
Construction Rules for the Morningstar[®] Dividend Yield Focus IndexSM Family

Morningstar Indexes

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Overview

The Morningstar Dividend Yield Focus IndexSM family is designed to track high-yielding, qualified-dividend-paying companies that exhibit superior quality and financial health. The indexes are a subset of corresponding Morningstar country/region indexes (market indexes).

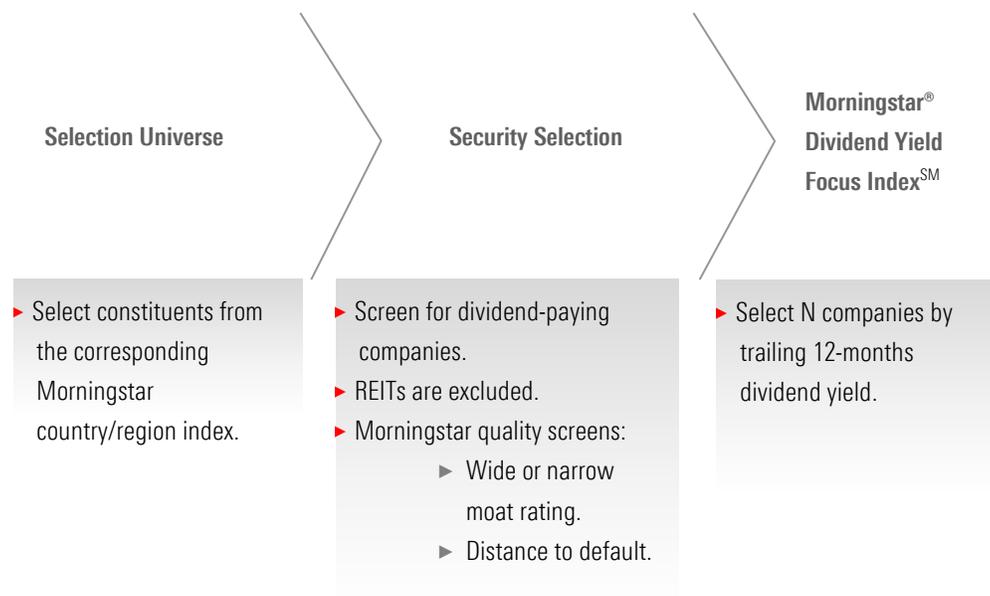
This index does not incorporate Environmental, Social, or Governance (ESG) criteria.

Index Inception Date and Performance Inception Date

The inception dates of the indexes are November 28, 2017, and the performance inception dates, when the first back-tested index value was calculated, are provided in the appendix.

Index Construction

Exhibit 1 Morningstar Dividend Yield Focus Index Family Construction Process



For additional details, refer to the "Assigning Stocks to the Index" section. N and size segment for each index are provided in Appendix 3.

Assigning Stocks to the Index

Selection Universe

At each reconstitution, constituents of Morningstar Dividend Yield Focus Index family are derived from the corresponding Morningstar country/region index (benchmark). For more details on benchmark construction, refer to the [Construction Rules for the Morningstar Global Markets 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.
- ▶ The company should have paid a dividend in the last 12 months.
- ▶ The index constituents should have a three-month average daily traded volume, or ADTV, of at least \$1 million. However, this applies only to additions, and the ADTV of current constituents may fall below \$1 million.

- ▶ If a company has more than one eligible share class, the most liquid share class as determined by Morningstar is selected.
- ▶ Company quality and financial health:
 - ▶ Company quality is determined based on Morningstar Economic Moat™, 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.
 - ▶ For companies that do not have a moat rating assigned by the Morningstar Equity Research team, the Morningstar Quantitative Economic Moat rating is used.
 - ▶ Companies that are assigned a Morningstar Economic Moat Rating of narrow or wide must have a Morningstar Distance to Default score in the top 50% within their respective Morningstar region-sector cohorts.
 - ▶ Current constituents that are assigned a moat rating of narrow or wide must have a Morningstar Distance to Default score in the top 60% within their respective Morningstar region-sector cohorts.
 - ▶ Companies that do not have either a Morningstar Economic Moat Rating or a Morningstar Quantitative Economic Moat rating assigned to them must have a Morningstar Distance to Default score in the top 30% within their respective Morningstar region-sector cohorts.
 - ▶ Current constituents that do not have either a Morningstar Economic Moat Rating or a Morningstar Quantitative Economic Moat rating assigned to them must have a Morningstar Distance to Default score in the top 36% within their respective Morningstar region-sector cohorts.

A broad overview of Morningstar Economic Moat and Quantitative Moat ratings, as well as Morningstar Distance to Default is provided in Appendix 2. For details on region cohorts, refer to Appendix 4.

