
Construction Rules for the Morningstar® Developed Markets Large Cap Dividend Leaders IndexSM

Morningstar Indexes

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Overview

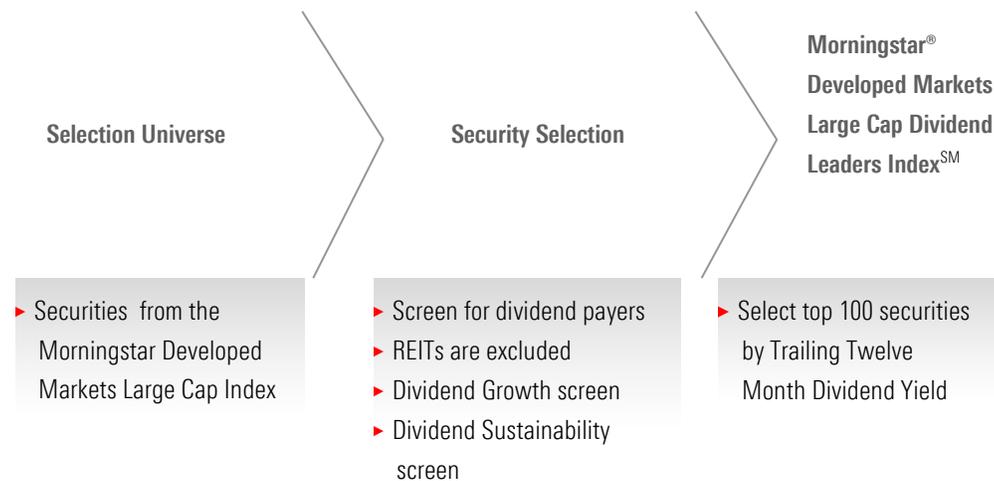
The Morningstar® Developed Markets Large Cap Dividend Leaders IndexSM (the Index) tracks the performance of select securities in the Morningstar Developed Markets Large Cap Index. The index is screened for companies that display consistency and sustainability in dividend payment patterns and composed of the top 100 yielding securities which satisfy the screening criteria.

Index Inception Date and Performance Inception Date

The inception date of the Index is April 15, 2016. The performance inception date of the Index is December 16, 2005, when the first back-tested index value was calculated.

Index Construction

Exhibit 1 Morningstar® Developed Markets Large Cap Dividend Leaders IndexSM Construction Process



For additional details refer 'Assigning stocks to The Index section'

Assigning Stocks to Morningstar® Developed Markets Large Cap Dividend Leaders IndexSM

Selection Universe

At each reconstitution, securities for the Index are derived from the Morningstar® Developed Markets Large Cap IndexSM (benchmark). For more details on benchmark construction, refer to the construction rules of the [Morningstar Global Markets ex-US Index Family](#) and [Morningstar US Markets Index](#).

Security Selection

To be eligible for inclusion in the Index, all constituents must meet the following criteria:

- ▶ Dividend Payment screen: Trailing Twelve Month (TTM) DPS is positive
- ▶ Dividend Growth screen: 5-year TTM DPS growth is non-negative
- ▶ Dividend Sustainability screen: Forward dividend payout ratio is less than 75%

$$\text{Forward dividend payout ratio} = \frac{\text{TTM DPS}}{\text{Consensus EPS estimate}}$$

- ▶ REIT screen: Real Estate Investment Trusts (REITs) are ineligible
- ▶ UN Global Compact screen: The five worst performing companies in the Ethical Investment Research Services (EIRIS) universe for each of the categories (Human Rights, Labor, Environment and Anti-Corruption) are ineligible¹
- ▶ Munitions screen: Companies that are substantially involved in the production and distribution of cluster ammunition systems are ineligible¹
- ▶ Multiple Share Class screen: Only the most liquid share class as determined by Morningstar is eligible

¹ The eligibility rule was not applied to back-test period due to lack of historical data

Index Selection

- ▶ Securities in the eligible universe are ranked by TTM dividend yield.
- ▶ All current constituent securities that rank between 1 and 125 remain in the index.
- ▶ New constituents are added until the index securities total 100 in number
- ▶ This process is referred to as "buffering."

Number of Stocks

The Index contains 100 stocks. Their selection is based on a transparent ranking system subject to selection and eligibility criteria at reconstitution. In the event of securities falling short of the selection and eligibility criteria or securities being added or deleted due to corporate action post reconstitution, the index may have more or less than 100 securities.

