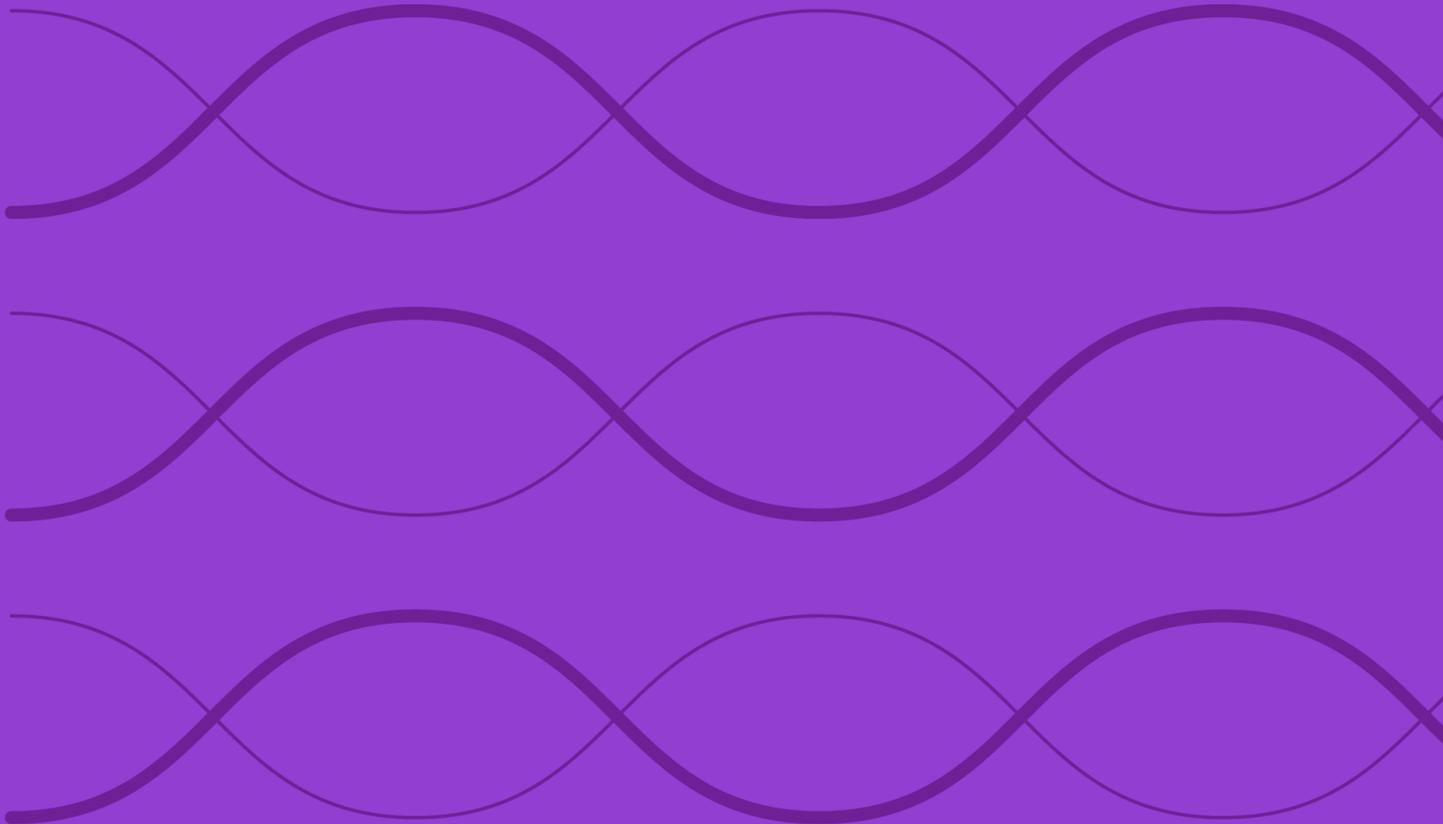


# Construction Rules for the Morningstar<sup>®</sup> US Dividend Yield Focus UCITS Index



<b>Overview</b>	<b>3</b>
<b>Index Construction</b>	<b>4</b>
Starting Universe	4
Eligibility	4
Portfolio Construction	5
<b>Index Maintenance and Calculation</b>	<b>6</b>
Scheduled Maintenance	6
Corporate Actions	6
Index Calculation and Price Data	6
<b>Methodology Review and Index Cessation Policy</b>	<b>7</b>
<b>Data Correction and Precision</b>	<b>8</b>
Intraday Index Data Corrections	8
Index-Related Data and Divisor Corrections	8
<b>Exceptions</b>	<b>8</b>
<b>Appendixes</b>	<b>9</b>
Appendix 1: Modifications to the Rulebook	9
Appendix 2: Glossary	9
Appendix 3: Morningstar Proprietary Data	9
<b>About Morningstar Indexes</b>	<b>10</b>

## Overview

The Morningstar® US Dividend Yield Focus UCITS Index is designed to track high-yielding, dividend-paying U.S. stocks screened for quality and financial health. The index is a subset of the [Morningstar US Market Index](#), a broad market index representing 97% of U.S. equity market capitalization. The Morningstar US Dividend Yield Focus UCITS Index represents the top 75 high-yielding stocks that meet the screening requirements.

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

## Index Inception and Performance Start Date

The index inception date is November 13, 2017, and the performance start date, when the first back-tested index value was calculated, is June 17, 2005.

