

# Dividend Durability and Portfolio Resilience

How the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index has achieved strong performance while maintaining dividend leadership.

## Morningstar

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### Contents

- 2 Beyond Yield: The Role of Dividend Durability
- 2 Performance Across Market Cycles
- 4 Examination of Strong Performance in 2022 and 2025
- 6 Index Positioning: Current Outlook for Energy and Financial Services
  - 6 Energy Outlook
  - 7 Downside Risks
  - 7 Financial Services Outlook
  - 8 Downside Risks
  - 8 Top Index Holdings
- 12 Avoiding Dividend Cuts
- 13 An All-Weather Income Strategy
- 14 Appendix

Robert Edwards, CFA  
 Managing Director, Indexes  
[robert.edwards@morningstar.com](mailto:robert.edwards@morningstar.com)

Alex Bryan, CFA  
 Director of Product Management, Equity Indexes  
[alex.bryan@morningstar.com](mailto:alex.bryan@morningstar.com)

Morningstar Equity Research

The Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index balances yield with screens for dividend sustainability and environmental, social, and governance criteria. The screening criteria have mitigated exposure to stocks at risk of cutting their dividends and contributes to the index's defensive posture. Yet, the index has also consistently delivered a higher yield than its parent benchmark, because of its selection criteria and weighting scheme.

### Key Takeaways

- ▶ The Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index offers a time-tested approach to dividend investing, balancing yield with dividend durability. Its selection and weighting criteria have resulted in an all-weather strategy for income investing.
- ▶ Relative to traditional yield-focused approaches, the methodology emphasizes dividend durability and quality, resulting in a portfolio with distinct sector tilts, particularly toward energy and financial services.
- ▶ The index has demonstrated resilient performance across market cycles, including periods of market stress (2022) and global rotation (2025).
- ▶ Current positioning reflects overweight exposures to energy and financial services, sectors supported by positive commodity dynamics, interest rate conditions, and regulatory trends.
- ▶ Year to date, the overweighting in the energy sector has driven the majority of outperformance relative to the market.

### Important Disclosure

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## Beyond Yield: The Role of Dividend Durability

The Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index targets high-dividend-yielding stocks, while screening for dividend consistency, payout sustainability, severe ESG risk and controversies, and product involvement<sup>1</sup>.

This represents a more risk-aware approach than considering yield in isolation. While broadly diversified dividend income strategies are often more defensive than the market, aggressively chasing yield can court risk. High dividend yields can result from declining share prices, owing to weak or deteriorating fundamentals that may lead to further price declines or unsustainably high payout ratios, which could precede dividend cuts. Other high-yielding stocks may be involved in controversies or controversial lines of business. Dividend sustainability screens and prudent portfolio construction can help reduce risk.

## Performance Across Market Cycles

Like many dividend approaches, the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index has exhibited lower risk than its parent benchmark, the Morningstar Developed Markets Large Cap Index, over the long term. Over the trailing five years through April 2026, the index exhibited lower sensitivity to market fluctuations (as measured by beta) and tended to hold up better during market downturns. The index has materially outperformed its benchmark.

To examine returns and to perform holdings analysis to explain performance, we compare the index to both its parent benchmark and to the Morningstar Category average returns and portfolio data of the Europe, Asia, and Africa (EAA) global-equity income Category<sup>2</sup>. The category was selected as it represents a fund universe with characteristics similar to the index and is the likely category in which any fund tracking the index would be assigned.

### Exhibit 1 Risk & Return Summary (5 Year)

	Return	Standard Deviation	Beta	Down Capture Ratio	Up Capture Ratio
Morningstar Developed Markets Large Cap Dividend Leaders Screened Select	18.98	10.92	0.95	48.39	2.7
Morningstar Developed Markets Large Cap	13.17	13.25	1.08	107.19	2.8
Morningstar EAA Fund Global Equity Income	8.77	9.92	1.00	100.00	2.3

Source: Morningstar Indexes. Performance shown in GR EUR. Data as of April 30, 2026.

