractive dividend yields, which can help reduce this risk.

## Index eligibility

The Morningstar Dividend Yield Focus Index derives its constituents from the Morningstar US Market Index. To be eligible, a company must be assigned a Morningstar Economic Moat Rating, a Morningstar Uncertainty Rating, and a Morningstar Distance to Default Score. 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.

## Quality, financial health, and yield screens

To target high-quality, financially healthy stocks, the following screens are applied:

- Companies that are assigned a Morningstar Economic Moat Rating of "Wide" or "Narrow" and a Morningstar Uncertainty Rating that is not "very high" or "extreme" must rank in the top 50% of eligible dividend-paying companies by Morningstar Distance to Default Score.
- Companies that do not have a Morningstar Economic Moat Rating must have a Distance to Default Score in the top 30% of eligible companies.

## INDEX CONSTRUCTION INPUTS

### Morningstar® Economic Moat™ Rating

The Morningstar Economic Moat Rating represents a company's sustainable competitive advantage. A company with an economic moat can fend off competition and earn high returns on capital for many years to come.

### Morningstar Uncertainty Rating

The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

### Morningstar Distance to Default Score

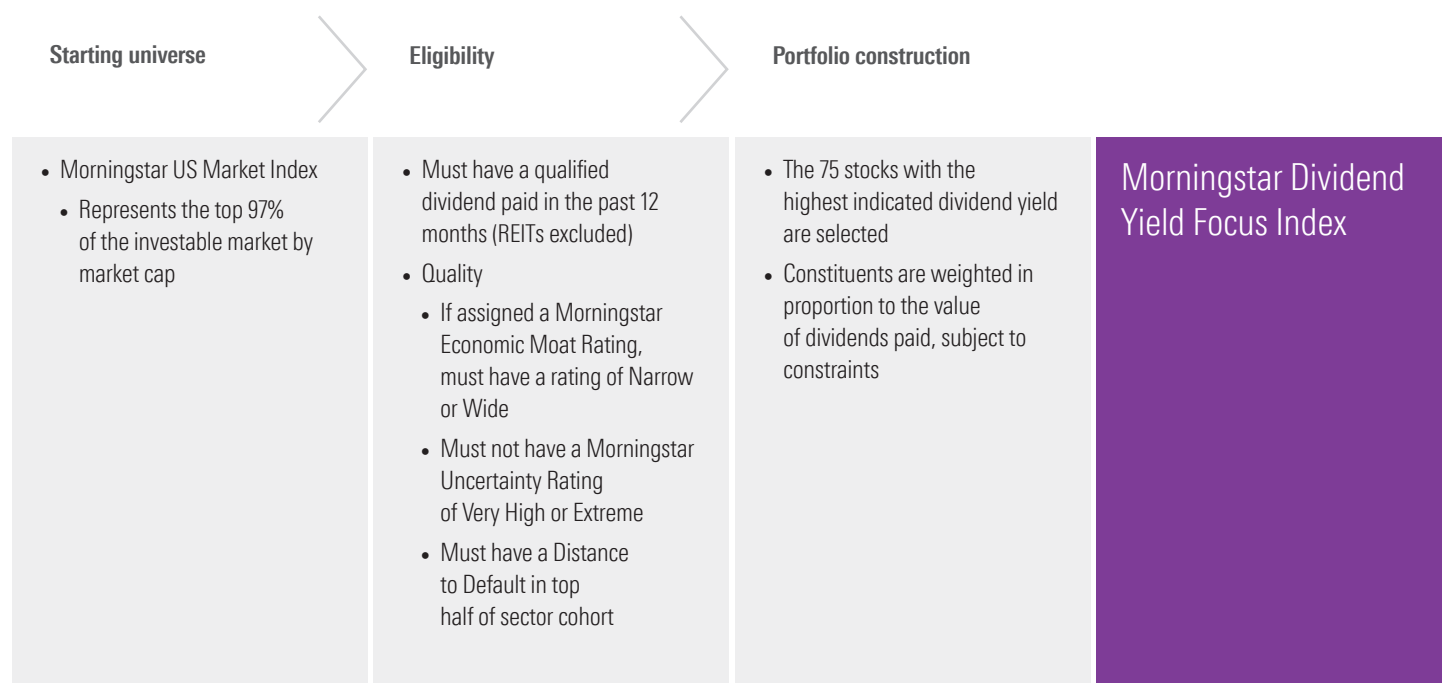
Distance to Default incorporates information about a company's equity volatility and financial leverage to arrive at a score ranging from zero to 1. A high Distance to Default indicates strong financial health

## Portfolio construction

Once the quality and financial health screens are applied, the 75 stocks with the highest indicative 12-month dividend yield are selected. The index is weighted in proportion to the value of each stock's indicative 12-month dividend payments, which considers dividend per share and number of shares. Stocks representing more than 5% of the index cannot collectively exceed 50% of total index weight.

## Rebalancing and reconstitution

The index is reconstituted and rebalanced quarterly.

**Construction process****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.

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