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# Morningstar's Commitment to Sustainability<sup>i</sup>

Equipping investors with investment options, including sustainable-investment choices, and operating with sustainable business practices are integral to our mission. Our commitment to sustainability shapes efforts across the firm.



# **Sustainable-Investing Choices** for All Investors

Morningstar aims to provide market-leading data, products, and services across investment processes to enable investors to conduct their business in the ways they believe are best. Through our sustainable-investing data, tools, services, and research, we provide the opportunity for investors of all types to understand sustainability considerations in their investments and support issuers who seek to improve the sustainability of their firms. We aim to make sustainable investing accessible, transparent, and relevant to investors.



# **Sustainability in Our Firm**

We are committed to turning the power of our own environmental, social, and governance data and research on ourselves. We use our own data and tools to understand the sustainability indicators we view as most material to our business—those aimed at creating value and reducing risk for our stakeholders. We are committed to achieving year-over-year progress in our efforts to build a more sustainable business and workplace.



# **Embracing Transparency and Global Standards**

Through Morningstar's corporate sustainability efforts, we engage with international frameworks and standards to disclose relevant and comparable data for our stakeholders. We report regularly on our sustainability efforts toward our independent targets, consistent with international goals and frameworks where most impactful for our business. We support initiatives that work toward sustainability; more details on these initiatives can be found on the following page.

For more information on our sustainability philosophy and progress across all material ESG issues, please visit our latest corporate sustainability report on our <u>Corporate</u> <u>Sustainability website</u>.

# Morningstar's Climate Commitment

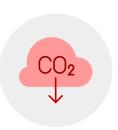
We aim to reduce Morningstar's impact on the environment while growing our business and the reach of our products. We recognize that Morningstar is uniquely suited to enable innovative investment solutions that address the global climate crisis through our investor product offerings. We also understand that limiting global emissions requires a whole economy in transition and that systemic change requires ambitious efforts across the financial system.

We are affiliated with several international organizations whose members are independently committed to global low-carbon transition planning, including the <u>Glasgow Financial</u>
<u>Alliance for Net Zero</u> and the <u>Net Zero Financial</u>
<u>Service Providers Alliance</u>. In September 2021,
Morningstar and a varied group of financial-

NZFSPA, part of the larger GFANZ. Through our participation, we have reiterated our own commitment to the United Nations Race to Zero. Our involvement underscores our recognition that addressing global emissions requires organizations across the financial system to each initiate and implement their own commitments toward achieving net zero emissions.

At Morningstar, our net zero commitment means acting prudently to reduce the impact of our business operations while engaging in transparent, long-term planning in the context of global climate change. It entails contributing insight to shared frameworks for measuring our progress and enhancing relevant portions of our product offerings to incorporate science-based net zero targets.

Morningstar has reiterated the following independent commitments in relation to its participation in the NZFSPA:



In the short term, Morningstar has committed to reducing measured greenhouse gas emissions by 50% by 2030 against a 2019 baseline.



In the long term, Morningstar has committed to achieving net zero by 2050 in absolute margins.



Morningstar will deliver annual reporting on progress.



The firm will work to develop Morningstar product parameters relevant to net zero transition plans, making these methodologies transparent on public platforms.

Our strategy to implement these commitments while expanding the growth of our business rests on four pillars:

- ► We recognize the power of our data, research, services, and products to inform investors on climate-related investment risks and opportunities.
- ► We seek to advance a climate program that emphasizes emissions reduction across our business operations.
- ► We support the development of transparent carbon markets, technology, and innovation to contribute to carbon removal.
- ► We invest in partnerships and commit to outside reporting, engagement, and measurement frameworks designed to support a global transition to net zero.

# About This Report"

Our <u>Climate Transition Plan</u> describes initiatives, programs, and partnerships that will enable Morningstar to decarbonize our operations and value chain. We also identify areas for further focus and detail our work with industry alliances. Our <u>2022 Climate Transition Update</u> was the first of our annual communications on progress shared the firm's net zero alignment. Now, we are sharing progress made in 2023 against our initial Climate Transition Plan.