<sup>1</sup> More details on index construction are included in the appendix and in the rulebook <https://indexes.morningstar.com/docs/rulebook/morningstar-developed-markets-large-cap-dividend-leaders-screened-select-FS0000CGA6>

<sup>2</sup> Morningstar Category averages are designed to represent the average return of funds within their category over time. [https://advisor.morningstar.com/Enterprise/VTC/Morningstar\\_Category\\_Average\\_Methodology.pdf](https://advisor.morningstar.com/Enterprise/VTC/Morningstar_Category_Average_Methodology.pdf)

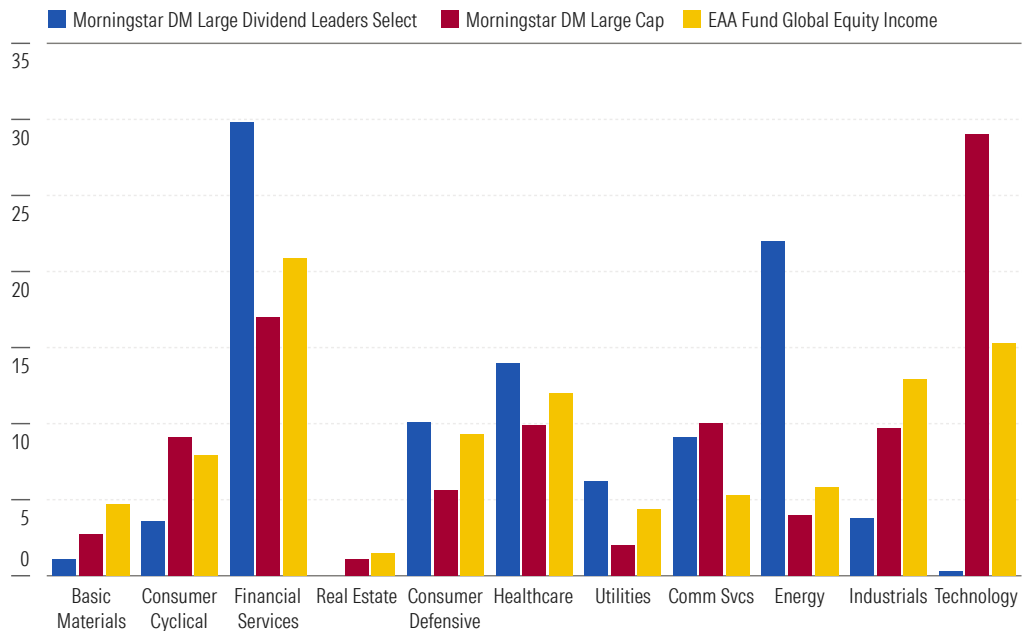
As seen in Exhibit 1, the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index significantly outperformed its parent index by 5.81% on an annualized basis for the five-year period ended April 2026.

On balance, sector tilts contributed to the Index's strong performance relative to its parent benchmark. Exhibit 2 showcases sector exposure relative to both its parent index and category. Sector weightings can fluctuate considerably over time, as eligibility is largely independent of sector membership (though sector weightings may not exceed 40%).<sup>3</sup>

Like most dividend strategies, the index has consistently been overweight financial services and energy and underweight technology. Overweight exposures to financial services and energy have been the most favorable sector tilts over the past five years, while the technology underweighting was the biggest detractor during that time.

**Exhibit 2** Sector Exposure

**Sector Exposure**



Source: Morningstar Indexes. Data as of 03/31/2026.

<sup>3</sup> For more in-depth discussion on sector rotation of the index, see Alex Bryan, Abigail McCarty, and Evangelos Papoutsis, Dividend Leadership Goes Beyond Yield (Morningstar, Oct. 7, 2025), <https://assets.contentstack.io/v3/assets/bltabf2a7413d5a8f05/blt9f2c5c6abb66082c/68e57a033e81f77256944175/Dividend-Leadership-Goes-Beyond-Yield.pdf>.

### Examination of Strong Performance in 2022 and 2025

As seen in Exhibit 3, the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index has demonstrated strong relative performance compared with its parent benchmark during periods of market stress and stylistic rotation.

