








MOAT INVESTING:

Finding companies with sustainable competitive advantages

Finding Economic Moats™

The term “Economic Moat” describes a company’s ability to maintain its competitive advantages and defend its long-term profitability. Morningstar® has identified five sources of sustainable competitive advantages, as shown below.

Sources of Moats	Description
 Switching Costs	Switching costs give a company pricing power by locking customers into its unique ecosystem. Beyond the expense of moving, they can also be measured by the effort, time, and psychological toll of switching to a competitor.
 Intangible Assets	Though not always easy to quantify, intangible assets may include brand recognition, patents, and regulatory licenses. They may prevent competitors from duplicating products or allow a company to charge premium pricing.
 Network Effect	A network effect is present when the value of a product or service grows as its user base expands. Each additional customer increases the product’s or service’s value exponentially.
 Cost Advantage	Companies that are able to produce products or services at lower costs than competitors are often able to sell at the same price as competition and gather excess profit, or have the option to undercut competition.
 Efficient Scale	In a market limited in size, potential new competitors have little incentive to enter because doing so would lower the industry’s returns below the cost of capital.

The Moat Investing Philosophy

Moat investing has long been a basic tenet of long-term investors. Companies' Moats are expected to allow them to fend off competition and maintain profitability into the future.

As a philosophy, Moat investing provides a basic guideline for how to approach an investment portfolio. By applying a consistent, forward-looking process to identifying companies with sustainable competitive advantages, Morningstar turns the moat investing philosophy into an actionable investment strategy.

Morningstar assigns each company it analyses an Economic Moat Rating of 'wide', 'narrow' or 'none'. Companies assigned a wide moat rating are those in which Morningstar has very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. Companies with a narrow moat rating are those Morningstar believes are more likely than not to achieve normalised excess returns for at least the next 10 years. A firm with either no sustainable competitive advantage or one that Morningstar thinks will quickly dissipate is assigned a moat rating of 'none'.

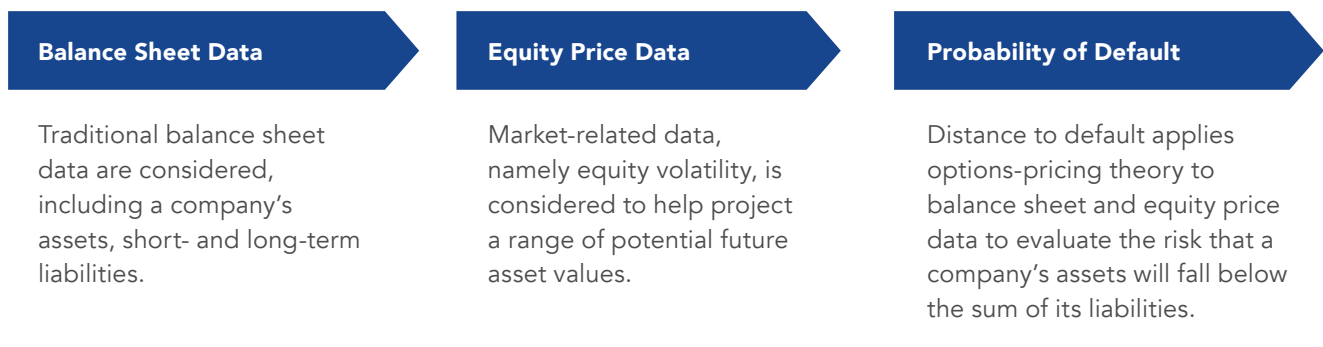
A robust team, a resilient process

Morningstar's equity research team of more than 100 analysts covers roughly 1,500 companies globally. More than 200 asset managers and 75,000 financial advisers rely on Morningstar's research. The research process underlying the Moat investing philosophy includes:

1. Conduct fundamental analysis
2. Assign Economic Moat rating
3. Assess company valuation
4. Determine fair value estimate
5. Identify moat companies with attractive valuations

Identifying financial health: Distance to default

Distance to Default is used to predict the likelihood of bankruptcy which has also proven an effective predictor of dividend cuts.



Considerations

- **Asset Values and Total Liabilities:** balance sheet information forms the basis for default analysis.
- **Equity Volatility:** market data is important because it can be a leading indicator of company's financial distress, often times far before it is reflected in financial statements.

Implementation

- Index targets companies with higher distance to default scores (lower probability of default).

DVDY

Quality income. Australian made.

Invest in Australian companies with Economic Moats. Companies are selected based on a combination of their Morningstar Economic Moat™ rating and Morningstar Distance to Default measure. DVDY's index targets the top companies by 12-month trailing dividend yield, the index is weighted by the dollar amount of dividends paid during the past 12 months to avoid value and dividend traps.

DVDY offers

Income from quality Australian companies

Focuses on high dividend, quality companies based on Morningstar's Economic Moat rating.

Strong financial health

Companies are also screened based on Morningstar's Distance to Default measure.

Morningstar's core equity research

Fuelled by Morningstar's rigorous equity research process.




ASX code	DVDY
Commencement date	10 September 2020
Management cost	0.35% p.a.
Index	Morningstar® Australia Dividend Yield Focus Index™
Number of holdings	Approximately 25
Dividends	Quarterly
Key risks	An investment in the ETF carries risks associated with: financial markets generally, individual company management, industry sectors, fund operations and tracking an index. See the PDS for details.

For more information

Please visit
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