

Construction Rules for the Morningstar[®] Dividend Composite Indexes and Morningstar[®] Dividend Leaders Indexes



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Overview

The Morningstar® Dividend Composite Indexes are designed to measure the performance of a broad group of dividend-paying stocks that meet baseline dividend consistency and durability criteria. Constituents are selected from the Morningstar Global Markets Index, which covers the top 97% of the investable global equity market, and are weighted in proportion to the value of their dividend payments.

The Morningstar® Dividend Leaders Indexes are designed to target the highest yielding stocks from the Morningstar Dividend Composite Indexes. Constituents are weighted in proportion to the value of their dividend payments.

These indexes do not incorporate environmental, social, or governance criteria.

Index Inception and Performance Start Date

The inception dates and performance start dates, when the first back-tested index value was calculated, are provided in Appendix 4 and 5.

Index Construction

Methodology Summary for the Morningstar Dividend Composite Indexes

Starting Universe

- Regional parent from the Morningstar Global Markets Indexes, which include stocks representing the top 97% of the investable market.

Eligibility

- Screen for dividend-paying companies
- REITs omitted.
- Dividend consistency screen: five-year dividend per share growth ≥ 0
- Dividend sustainability screen: dividend coverage ratio > 1

Portfolio Construction

- Select all eligible stocks.
- Weight constituents by dividend dollar value, with 5-10-50 capping
- Reconstitute annually, rebalance quarterly.

Morningstar®
Dividend Composite
Indexes

Methodology Summary for the Morningstar Dividend Leaders Indexes

Starting Universe

- Morningstar Dividend Composite Index

Eligibility

- Screen for the N highest yielding stocks from the relevant carve-out of starting universe.

Portfolio Construction

- Select all eligible stocks.
- Weight constituents by dividend dollar value, with 5-10-50 capping.
- Reconstitute annually, rebalance quarterly.

Morningstar®
Dividend Leaders
Indexes

Starting Universe

At each reconstitution, securities for the index are derived from their respective parent index (benchmark) from the Morningstar Global Markets Indexes, as shown in Appendix 3. For more details on benchmark construction, refer to the [Construction Rules for the Morningstar Global Markets Indexes](#).

Eligibility

To be eligible for inclusion in each index, securities must meet the following criteria in sequence. All the discussions in this document refer to following definition of Dividend Yield and Dividend per share

- For securities in the Morningstar US Market Index,
 - Dividend per share is calculated as a product of the most recent dividend per share paid and the announced frequency (Indicated Dividend).
 - Dividend yield is measured as the indicated dividend yield, calculated by dividing indicated dividend per share by the current share price.
- For securities in the Morningstar Developed Markets ex-US Index,
 - Dividend per share is calculated as the trailing 12-month dividend yield, calculated by taking the sum of all ordinary per-share dividend payments in the preceding 12-month period (adjusted for changes in payment date), adjusted for corporate actions.
 - Dividend yield is measured as the calculated by dividing dividend per share by the current share price.
- The security must have a positive dividend yield.
- Dividend consistency and durability
 - The company must have a five-year dividend per share growth greater than or equal to 0.
 - The company must have a dividend coverage ratio (earnings/dividends) greater than 1, based on forward earnings and dividends per share.
- Real estate investment trusts are excluded.

Portfolio Construction

- Stocks that meet all the criteria above are targeted for inclusion in the Morningstar Dividend Composite Indexes.
- The Morningstar Dividend Leaders Indexes target the top N stocks by dividend yield from the relevant carveout of Morningstar Dividend Composite Index. These targets are shown in Appendix 4.

Higher dividend coverage ratio is used as a tiebreaker. Number of Stocks

The number of stocks in the Morningstar Dividend Composite Indexes is variable, subject to the selection and eligibility criteria at the time of reconstitution.

The Morningstar Dividend Leaders Indexes target a fixed number of stocks (N) 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 indexes can have more or fewer than target N securities. During reconstitution, if the number of securities is less than the target, all eligible securities would be selected, and 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 indexes are dividend-dollar weighted with 5-10-50 capping. This means constituents are weighted in proportion to their total value of dividends calculated as a product of dividend yield and free float market capitalization. At rebalancing, no stock

may account for more than 10% of the index, and the weightings of constituents that exceed 5% cannot sum to more than 50%. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

For the Morningstar Developed Markets ex-US Dividend Composite and Morningstar Developed Markets ex-US Dividend Leaders Index, the weightings of individual sectors and countries are also constrained to a maximum of 30%. The Morningstar US Small-Mid Cap Dividend Leaders Index constrains individual sector weightings to a maximum of 30%. For sector definitions, please refer to the [Morningstar Global Equity Classification Structure](#).

Weighting Algorithm: Morningstar employs the following iterative algorithm to assign weights to each constituent such that B-A-C Capping/sector/country weight constraints are satisfied simultaneously.

