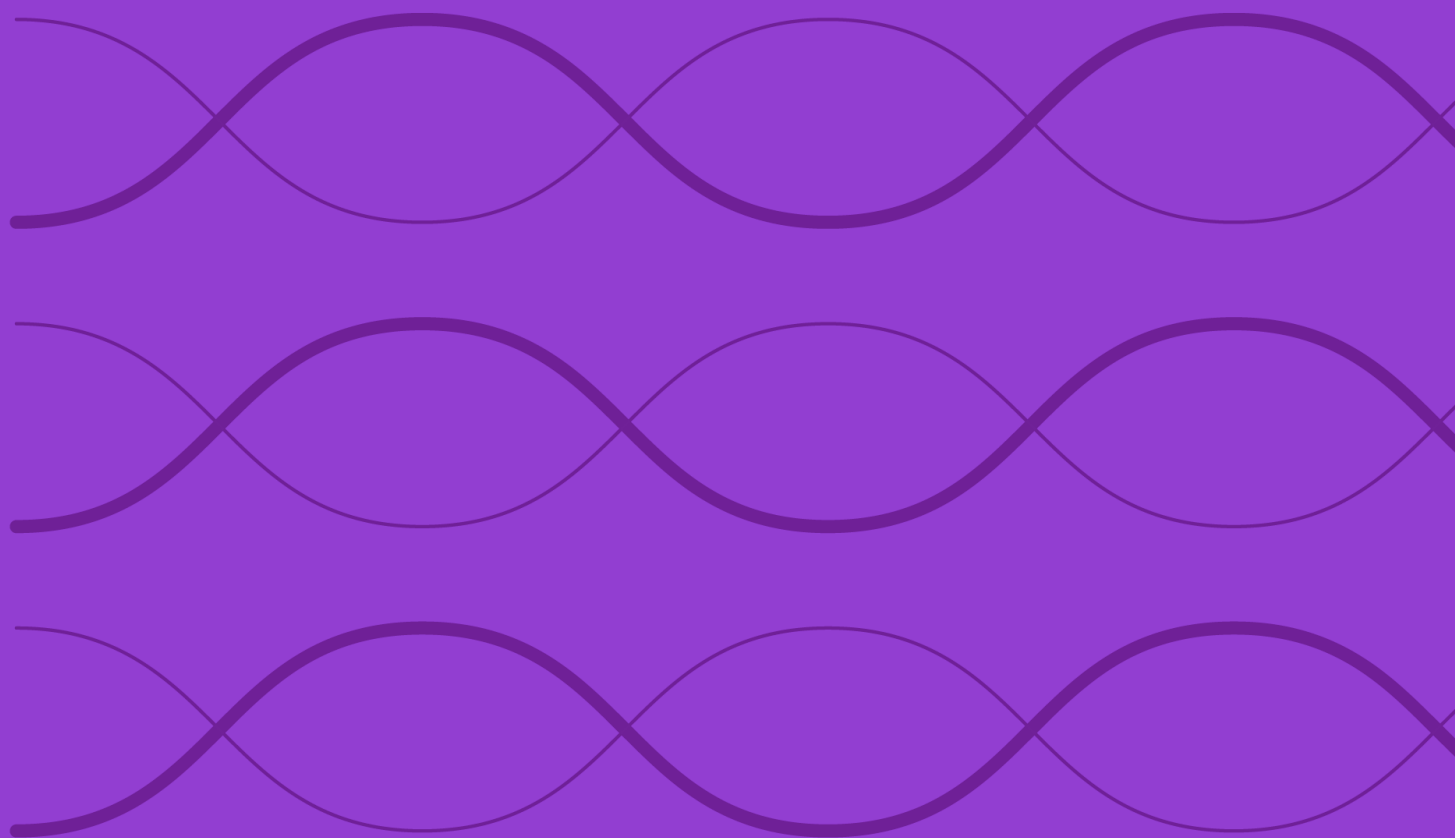


# Construction Rules for the Morningstar<sup>®</sup> Dividend Yield Focus Index



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## Overview

The Morningstar® Dividend Yield Focus Index is designed to track U.S. stocks with attractive dividend yields and strong financial quality. Constituents are selected from the Morningstar US Market Index and weighted in proportion to the value of their dividend payments.

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

## Index Inception and Performance Start Date

The index inception date is January 10, 2010, and the performance start date, when the first back-tested index value was calculated, is June 17, 2005.

