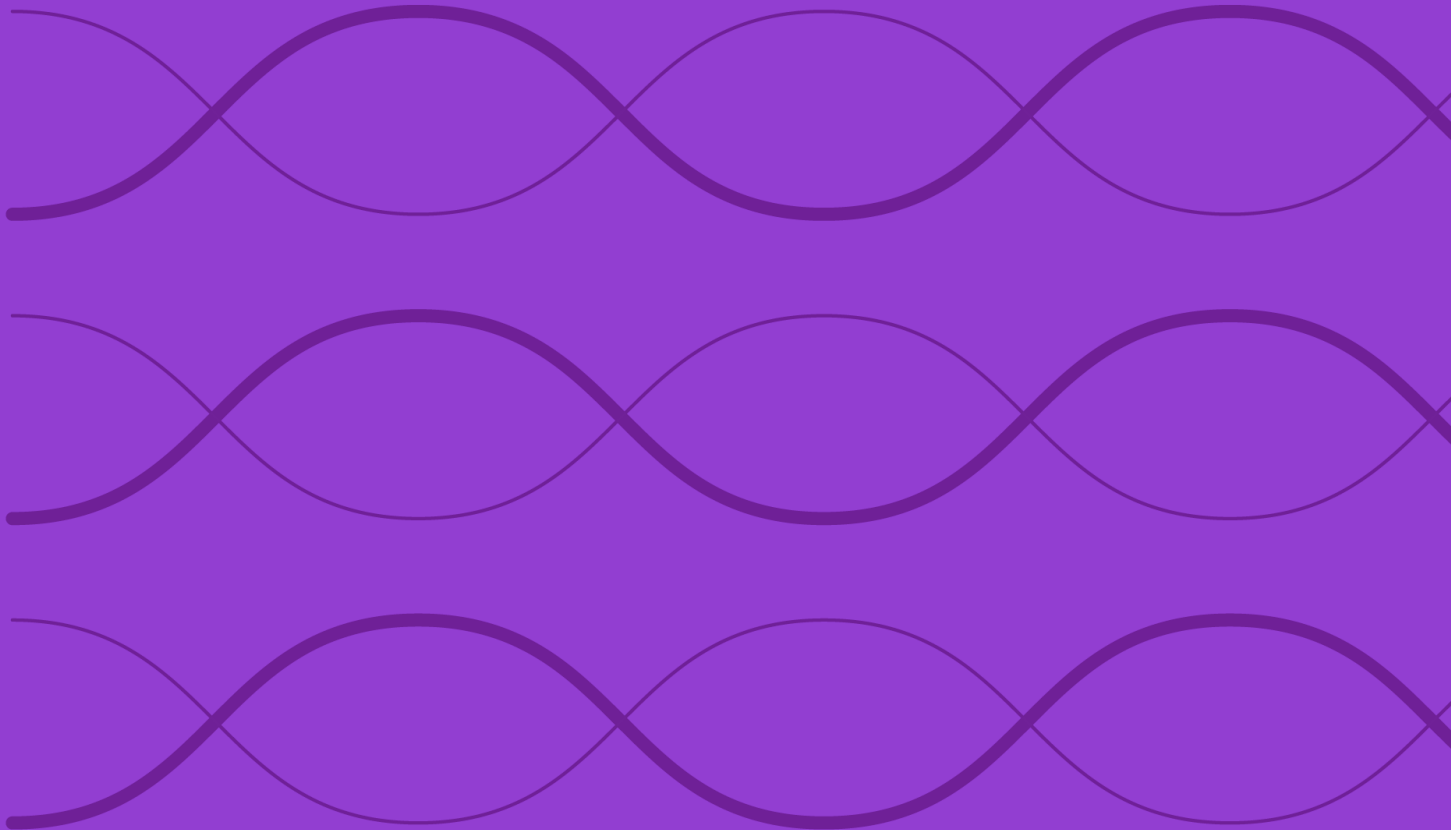


Construction Rules for the Morningstar Dividend Yield Focus Indexes



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Overview

The Morningstar Dividend Yield Focus Indexes are designed to provide exposure to stocks with attractive dividend yields and strong financial quality. Constituents are selected from a corresponding benchmark in the Morningstar Global Markets Index family and weighted in proportion to the value of their dividend payments.

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

Index Inception and Performance Start Date

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

Index Construction

Methodology Summary

Starting universe

- Parent benchmark from the Morningstar Global Markets Index family

Eligibility

- Securities must fall in the target size segment (listed in Appendix 4)
- Must have paid a dividend in the past 12 months.
- REITs are excluded
- Quality
 - If assigned a Morningstar Economic Moat Rating, must have a rating of narrow or wide
 - Must have a Distance to Default in top half of region sector cohort

Portfolio construction

- The N securities with the highest dividend yield (TTM) are selected for inclusion
- Constituents are weighted in proportion to the value of dividends paid
- Sector weightings are capped at 40% or 5 times weight in parent index

Morningstar
Dividend Yield
Focus Indexes

Starting Universe

At each reconstitution, constituents of the Morningstar Dividend Yield Focus Index family are derived from the corresponding Morningstar country/region index (benchmark). For more details on benchmark construction, refer to the [Construction Rules for the Morningstar Global Markets Index](#).

Eligibility

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

- The company must have paid a dividend in the past 12 months.
 - Real estate investment trusts are excluded.
- Liquidity: The security must have a three-month average daily traded volume, or ADTV, of at least \$1 million. However, this applies only to additions, and the ADTV of current constituents may fall below \$1 million.
- If a company has more than one eligible share class, the most liquid share class as determined by Morningstar is selected.
- Economic moat and financial health:
 - 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 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.