- Step 1: The indexes are dividend dollar weighted.
- Step 2: Apply 5-10-50 (B-A-C Capping) so that no stock may account for more than 10% of the index, and the weightings of constituents that exceed 5% cannot sum to more than 50%. For more details, refer to the Morningstar Indexes Calculation Methodology rulebook.
- Step 3: Adjust the weights of the constituents by capping sector weights at 30%, distributing extra weight to remaining sectors, and adjusting constituent weights within sector proportionally.
- Step 4: For the indexes where applicable, take the adjusted weights of the constituents from Step 3 and apply country capping at 30%, distributing extra weight to remaining countries, and adjusting constituent weights within countries proportionally.
- Step 5: Repeat the process step 2- step 5 until the country, sector and BAC constraints are satisfied.

Index Maintenance and Calculation

Scheduled Maintenance

The indexes are reconstituted, where the membership is reset, annually on the third Friday of June. Adjustments are implemented after Friday's market close and reflected the following Monday. If Monday is an index holiday, reconstitution is reflected the next business day. The market and dividend data used for reconstitution is as of the last trading day of May.

The index is rebalanced quarterly on the third Friday of March, June, September, and December. Adjustments are implemented after Friday's market close and reflected the following Monday. If Monday is a holiday, rebalance is effective on the next business day. The market data used for rebalancing is as of the last trading day of February, May, August, and November.

Because the reconstitution of the Morningstar Dividend Composite and Morningstar Dividend Leaders Indexes is less frequent than the parent index, securities excluded from the parent indexes at their reconstitution effective dates (in June and December) are also deleted from the dividend indexes.

Refer to Appendix 2 for additional details on reconstitution and rebalancing.

Index files are published according to the global calendar schedule for all the indexes in family. For more information, please refer to the [Morningstar Indexes Holiday Calendar](#).

Corporate Actions

The treatment of corporate actions will be as per the alternatively-weighted indexes corporate action methodology. 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, eligibility requirements, 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 be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within two days of its occurrence, will always 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 Indexes Methodology Committee, and in all instances, the application of a nonstandard process will be reported to the Morningstar Indexes Oversight Committee.

Appendixes

Appendix 1: Modifications to the Rulebook

Section	Description of Change	Update Date
Overview	Index description updated	February 2023
Entire rulebook	Migrated rulebook to new template	February 2023
Exceptions	Added an Exceptions section	May 2023
Index Maintenance and Calculation	Added a parent benchmark eligibility check at each quarterly rebalance	December 2023
Overview	Modified to incorporate new regional indexes	March 2024
Index Construction	Modified to incorporate new regional indexes	March 2024
Index Maintenance and Calculation	Modified to incorporate new regional indexes	March 2024
Index Maintenance and Calculation	Changed calculation schedule for US indexes to global calendar	March 2024

Appendix 2: Glossary

Terms	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in membership reset.
Rebalance	During each rebalancing, the weights are reset based on updated dividend data and the caps are enforced.

Appendix 3: Morningstar Dividend Composite Indexes

Index	Parent Index	Inception Date	Performance Start Date
Morningstar Dividend Composite Index	Morningstar US Markets Index	May. 03, 2006	Jun 30, 1997
Morningstar Developed Markets ex-US Dividend Composite Index	Morningstar Developed Markets ex-US Index	Apr 03, 2024	Jun 20, 2008

Appendix 4: Morningstar Dividend Leaders Indexes

Index	Parent Index	Target Number of securities	Inception Date	Performance Start Date
Morningstar US Dividend Leaders Index	Morningstar Dividend Composite Index	100	May 03, 2006	Jun 30, 1997
Morningstar US Small-Mid Cap Dividend Leaders Index	Morningstar US Dividend Composite Index	100	Mar 04, 2024	Jun 20, 2008

Morningstar Developed Markets ex-US Dividend Leaders Index	Morningstar Developed Markets ex-US Dividend Composite Index	200	Apr 03, 2024	Jun 20, 2008
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Appendix 5: Weighting of Indexes in Family

Index	Weighting	5-10-50 Capping	Sector Capping	Country Capping
Morningstar Dividend Composite Index	Indicated Dividend Dollar	✓		
Morningstar US Dividend Leaders Index	Indicated Dividend Dollar	✓		
Morningstar US Small-Mid Cap Dividend Leaders Index	Indicated Dividend Dollar	✓	✓	
Morningstar Developed Markets ex-US Dividend Composite Index	Trailing 12-month Dividend Dollar	✓	✓	✓
Morningstar Developed Markets ex-US Dividend Leaders Index	Trailing 12-month Dividend Dollar	✓	✓	✓

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 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 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 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 Indexes Oversight Committee

The Morningstar Indexes 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.

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