



## Morningstar US Dividend Opportunity Index

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Dividend investing remains one of the most popular methods for building long-term wealth. Dividend strategies can provide a source of additional income, and when dividends are reinvested, they can significantly enhance overall portfolio returns over time. However, yield alone does not tell the full story of any investment. Chasing high yields can be risky, as the highest-yielding stocks may have weak or deteriorating fundamentals that could jeopardize their dividend payouts.

The Morningstar US Dividend Opportunity Index takes a more holistic approach. It targets U.S. dividend paying stocks with durable competitive advantages, attractive yields, strong growth, and high quality. It does this by blending forward- and backward-looking metrics to paint a more complete picture of business strength and growth potential, focusing on the attributes that may fuel future dividend growth and capital appreciation.

### Index eligibility

The Morningstar US Dividend Opportunity Index derives its constituents from the Morningstar US Target Market Exposure Index, which tracks large- and mid-cap stocks representing the top 85% of the U.S. investable market. To be eligible for inclusion, a company must have:

- A positive indicated dividend yield (based on the latest regular distribution and frequency)
- A payout ratio of 0.75 or less
- A Morningstar Economic Moat Rating of Wide or Narrow
- Growth and quality factor data (Morningstar Risk Model)

Real estate investment trusts (REITs) are not eligible for inclusion.

### Portfolio construction

For all companies that meet the eligibility criteria, a composite rank is calculated by combining each company's growth, quality, and yield score rankings. This approach moderates the value tilt that would otherwise come with a narrower

### INDEX CONSTRUCTION INPUTS

#### Morningstar Economic Moat Rating

The Morningstar Economic Moat Rating is a forward-looking assessment of whether a company possesses a durable competitive advantage, assigned by Morningstar's equity research analysts. A company with an economic moat can fend off competition and earn high returns on capital for many years to come.

#### Quality Factor

Quality is measured based on each company's profitability (trailing 12-month return on assets) and financial leverage (trailing 12-month debt/invested capital) relative to its sector peers. This sector-relative approach improves comparability.

#### Growth Score

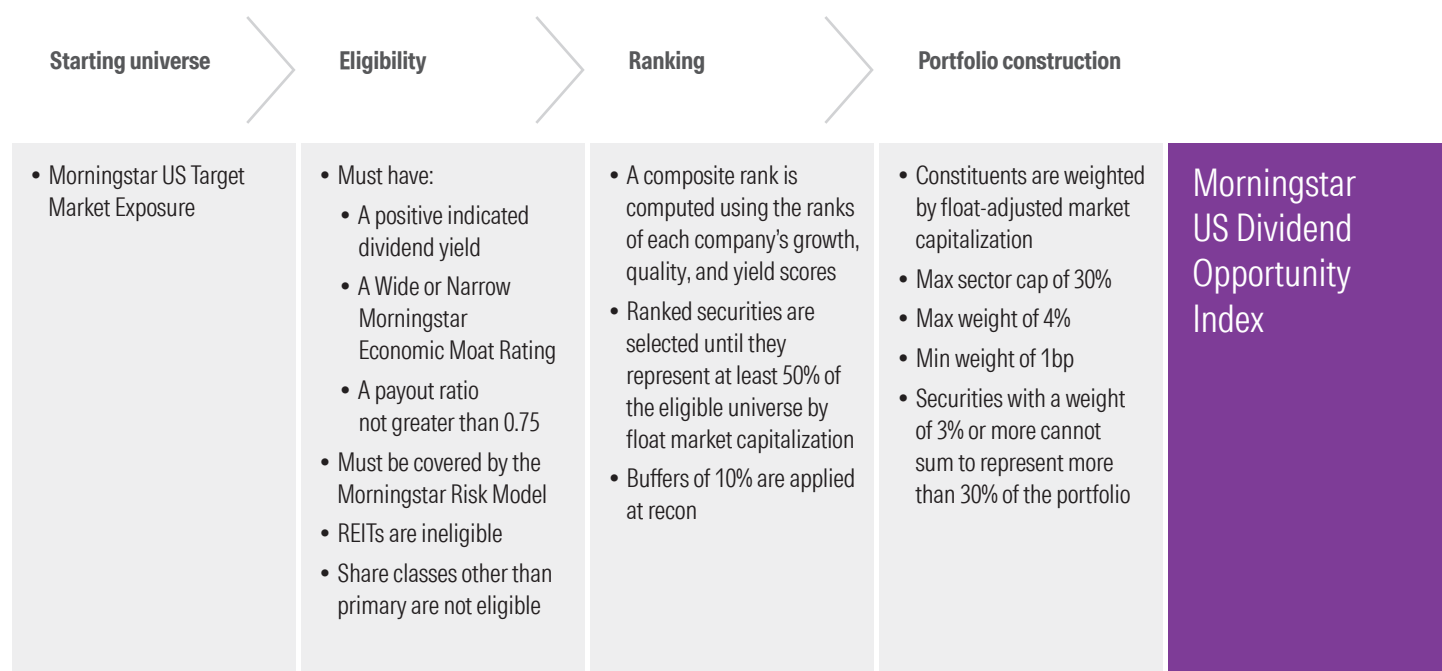
A company's growth orientation is determined using five growth factors, incorporating both forward-looking and historical data. The growth score is calculated as a weighted average of the growth rates in the company's long-term projected earnings, as well as historical book value, revenue, cash flow, and earnings. This comprehensive approach provides a more complete picture of each company's growth.

focus on yield. Companies are then ranked based on their composite scores and targeted for inclusion until they account for at least 50% of the eligible universe's float-adjusted market capitalization. A buffering rule is applied to reduce unnecessary turnover.

Index constituents are weighted by float adjusted market capitalization, subject to caps to improve diversification. This tilts the portfolio toward larger companies and mitigates turnover and active risk relative to the market.

### Reconstitution and rebalancing

The index is reconstituted annually in June and rebalanced quarterly.

**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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