- For companies that do not have a moat rating assigned by the Morningstar Equity Research team, the Morningstar Quantitative Economic Moat rating is used.
- Companies that are assigned a Morningstar Economic Moat Rating of narrow or wide must have a Morningstar Distance to Default score in the top 50% within their respective Morningstar region-sector cohorts.
- Current constituents that are assigned a moat rating of narrow or wide must have a Morningstar Distance to Default score in the top 60% within their respective Morningstar region-sector cohorts.
- Companies that do not have either a Morningstar Economic Moat Rating or a Morningstar Quantitative Economic Moat rating assigned to them must have a Morningstar Distance to Default score in the top 30% within their respective Morningstar region-sector cohorts.
- Current constituents that do not have either a Morningstar Economic Moat Rating or a Morningstar Quantitative Economic Moat rating assigned to them must have a Morningstar Distance to Default score in the top 36% within their respective Morningstar region-sector cohorts.

A broad overview of Morningstar Economic Moat and Quantitative Moat ratings, as well as Morningstar Distance to Default, is provided in Appendix 3. For details on region cohorts, refer to Appendix 5.

Portfolio Construction

- Stocks that meet these eligibility criteria are ranked in descending order by their trailing 12-month dividend yield.
- Current index constituents are retained in the index if they are ranked within the top 1.33 times N by dividend yield. Additional securities are added to the index in descending order of dividend yield until the count reaches N.

Number of Stocks

The indexes contain a fixed number of 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 indexes 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. The target counts for the indexes in the family are provided in Appendix 4.

Index Weighting

The indexes are dividend-dollar weighted, with 5-5*-50 capping. This means constituents are weighted in proportion to the total value of dividends paid out over the past trailing 12 months. Single constituent weightings are limited to 5% and the sum of weightings above 5% cannot exceed 50%. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#). 5-5-50 capping will not be enforced for a portfolio with number of constituents less than or equal to 25 and only individual constituent weight will be capped at 10%. *If the index has fewer than 50 stocks, the maximum security weight limit is 10%.

Sector weights in the index are capped at the lower of 40% or 5 times the weight of the sector in the parent index.

Capped Weight = Min (40%, Weight of the sector in the parent index * 5)

Index Maintenance and Calculation

Scheduled Maintenance

The index is reconstituted, where the membership is reset, and rebalanced semiannually on the third Friday of June and December. Adjustments are implemented after Friday's market close and reflected the following Monday. The analyst data (moat rating and fair value estimates) used to reconstitute the index is as of the first Friday of the reconstitution month.

Refer to Appendix 2 for 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 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 Decommissioning 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 Decommissioning Policy](#).

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 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 methodology as described within this document, 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 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
Exceptions	Added an exceptions section	Jun. 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: Morningstar Economic Moat Rating and Distance to Default Score

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](#).

Morningstar Quantitative Moat Rating

The Quantitative Economic Moat rating is analogous to Morningstar's Economic Moat Rating in that both are meant to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the economic moat rating a Morningstar analyst would assign to the stock. The quantitative rating is expressed as none, narrow, or wide. If the input data required for the algorithm is not available, a quantitative rating will not be assigned.

For further details on the Morningstar Quantitative Moat, please refer to the [Morningstar's Quantitative Equity & Credit Ratings methodology](#).

Morningstar Quantitative Distance to Default Score

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, please refer to the [Morningstar Indexes Distance to Default Methodology](#).¹

Appendix 4: Individual Indexes

Index	Size-Segment	Inception Date	Performance Start Date	Target Constituent Count (N)
Morningstar Global Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	300
Morningstar Global ex-US Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	300
Morningstar Global ex-Japan Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	300
Morningstar Asia Pacific Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	150
Morningstar Asia Pacific ex-Japan Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	100
Morningstar Asia Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	150
Morningstar Asia ex-Japan Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	75
Morningstar Brazil Dividend Yield Focus Index	Large-Mid-Small	May 31, 2023	Dec. 18, 2009	20
Morningstar Europe Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	100
Morningstar Eurozone Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	50
Morningstar Developed Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	200
Morningstar Developed Markets ex-US Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	150
Morningstar Developed Markets ex-Japan Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	200
Morningstar Developed Markets Europe Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	75
Morningstar Developed Markets Asia Pacific Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	100
Morningstar Developed Markets Asia Pacific ex Japan Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	50
Morningstar Developed Markets ex-NA Dividend Yield Focus index	Large-Mid	Jul. 18, 2023	Jun. 17, 2005	150
Morningstar Nordic Markets Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25
Morningstar Emerging Markets Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	100
Morningstar Emerging Markets Asia Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	75
Morningstar Japan Dividend Yield Focus Index	Large-Mid	Nov. 28, 2017	Jun. 17, 2005	50
Morningstar United Kingdom Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25
Morningstar Canada Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25
Morningstar Hong Kong Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25
Morningstar Germany Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25
Morningstar India Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25
Morningstar China Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25
Morningstar Korea Dividend Yield Focus Index	Large-Mid-Small	Nov. 28, 2017	Jun. 17, 2005	25

Appendix 5: Region Cohorts Used in Distance to Default Score Percentile Calculation

- United States
- Japan

¹ The Morningstar Quantitative Moat Rating and Distance to Default datapoints used in index construction are calculated by the Morningstar Indexes team based on the methodology developed by the Morningstar Quantitative Research team. These values may differ slightly from those published by the Morningstar Quantitative Research team.

- Developed markets excluding United States and Japan
- Emerging markets

For more details on region definition and member countries, please refer to the [Construction Rules for the Morningstar Global Markets 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.

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