

Morningstar® Dividend Yield Focus IndexSM

Learn More

For more information about all of Morningstar's indexes, please visit: <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

Economic Moat:

Economic moat describes the sustainability of a company's future economic profits. We define economic profits as returns on invested capital over and above our estimate of a firm's cost of capital, or weighted average cost of capital. Only firms with economic moats—something inherent in their business model that rivals cannot easily replicate—can stave off competitive forces for a prolonged period. There are two major requirements for firms to earn either a narrow or wide economic moat rating: The prospect of earning above average returns on capital, and some competitive edge that prevents these returns from quickly eroding.

Distance to Default:

Morningstar's market-driven Distance to Default Score uses option pricing theory to evaluate the risk that the value of a company's assets will turn out to be less than the sum of its liabilities. Distance to Default ranks companies on the likelihood that they might encounter financial distress. The more likely the value of a company's assets is to fall below the sum of its liabilities and a small capital cushion, the greater the likelihood of financial distress.

Dividends are one of the few constants in the world of investing, contributing about a third of the stock market's total returns historically. Dividend-paying stocks offer solutions to several investment problems.

Over long time periods, for example, they can help smooth a portfolio's returns, thanks to their predictable dividend payments. They can also provide much-needed income in low interest-rate climates. And they can fill a psychological gap: When the bulk of a stock's return is built with steady dividends, there's less reason for investors to sell at every bump in the road.

Morningstar Dividend Yield Focus Index

Morningstar® Dividend Yield Focus IndexSM offers exposure to high quality U.S. domiciled companies with strong financial health and an ability to sustain above average dividend payouts. The index consists of 75 stocks that are weighted in proportion to the total pool of dividends available to investors.

Methodology

As Figure 1 illustrates, the Morningstar Dividend Yield Focus Index is a subset of the Morningstar® US Market IndexSM, a broad market index representing 97% of U.S. equity market capitalization. We apply two screens to the Morningstar US Market Index to find suitable constituents for the Morningstar Dividend Yield Focus Index.

Constituents must meet the following eligibility criteria:

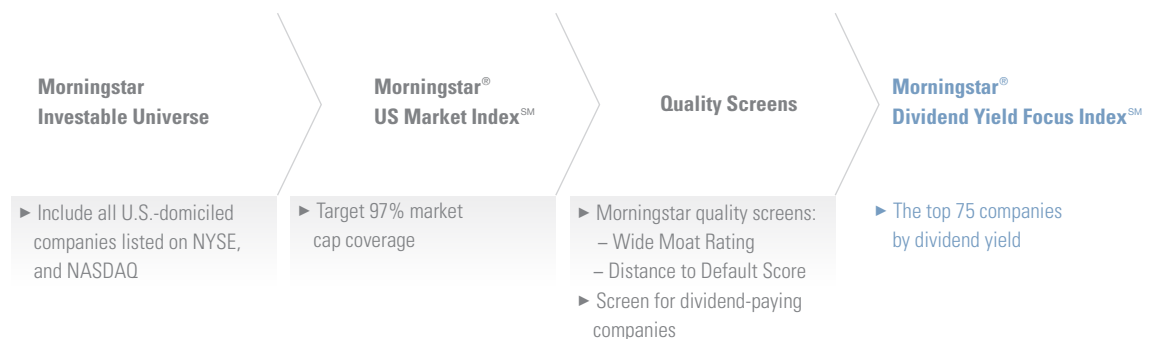
1. The company's dividend must be considered qualified income; for example, real estate investment trusts are not eligible for inclusion in the index.
2. As defined by Morningstar, companies must have a Morningstar Economic Moat rating of narrow or wide and have a Morningstar Distance to Default score in the top 50% of eligible dividend-paying companies. Companies that are not assigned a Morningstar economic moat rating must have a Morningstar Distance to Default score in the top 30% of eligible dividend paying companies

The top 75 stocks by dividend yield that meet the eligibility criteria described above are selected for inclusion in the Morningstar Dividend Yield Focus Index.

Constituent Weightings

The Morningstar Dividend Yield Focus Index aims to maximize yield by using a fundamental, dividend-based weighting system. The index uses an available-dividend model that emphasizes company size as well as dividends, which allows us to retain the primary benefits of market cap weighting (e.g., low turnover and scalable investment capacity).

Construction Process for the Morningstar® Dividend Yield Focus IndexSM



We calculate available dividends for each stock by multiplying dividend per share by the number of shares actually available for purchase (the float).

Capped Weighting Adjustments

Morningstar caps a constituent's weighting in the index at 10%. Furthermore, stocks weighing more than 5% each cannot collectively exceed 50% of the total index. So even though the index focuses on just 75 names, the capped weighting adjustments reduce per-issue risk.

Rebalancing and Reconstitution

The Morningstar Dividend Yield Focus Index is rebalanced—i.e. the security weights (the product of the number of free float shares and the indicated dividend per share of each constituent) are adjusted—four times annually.

The index is reconstituted—i.e., the index membership is reset—four times annually.