

Morningstar US Dividend and Buyback Index

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Historically, dividends were the primary means by which issuers returned cash to shareholders. As share buybacks have become more common, dividends alone have become less representative of a firm's dedication to returning cash to shareholders. Buybacks represent a vote of confidence from a company's managers and directors. To get a true sense of total shareholder yield, it is important to consider dividends and buybacks together.

The Morningstar US Dividend and Buyback Index is designed to provide exposure to US companies returning the most capital to shareholders through dividend payments and/or share buybacks.

Index eligibility

The Morningstar US Dividend and Buyback Index derives its constituents from the Morningstar US Market Index. To be eligible for inclusion, a company must have a Total Shareholder Yield above 0.1%. Total Shareholder Yield is the sum of a company's dividend yield over the past 12-month and buyback yield over the past 2 years. This longer look-back period for buybacks accounts for the fact that buyback activity tends to be more volatile than dividends. Companies in the top 5% by Total Shareholder Yield are screened out to mitigate exposure to yield traps, which are companies that may not be able to sustain their high payouts.

Portfolio construction

Eligible securities are ranked by Adjusted Shareholder Yield, which gives a 75% weight to dividend yield and 25% weight to buybacks. Dividends are given a higher weighting to boost income and reduce turnover, as dividends tend to be more stable than buybacks.

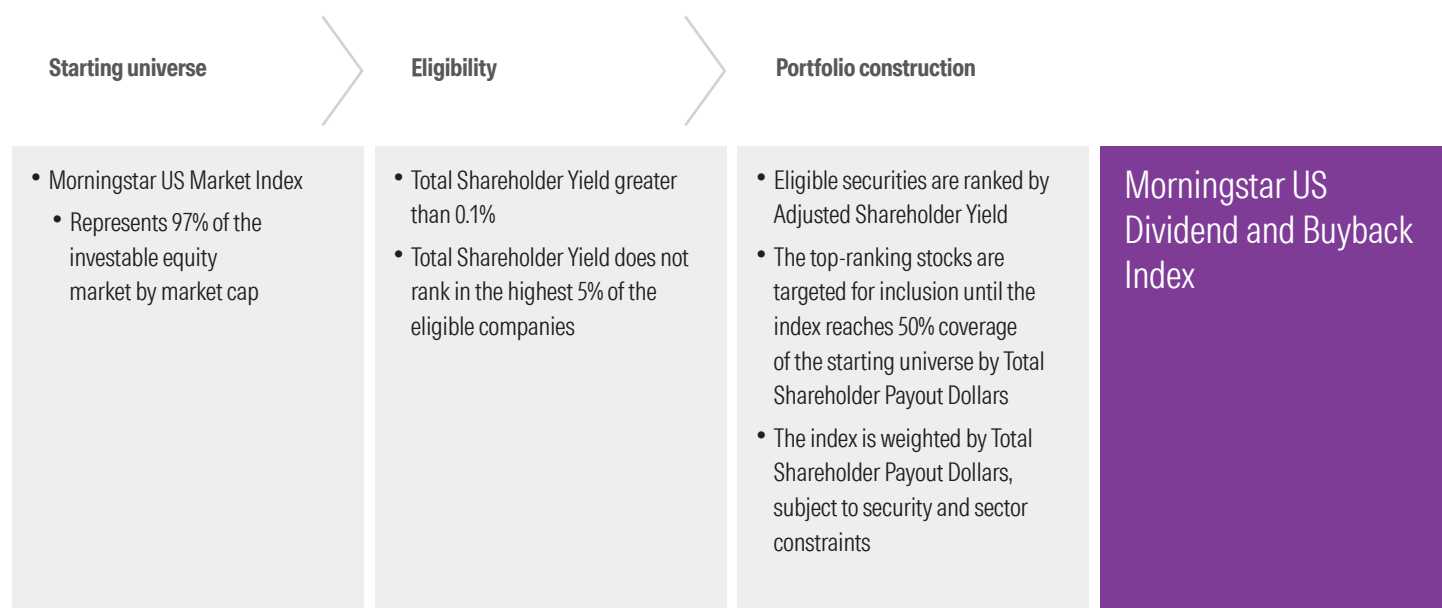
The top-ranking stocks are targeted for inclusion until the index reaches 50% coverage of the starting universe by Total Shareholder Payout Dollars.¹ The index is weighted by Total Shareholder Payout Dollars. This tilts the portfolio towards companies with higher shareholder yields, which tend to be stocks with larger market cap. The index is subject to constraints to limit concentration and keep the sector weightings within five percentage points of the parent benchmark. These constraints improve diversification and limit unintended sector risk.

Rebalancing and reconstitution

The index is reconstituted annually in June and rebalanced quarterly.

¹This is measured as total shareholder yield multiplied by the company's float-adjusted market capitalization.

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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