#### Exhibit 3 Trailing Return Comparison

	YTD	2025	2024	2023	2022	2021	
Morningstar Developed Markets Large Cap Dividend Leaders Select	11.04	24.72	16.71	12.56	16.58	27.24	Morningst DM Large Ca Dividen Leader Sele
Morningstar Developed Markets Large Cap	5.45	8.90	28.58	21.62	-12.66	31.60	Morningst DM Large Ca
EAA Fund Global Equity Income	5.72	6.61	15.55	9.76	-6.14	26.02	EAA Fur Global Equi Incom

Source: Morningstar Indexes and Morningstar Direct. Data as of April 30, 2026.

2022 delivered one of the most challenging market environments in decades. Russia's invasion of Ukraine sent shock waves through global energy and commodity markets, initially driving oil prices sharply higher before a partial reversal later in the year. In 2022, the Index delivered a return of 17.4% against the benchmark's negative 12.7%—a 30.1% positive excess return. The Federal Reserve raised rates at the fastest pace in over 40 years, with the federal-funds rate rising from near zero to 4.5% by year-end, stoking widespread recession fears as the yield curve inverted. Technology stocks bore the brunt of the selloff, as rising discount rates compressed the value of long-duration growth earnings.

During this difficult market, the Index was well-positioned, with significant overweight exposure in energy stocks, which benefited from the rise in oil and gas prices. Similarly, overweight exposure into the right financial services companies was highly beneficial. During a period in which most of the market was in negative territory, defensive positioning led to significant excess returns. As seen in Exhibit 4, the large underweight position in technology stocks was highly beneficial, avoiding much of the market drawdown. Security selection was also strong within healthcare in 2022, where 2.38% contribution to return came from exposure within the sector.

**Exhibit 4** 2022 Attribution Summary

	<b>Portfolio Weight %</b>	<b>Benchmark Weight %</b>	<b>+/-</b>	<b>Allocation %</b>	<b>Selection %</b>	<b>Active Ret%</b>
Basic						
Materials	7.77	3.71	4.06	0.50	1.28	1.78
Comm Svcs	8.86	8.01	0.85	-0.08	4.01	3.94
Consumer						
Cyclical	2.71	10.81	-8.10	1.91	0.79	2.70
Consumer						
Defensive	9.69	8.11	1.58	0.44	1.71	2.15
Energy	13.86	4.62	9.24	6.27	0.93	7.21
Financial						
Services	29.24	15.73	13.51	1.50	2.65	4.16
Healthcare	13.43	14.18	-0.75	0.02	2.38	2.40
Industrials	3.35	9.15	-5.80	-0.43	0.71	0.28
Real Estate	1.36	1.73	-0.37	-0.01	0.25	0.24
Technology	2.78	21.72	-18.94	3.44	1.31	4.75
Utilities	6.95	2.15	4.80	0.55	-0.04	0.51
Total				14.08	16.00	30.08

Source: Morningstar Direct. Benchmark: Morningstar Developed Markets Large Cap Index.

Three years later, in 2025, the index again showed high excess returns, generating 15.9% excess return. President Donald Trump's "Liberation Day" tariff announcements in April triggered the largest global market decline since the 2020 covid crash, with inflation expectations jumping and stock markets tumbling across both developed and emerging markets.

Beneath the volatility, a striking shift was underway. International stocks outperformed US equities by the widest margin in decades. In contrast to its parent index, which has more than half its weight in US stocks, the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index held less than 25% exposure to US companies, allowing it to capitalize on the rotation toward ex-US equities during the year.

As seen in Exhibit 5, favorable stock exposure within financial services—a sector that thrived as rates stayed elevated across developed markets—contributed 10.41% to performance. The index, by design, had limited exposure to the artificial intelligence boom because large growth technology companies rarely pay large dividends. Despite the market narrative being dominated by these AI-driven mega-cap stocks in 2025, the index still materially outperformed the market. Notably, the index achieved these results despite the energy sector being an average performer in 2025.

