

Morningstar® US Dividend Growth IndexSM

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<http://indexes.morningstar.com>

Contact Us

indexes@morningstar.com

U.S. +1 312 384-3735
 Europe +44 20 3194 1082
 Australia +612 9276 4446
 Japan +81 3 3239 7701
 Asia +91 22 61217101

Dividend payments and dividend growth are key drivers of long-term equity market returns. A company that steadily raises its dividend at a rate that exceeds inflation defines success for many long-term stock investors.

Dividend growth investing is not about generating the highest possible income stream. Rather, companies capable of consistently raising their dividend payments tend to be profitable and predictable. Committing to regularly returning cash to shareholders, rather than using it for acquisitions, buybacks, or hoarding, enforces discipline on corporate executives and directors. Thus, dividend growth stocks can drive superior long-term returns, as well as stability and resilience compared to the overall market.

The Morningstar US Dividend Growth Index provides exposure to companies with a history of dividend growth and an ability to sustain it.

Index Eligibility

The index includes US-based securities that pay qualified dividends. Thus, real estate investment trusts are excluded. Constituents must exhibit a five-year history of increasing their dividend payments. To gauge the sustainability of dividend growth into the future, eligible constituents must display positive consensus earnings forecasts from the analyst community. Constituents must also pay out no more than 75% of their earnings in the form of dividends. Companies with higher "payout ratios"

have less scope to raise their dividend payment. As a safeguard against dividend cuts and financial distress, stocks with indicated dividend yield in the top 10% of the universe are excluded from the index. Finally, existing constituents are allowed to remain if they have recently bought back shares and have not decreased their dividend payment.

Constituent Weighting

The Morningstar US Dividend Growth Index caps individual constituent weights at 3% at the time of reconstitution. Constituents are weighted according to a fundamental, dividend-based weighting system. The index's available dividend model emphasizes company size as well as dividend yield. We calculate available dividend dollars for each stock by multiplying indicated dividend per share by the number of shares actually available for purchase (the float). This weighting system retains the primary benefits of market cap weighting (e.g., low turnover and scalable investment capacity). It also tends to anchor the index in the shares of relatively stable mega-cap companies.

Rebalancing and Reconstitution

The index is reconstituted — i.e. index membership is reset — once annually. Adjustments are made on the Monday following the third Friday of December. The index is rebalanced — i.e. security weights are adjusted — four times annually. Adjustments are made on the Monday following the third Friday of March, June, September, and December.

Morningstar US Dividend Growth Index Construction Process

