

Dividend Leadership Goes Beyond Yield

Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index trims risk with dividend durability screens.

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The Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index balances yield with screens for dividend sustainability and ESG criteria. This has helped mitigate exposure to stocks at risk of cutting their dividends and contributed to the index's defensive posture. Yet, the index has also consistently delivered a higher yield than its parent benchmark.

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 and environmental, social, and governance-focused characteristics. It reflects an all-weather strategy for income investing.
- ▶ This index has tended to hold up better than its parent benchmark during market downturns. Its screens for dividend sustainability help mitigate exposure to stocks that are more likely to cut their dividends.
- ▶ While sector weights can shift over time and are a byproduct of stock-level eligibility criteria, they contributed to the index's strong performance relative to its parent benchmark over the trailing five years through September 2025. Favorable stock exposure within the financial-services sector also helped.
- ▶ During the June 2025 reconstitution, 17 constituents were replaced. Just over half of these failed the dividend payout or dividend growth screens.

Beyond Yield

The Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index targets high-dividend-yielding stocks, while screening for dividend consistency, sustainability, severe ESG risk and controversies, and product involvement¹.

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.

Defensive Posture

Like many dividend strategies, 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 10 years through September 2025, the index exhibited lower sensitivity to market fluctuations (as measured by beta) and tended to hold up better during market downturns, while lagging during market rallies, as shown in Exhibit 1. That said, it exhibited slightly higher volatility than the parent benchmark during that time (as measured by standard deviation of returns).

Exhibit 1 Risk Summary (10 Year)

	Return	Standard Deviation	Beta	Down Capture Ratio	Up Capture Ratio
Morningstar DM Large Dividend Leaders Select No Screens*	9.75	18.06	1.01	98.27	91.80
Morningstar DM Large Dividend Leaders Select	10.67	15.35	0.86	81.56	85.30
Morningstar DM Large	11.82	14.71	1.00	100.00	100.00

Source: Morningstar Indexes. Performance shown in GR EUR. Data as of September 30, 2025.

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

Screening for dividend payers alone goes a long way toward reducing risk, as this filters out many unprofitable and highly volatile companies. But many of the highest-yielding stocks may not be able to sustain their payouts.

The index's dividend payout and dividend growth screens help mitigate exposure to these companies, as Exhibit 2 illustrates. This shows the number of stocks in the index that cut their dividends year-over-year as of each 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.

¹ Further 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>

Exhibit 2 Stocks Cutting Dividends at Each Reconstitution

	Morningstar DM Large Dividend Leaders Select No Screens*	Morningstar DM Large Dividend Leaders Select
6/22/2015	25	13
12/21/2015	30	19
6/20/2016	22	11
12/19/2016	19	6
6/19/2017	21	5
12/18/2017	12	4
6/18/2018	20	8
12/24/2018	19	12
6/24/2019	34	26
12/23/2019	60	44
6/22/2020	49	30
12/21/2020	22	12
6/21/2021	15	6
12/20/2021	17	8
6/20/2022	29	14
12/19/2022	30	14
6/19/2023	22	16
12/18/2023	25	11
6/24/2024	28	15

Source: Morningstar Indexes. Data as of September 30, 2025.

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

While the dividend payout and growth screens did not eliminate the risk of including companies that cut their dividends, they considerably reduced it. These screens also helped reduce the index's volatility and market sensitivity. For reference, Exhibit 1 includes a version of the index without the dividend growth and payout screens. While this variant delivered comparable returns to the live index over the past decade, its risk was slightly higher.

The Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index's defensive characteristics were on display in early 2025, as the market sold off in response to global trade policy uncertainty.

During the first four months of the year, the index gained 4.95%, while its parent benchmark lost 9.4%. Much of this outperformance came from favorable stock exposure, particularly within the financial services and communication sectors, as well as from favorable sector tilts. This included underweighting the poor-performing technology sector and overweighting the financial-services sector, which is more domestically oriented in its revenues than most sectors and less exposed to rising protectionism.

Performance was also strong over the trailing five years through the end of September 2025. During that period, the index outpaced its parent benchmark by 4.86 percentage points annualized. On balance, sector tilts contributed to the index's strong performance relative to its parent benchmark. However,

most of this outperformance was due to favorable stock exposure within sectors, particularly within the financial-services sector.