Our Climate Transition Plan and Updates are just one portion of our public sustainability reporting portfolio; in addition, we publish an annual corporate sustainability report, a Task Force on Climate-Related Financial Disclosures-aligned report, and regular scorecards on our alignment with organizations

such as the United Nations Global Compact and the U.N.-backed Principles for Responsible Investment. These reports detail our overall sustainability approach across the Morningstar enterprise. As our progress in sustainability management expands, we continue to promote transparency through additional public reports, available on our <u>Sustainability Policies & Reports Center</u>.



# **Emissions**

At Morningstar, the primary components of our produced greenhouse gas emissions are the buildings we occupy (including our data centers); portions of our business-related offerings (like our conferences); business travel; our supply chain; and our financed emissions, such as those of Morningstar Wealth.

We define scope 1 emissions as associated with direct operations that we own or control; scope 2 emissions as indirect emissions from upstream sources such as energy use or the generation of purchased or acquired electricity, steam, heat, or cooling; and scope 3 emissions as all indirect emissions (not included in scope 2) that occur in our value chain, including both upstream and downstream emissions.

Morningstar utilizes the Greenhouse Gas Protocol standard definitions to calculate and report greenhouse gas emissions. Our scope 2 emissions are calculated in line with the GHG Protocol Scope 2 Guidance using both a market-based and location-based approach for grid electricity emissions factors.

## **Data-Quality Enhancements**

In 2023, we adopted programs to enhance the quality of our emissions and other environmental data. We enhanced our scope emissions category breakdowns and provided additional transparency to offer a more nuanced view of scope 2 emissions. We now disclose market-based and location-based metrics. This approach provides a deeper analysis of our energy consumption mix, encompassing initiatives like the procurement of renewable energy certificates and specific power purchase agreements.

We gained access to better data from landlords and refined our estimation models and calculations of emissions. Additionally, we transitioned to Salesforce's Net Zero Cloud platform to gather and calculate our global environmental data, align with the evolving needs of our environmental program, and support scalability. These enhancements helped identify areas in which our historical emissions data needed to be re-presented because of to new estimation models, emissions factors, and calculations.

