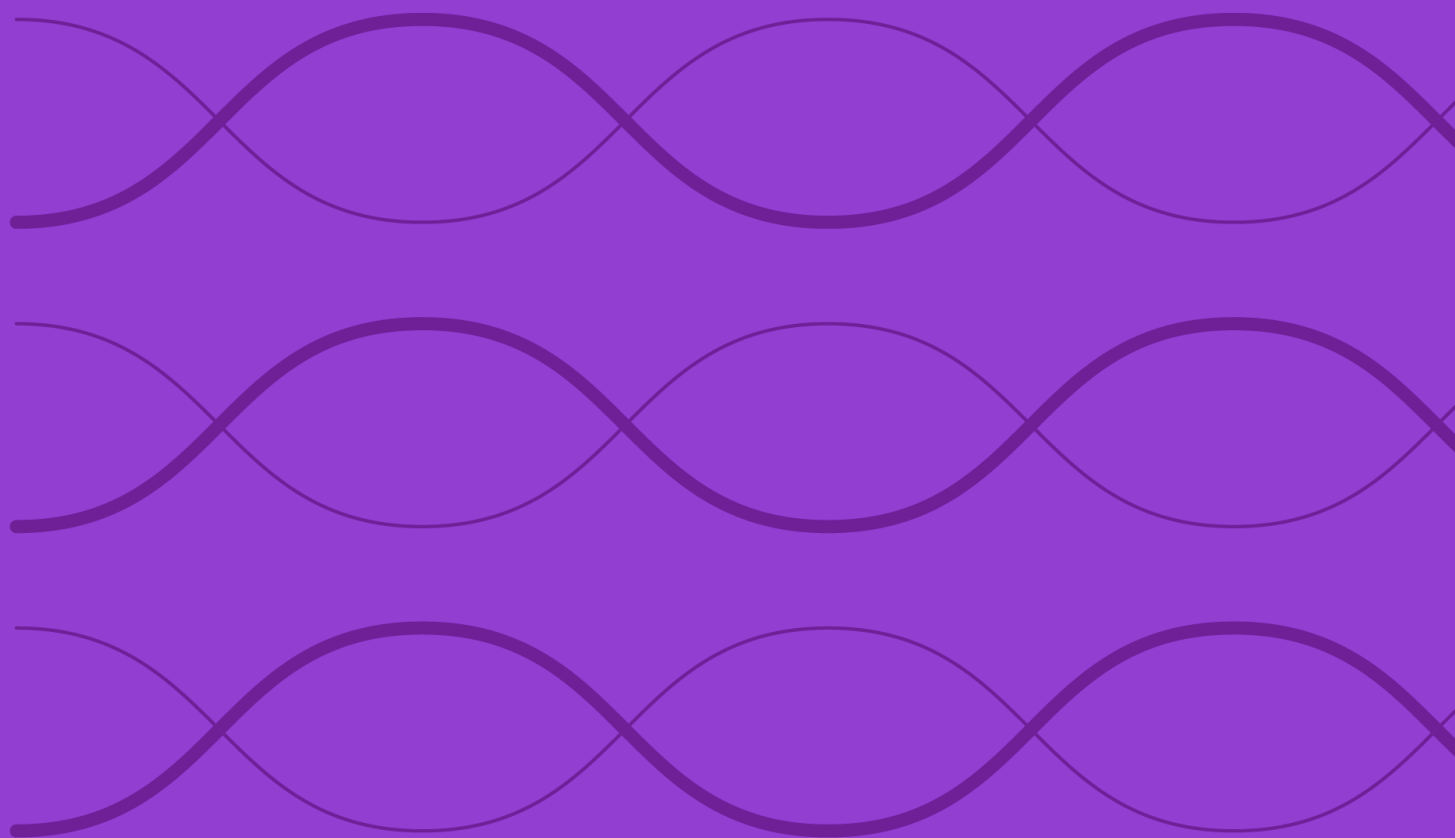


# Construction Rules for the Morningstar<sup>®</sup> Dividend Growth Indexes



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## Overview

The Morningstar® Dividend Growth Indexes are designed to target stocks with a record of consistent dividend growth and the capacity to sustain that growth. To be eligible for inclusion, stocks must be constituents of the Morningstar Global Markets Index, which represents the top 97% of the market capitalization of the investable global equity market.

