

Morningstar® Australia 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
 Australia +612 9276 4446
 U.S. +1 312 384-3735
 Europe +44 20 3194 1082
 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. When a company does not have an Economic Moat rating assigned, the Quantitative Economic Moat rating is utilised. The Quantitative Moat Rating is determined by an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock.

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.

Morningstar® Australia Dividend Yield Focus IndexSM

The Morningstar® Australia Dividend Yield Focus IndexSM offers exposure to high-quality Australian-domiciled companies with strong financial health and an ability to sustain above average dividend payouts. The index consists of 25 stocks weighted by dividends. It targets sufficient index capacity and low turnover.

The Case for Dividends

Dividends are one of the few constants in the world of investing having contributed a significant portion of equity markets' historical total return. 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. 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.

Methodology

As Figure 1 illustrates, the Morningstar Australia Dividend Yield Focus Index is a subset of the Morningstar® Australia Market IndexSM, a broad market index representing 97% of Australian equity market capitalisation. We screen companies in the universe for quality and financial health.

Companies must have a Morningstar® Economic Moat™ rating of narrow or wide, and have a Morningstar Distance to Default score that is not in the bottom 25% within its respective Morningstar Sector. Constituents must also meet the following eligibility criteria:

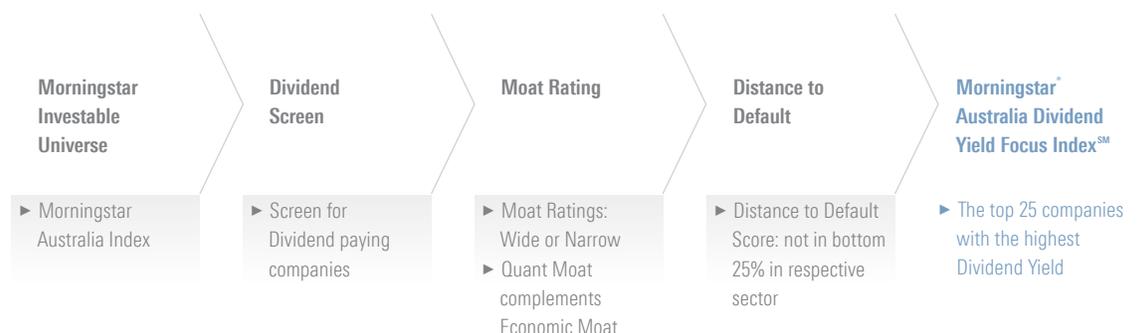
1. Real estate investment trusts are not eligible for inclusion in the index.
2. The index constituents should have a three-month average daily traded volume (ADTV) of at least AU \$2 million. However, this rule is only applied to new index additions. The ADTV of current index constituents may fall below AU \$2 million.

Companies that meet the above criteria are ranked by trailing twelve-month dividend yield in descending order. The top 25 are included in the index, or additional securities are added in descending order of dividend yield until the count reaches 25.

Constituent Weightings

The Morningstar Australia Dividend Yield Focus Index aims to maximise yield by using a fundamental, dividend-based weighting system. The index uses an available-dividend model that emphasises 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 Australia® 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 25 stocks, the capped weighting adjustments reduce per-issue risk.

Rebalancing and Reconstitution

The Index is reconstituted—i.e., the index membership is reset—two times annually. The Index is rebalanced—i.e. the security weights are adjusted—two times annually. Adjustments are made on the Monday following the third Friday of June and December. If the Monday is a holiday, reconstitution occurs on the Tuesday immediately following. Current Index constituents are retained in the index if they are amongst the top 33 of the eligible universe by dividend yield.