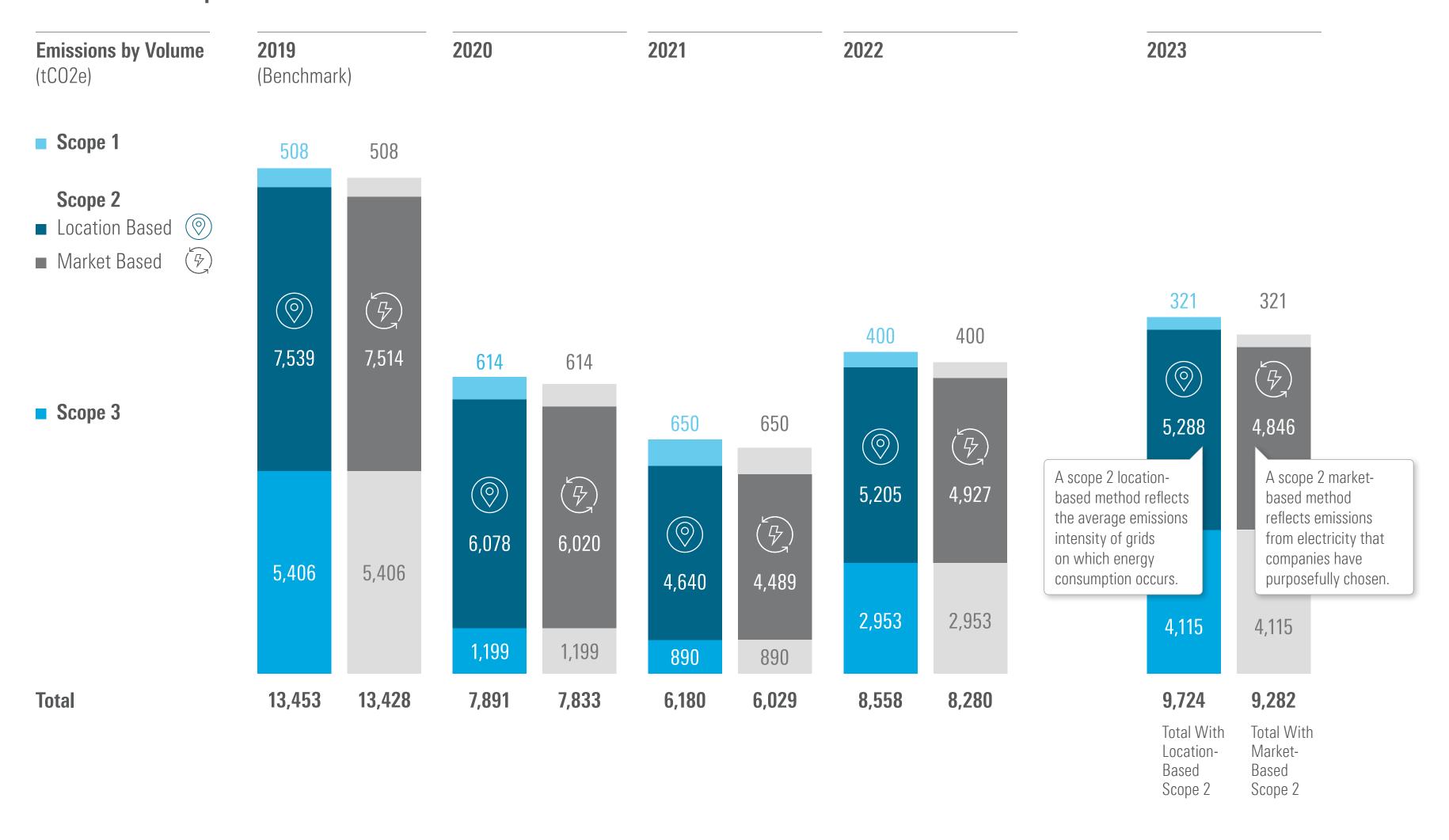
The changes we are making reflect a strengthened environmental data disclosure program, allowing us to build better strategies to decarbonize our business in order to reach net zero emissions. These enhancements to the quality of our environmental data are reflected in the 2023 emissions details chart presented on the following page, which

now contains improved emissions data quality compared with what was reported in our original Climate Transition Plan. Our ability to measure scope 1 and 2 emissions has improved, and we aim to expand our scope 3 supplychain-based emissions reporting in the future. In 2024, we are focusing on third-party data center emissions, discussed in more detail in the data center strategy section of this report.

## **2023 Emissions Data Trends**

In 2023, Morningstar's global headcount declined to 11,334 from 12,224. We reduced our office portfolio to 53 offices from 57<sup>iii,</sup> aligned with our evolving global strategy to concentrate our operations within larger markets. With the easing of the global covid-19 pandemic, 2023 was the first year when business travel emissions trended closer to prepandemic levels.

## **Environmental Impact**: Our Contributions



Morningstar's total (location-based) emissions in 2023 were 9,724 tCO2e, an increase of 1,166 tCO2e from last year. This was primarily due to an increase in our scope 3 emissions, driven by an increase in business travel. Our total scope 1 and scope 2 emissions (both market-and location-based) remained largely consistent with prior years. To quantify the intensity of this impact, we measure our total emissions per million dollars of revenue. Our full-year 2023 revenue was approximately USD 2 billion, leading to 4.8 (location-based)<sup>iv</sup> and 4.6 (market-based) tCO2e per million dollars in 2023, an increase from 4.6 (location-based) and 4.4 (market-based) tCO2e per million in 2022.