Index Selection

- ▶ Rank companies by trailing 12-months dividend yield in descending order.
- ▶ Current index constituents are retained in the index if they are ranked within the top 1.33 times N by dividend yield. Additional securities are added to the index in descending order of dividend yield until the count reaches N.

Number of Stocks

The indexes target N 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 indexes can have more or fewer than N 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 trailing 12-months dividend-dollar weighted, with 5-5*-50 capping. For more details, refer to the [Morningstar Indexes Calculation Methodology rulebook](#). 5-10-50 capping will not be enforced for portfolio with number of constituents less than or equal to 25 and only individual constituent weight will be capped at 10%.

*If the index has fewer than 50 stocks, maximum security weight limit is 10%.

Sector Capping

To contain the excessive concentration in sectors and to avoid deviating far from parent index weights, sector weights in the index are capped at minimum of 40% or 5 times the weight of the sector in the parent index.

Capped Weight = Min (40%, Weight of the sector in the parent index * 5)

Index Maintenance and Calculation

Scheduled Maintenance

The indexes are reconstituted and rebalanced semiannually in June, and December, on the Monday following the third Friday. If Monday is a holiday, it is effective on the immediate following business day.

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.

Appendices

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 reset and adjusted for updated free-float and shares outstanding data.

Appendix 2: Morningstar Economic Moat, Morningstar Quantitative Moat, and Morningstar Distance to Default Score

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](#).

Morningstar Quantitative Moat Ratings

The Quantitative Economic Moat rating is analogous to Morningstar's Economic Moat Rating in that both are meant to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the economic moat rating a Morningstar analyst would assign to the stock. The quantitative rating is expressed as none, narrow, or wide. If the input data required for the algorithm is not available, a quantitative rating will not be assigned.

For further details on the Morningstar Quantitative Moat, please refer to the [Morningstar's Quantitative Equity & Credit Ratings methodology](#).

Morningstar Quantitative Distance to Default Score

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.

Appendix 3: Individual Indexes

Index	Size-Segment	Performance Inception Date	Target Number of Constituents (N)
Morningstar Global Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	300
Morningstar Global ex-US Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	300
Morningstar Global ex-Japan Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	300
Morningstar Asia Pacific Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	150
Morningstar Asia Pacific ex-Japan Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	100
Morningstar Asia Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	150
Morningstar Asia ex-Japan Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	75
Morningstar Europe Dividend Yield Focus Index	Large-Mid	June 17, 2005	100
Morningstar Eurozone Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	50
Morningstar Developed Markets Dividend Yield Focus Index	Large-Mid	Dec 16, 2005	200
Morningstar Developed Markets ex-US Dividend Yield Focus Index	Large-Mid	June 17, 2005	150
Morningstar Developed Markets ex-Japan Dividend Yield Focus Index	Large-Mid	June 17, 2005	200
Morningstar Developed Markets Europe Dividend Yield Focus Index	Large-Mid	June 17, 2005	75
Morningstar Developed Markets Asia Pacific Dividend Yield Focus Index	Large-Mid	June 17, 2005	100
Morningstar Developed Markets Asia Pacific ex Japan Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	50
Morningstar Nordic Markets Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25
Morningstar Emerging Markets Dividend Yield Focus Index	Large-Mid	June 17, 2005	100
Morningstar Emerging Markets Asia Dividend Yield Focus Index	Large-Mid	June 17, 2005	75
Morningstar Japan Dividend Yield Focus Index	Large-Mid	June 17, 2005	50
Morningstar United Kingdom Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25
Morningstar Canada Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25
Morningstar Hong Kong Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25
Morningstar Germany Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25
Morningstar India Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25
Morningstar China Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25
Morningstar Korea Dividend Yield Focus Index	Large-Mid-Small	June 17, 2005	25

Appendix 4: Region Cohorts Used in Distance to Default Score Percentile Calculation

- ▶ United States
- ▶ Japan
- ▶ Developed markets excluding United States and Japan
- ▶ Emerging markets

For more details on region definition and member countries, please refer to the [Construction Rules for the Morningstar Global Markets Index](#).

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 Equity and Credit Research

With more than 120 equity and credit analysts, Morningstar is one of the largest independent sources of equity and credit research in the world. The analysts evaluate companies using a methodology built on fundamental analysis that scrutinizes a company's competitive advantages.

Morningstar Index Product Committee

The Morningstar Index Product Committee is comprised of members who possess a wide array of knowledge in relation to Indexes. The Product Committee is responsible for the governance over the creation and maintenance of all Morningstar branded Indexes, ensuring the highest standards are continuously met. Any matters arising from exceptional or undocumented events will be resolved at the discretion of the Morningstar Index Product Committee.

Morningstar Index Oversight Committee

The Morningstar Index Oversight Committee is comprised of informed and qualified professionals who are responsible for the process governance of Morningstar branded Indexes. The Oversight Committee assesses and where appropriate challenges the decisions of Morningstar Indexes with regards to benchmark decisions.

For More Information

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



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