

# Morningstar® Singapore REIT Yield Focus Index

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## 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. The Quantitative Economic 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.

Investing in property has long held appeal. Beyond its practical utility, property functions as a "real asset"—its value is derived from a physical construct whose price and rents tend to rise at rates that track or exceed inflation. Real estate investment trusts (REITs), which are tradable and income generating, avoid some of the drawbacks of direct ownership (e.g. concentration risk, illiquidity, management costs). REITs based in Singapore provide exposure to a prosperous and stable hub for global trade and finance; some are also pan-Asia players.

The Morningstar Singapore REIT Yield Focus Index favors companies that are competitively advantaged, financially healthy, and generous with their payouts. The index aims to generate a more sustainable income stream than the overall Singaporean REIT market.

## Index Eligibility

The index derives its constituents from the Morningstar Singapore REIT Index, which reflects the state of the market by weighting constituents purely on the basis of float-adjusted market capitalization. To qualify as a REIT, a company must have a minimum of 75% of assets invested in real property and derive at least 75% of revenue from real estate. Companies must distribute 90% of their taxable income to shareholders. Securities in the index will belong to one of seven Morningstar REIT industries—Diversified, Healthcare, Hotel and Motel, Industrial, Office, Residential, and Retail. To be eligible, securities must demonstrate sufficient liquidity, that is, they must be tradable within a reasonable period of time.

## Index Screens

Securities within the Morningstar Singapore REIT Index are scored on the basis of dividend yield, Economic Moat, and Distance to Default (See sidebar). These three factors contribute equally to a score for each eligible index constituent. Companies are compared to the global equity universe for both Quantitative Economic Moat and dividend yield. For Distance to Default, the peer group comprises stocks within the real estate sector of developed Asia Pacific markets (i.e. Singapore, Japan, Hong Kong, Australia, and New Zealand.)

## Index Weighting

From a starting point of the Morningstar Singapore REIT Index, security weights are adjusted on the basis of their composite scores. Companies with above average scores are allocated more weight in the index than their float-adjusted market capitalization would suggest, and vice versa. The number of stocks in the index is variable. Individual security weight is capped at no more than 10%.

## Rebalancing & Reconstitution

Morningstar rebalances constituent shares and weights of the indexes semiannually on the Monday following the third Friday of June and December. The market data used is as of the last trading day of May and November.

## Morningstar Index Construction Methodology

