
Construction Rules for the Morningstar® Dividend Yield Focus IndexSM

Morningstar Indexes

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Overview

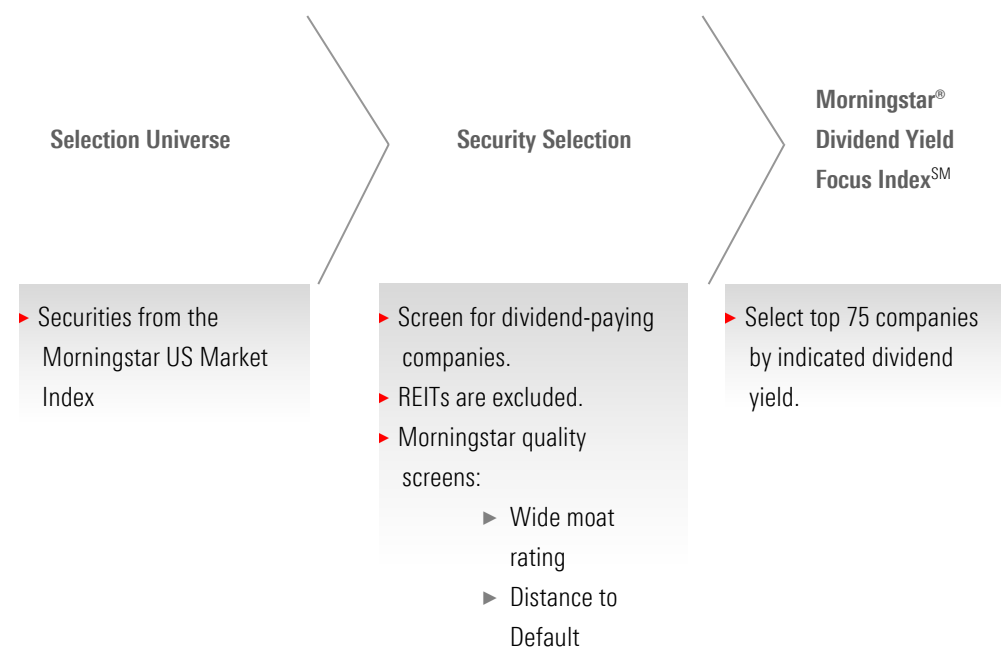
The Morningstar® Dividend Yield Focus IndexSM is designed to track high-yielding, qualified dividend-paying, U.S.-based securities screened for companies with superior quality and financial health. The index is a subset of the [Morningstar US Market Index](#), a broad market index representing 97% of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

Index Inception Date and Performance Inception Date

The inception date of the index is January 10, 2010, and the performance inception date of the index is June 17, 2005, when the first back-tested index value was calculated.

Index Construction

Exhibit 1 Morningstar Dividend Yield Focus Index Construction Process



For additional details refer 'Assigning stocks to the Index section'

Assigning Stocks to the Index

Selection Universe

At each reconstitution, securities for the Morningstar Dividend Yield Focus Index are derived from the Morningstar US Market Index (benchmark). For more details on benchmark construction, refer to the [Construction Rules for Morningstar US Market Index](#).

Security Selection

To be eligible for the index, all constituents must meet the following criteria:

- ▶ Security's dividend must be qualified income; for example, 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 sustain their dividends.
 - ▶ 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 that have a moat rating of narrow or wide and an uncertainty rating that is not very high or extreme, must have a Morningstar Distance to Default score in the top 50% within its sector.
- ▶ Companies that are not covered by Morningstar's equity research group and, therefore, 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 2.

Morningstar Dividend Yield Focus Index

- ▶ Rank companies 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 securities are added or deleted as a result of corporate action after reconstitution, the index can have more or fewer than 75 securities. During reconstitution, if the number of securities is less than the target, the weights of the constituents will be determined based on the index weighting scheme. The schedule for reconstitution and corporate actions is available in the "Index Maintenance and Calculation" section.

Index Weighting

The index is dividend-dollar-weighted with 5-10-50 capping. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#).

Index Maintenance and Calculation

Scheduled Maintenance

The index is reconstituted and rebalanced quarterly and implemented after the close of business on the third Friday of March, June, September, and December and is effective the following Monday. If Monday is a holiday, it is effective on the immediate following business day. The market data used for reconstitution and rebalancing is as of the last trading day of February, May, August, and November. Refer to Appendix 1 for details on reconstitution and rebalancing.

Corporate Action

The treatment of corporate actions can be found in 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 take into account 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 Process](#).

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 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 affect index daily highs or lows, they are corrected retroactively as soon as is feasible.

Index-Related Data and Divisor Corrections

Incorrect pricing and corporate action data for individual issues in the database will be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within five days of its occurrence, will always 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](#).

Computational and Reporting Precision

For reporting purposes, index values are rounded to two decimal places and divisors are rounded to appropriate decimal places.

Appendixes

Appendix 1: 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 2:

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, Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Morningstar offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. Morningstar provides data on approximately 510,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 17 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services through its investment advisory subsidiaries.

About Morningstar Indexes

Morningstar® Indexes combine the science and art of indexing to give investors a clearer view into the world's financial markets. Our indexes are based on transparent, rules-based methodologies that are thoroughly back-tested and supported by original research. Covering all major asset classes, our indexes originate from the Morningstar Investment Research Ecosystem — our network of accomplished analysts and researchers working to interpret and improve the investment landscape. Clients such as exchange-traded fund providers and other asset management firms work with our team of experts to create distinct, investor-focused products based on our indexes. Morningstar Indexes also serve as a precise benchmarking resource.

Morningstar Index Committee

The [Morningstar Index Committee](#) is currently comprised of senior officials who possess the appropriate levels of knowledge in relation to Indexes. A wide array of business groups are represented to allow for a broad voice to be heard and for a wider view to be expressed in evaluating all subjects brought up during Committee meetings. The Committee seeks to create indexes of the highest quality that meet the recognized qualities of a good benchmark.

For More Information

For any queries, reach out to us via our [communication page](#).



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