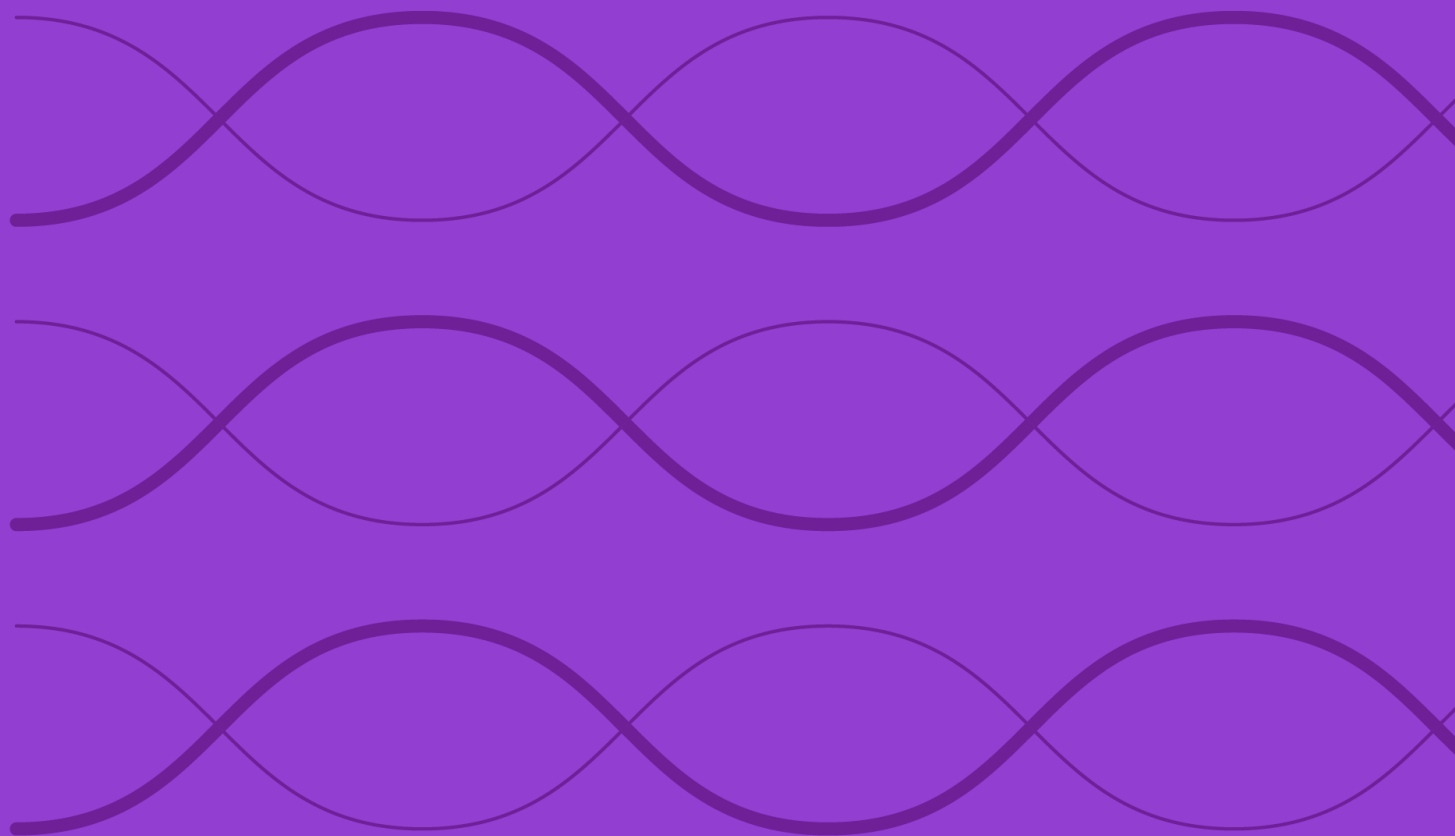


Construction Rules for the Morningstar[®] US Dividend and Buyback Index



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Overview

The Morningstar US Dividend and Buyback Index is designed to provide exposure to U.S. companies that return capital to shareholders through either dividend payments or share buybacks. The index targets companies representing the higher yielding half of cash distributors from the parent benchmark based on Adjusted Shareholder Yield¹, which gives 75% weighting to dividend yields and 25% to net buyback yields. Sector tilts are constrained relative to the parent benchmark to improve diversification.

This index does not incorporate environmental, social, or governance criteria.

Index Inception and Performance Start Date

The index inception date is September 25, 2017, and the performance start date, when the first back-tested index value was calculated, is June 19, 2006.

¹ See Appendix 2 for a detailed definition of Adjusted Shareholder Yield.

Index Construction

Methodology Summary



Starting Universe At each reconstitution, securities for the index are derived from the constituents of the Morningstar US Market Index, the benchmark. For more details on benchmark construction, refer to the construction rules of the [Morningstar US Market Index](#).

Eligibility

To be eligible for inclusion in the Index, all constituents must meet the following criteria in sequence:

- Securities with Total Shareholder Yield above 0.1% are eligible for the portfolio.
 - Total Shareholder Yield is a combination of dividend yield and net buyback yield. A security's dividend is not required to be qualified income; for example, real estate investment trusts are included. Net buyback yield is averaged over the most recent eight trailing quarters.
- Companies in top 5% as per Total Shareholder Yield in the Eligible Universe are screened out.