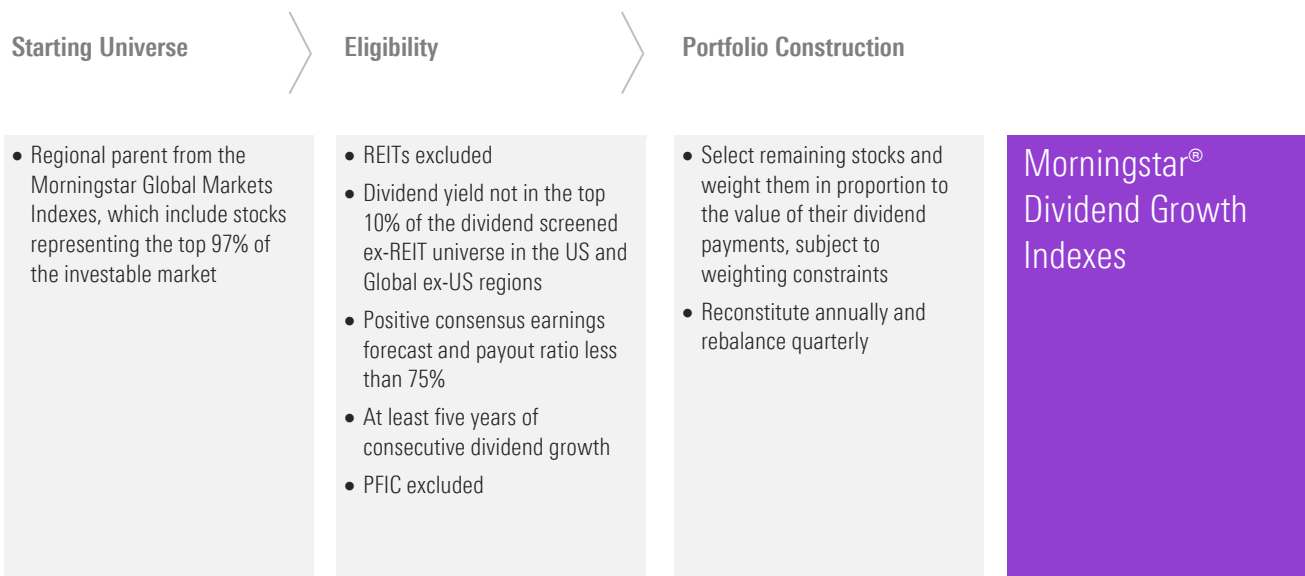
These indexes do not incorporate environmental, social, or governance criteria.

## Index Inception and Performance Start Date

The index inception dates, and the performance start dates, when the first back-tested index values were calculated, are listed in Appendix 4.

## Index Construction

### Methodology Summary



### Starting Universe

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

### Eligibility

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

- The security must not be a real estate investment trust (REIT).
- The security's dividend yield must not be in the top 10% of the dividend screened ex-REIT universe in the US or Global ex-US regions.
  - For securities belonging to the Morningstar US Market Index, the dividend yield is measured based on the indicated dividend yield, calculated by taking the product of the most recent dividend per share paid and the announced frequency divided by the current price.
  - For securities belonging to the Morningstar Global Markets ex-US Index, the dividend yield is measured based on 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, divided by the current price.
- The consensus earnings forecast must be positive, and the dividend payout ratio must be less than 75%. The payout ratio is forward-looking.
  - For securities belonging to the Morningstar US Market Index, the payout ratio is calculated as the ratio of the forward 12-month indicated dividend per share and the forward 12-month consensus earnings per share forecast.

- For securities belonging to the Morningstar Global Markets ex-US Index, the payout ratio is calculated as the ratio of the trailing 12-month dividend per share and the forward 12-month consensus earnings per share forecast.
- The security must currently be paying dividends and have at least five years of uninterrupted annual dividend growth.
  - For securities belonging to the Morningstar US Market Index, dividends count toward the dividend growth requirement if either the annualized indicated dividend or the trailing 12-month aggregated dividend increased from one annual reconstitution cut-off date to the next. The dividend growth requirement is satisfied as long as one of these two conditions is met each year for five consecutive years, even if the same condition is not met in all five years.
  - For securities belonging to the Morningstar Global Markets ex-US Index, dividends count toward the growth requirement if the trailing 12-month aggregated dividend increased from one annual reconstitution cut-off date to the next.
- In the case of a spin-off, the spun-off company will remain in the index, but dividend growth must resume in the next year for continued inclusion. The parent company will not require dividend growth in the spin-off year where "year" is the 12-month period between annual index reconstitutions.
- For securities belonging to the Morningstar US Market Index, if a current index constituent fails to raise its dividend but does not decrease its dividend and executes share repurchases in the preceding 12 months, resulting in a net decrease in its shares outstanding, the constituent will remain in the index.
- For securities belonging to the Morningstar Global Markets ex-US Index, passive foreign investment company, or PFIC, are not eligible.<sup>1</sup>