Exhibit 3 Sector Attribution

Sector	Portfolio	Benchmark	+/-	Sector Allocation %	Selection %	Active Ret%
Basic Materials	7.66	3.46	4.20	-2.55	-1.34	-3.90
Communication Services	8.15	8.74	-0.59	-1.82	-7.97	-9.78
Consumer Cyclical	4.50	10.64	-6.14	3.38	-4.94	-1.56
Consumer Defensive	5.29	7.45	-2.17	4.66	5.00	9.65
Energy	9.21	3.94	5.27	8.11	4.53	12.65
Financial Services	36.67	15.93	20.74	11.40	26.32	37.72
Healthcare	11.96	12.97	-1.01	4.07	12.35	16.42
Industrials	5.38	9.36	-3.98	0.46	0.27	0.73
Real Estate	1.20	1.47	-0.27	-0.21	-0.95	-1.15
Technology	3.56	24.01	-20.45	-14.08	1.67	-12.41
Utilities	6.38	1.98	4.39	-3.32	3.08	-0.24
Unclassified	0.05	0.05	0.00	-0.05	0.02	-0.04
Attribution Total	100.00	100.00	0.00	10.06	38.04	48.10

Source: Morningstar Indexes. Performance shown in GR EUR. Data as of September 30, 2025. Benchmark: Morningstar DM Large Cap.

Sector Rotation

Sector weightings can fluctuate considerably over time, as eligibility is largely independent of sector membership (though sector weightings may not exceed 40%).

Like most dividend strategies, the index has been consistently overweight financial-services stocks and underweight technology. The overweighting to financial services was the index's most favorable sector tilt over the past five years, while the technology underweighting was the biggest detractor during that time.

The technology underweighting has become more pronounced in recent years, as shown in Exhibit 4. There are a few factors at work. First, the sector has grown its share of the parent benchmark. Second, many technology firms do not pay dividends. Third, rising valuations make it harder for technology stocks that do pay dividends to meet the yield eligibility criteria. At the end of June 2025, no technology stocks made the cut. The technology underweighting helped performance in the first half of 2025 but, was the largest detractor in Q3 2025. Unsurprisingly, this underweight was a significant net detractor over the past five years as well.

Other sector tilts have been less consistent over time. The index's exposure to the healthcare sector has fluctuated more than any other over the past five years. Healthcare stocks were held close to benchmark weight until December 2022, when there was a sharp drop in exposure to healthcare, resulting in a large underweighting to this sector throughout most of 2023, which helped performance. Since then, the index's benchmark-relative exposure to this sector has been increasing and is now overweighted.

Exhibit 4 Sector Active Weights

Effective Date	Basic Materials	Communication Services	Consumer Cyclical	Consumer Defensive	Energy	Financial Services	Healthcare	Industrials	Real Estate	Technology	Utilities
06/22/2020	-0.08	2.40	-6.93	-4.52	-0.76	24.23	-4.41	1.62	-0.22	-12.82	1.50
12/21/2020	3.15	2.02	-10.89	-0.33	-1.41	19.02	3.65	-5.25	0.12	-14.24	4.15
06/21/2021	6.51	2.90	-11.02	0.05	2.62	12.94	4.45	-7.86	-0.38	-14.29	4.07
12/20/2021	3.99	3.03	-10.27	3.82	10.66	10.43	1.52	-6.78	-0.64	-20.34	4.57
06/20/2022	4.08	-1.49	-5.32	-0.32	5.44	17.78	-2.64	-5.51	0.09	-17.65	5.55
12/19/2022	2.81	-0.62	-5.07	0.40	4.41	21.01	-13.19	-2.76	0.75	-16.35	8.61
06/19/2023	7.99	-1.43	-0.92	-7.12	7.01	24.77	-10.33	-2.21	-0.21	-20.20	2.67
12/18/2023	8.57	-1.63	-4.19	-6.06	5.76	24.63	-2.48	-5.48	0.07	-21.51	2.31
06/24/2024	1.31	-2.74	-3.42	-4.51	7.39	24.39	3.29	-3.48	-0.80	-25.40	3.97
12/23/2024	4.73	-3.32	-3.59	-3.50	7.70	24.34	3.91	-3.87	-0.79	-30.13	4.53
06/23/2025	1.90	-3.42	-3.17	-3.73	5.79	21.95	7.08	-2.98	-0.41	-29.48	6.48

Source: Morningstar Indexes. Performance shown in GR EUR. Data as of June 30, 2025. Benchmark: Morningstar DM Large Cap.