Portfolio Construction

Securities are then selected from the remaining universe based on Adjusted Shareholder Yield, which is a combination of winsorized dividend yield Z-Score and net buyback yield Z-Score. Securities are selected in the priority order of decreasing Adjusted Shareholder Yield, and until 50% coverage of the aggregate Total Shareholder Payout Dollars of the eligible universe is achieved. (Securities with negative Total Shareholder Yield are not included in the aggregate calculation). See Appendix 2 for a detailed definition of Total Shareholder Yield, Total Shareholder Payout Dollars and Adjusted Shareholder Yield.

Number of Stocks

The number of stocks in the index is variable, subject to the selection and eligibility criteria at the time of reconstitution.

Index Weighting

The index is weighted by Total Shareholder Payout Dollars. This is an adjusted float market-cap-weighted scheme, where market-cap weight is adjusted by a Total Shareholder Yield multiplier. The index weights are further constrained by maximum security capping at 4.9% and a sector constraint at +-5% with respect to the benchmark index. Since Total Shareholder Yield can become negative or zero, companies with non-positive yield are removed from the index at rebalancing and do not participate in the weighting algorithm. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

Index Maintenance and Calculation

Scheduled Maintenance

The index is reconstituted, where the membership is reset, annually on the third Friday of June². Adjustments are implemented after Friday's market close and reflected the following Monday. The market data used for reconstitution is as of the last trading day of May.

The index is rebalanced quarterly and implemented after the close of business on the third Friday of March, June, September, and December and is effective the following Monday. The market data used for rebalancing is as of the last trading day of February, May, August, and November. Refer to Appendix 1 for further details on reconstitution and rebalancing.

Index files are published according to the global calendar schedule. 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. For more details, please refer to the "Treatment for alternatively-weighted indexes" section in 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](#).

² The index was reconstituted off-cycle in December 2022 to incorporate updates to the methodology.

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, selection, 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 also notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to the index or a possible cessation of the index. Circumstances that could lead to an index cessation include, but are not limited to, market structure change, product definition change, inadequate supply of data, insufficient revenue associated with the index, insufficient number of clients using the index, and/or other external factors beyond the control of the Morningstar Index Methodology Committee.

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 generally be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within two days of its occurrence, will 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](#).

Exceptions

While Morningstar will seek to apply the method described above, it cannot be excluded that 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 Methodology Committee, and in all instances, the application of a non-standard process will be reported to the Morningstar Index Oversight Committee.

Appendixes

Appendix 1: Modifications to the Rulebook

Section	Description of Change	Update Date
Overview	Updated to reflect methodology enhancements	December 2022
Exhibit 1	Updated to reflect methodology enhancements	December 2022
Security Selection	Updated to reflect the changes to the methodology, including the addition of a yield trap screen, selection of securities based on Adjusted Shareholder Yield (giving 75% weight to dividends and 25% to buybacks, replacing total shareholder yield) and change in target coverage by Total Shareholder Payout Dollars to 50% of eligible universe from 90%	December 2022
Index Weighting	Addition of index sector constraints within +/-5% points of the Morningstar US Market Index	December 2022
Scheduled Maintenance	Addition of footnote 3 to acknowledge the exceptional reconstitution in December 2022	December 2022
Appendix 3	Added the description of Adjusted Shareholder Yield	December 2022
Entire Rulebook	Migrated to new template	February 2023
Data Correction and Precision	Computational and Reporting Precision section removed	October 2024

Appendix 2: Reconstitution and Rebalancing

Term	Description
Reconstitution	During each reconstitution, the steps mentioned in the index construction process are performed, resulting in a constituent membership reset.
Rebalance	During each rebalancing, the weights are adjusted for updated free-float, shares outstanding, and total shareholder yield data.

Appendix 3: Glossary

Term	Description
Trailing 12-Month Dividend Yield	Sum of corporate action-adjusted dividends per-share paid in the 12 months before the data cutoff date, divided by the share price on the cutoff date.
Trailing 8-Quarter Buyback Yield, Annualized	Sum of net cash flow from share issuance from the eight most recent company quarterly reports available on the data cutoff date, divided by 2, divided by market capitalization of the company. The ending date of the most recent report of net cash flow from share issuance cannot be more than six months before the data cutoff date.
Total Shareholder Yield	Sum of trailing 12-month dividend yield and trailing 2-year buyback yield, annualized.
Total Shareholder Payout Dollars	Total shareholder yield multiplied by float-adjusted market capitalization of the company.

Adjusted Shareholder Yield	For the securities in the benchmark, as of reconstitution date, z-scores are calculated for trailing 12-month dividend yield and trailing 2-year buyback yield, annualized. The z-scores are winsorized at ± 3 . Adjusted Shareholder Yield is calculated as the sum of 0.75 times dividend yield z-score and 0.25 times annualized buyback yield z-score.
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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 Index Methodology Committee

The Morningstar Index 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 Index Operations Committee

The Morningstar Index 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 Index Oversight Committee

The Morningstar Index 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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