Morningstar Dividend Yield Focus Indexes

Learn more
Explore Morningstar Indexes'
full range of solutions

Contact us
indexes@morningstar.com

Investing in a portfolio of stocks with high dividend yield can be appealing for many reasons. For example, dividend strategies can potentially generate extra income. In addition, if reinvested, dividends can significantly increase the total return of an investment portfolio over time. Dividend-focused strategies can also help cushion declines in times of market downturns. However, aggressively chasing dividend yield can lead to unintended risk. For example, the highest yielding stocks may have weak or deteriorating fundamentals that could threaten the sustainability of their dividend payments as well as their price performance.

The Morningstar Dividend Yield Focus Indexes are designed to deliver portfolios of the stocks of companies with attractive dividend yields and strong financial quality, which can help reduce this risk.

Index eligibility

The Morningstar Dividend Yield Focus Indexes derive their constituents from the equivalent parent index from the Morningstar Global Markets Indexes. To be eligible, a company must be assigned a Morningstar Economic Moat Rating or a Quantitative Moat Rating and a Morningstar Distance to Default Score. In addition, securities must have paid a dividend in the last 12 months, and that dividend must be considered "qualified income." Thus, real estate investment trusts (REITs) are excluded. To ensure index liquidity, new index constituents must have three-month average daily trading volume of at least $1 million.

INDEX CONSTRUCTION INPUTS

Morningstar® Economic Moat™ Rating
The Morningstar Economic Moat Rating represents a company's sustainable competitive advantage. A company with an economic moat can fend off competition and earn high returns on capital for many years to come.

Morningstar® Quantitative Economic 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.

Morningstar Distance to Default Score
Distance to Default incorporates information about a company's equity volatility and financial leverage to arrive at a score ranging from zero to 1. A high Distance to Default indicates strong financial health.

Quality, financial health, and yield screens

To target high-quality, financially healthy stocks, the following screens are applied:

- Companies that are assigned a Morningstar Economic Moat Rating of "Wide" or "Narrow" must rank in the top 50% of their region-sector cohort by Morningstar Distance to Default Score. To reduce turnover, current index constituents that drop below the 50% threshold will remain eligible if they score in the top 60% of their region-sector cohort.

- Companies that do not have a Morningstar Economic Moat Rating or a Morningstar Quantitative Moat Rating must have a Distance to Default Score in the top 30% of their Region-Sector cohort. To minimize turnover, current index constituents fitting this description must rank in the top 36% of their peer group.

- Stocks must have paid a qualified dividend in the last 12 months.
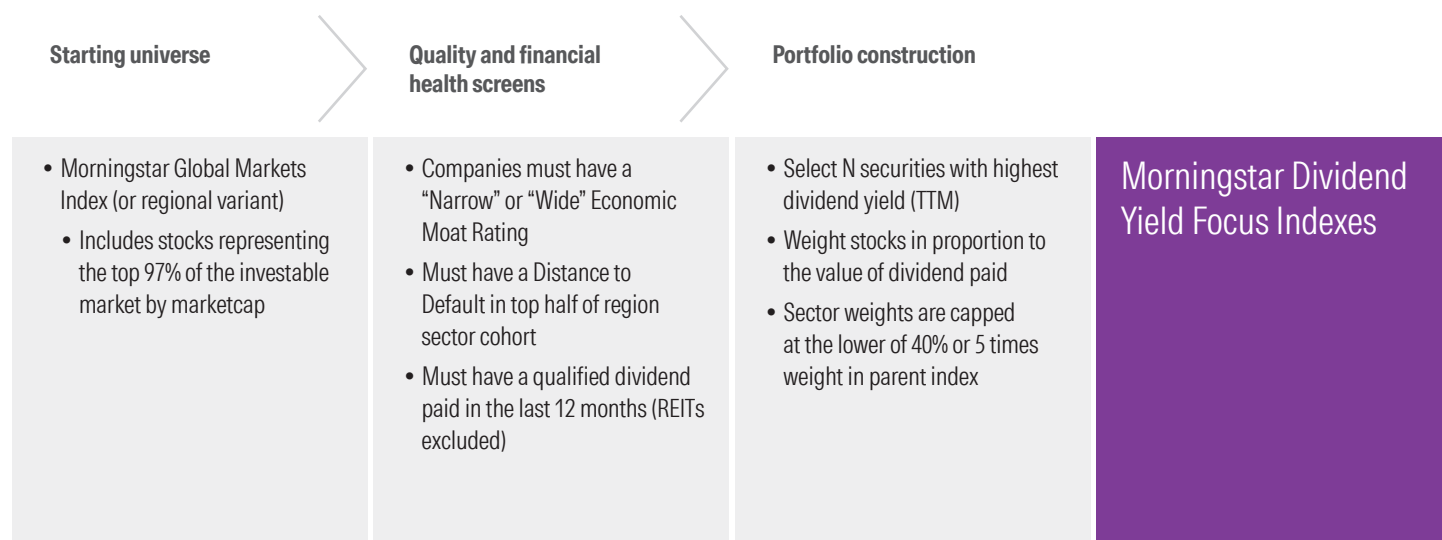
Portfolio construction

Once the quality and financial health screens are applied, a fixed count of stocks with the highest trailing 12-month dividend yield is selected. The indexes are weighted in proportion to the value of each stock's trailing 12-month dividend payments, which considers dividend per share and number of shares. Stocks representing more than 5% of the index cannot collectively exceed 50% of total index weight. Exposure to individual economic sectors is capped at 40%, or 5 times the weight of the sector in the parent index.

Rebalancing and reconstitution

The indexes are reconstituted and rebalanced semi-annually in June and December.

Construction process

Starting universe	Quality and financial health screens	Portfolio construction	Morningstar Dividend Yield Focus Indexes
• Morningstar Global Markets Index (or regional variant) • Includes stocks representing the top 97% of the investable market by marketcap	• Companies must have a "Narrow" or "Wide" Economic Moat Rating • Must have a Distance to Default in top half of region sector cohort • Must have a qualified dividend paid in the last 12 months (REITs excluded)	• Select N securities with highest dividend yield (TTM) • Weight stocks in proportion to the value of dividend paid • Sector weights are capped at the lower of 40% or 5 times weight in parent 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.

Please visit indexes.morningstar.com for more information.

MORNINGSTAR Indexes