Morningstar Expected Future Yield
Methodology

Introduction
This paper seeks to outline the methodology Morningstar uses in calculating the expected future yield as of the portfolio date, from the holdings of the portfolio. The measure is based on Forward Dividend Yield (forward-yield) for stocks and the yield-to-maturity of the fixed income portfolio.

Morningstar calculates forward-yield for common and other participating classes of stocks and depository receipts, and participating preference shares (not to be confused with non-participating preferred shares) based upon the most recently announced regular dividend. The monetary amount of the regular dividend is then applied across the regular dividend payment periods for the stock. This is most frequently quarterly, this captures all increases in regular dividends. Dividends announced as special are excluded.

When managed investment products provide yield-to-maturity within the Morningstar Fixed Income Survey for the investment or the fixed income portion of a multi-asset portfolio, this is initially applied. The fixed-income survey instructs investment providers to include the aggregated yield inclusive of interest-rate-swaps and other positions that impact the overall yield-to-maturity. Morningstar includes Bonds, Cash, Bonds (including convertible), loans and non-participating preferred shares as fixed income instruments. If an investment provider does not provide a survey, the yield-to-maturity of the individual positions are used.

Currently, Morningstar’s calculated yields only include long positions and exclude synthetic holdings.

Expected Future Yield Calculations

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\text{Expected Future Yield} = \left( YTM_{pt} \times \frac{MV_{pFI}}{\text{Total net assets}} \right) + \sum_{i=1}^{n} FDY_{stock} \times \frac{MV_{stock}}{\text{Total net assets}} \tag{2}
\]

where
- \( YTM_{pt} \) = The yield-to-maturity for the portfolio at time \( t \)
- \( MV_{pFI} \) = The market value of all the portfolio’s holdings in long fixed income instruments
- \( FDY_{stock} \) = The forward dividend yield for the stock as of the month-ending price immediately concurrent or prior to the portfolio date.
- \( MV_{stock} \) = The market value of the long stock holdings
If Morningstar receives a fixed-income survey, provided the date for the supplied value is less than 184 days away from the calculation date the closest value to the calculation date will be used, in the event of a tie the prior value would take precedence. If a surveyed yield to maturity cannot be found that meet the criteria the Morningstar calculated yield-to-maturity will be used provided coverage is sufficient. How Morningstar calculates the yield to maturity for a fund can be found in the methodology paper 'Morningstar Calculated Fixed-Income Analytic Measures'.

If the portfolio has over 75% in stock holdings and 95% or more of those holdings matched to a verified forward-yield (zero is a valid yield) a combined yield will be calculated even where there is not a surveyed or calculated yield to maturity value.

If the portfolio has over 75% in fixed income and there is a valid fixed-income yield-to-maturity (surveyed or calculated) then an expected future yield will be calculated even where there is not a forward-yield.