**Exhibit 5** 2025 Attribution Summary

	<b>Portfolio Weight %</b>	<b>Benchmark Weight %</b>	<b>+/-</b>	<b>Allocation %</b>	<b>Selection %</b>	<b>Active Ret%</b>
Basic Materials	5.73	2.60	3.12	0.23	0.13	0.36
Comm Svcs	5.66	9.37	-3.71	-0.32	-0.91	-1.23
Consumer Cyclical	7.09	10.27	-3.18	0.52	0.76	1.28
Consumer Defensive	2.39	5.92	-3.53	0.44	0.33	0.77
Energy	9.45	3.04	6.41	-0.26	0.94	0.67
Financial Services	41.33	17.03	24.31	1.99	10.41	12.39
Healthcare	15.32	10.34	4.99	0.09	0.85	0.94
Industrials	5.57	9.34	-3.77	-0.39	0.20	-0.20
Real Estate	0.39	1.05	-0.65	0.03	-0.16	-0.14
Technology	0.00	29.35	-29.35	-0.17	0.00	-0.17
Utilities	7.08	1.63	5.45	0.49	0.79	1.28
<b>Total</b>				<b>2.61</b>	<b>13.32</b>	<b>15.93</b>

Source: Morningstar Direct. Benchmark: Morningstar Developed Markets Large Cap Index.

**Index Positioning: Current Outlook for Energy and Financial Services**

As seen in Exhibit 2, the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index has significant exposure to energy and financial services, relative to its benchmark. Given the significant overweightings, it is important to understand the current outlook for each sector. The remainder of this section was provided by Morningstar's Equity Research team. While their ratings and assessments are not incorporated into index construction, the Equity Research team's sector-level views can be helpful in contextualizing index positioning, which is the outcome of selection and weighting criteria.

**Energy Outlook**

Large producers are heavily leveraged to the price of oil. Following the supply/demand surplus in late 2025 late and earlier this year, the outbreak of the Iran war means we've entered a stronger commodity price environment, which benefits the entire sector. This created a more constructive environment for upstream investment than we've seen in years given historic supply disruptions, which benefits oilfield services firms.

Integrated oil companies with significant global refining operations like ExxonMobil should benefit from higher refining margins given these supply restrictions and the shutdown of some refining activity in the region. European integrated oil firms that have large trading organizations could also benefit from a trading profit boon amid higher LNG prices and disruptions.

More broadly, producer balance sheets are historically strong relative to the height of the “Shale Revolution.” Because producers exercised capital discipline last year with low reinvestment rates during the bottom of the cycle, operators can afford to cautiously step on the accelerator and ramp up capital-efficient production, all while shareholders still reap the benefit from higher dividend payments.

### **Downside Risks**

Shares are at risk of a significant pullback once oil tanker traffic flows freely again through the Strait of Hormuz. Brent oil currently trades at \$110/barrel, far and above our estimated midcycle price of \$65/bbl.

Many large producers have adequate inventories, but for some operators, inventory is depleting, particularly those exposed to the Permian Basin, which is where nearly all US production growth comes from. The cost of replenishing depleted inventory is rising, particularly as private operators have been absorbed by mergers and acquisitions.

### **Financial Services Outlook**

The economic setup for financial-services firms, which tend to be sensitive to some combination of economic growth, asset prices, and interest rates, remains solid. While swelling energy prices have nudged up our inflation estimates for 2026, Morningstar's Chief US economist Preston Caldwell continues to expect 5.2% and 2.1% nominal and real GDP growth, respectively—slightly better than 5.0% and 2.1% in 2025, if concentrated in fixed investment. Elsewhere, we expect a 20-basis-point increase in US unemployment to 4.5%. If the current environment remains reasonably consistent, and those forecasts would imply that it does, we'd expect financial-services firms to continue to perform well.

Regulatory easing should continue to provide support for lending volumes and returns, particularly for US-domiciled banks. The Fed's new regulatory framework looks cogent to us, encouragingly, as we had harbored some fear that deregulation would overcorrect and reintroduce unnecessary systemic risk. Instead, it corrected a handful of shortcomings from the prior overlapping alphabet soup of eSLR, CCAR, GSIB, and BSE guidelines. This recalibrated surcharges that drifted meaningfully over the past decade, encouraging lower-risk, lower-return lending (like mortgage lending) within the banking system, and increasing transparency about annual stress tests. The proposal isn't perfect, and may change after the public comment period, but it should result in 5% to 10% lower capital requirements systemwide and potentially even larger releases of capital, as increased regulatory clarity reduces the likelihood of significant, unexpected capital requirement changes year-to-year.