## Index Construction

### Methodology Summary



### Starting Universe

At each reconstitution, securities for the Morningstar Dividend Yield Focus Index are derived from the Morningstar US Market Index (benchmark). For more details on benchmark construction, refer to the [Construction Rules for Morningstar US Market Index](#).

### Eligibility

To be eligible for the index, all constituents must meet the following criteria:

- The security must have a positive indicated dividend yield.
  - Real estate investment trusts are excluded.
- Quality:
  - If the company is assigned a Morningstar Economic Moat Rating™, it must have a rating of narrow or wide, indicating it enjoys a durable competitive advantage expected to translate into profits above its cost of capital over the long term.
  - Companies are not eligible if they have a Morningstar Uncertainty Rating of Very High or Extreme.
  - Companies are screened for financial health using Morningstar's Distance to Default measure. Distance to Default is a structural or contingent claim model that takes advantage of both market information and accounting financial information. The firm's equity is viewed as a call option on the value of the firm's assets. If the value of the assets is not sufficient to cover the firm's liabilities (the strike price), default is expected to occur.

- Companies with a moat rating of narrow or wide and that meet the Uncertainty Rating requirement, must have a Morningstar Distance to Default score in the top 50% within its sector.
- Companies that are not covered by Morningstar's equity research group and, therefore, not assigned a Morningstar Economic Moat or Uncertainty Rating must have a Morningstar Distance to Default score in the top 30% within its sector.

A broad overview of Morningstar Economic Moat Ratings, Uncertainty Ratings, as well as Morningstar Distance to Default is provided in Appendix 3.

### **Portfolio Construction**

- Stocks that meet the eligibility criteria are ranked in descending order by their indicated dividend yield.
- Current index constituents are retained if they meet one of the following conditions:
  - Among the top 75 by indicated dividend yield.
  - Among the top 100 by indicated dividend yield and among the top 75 by dividend yield at the prior reconstitution.
- Securities are added to the index in descending order of indicated dividend yield until the constituent count reaches 75.

### *Number of Stocks*

The index targets 75 stocks 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 index can have more or fewer than the targeted number. 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 index is dividend-dollar weighted with 5-10-50 capping. This means constituents are weighted in proportion to their total value of dividends. Single constituent weightings are limited to 10% and the sum of weightings above 5% cannot exceed 50%. 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, and 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 an index holiday, reconstitution is reflected the next business day. The market data used for reconstitution is as of the last trading day of February, May, August, and November.

Refer to Appendix 2 for details on reconstitution and rebalancing.

Index files are published according to the global calendar schedule, meaning index files will be published every day from Monday to Friday throughout the year, even on local market holidays.

### 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 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](#).

### 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
Entire rulebook	Moved into a new template	Dec. 2022
Overview	Updated index description	Dec. 2022
Index Maintenance	Changed calculation schedule to the global calendar	Nov. 2023
Data Correction and Precision	Computational and Reporting Precision section removed	Nov. 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: Economic Moat Rating, Uncertainty Rating, Distance to Default

#### *Morningstar Economic Moat Rating*

In a free-market economy, capital seeks the areas of highest return. Whenever a company develops a profitable product or service, it doesn't take long before competitive forces drive down its economic profits. Only companies with an economic moat—a structural competitive advantage that allows a firm to earn above-average returns on capital over a long period of time—are well-positioned to hold competitors at bay.

To help investors identify companies that possess a moat, Morningstar's Equity Research analysts assign one of three Economic Moat Ratings: none, narrow, or wide. There are two major requirements for firms to earn either a narrow or wide rating: 1) The prospect of earning above-average returns on capital; and 2) some competitive edge that prevents these returns from quickly deteriorating.

For more information on the moat rating process performed by Morningstar Equity Research, refer to the [Morningstar Equity Research Methodology](#).

#### *Distance to Default*

Distance to Default is a structural or contingent claim model that takes advantage of both market information and accounting financial information. The firm's liabilities are viewed as a call option on the value of the firm's assets. If the value of the assets is not sufficient to cover the firm's liabilities (the strike price), default is expected to occur. For more information on the distance to default, please refer to the [Morningstar's Distance to Default Methodology](#).

#### *Uncertainty Rating*

The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial

leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors. For more information on the uncertainty rating process performed by Morningstar Equity Research, refer to the [Morningstar Equity Research Methodology](#).

#### **Appendix 4: Strategies Based on the Index**

This portfolio is used as a base index for the [Morningstar Dividend Yield Focus Target Volatility 5 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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