Similarly, the index's exposure to the energy sector has been dynamic. It rotated into the energy sector at the end of 2021, which helped boost performance in 2022, as oil and gas prices rose. As of the June 2025 reconstitution, the index was still overweighting energy relative to its parent benchmark but by less than it had in the first half of 2022. On net, the energy overweighting helped the index's performance over the trailing five years through September 2025. This was the second most favorable sector tilt, behind financial services.

Over the past few years, the index has become less underweight consumer cyclical stocks and moved from a slight overweighting of communication services stocks to a slight underweight. The underweight to consumer cyclical stocks helped performance, while the underweight to communication services did not have a significant effect.

June 2025 Reconstitution

Turnover was lower than average at the June 2025 reconstitution, at 18.7% compared with a five-year average of 27.3%. There were no significant sector shifts during this reconstitution. In total, 17 constituents were replaced. Of these, six constituents were removed because they failed the payout ratio screen, while two were removed for failing the dividend growth screen, as shown in Exhibit 6.

The largest addition to the index was National Australia Bank, which entered with a yield of 4.47% and a weight of 1.29%. The financial-services sector experienced more churn than any other in the index, with nine of the 17 additions and deletions coming from the financial-services sector. Among notable financial-services removals was SwedBank AB, which was removed, despite its high yield of 8.36%, because it failed the payout ratio screen, suggesting it may be at risk of cutting its dividend.

Exhibit 5 June 2025 Reconstitution Added Holdings

Previous Recon Failed Screen										
	Ticker	Country	Sector	Weight (%)	Yield (%)	Dividend Growth	Dividend Yield	Payout Ratio	ESG Exclusion	Others
National Australia Bank Limited Ordinary Share	NAB	Australia	Financial Services	1.29	4.47	•				
CaixaBank SA Common Stock*	CABK	Spain	Financial Services	0.68	5.81					•
Vonovia SE Shares	VNA	Germany	Real Estate	0.63	4.23	•				
Aviva PLC Common Stock*	AV.	United Kingdom	Financial Services	0.49	5.85					•
Koninklijke Philips NV Shs**	PHIA	Netherlands	Healthcare	0.42	4.2					•
Bank Polska Kasa Opieki S.A.	PEO	Poland	Financial Services	0.4	9.96			•		
Snam SpA	SRG	Italy	Utilities	0.38	5.42			•		
Nomura Holdings Inc.	8604	Japan	Financial Services	0.37	5.29		•			
AIB Group PLC Ords*	A5G	Ireland	Financial Services	0.33	5.34					•
Evolution AB shs	EVO	Sweden	Consumer Cyclical	0.32	4.64		•			
Inpex Corporation	1605	Japan	Energy	0.28	4.41		•			
Subaru Corp Shs	7270	Japan	Consumer Cyclical	0.25	4.29	•				
Ageas NV Act	AGS	Belgium	Financial Services	0.24	5.66		•			
Bawag Group AG Ordinary Shares*	BG	Austria	Financial Services	0.18	5.02					•
Tenaris SA	TEN	Italy	Energy	0.17	5.08		•			
Kawasaki Kisen Kaisha Ltd***	9107	Japan	Industrials	0.14	4.59					•
ING Bank Slaski S.A. Common Stock	ING	Poland	Financial Services	0.08	8.44			•		

Source: Morningstar Indexes. Data as of June 23, 2025. *Addition to Universe. **Missing Data - DPS_YO. ***Missing Data - DPS_Y5.