Fee-based businesses remain robust. High-quality, high-return businesses like wealth and asset management are performing very well, given the constructive capital markets backdrop. High return, volatile, transaction-driven businesses like investment banking and trading are also growing strongly, with the latter fueled by volatility (the Iran war and other geopolitical conflicts) and the former fueled by high CEO confidence and trillions of dollars of alternative-asset manager dry powder and investments “in play” that need to be monetized as funds age. Absent meaningful disruptions to the status quo, those should remain strong through 2026 and into 2027.

### **Downside Risks**

AI disruption risk is knocking specific industries, with particular emphasis on financial data providers, advisory firms, and cash-sweep dependent companies. In many cases, risks are purely hypothetical, like with the recent wealth management selloff driven by concerns regarding third-party agentic cash-sorting tools. For a variety of reasons, we’re not tremendously concerned about that. In other cases, investor concerns have some merit; AI clearly lowers the cost of data compilation and scraping. There’s a very real world where it decreases the cost of repeatable and templated services, and workflow-related switching costs look much weaker today than they did just a few years ago, evidenced by our downgrade of FactSet’s economic moat to none from narrow.

Fee compression remains rampant. The only industry that has been largely spared is M&A advisory, partially tied to measurement difficulties (advisory services have expanded, and we measure total advisory revenue against announced M&A transaction value alone) and partially due to the highly differentiated, highly complex nature of those services. We’ve seen long and well-publicized fee compression in traditional asset management, and more recently in alternative-asset management and wealth management industries. With AI adoption expected to eventually bring down production costs further, there’s nothing that would clearly point toward a reversal of this trend for any of the firms or industry groups in our financial services coverage. If anything, those might accelerate.

### **Top Index Holdings**

To further understand the drivers of the index, it is important to examine the top five current constituents: ExxonMobil, Verizon Communications, TotalEnergies, Nestle, and Shell, whose positioning is the result of selection and weighting criteria.

#### **ExxonMobil**

Exxon is departing from industry trends by increasing spending relative to years past to deliver \$25 billion in earnings growth by 2030. Although higher spending may seem alarming given the industry’s history of prioritizing growth over returns, Exxon’s differentiated portfolio should enable it to pursue growth while maintaining capital discipline and delivering returns. Its differentiated Guyana position and enlarged Permian position remain at the core of its portfolio, offering capital-efficient volume and

earnings growth. Meanwhile, the breadth of its downstream businesses opens new low-carbon business opportunities.

Exxon earns a narrow Morningstar Economic Moat Rating even as we forecast narrower future excess returns than achieved historically. However, we expect a material improvement from the weak levels of 2015-20, sufficient to maintain a narrow moat.

We continue to see Exxon's integrated model as a source of competitive advantage. Historically, we rated Exxon as the highest-quality integrated firm, given its ability to capture economic rents along the oil and gas value chain. While its peers operate a similar business model with the same goal, they have largely failed to replicate Exxon's success, as evidenced by their comparatively lower margins and returns. Although Exxon continues to operate a highly integrated model and has aligned its management structure to do so, its lead in return on capital employed, a key performance metric among the group, has eroded as upstream performance waned. However, we consider the integration of lower-cost assets, particularly in the downstream and chemical segments, as an element of its cost advantage moat source that is still intact.

#### Verizon Communications

Verizon has long prided itself on network quality, consistently investing in wireless and fixed-line technologies. The firm has built its brand reputation around these networks, attracting a large and loyal customer base. In the wireless business, the firm holds roughly 35% of the US postpaid phone market, claiming about 15% more customers than T-Mobile and 25% more than AT&T. Leading scale enables Verizon to generate the highest margins and returns on capital in the industry.

