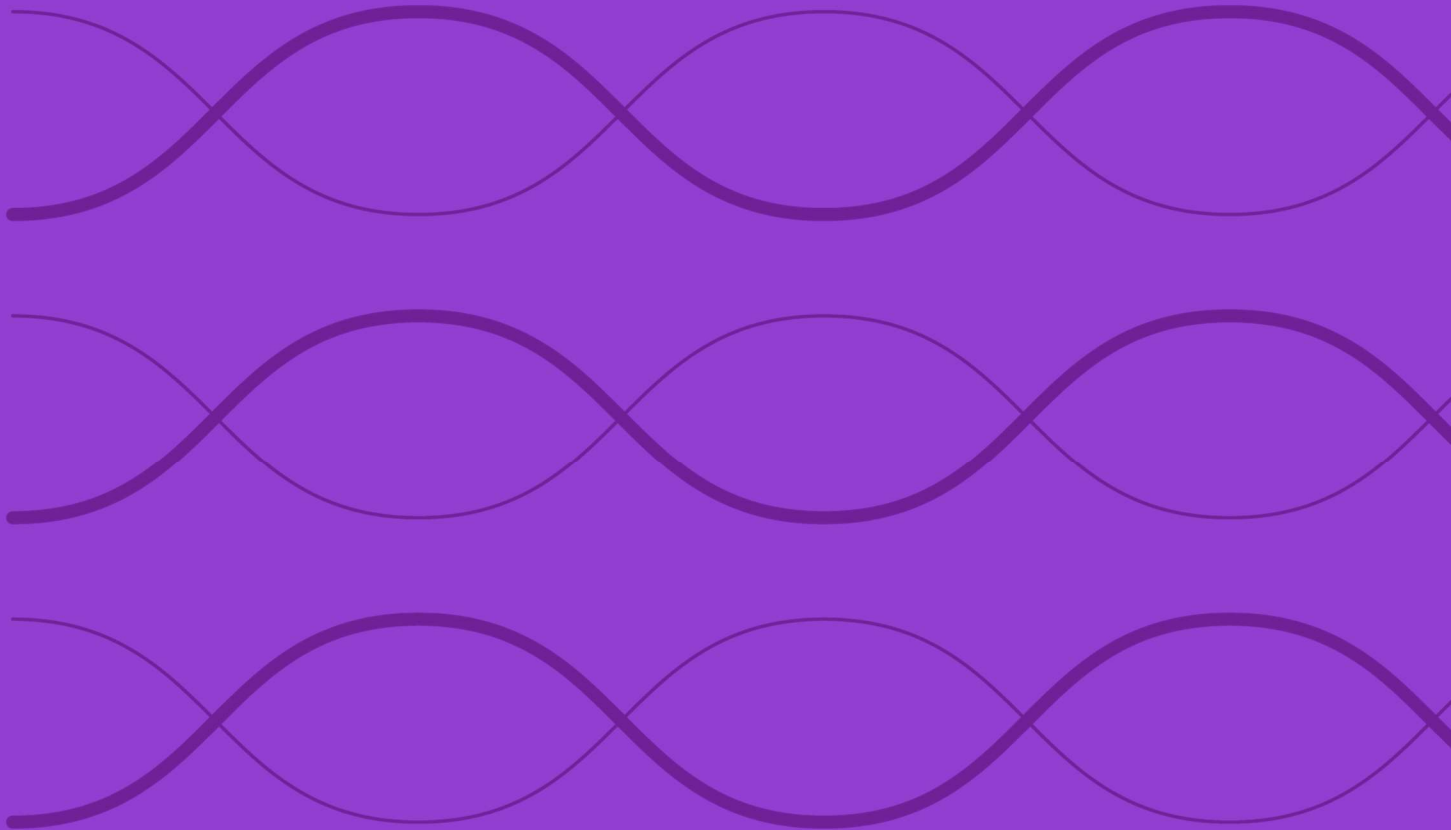


# Construction Rules for the Morningstar Dividend Yield Focus Target Volatility 5 Index



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## Overview

The Morningstar Dividend Yield Focus Target Volatility 5 Index provides flexible exposure to the Morningstar Dividend Yield Focus Index to achieve a 5% volatility target. The target exposure to the base index is based on the ratio of the target volatility to the measured historical volatility of the base index. The target exposure is monitored daily and is subject to both an exposure tolerance (in this case, 10%) and a maximum exposure (in this case, 150%).