The schedule for reconstitution and corporate actions is available in the 'Index Maintenance' section.

Index Weighting

The Index is TTM dividend dollar weighted. No individual security weight can exceed 5% of the total. No individual sector in the index can exceed 40% of the total. For more details refer to the [Index Calculation book](#). For sector definitions, please refer to the [Morningstar Global Equity Classification Structure](#).

Index Maintenance and Calculation

Scheduled Maintenance

The index is reconstituted and rebalanced semi-annually. This process is implemented after the close of business on the third Friday of June and December and is effective the following Monday. If Monday is a holiday, it is effective on the business day immediately following the holiday. The market data used for reconstitution and rebalance is as of the last trading day of May and November.

Note:

- ▶ Refer to Appendix 1 for definitions of reconstitution and rebalance.
- ▶ The market data used for UN Global Compact screen and Munitions screen is as of the last trading day of May.

Corporate Action

Most but not all of the following actions will require the calculation of an adjustment factor, which will be included in the pre-market-open Index calculation described in the "Index Calculation and Price Data" section. Generally, because Morningstar® Developed Markets Large Cap Dividend Leaders IndexSM is not market cap-weighted, changes to the share capital structure of Index constituents will not affect the component weights.

Spin-Offs

Issues spun off by index holdings (parent company) are not added to the index but will be considered for inclusion at the next reconstitution. The weight of the parent company is reduced by a factor of the spin-off conversion ratio; in other words, the weight is a product of the original shares multiplied by the new price. A divisor adjustment is made to account for the reduction in market value.

Mergers and Acquisitions

If an index constituent acquires or merges with another company in the index, the original entities are replaced by the security of the successor entity. The weight of the new entity is equal to the market value sum of the original index constituents. A divisor adjustment is not necessary because the index market value remains unchanged.

If an index constituent acquires or merges with a company that is currently not a component of the index, then the original entity is replaced by the security of the successor entity; however, in this case the weight of the new entity is equal to the market value of the original index constituent. A divisor adjustment is not necessary because the index market value remains unchanged.

If an index constituent is the target of an acquisition or merger by a company that is not an index component, the original index constituent is deleted from the index. A divisor adjustment is made to reflect the decrease in market value.

Stock Dividends/Splits

Stock splits and dividends do not require a divisor adjustment because the market value of the entity remains unchanged.

Share Repurchase/Offering

If an index constituent issues or repurchases shares, the new share capital structure is considered at the next rebalancing. No divisor adjustment is necessary.

Delisting, Bankruptcy, and Financial Distress

If an index constituent is delisted by its principal exchange, enters bankruptcy proceedings, or is under extreme financial distress, the security is removed from the Developed Markets Large Cap Dividend Leaders Index. Exceptions are made on a case-by-case basis. For example, a security might not be removed immediately when a bankruptcy filing is not a result of operating or financial difficulties. Upon deletion, a divisor adjustment is made to reflect the decrease in market value.

Change of Principal Exchange

A security is removed from the index if its principal exchange ceases to be one of the eligible exchanges as mentioned in the benchmark construction. A divisor adjustment is made to reflect the decrease in market value.

Index Calculation and Price Data

Index calculation can be referred in [Index Calculation book](#).

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 communicated in advance for any methodology changes through appropriate communication. For more details refer [Index Methodology Change Process](#).

Morningstar hereby also notifies all subscribers and stakeholders of the Index that circumstances might arise that necessitate material change, or possible index cessation. 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 revenues associated with the index, insufficient number of clients using the index, and/or other external factors beyond the control of the Morningstar Index Committee. As the cessation of the Index or benchmark index could result in a disruption of subscriber products that reference this index, all subscribers are encouraged to have robust fallback procedures that could be initiated in the case of any such necessary Index cessation. For more details refer [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 affects index daily highs or lows, it is 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 [Recalculation Guidelines](#).

Computational and Reporting Precision

All calculated and adjusted data are stored in real numbers. 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 rebalance the weights are adjusted for updated free float and shares outstanding data.

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 Index Committee

The [Morningstar Index Committee](#) is currently comprised of senior officials who possess the appropriate levels of knowledge in relation to Indexes. A wide array of business groups are represented to allow for a broad voice to be heard and for a wider view to be expressed in evaluating all subjects brought up during Committee meetings. The Committee seeks to create indexes of the highest quality that meet the recognized qualities of a good benchmark.

For More Information

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



22 West Washington Street
Chicago, IL 60602 USA

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