Verizon's moat stems from the wireless industry's efficient scale characteristics. The firm has organized its business along customer lines, but we believe it is best understood along the wireless and fixed-line network dimensions. The wireless business produces 75% of service revenue but contributes nearly all of Verizon's profits. We estimate wireless returns on invested capital were about 16% prior to 2021. Heavy investment to acquire additional spectrum in the C-band auction and subsequent spending to put that spectrum to use have pulled wireless returns on capital to the low double-digits by our estimate, still leaving Verizon ahead of its cost of capital. Verizon, AT&T, and T-Mobile dominate the US wireless market, claiming more than 90% of retail postpaid phone customers. Providing solid nationwide coverage requires heavy fixed investments in wireless spectrum and network infrastructure. A larger customer base requires incremental investment in network capacity, but a significant portion of costs are either fixed or more efficiently absorbed as network utilization reaches optimal levels in more locations. The benefits of fixed-cost leverage and the difficulty of providing a differentiated wireless offering create an efficient scale advantage in the wireless industry. The massive consolidation across the industry over the past 15 years and the inability of several interested parties—including EchoStar and Comcast—to enter the market with their own networks provide evidence of efficient scale.

## TotalEnergies

TotalEnergies' strategy to grow total energy production while pursuing its ambition of net zero emissions by 2050 sets it apart from peers who are not growing as rapidly, have abandoned or modified their emissions targets, or both. More specifically, Total is growing oil production, something its larger European peers can't do, and continuing to invest in renewable power and low-carbon assets, an area where they've retreated. Hydrocarbons, including oil production, liquefied natural gas, and downstream activities, will continue to attract the bulk of investment. Management is focused on returns and capital discipline, evaluating hydrocarbon projects based on a \$50/bbl price and investing only in those with an aftertax breakeven below \$30/bbl. Hydrocarbon production will grow about 3% per year through 2030, primarily driven by LNG production. Oil volumes will come from short-cycle projects, continued growth in Brazil, new projects in Africa, and recent exploration successes in Suriname.

While Total has demonstrated improvement across its integrated portfolio and holds some cost-advantaged assets, it does not earn an economic moat, in our opinion, as its assets fall short of delivering sufficient excess returns at our long-term oil price assumption of \$65/bbl. Total's upstream portfolio delivered returns on capital employed of only 6% during 2015-19, below average compared with other integrated firms, as greater exposure to natural gas weighed on margins and high spending levels expanded its capital base. However, Total's upstream portfolio is in a better position today, thanks largely to cost reductions and portfolio high-grading. A new wave of high-margin projects combined with reduced capital spending should bolster free cash flow growth and improve returns. The returns improvement should be modest, though, assuming \$65/bbl oil, leaving them well below historical levels when oil was \$100/bbl, unless oil prices exceed our midcycle estimate. New LNG volumes will largely drive production growth during the next five years.

## Nestle

Nestle's new management, appointed in 2024, is taking steps to accelerate top-line growth with interventions focused on reestablishing product differentiation across categories, addressing underperforming business areas in a systematic way, and pursuing more targeted and meaningful innovation. These efforts will be supported by increased marketing investment, which is set to reach around 8.6% of sales in 2025 and expected to stay at this level beyond (compared with an average of 7.5% of sales in 2022-24). This investment will be funded by a three-year cost reduction program aimed at delivering CHF 3 billion in incremental cost savings by the end of 2027. While these measures might take some time to reinvigorate volume growth across underperforming business areas, prudent research and development and marketing investment should help Nestle better align its product portfolio with rapidly evolving consumer trends. Additionally, population growth, urbanization, and economic growth are secular drivers in emerging markets that should support medium-term volume growth, though at a lower level than historical averages.

We assign Nestle a wide economic moat rating based on intangible assets and a cost advantage. Intangible assets reflect the company's entrenched position with retailers and the strength of its brands across key categories, primarily pet care, nutrition, and coffee. Nestle is the world's largest packaged food company with operations in 185 countries and a diverse portfolio spanning coffee, dairy, nutrition, ready-made meals, confectionery, and pet care. This extensive, multinational presence makes Nestle a key A-brand supplier for retailers, differentiating it from other narrow- and no-moat competitors with less expansive scale and less established retailer relationships. About 31 of its brands generate more than CHF 1 billion in sales and are spread across all product categories, in most cases boasting a number 1 or 2 market share position. Therefore, we believe its broad and resilient product portfolio offers a diversification effect that derisks its global brand position, leading to a negligible likelihood of meaningful aggregate value destruction over a long-term horizon.