## Portfolio Construction

### *Number of Stocks*

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

### *Index Weighting*

The indexes are dividend-dollar weighted, with a 3% cap. For securities in the Morningstar US Market Index, this means constituents are weighted in proportion to their total dividends expected to be paid out over the next 12 months. For securities in the Morningstar Global Markets ex-US index, constituents are weighted in proportion to their total value of dividends paid out the past trailing 12 months, but the weightings are capped at 3%. In case of infeasibility in applying the security capping due to low number of constituents, the security capping constraint is relaxed in steps of 1% until the capping is feasible. In addition, for the Morningstar Global ex-US Dividend Growth Index, the weight of an individual country in the index is constrained to a maximum of 20%, with a buffer of 1%. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

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<sup>1</sup> At each annual reconstitution, Morningstar Indexes makes reasonable efforts to eliminate passive foreign investment companies by working with recognized tax authorities.

## Index Maintenance and Calculation

### Scheduled Maintenance

The indexes are reconstituted, where the membership is reset, annually on the third Friday of December. 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 November.

The indexes are 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. 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 Growth 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 Morningstar Dividend Growth Indexes.

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 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, 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 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 daily highs or lows, it is corrected retroactively as soon as is feasible.

### 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](#).

### 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 Index Methodology Committee, and in all instances, the application of a nonstandard process will be reported to the Morningstar Index 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
Stock selection	Removed the following text from the rulebook, which was included in error and not applied to the Morningstar Global ex-US Dividend Growth index: "If a current index constituent fails to raise its dividend but does not decrease its dividend and executes share repurchases in the preceding 12 months, resulting in a net decrease in its shares outstanding, the constituent will remain in the index."	May 2023
Exceptions	Added an Exceptions section	May 2023
Security Selection	Update the 10% yield trap criteria which will now be applied relative to each region	November 2023
Appendix	Added Appendix 3	November 2023
Scheduled Maintenance	Moved the Morningstar US Dividend Growth Index to the global calculation calendar from the U.S. calendar.	November 2023
Eligibility	Clarified the regional universes for the 10% dividend yield screen.	October 2024
Appendix 3	Clarified that all indexes in the family are derived from the Morningstar US Dividend Growth Index or Morningstar Global ex-US Dividend Growth Index.	October 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 Growth Indexes**

<b>Index</b>	<b>Parent Index</b>	<b>Inception Date</b>	<b>Performance Start Date</b>
Morningstar Global Dividend Growth Index	Morningstar Global Markets Index	Dec. 19, 2023	Dec. 17, 2004
Morningstar Global ex-US Dividend Growth Index	Morningstar Global Markets ex-US Index	Mar. 30, 2016	Dec. 17, 2004
Morningstar Developed Markets Dividend Growth Index	Morningstar Developed Markets Index	Dec. 19, 2023	Dec. 17, 2004
Morningstar Developed Markets ex-US Dividend Growth Index	Morningstar Developed Markets ex-US Index	Dec. 19, 2023	Dec. 17, 2004
Morningstar Emerging Markets Dividend Growth Index	Morningstar Emerging Markets Index	Dec. 19, 2023	Dec. 17, 2004
Morningstar Asia Pacific Dividend Growth Index	Morningstar Asia Pacific Index	Dec. 19, 2023	Dec. 17, 2004
Morningstar US Dividend Growth Index	Morningstar US Market Index	Apr. 07, 2014	Dec. 19, 2003
Morningstar Japan Dividend Growth Index	Morningstar Japan Index	Dec. 19, 2023	Dec. 17, 2004
Morningstar Canada Dividend Growth Index	Morningstar Canada Index	Dec. 19, 2023	Dec. 17, 2004

All indexes in this family are derived from the Morningstar US Dividend Growth Index or the Morningstar Global ex-US Dividend Growth Index.

## 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.

[www.indexes.morningstar.com](http://www.indexes.morningstar.com)

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