

Morningstar Wide Moat Dividend Yield Indexes

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Contact us

indexes@morningstar.com

Equity income strategies can be appealing for many reasons. High dividend-paying stocks not only offer current income streams, but they tend to be less sensitive to interest rates than bonds and may offer greater growth potential. Dividend distributions can also help cushion declines during 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 Wide Moat Dividend Yield Indexes are designed to provide exposure to high dividend-yielding companies with a Morningstar Economic Moat Rating of 'wide'. Moat ratings are determined through independent research conducted by the Morningstar Equity Research Team.

What is an economic moat?

An economic moat is a durable competitive advantage that allows a firm to keep competitors at bay and generate economic profits over an extended period. To help investors identify companies that possess an economic moat, Morningstar's equity research team assigns one of three economic moat ratings: "wide," "narrow," or "none." There are two major criteria that must be satisfied for a company to earn a moat rating of "wide" or "narrow": 1) it must be likely to generate returns on invested capital above its weighted average cost of capital for at least the next twenty years for wide or the next ten years for narrow; and 2) it must enjoy one of the following economic moat sources, each of which is a driver of structural competitive advantage:

- **Network effect** Present when the value of a network increases for new and existing users as the network grows.
- **Cost advantage** Allows a firm to sell at the same price as competition but still enjoy economic profits thanks to lower unit costs of production.

- **Efficient scale** When a company serves a market limited in size, new competitors may not have an incentive to enter, particularly when the cost of market entry is high. New entrants would cause returns for all players to fall well below the cost of capital.
- **Intangible assets** Brands, patents, and regulatory licenses that block competition and/or convey meaningful pricing power.
- **Switching costs** Whether in time or money, the expenses that a customer would incur to change from one producer/provider to another.

Index eligibility

The Morningstar Wide Moat Dividend Yield Indexes derive their constituents from the Morningstar Global Markets Indexes. To be eligible for inclusion, a company must be assigned a Morningstar Economic Moat Rating of 'wide.' In addition, securities must have a positive dividend yield based on indicated yield for US securities and trailing twelve-month yield for securities outside of the US. Real estate investment trusts (REITs) are excluded.

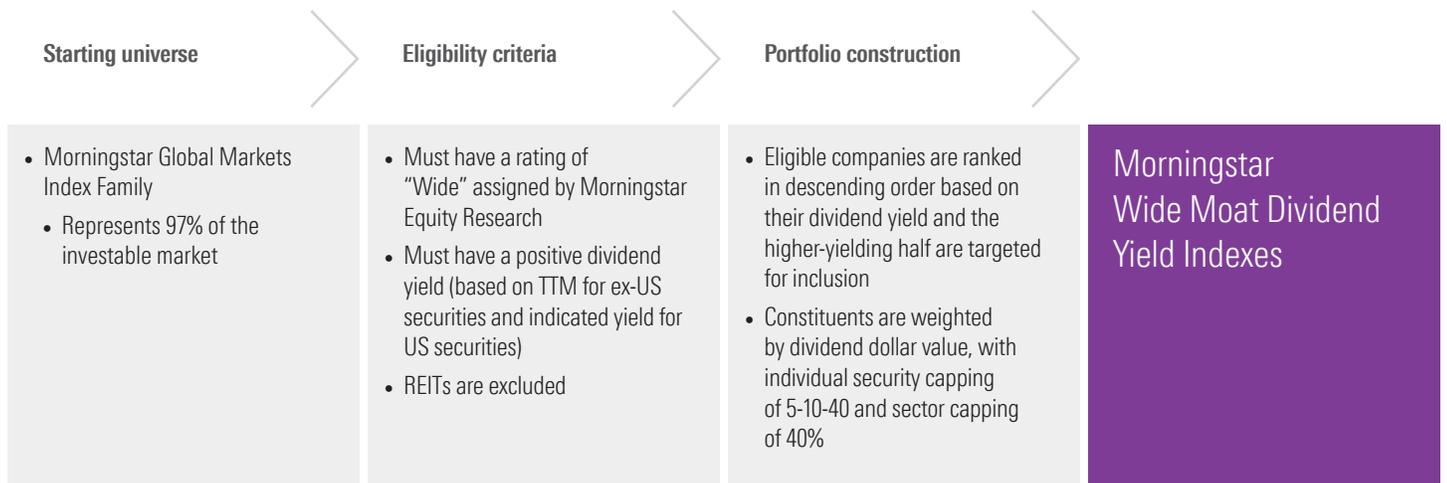
Portfolio construction

All eligible securities are ranked in descending order based on their dividend yield and the higher yielding half are targeted for inclusion. Constituents are weighted by dividend-dollar value. A security level cap is applied so that no individual security can weigh more than 10% and securities with weightings above 5% cannot sum to more than 40%. Sector weightings are also capped at 40%.

Rebalancing and reconstitution

The indexes are reconstituted in June and December and rebalanced quarterly in March, June, September, and December.

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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