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

## Base Index Structure

The base index (Morningstar Dividend Yield Focus Index) targets high-yielding, dividend-paying, U.S. securities screened for financial quality. The base index represents the top 75 high-yielding stocks that meet the screening requirements. For more information regarding the base index, please refer to the Construction Rules for the [Morningstar Dividend Yield Focus Index](#).

## Target Volatility Index Structure

The objective of the Morningstar target volatility methodology is to provide variable exposure to a given base index to maintain a certain volatility target. The balance of exposure to a base index compared with a cash investment is adjusted as the volatility of that base index changes according to the rules outlined in the rest of the document. The methodology may be applied to any base index, and the various parameters such as the volatility target, maximum exposure, and volatility tolerance can all be customized.

Two scenarios may occur in attempting to maintain the given volatility target. An unleveraged position arises when the measured volatility of the base index is higher than the volatility target. In this case, the volatility control mechanism reduces the percentage of the base index held in the target volatility index and increases the percentage of cash. Conversely, a leveraged position arises when the measured volatility of the base index is lower than the volatility target. When this occurs, the volatility control mechanism decreases or removes altogether the amount of cash held in the target volatility index. At the same time, the target volatility index will increase its exposure to the base index up to the maximum exposure limit, usually 150%. All constituents are leveraged proportionally in the base index.

For more information regarding target volatility methodology, please refer to the Target Volatility Indexes section of the [Morningstar Equity Indexes Calculation Methodology](#).

## Index Inception and Performance Start Date

The index inception date is April 11, 2016, and the performance start date, when the first back-tested index value was calculated, is September 14, 2005.

## Index Construction

### Methodology Summary

#### Base Index

- Morningstar Dividend Yield Focus Index

#### Target Volatility Overlay

- Volatility target: 5%
- Max exposure: 150%
- Exposure tolerance: 10%
- Trading cost

Morningstar  
Dividend Yield  
Focus Target  
Volatility 5 Index

#### Base Index

Securities for the Morningstar Dividend Yield Focus Target Volatility 5 Index are derived from the [Morningstar Dividend Yield Focus Index](#).

#### Target Volatility Overlay

The index provides variable exposure to the base index to achieve a volatility target of 5%. The target exposure is monitored daily and is subject to both an exposure tolerance of 10% and a maximum exposure cap of 150%. For details on how the daily exposure to the base index is determined, please refer to the Target Volatility Indexes section of the [Morningstar Equity Indexes Calculation Methodology](#).

## **Index Maintenance and Calculation**

### **Reconstitution and Rebalancing**

The index contains variable exposure to the base index that is assessed daily and may therefore be rebalanced daily as well. However, daily rebalancing is rare and will occur only during the most turbulent markets. On average, the index is likely to be rebalanced every one to two weeks.

Index files are published according to the global calendar schedule. For more information, please refer to the [Morningstar Indexes Holiday Calendar](#).

### **Index Calculation and Price Data**

The total return of the index consists of two sources of return: The return on the base index and the return on the cash investment. To account for higher transaction and portfolio management costs associated with the target volatility strategy, an annual flat adjustment factor of 0.50% is applied to the calculated total return index level to arrive at the final, published index level. For details on calculation methodology, please refer to the Target Volatility Indexes section of the [Morningstar Equity Indexes Calculation Methodology](#).

### **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, eligibility requirements, 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 generally be corrected upon detection. In addition, an incorrect divisor of an index, 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 to new template	December 2023
Data Correction and Precision	Computational and Reporting Precision section removed	January 2025



## 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 the European Benchmarks Regulation (“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 European Benchmarks Regulation (“BMR”), providing independent oversight of all aspects of the governance of benchmark administration as required by the 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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