A full narrative of our 2023 emissions data can be found in the Environmental Impact section of our 2023 Corporate Sustainability Report. Learn more about our climate scenario analysis on our climate-related transition risks in Morningstar's TCFD Report.

# Workplace Facilities and Data Centers

## **New Locations and Leases**

In 2023, we enhanced our real estate selection process to further integrate sustainability into our operations. This involves an increased focus on the environmental practices of our landlords, prioritizing those who demonstrate a readiness and openness for sustainability.

All our prospective landlords now respond to a survey detailing office environmental data and characteristics and climate transition commitments.

# **Management of Existing Facilities**

Morningstar's workplace facilities (occupied and leased office space) footprint makes up 44% of our total reported emissions and 75% of our scope 1 and 2 emissions. In 2023, our workplace facilities teams identified top emissions-producing offices and created a plan for decarbonization.

In 2023, our teams enabled energy efficiency features on all Morningstar-controlled equipment, where possible. For example, in our Chicago office, we enabled automated smart

lighting systems on all floors and undertook an employee communication initiative with Morningstar's Sustainability Network Employee Resource Group to reduce our in-office dishwasher use, with the goal to save on energy and reduce water consumption. In our Mumbai offices, we started switching to LED lighting and improved our office air conditioning and lighting controls.

To emphasize sustainability in workplace design, we require sustainability considerations in the refurbishment of our existing offices and in the design of new ones. In some of our offices, such as our offices in Amsterdam, Chicago, New York, Seattle, and Toronto, we have made composting and/or recycled food waste disposal available to employees in an effort to reduce landfill waste. Following the success of these pilot programs, we plan to implement this initiative across many of our other offices.

In 2024, Morningstar is focusing on assessing its existing real estate portfolio and streamlining

our local operations where appropriate.

Additionally, we continue prioritizing sustainability in our office operations by developing sustainability-driven employee communications, sustainable catering policies, and more.

# **Renewable Energy Strategy**

Morningstar has operations in 32 markets but does not own any real estate. Of our scope 2 market-based emissions, 98% comes from electricity purchases, with 71% of those emissions belonging to our leased offices. For some offices, our electricity is managed by our landlords who already purchase renewable energy on our behalf; they do this via Green Tariffs directly with the utility provider, renewable energy credits, and/or corporate or virtual purchase power agreements. Morningstar intends to increase the amount of renewable energy used by our offices and reduce our measured emissions. We plan to work directly with utility companies to procure renewable energy options in offices where we have direct control over electricity

Global office space square footage in an environmentally certified space

Morningstar offices run on 100% electricity

Waste per employee

Total electricity consumption from

renewable sources

procurement. In offices where the landlords control electricity procurement and are yet to purchase renewables, we plan to engage with landlords to incentivize their efforts in selecting sustainable energy options.

In 2023, we investigated options like on-premises generation and corporate or virtual PPAs but concluded that these were not viable options for Morningstar's real estate portfolio and level of electricity consumption. Instead, Morningstar purchases renewable energy via RECs. A REC is a market-based instrument that represents the property rights to the environmental and other nonpower attributes of renewable energy generation. RECs are issued when one megawatt-hour of electricity is generated and delivered to the electricity grid from a renewable energy source.

When purchasing RECs, we pursue projects that are:

### Standardized

We want assurance that the renewable energy claims are credible. This means prioritizing REC purchases from an existing, specific, renewable asset located as close to our office's physical location as feasible.

## ► Transparent

We want insight, like tracking and reporting mechanisms, into the specific site we purchase renewable energy from to verify renewable energy generation and REC retirement.

## ► Market-Driven

We want to stimulate the renewable energy market by increasing demand for green energy production in the regions our offices are in and increasing renewable energy going into the region's electrical grid.