## Index Construction

### Methodology Summary

#### Starting Universe

- Securities from the Morningstar US Market Index

#### Eligibility

- Screen for dividend-paying companies
- REITs are excluded
- Morningstar quality and financial health screens:
  - Wide or narrow moat rating
  - Uncertainty rating
  - Distance to Default

#### Portfolio Construction

- Select top 75 companies by indicated dividend yield.

Morningstar® US  
Dividend Yield Focus  
UCITS Index

### Starting Universe

At each reconstitution, securities for the Morningstar US Dividend Yield Focus UCITS Index are derived from the Morningstar US Market Index (benchmark).

For more details on benchmark construction, refer to the [Construction Rules for the Morningstar US Market Indexes](#).

### Eligibility

To be eligible for inclusion in the Index, all securities must meet the following criteria:

- Real estate investment trusts are excluded.
- Company quality and financial health:
  - Company quality is determined based on Morningstar Economic Moat™ and Uncertainty ratings, where companies are expected to earn above-average profits and there is less uncertainty associated with their expected cash flows.
  - 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.
  - Companies with an Economic Moat and Uncertainty rating must have a moat rating of narrow or wide and an uncertainty rating that is not very high or extreme. Additionally, these companies must have a Morningstar Distance

to Default score ranking in the top 50% within their sectors. From the March 2026 reconstitution on, these ranks for determining eligibility will be measured at the company level.<sup>1</sup>

- Companies that are not assigned a Morningstar Economic Moat or Uncertainty rating must have a Morningstar Distance to Default score in the top 30% within its sector.

A broad overview of Morningstar Economic Moat, Quantitative Moat Ratings, Uncertainty Ratings as well as Morningstar Distance to Default is provided in Appendix 3.

### **Portfolio Construction**

- Eligible securities are ranked by indicated dividend yield in descending order.
- Current index constituents are retained if they meet one of the following conditions:
  - Among the top 75 by indicated dividend yield.
  - Among the top 100 by indicated dividend yield and was among the top 75 by dividend yield at the prior reconstitution.
- Securities are added to the index in descending order of indicated dividend yield until there are 75.

### *Number of Stocks*

The index targets 75 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 index can have more or fewer than 75. 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 reconstitution schedule is available in the "Index Maintenance and Calculation" section.

### *Index Weighting*

The index is dividend-dollar weighted with 5-10-40 capping. This means constituents are weighted in proportion to their total value of indicated dividends. The largest constituent is capped at 10% and constituents with weightings above 5% may not sum to more than 40%.

In the event of a breach of this cap, securities above the cap are downweighted to bring the portfolio into compliance. The excess weight from these capped stocks is redistributed across the portfolio in a manner designed to preserve the relative exposure of the pre-capped weights for as many securities as possible. This may result in some securities that initially breached the cap receiving a lower weight than the cap.

For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

---

<sup>1</sup> Previously, the presence of multiple share classes could affect the distance-to-default rankings for determining eligibility even though Distance to Default data point was always calculated at the company level.

## Index Maintenance and Calculation

### Scheduled Maintenance

The index is reconstituted, where the membership is reset, and rebalanced quarterly. Adjustments are made on the Monday following the third Friday of March, June, September, and December. If the Monday is a holiday, reconstitution occurs on the next business day. The market data used for reconstitution is as of the last trading day of February, May, August, and November.

Index files are published according to the global calendar schedule, meaning index files will be published every day from Monday to Friday throughout the year, even on local market holidays.

### Corporate Actions

The treatment of corporate actions will be as per the alternatively-weighted indexes. 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 Cessation 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 also notifies all subscribers and stakeholders of the index that circumstances might arise that require a material change to the index or a possible cessation of the index. Circumstances that could lead to an index cessation include, but are not limited to, market structure change, product definition change, inadequate supply of data, insufficient revenue associated with the index, insufficient number of clients using the index, and/or other external factors beyond the control of the Morningstar Index Methodology Committee.

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 Cessation Process](#).

## 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 five 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 method described above, 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 relevant 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 rulebook to new template	Jul. 2023
Index Maintenance and Calculation	Updated calendar from USA to global	Feb. 2024
Data Correction and Precision	Computational and Reporting Precision Section removed	May 2025
Eligibility	Clarified distance-to-default ranking for eligibility would be applied at the company level, rather than at the share class level from the March 2026 reconstitution on.	Feb. 2026

### 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 adjusted for updated dividend dollar, free-float, and shares outstanding data.

### Appendix 3: Morningstar Proprietary Data

#### *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 able 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](#).

#### *Distance to Default*

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 on the distance to default, please refer to the [Morningstar's Distance to Default methodology](#).

#### *Uncertainty Rating*

The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors. For more information on the uncertainty rating process performed by Morningstar Equity Research, refer to the [Morningstar Equity Research Methodology](#).

## 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 Benchmark Regulations (“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 Benchmark Regulations (“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.

[www.indexes.morningstar.com](http://www.indexes.morningstar.com)

## Contact Us

[indexes@morningstar.com](mailto:indexes@morningstar.com)

The information in this document is the property of Morningstar, Inc. Reproduction or transcription by any means, in whole or part, without the prior written consent of Morningstar, Inc., is prohibited. While data contained in this report are gathered from reliable sources, accuracy and completeness cannot be guaranteed. All data, information, and opinions are subject to change without notice. This document may contain back-tested or simulated performances, and the subsequent results achieved by the investment strategy may be materially different.