September 17, 2025

Consultation on Potential Methodology Enhancements to the Morningstar US Dividend Valuation Index

Morningstar Indexes is considering some enhancements to Morningstar US Dividend Valuation Index. Currently, the index screens for stocks in the higher yielding half of dividend-payers in the Morningstar US Market Index, the top half of their peer group on distance to default (a measure of financial strength), where stocks are split into financial services and non-financial services groupings. Finally, stocks must rank in the top 70% of the eligible names on the star rating score.

The changes proposed include:

1) Making the distance to default screen sector relative, within each of the 11 Morningstar sectors.
2) Increasing the turnover buffers around the dividend yield, distance to default and star score screens to 20% from 3%. For example, existing constituents would be eligible to remain in the index if their star rating score ranked between the top 70%-90% compared with the narrower 70%-73% range earlier. The revised approach would allow securities to remain in the index for as long as they remain in the buffer range, unlike the current approach where stocks are only permitted to stay in the buffer for one reconstitution before being removed.
3) Adding a momentum filter to omit stocks that rank in the bottom 30% on their total return over the past 12 months (for new constituents), with a 20% buffer that would allow existing constituents to remain in the index until their momentum ranks in the bottom 10% of the eligible universe.

These enhancements are intended to help mitigate unintended sector biases, turnover, and risk, by reducing exposure to stocks with negative momentum. A performance summary of a simulation of the index with these changes is available here.

These changes would be applied prospectively. We are considering implementing these changes through an off-cycle reconstitution in December 2025 and are soliciting feedback on this proposal.

Submit your responses and questions

Responses to this consultation can be submitted here.

General questions about the consultation may also be sent to indexes@morningstar.com.

Key dates

- **Consultation**: The consultation will be open for response from September 17, 2025, to October 3, 2025.

- **Decision announcement**: Final decisions will be announced by October 24, 2025.
- **Proposed implementation**: At the open of December 22, 2025, through a one-time off-cycle reconstitution.

Questions

1. Should Morningstar Indexes make the distance to default screen sector relative?
   a. Yes
   b. No
   c. Other, please explain.

2. Should Morningstar Indexes increase the turnover buffers around the dividend yield, distance to default and star score screens to 20% from 3% and relax the one-time buffer constraint?
   a. Yes
   b. No
   c. Other, please explain.

3. Should Morningstar Indexes add a screen to the index to filter out stocks ranking in the bottom 30% on momentum (with a 20% buffer for existing constituents)?
   a. Yes
   b. No
   c. Other, please explain.

4. If Morningstar Indexes were to move forward, when should these changes be implemented?
   a. At the open of December 22, 2025, through a one-time off cycle reconstitution.
   b. At the next regularly scheduled reconstitution at the open of March 23, 2026.
   c. Other, please explain

5. What other factors should Morningstar Indexes consider in making this decision?

About Morningstar Indexes

Morningstar Indexes has been designing modern solutions for 20 years, but what makes us truly unique has been more than three decades in development. Our rich history began in 1984, when Morningstar was founded on a promise to empower investors with data and research that is independent and objective. Over time, our collection of data has expanded considerably—and so has its application. Today, Morningstar Indexes draws on unique IP to unlock an extensive range of emerging opportunities for investors of every kind, while providing a robust institutional beta platform for core investing.

Contact Us

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