



Morningstar Dividend Yield Focus Target Volatility 5 Index

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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.

The Morningstar Dividend Yield Focus Target Volatility 5 Index is designed to provide variable exposure to the Morningstar Dividend Yield Focus Index (base index) to achieve a 5% volatility target. The base index targets companies with attractive dividend yields and strong financial quality. This dual focus on quality and yield aims to reduce risk and favor stocks that can sustain their dividend payments.

Index eligibility and portfolio construction

The constituents of the Morningstar Dividend Yield Focus Target Volatility 5 Index are derived from the Morningstar Dividend Yield Focus Index. The index provides variable

exposure to the base index to achieve a volatility target of 5%. The target exposure is monitored daily and is subject to both an exposure tolerance of 10% (which acts as a buffer around the targeted exposure to the base index) and a maximum exposure cap of 150%, meaning a maximum of 50% leverage. When the allocation to the base index is less than 100%, a proxy for the return on a cash investment, based on the Federal Funds rate, is used for the balance of the exposure. When the base index is leveraged, borrowing is at the Secured Overnight Financing Rate (SOFR).

Rebalancing

Because the index provides variable exposure to the base index that is assessed daily, it may be rebalanced as frequently as daily. However, daily rebalancing is rare and will likely occur only during the most turbulent markets. On average, the index is typically rebalanced every one to two weeks.

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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