### Shell

Shell CEO Wael Sawan continues to send the right message—that returns will take priority over growth—as he seeks to close the valuation gap with US peers. While it might not be enough, we believe the key actions accompanying the message, including reduced spending and increased distributions, are positive and crucial steps. Shell's initial pivot from a low-carbon transition strategy in 2023 was well received, but the plan to reduce investment and cut costs was only a “sprint” designed to last two years and demonstrate execution. Management delivered and has extended its strategy, giving investors greater confidence in the longer-term outlook. After achieving its initial structural cost reduction target of \$2 billion to \$3 billion, Shell extended those efforts, targeting \$5 billion to \$7 billion in reductions by year-end 2028. It also increased its shareholder payout target to 40% to 50% of cash flow from 30% to 40%, placing it at the top of its peer group. Through 2030, it expects 10% annual growth in free cash flow per share.

We do not think Shell has an economic moat. Our forecast for excess returns has become too low, while the company's future uncertainty is too high to award a moat. Shell has made significant headway in reducing operating costs in its existing production base and capital intensity of new projects, so we forecast it could earn adequate excess returns at our midcycle price assumption of \$65/bbl. However, uncertainty about excess returns 10 years from now has increased due to changes in the business' composition and potential commodity price levels over the next 10 years. Although previous transition plans have been moderated, we don't have the confidence that investment in renewable and low-carbon businesses will create competitive advantages or that commodity prices will be sufficiently consistent to generate excess returns during the next 10 years. As such, Shell fails to meet key criteria for our marrow moat rating. As time passes and Shell demonstrates a high level of competence and execution in these newer areas, new management modifies investment plans, or our view changes on commodity prices, we could revise our rating. Shell has improved the cost position of its upstream segment, including existing production and new projects. By 2024, it improved its upstream cash margins by 50% compared with 2014, despite lower commodity prices. It has done so by reducing unit development costs and operating costs and focusing investment on the highest-quality assets. According to Shell, its new projects due to start by 2030 have an average breakeven price of less than \$35/bbl. Based on Rystad

data, we estimate Shell's project queue (sanctioned and unsanctioned) has an average breakeven price of \$42/bbl, well below our assumed midcycle price of \$65/bbl.

### Avoiding Dividend Cuts

Durable income is core to the index methodology. Avoiding firms that are more susceptible to cutting their dividends goes a long way toward reducing risk. Yield alone does not tell the full story of any investment. Many of the highest-yielding stocks may not be able to sustain their payouts, owing to high payout ratios and often weak fundamentals. Filtering out these companies cannot only improve income durability but also limit exposure to some of the more volatile dividend payers.

The index's dividend payout and dividend growth screens have helped mitigate exposure to these companies, as Exhibit 6 illustrates. This shows the number of stocks in the index that cut their dividends year-over-year as of each semiannual reconstitution and how that compares against a basket of the 100 highest-yielding stocks from the parent benchmark, with the baseline criteria but no dividend sustainability screens. While the dividend payout and growth screens did not eliminate the risk of including companies that cut their dividends, they considerably reduced it.

**Exhibit 6** Stocks Cutting Dividends at Each Reconstitution

	<b>Morningstar Developed Markets Large Dividend Leaders Select No Screens*</b>	<b>Morningstar Developed Markets Large Dividend Leaders Select</b>
6/22/2015	21	13
12/21/2015	30	19
6/20/2016	20	11
12/19/2016	17	6
6/19/2017	17	5
12/18/2017	10	4
6/18/2018	19	8
12/24/2018	17	12
6/24/2019	34	26
12/23/2019	55	44
6/22/2020	45	30
12/21/2020	21	12
6/21/2021	15	6
12/20/2021	16	8
6/20/2022	24	14
12/19/2022	27	14
6/19/2023	20	16
12/18/2023	23	11
6/24/2024	26	15
12/23/2024	31	18

Source: Morningstar Indexes. Data as of December 2025.