### ► Scalable and Flexible

We want to be able to adjust REC purchase volumes based on our needs and market conditions even when we, as tenants in multitenant buildings, do not have control over our electricity provider.

In late 2023, we entered into a contract to purchase renewable energy from a Texas wind farm equal to the total kilowatt-hour consumption of our Chicago office general electricity each month. We anticipate that this will more dramatically affect our 2024 reported data. In 2024, we are investigating additional renewable energy opportunities for our offices based in the US, Canada, and India, which has the potential to reduce our total market-based 2023 scope 1 and 2 emissions by 57%. Above all, we aim to select reputable and high-quality renewable energy assets.

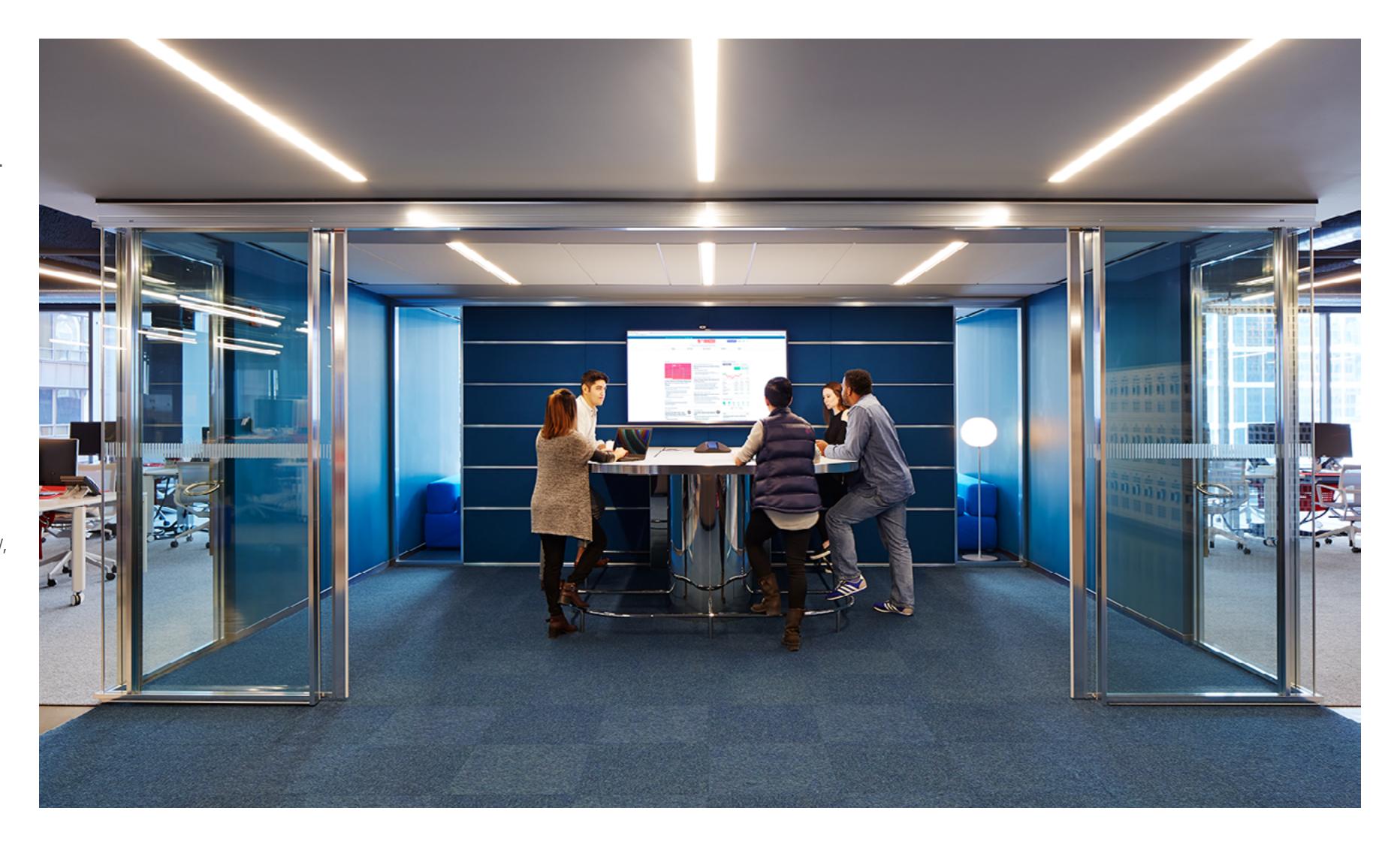
# **Data Center Strategy**

We define our data centers as dedicated space used for computer systems, telecommunications, and associated components not connected physically to Morningstar workplace facilities. In 2023, our technology team continued our 2022 work to retire data centers and migrate servers to the public cloud, which will continue to help reduce our on-site electrical demand. Our 2023 data center electricity consumption accounted for 4,330,965 kWh compared with 6,363,545 kWh in 2022. This apparent decline is due to the transition of many data centers to public clouds, which enables economies of scale and greatly reduces inefficient hardware. In the future, these emissions will surface in our scope 3 measurement, rather than scope 2, and contribute to increased supply chain emissions. As we continue outsourcing most of our data centers,

we foresee this trend will continue. Additionally, we will increasingly depend on the substantial emissions reduction commitments of key suppliers to mitigate our footprint in this domain.

When transitioning Morningstar's data centers to cloud-based platforms, Morningstar has prioritized working with providers committed to net zero and renewable energy usage. To reach our net zero goals by 2050, most of the energy used in our data centers and offices will need to be sourced renewably.

In 2024, we intend to begin accounting for public-cloud-associated scope 3 emissions and engaging with our key suppliers on sustainability, while our teams pursue efficiencies in the public cloud. Additionally, our teams will complete the last milestone of a significant data center cleanup project that we believe will achieve significant power savings through operational efficiencies.