Exhibit 6 June 2025 Reconstitution Removed Holdings

						Failed Screen				
	Ticker	Country	Sector	Weight (%)*	Yield (%)	Dividend Growth	Dividend Yield	Payout Ratio	ESG Exclusion	Others
CK Asset Holdings Ltd Shs	1113	Hong Kong	Real Estate	0.21	5.35	•				
BHP Group Ltd Common Stock	BHP	Australia	Basic Materials	2.71	4.97	•				
PKO Bank Polski	PKO	Poland	Financial Services	0.36	3.44		•			
Gjensidige Forsikring ASA Common Stock	GJF	Norway	Financial Services	0.06	3.48		•			
Koninklijke Ahold Delhaize NV Shs	AD	Netherlands	Consumer Defensive	0.56	3.15		•			
Bank Leumi	LUMI	Israel	Financial Services	0.35	3.28		•			
Bank Hapoalim B.M.	POLI	Israel	Financial Services	0.30	2.88		•			
Chevron Corporation Common Stock	CVX	United States	Energy	4.20	4.89			•		
Swiss Life Holding AG	SLHN	Switzerland	Financial Services	0.46	4.26			•		
Swisscom	SCMN	Switzerland	Comm Services	0.33	3.89			•		
Swedbank AB Ordinary Shares A	SWED/A	Sweden	Financial Services	0.00	8.36			•		
UPM-Kymmene Corporation Common Stock	UPM	Finland	Basic Materials	0.34	6.15			•		
Australia and New Zealand Banking Group Ltd Ordinary Share	ANZ	Australia	Financial Services	1.12	5.72			•		
Toronto-Dominion Bank Common Stock	TD	Canada	Financial Services	2.35	4.37				•	
Bancorp Shs**	USB	United States	Financial Services	0.90	4.57					•
Jardine Cycle & Carriage Ltd**	C07	Singapore	Industrials	0.04	5.91					•
Swire Pacific**	19	Hong Kong	Industrials	0.07	5.01					•

Source: Morningstar Indexes. Data as of June 23, 2025. *Weight as of June 20, 2025. **Dropped from the Parent Index.

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 ESG criteria. This helps mitigate exposure to high-yielding stocks with weak or deteriorating fundamentals that may not be able to sustain their dividend payments.

The index has consistently delivered a significantly higher yield than its parent benchmark and tended to hold up better during downturns. It has delivered strong performance in recent years, due to favorable sector positioning and intra-sector stock exposure, particularly among financial-services

stocks. While market-relative performance will fluctuate (as with any strategy), this index reflects an all-weather income strategy. ■■■

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.

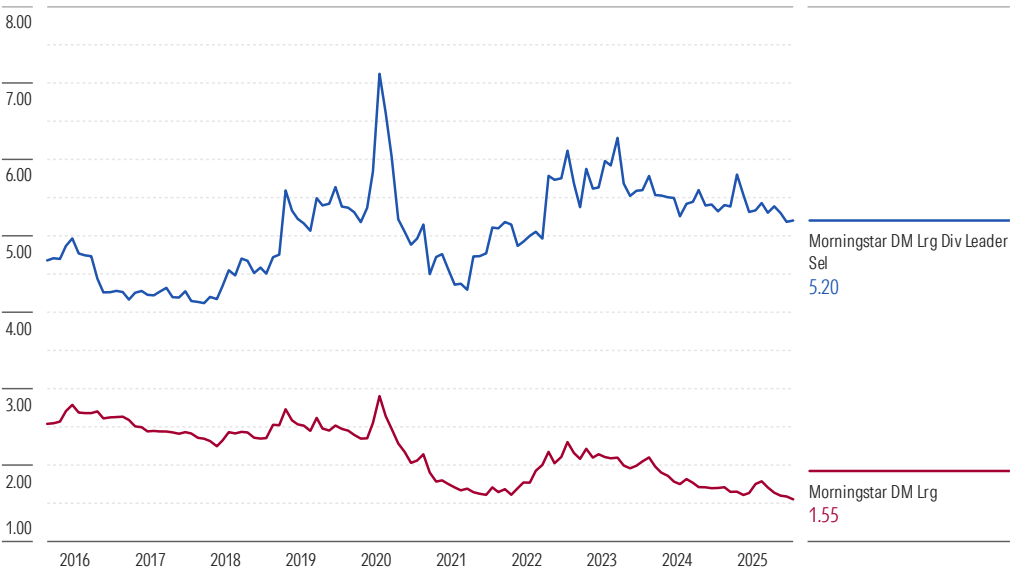
To qualify for inclusion in the Morningstar Developed Markets Large Cap Dividend Leaders Screened Select Index, stocks must have a positive dividend yield for the past 12 months, a nonnegative five-year dividend-growth rate, and a forward dividend-payout ratio of less than 75%. These quality screens 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 exposure to tobacco and weapons, 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 September 30, 2025.

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