\*This represents a version of the dividend leaders strategy with no dividend payout or growth screens.

**An All-Weather Income Strategy**

The Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index represents a time-tested approach to dividend investing, balancing yield with dividend durability and environmental, social, and governance criteria.

The screening criteria have mitigated exposure to stocks at risk of cutting their dividends and contributes to the index's defensive posture. Yet, the index has also consistently delivered a higher yield than its parent benchmark, because of its selection criteria and weighting scheme. ○

## Appendix

### **Index Construction**

Portfolio construction begins from the Morningstar Developed Markets Large Cap Index, which covers the top 70% of the investable market by market capitalization.

To qualify for inclusion in the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index, stocks must have a positive dividend yield for the past 12 months, a nonnegative five-year dividend-growth rate, and a forward dividend-payout ratio of less than 75%. These quality screens help mitigate exposure to stocks that might not be able to sustain their dividend payments. Real estate investment trusts are not eligible for inclusion.

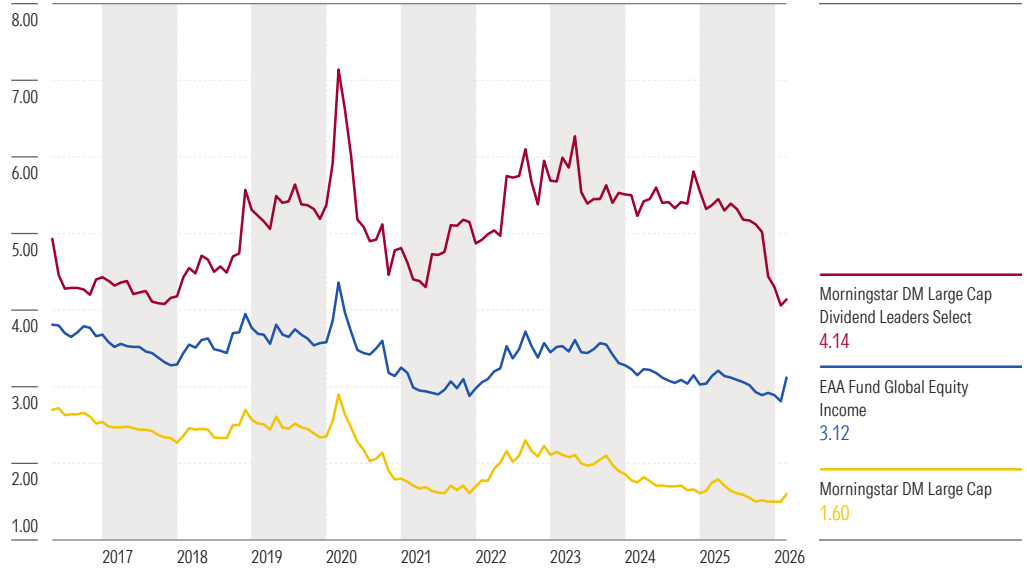
There are additional sustainability filters to eliminate firms with tobacco and weapons exposures, significant controversies, severe ESG risk, and noncompliance with the principles of the United Nations Global Compact. Companies with significant exposure to thermal coal are also not eligible.

Eligible stocks are ranked on their trailing 12-month dividend yield, and those that rank in the top 100 are targeted for inclusion. To mitigate unnecessary turnover, existing constituents may remain in the index if they rank in the top 125.

The index is weighted in proportion to the value of dividends each constituent has paid out over the past 12 months. This tends to give the index a higher yield than would be feasible with market-cap weighting, while still pulling the portfolio toward larger companies. This approach is also less susceptible to the bias toward stocks with poor momentum and deteriorating fundamentals that yield-weighting can create. To improve diversification, individual stock weightings are capped at 5% and sector weightings are capped at 40%.

### Dividend Yield

**Exhibit 7** Trailing Dividend Yield



Source: Morningstar Indexes. Data as of March 31, 2026.

### **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.

Please visit [indexes.morningstar.com](https://indexes.morningstar.com) for more information.

Contact:

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

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22 West Washington Street  
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