Climate Transition Update Governance Appendix 2023 Climate Transition Update

# Case Study: Chicago as a Blueprint

Introduction



In 2023, we identified our top emissionsproducing offices. As our second-most-populous
office and our headquarters, the Morningstar
Chicago office became the testing ground
for facilities-related sustainability initiatives.
From composting to water reduction
to employee-driven initiatives, Morningstar
experimented with new ideas in our
Chicago office to discover how best to implement
new strategies across our global offices.

# **Driving for Water Use Reduction**

Our Chicago office aimed to reduce water and energy consumption. We implemented water reduction technology in restrooms and, with assistance from Morningstar's SUN ERG, undertook an employee communication campaign to encourage conscious water usage. These efforts are expected to reduce dishwasher loads by roughly 20% in 2024.

# **Pursuing Energy Efficiency**

Our goal was to reduce energy consumption to align with recommended energy intensity targets. Above all, we emphasized energy efficiency. We implemented an automated smart-lighting system and other energy efficiency initiatives to automatically turn off lighting and technology outside of peak office-use hours. In 2024, we are working to improve our lighting systems by switching to LED lighting in targeted areas where the Chicago office does not already have LED lighting. So far, 20% of the retrofit is complete. Additionally, we plan to upgrade kitchen equipment to more energy-efficient models.

## **Composting in Chicago**

We implemented an office composting program and worked to educate our employees on proper waste disposal. After a successful trial, we installed large compost containers on all office floors and kitchen areas. In our first year, we diverted 9.7 tons of organic waste from landfills. Our office composting program tackles waste on two fronts: diverting

waste from landfills and promoting a zero-waste culture by offering compostable alternatives to single-use plastics. We once again partnered with Morningstar's SUN ERG to launch an awareness campaign to boost employee participation in our new waste-sorting initiatives.

## **Procuring Renewable Energy**

As previously discussed, beginning in 2023, we purchased renewable energy in the form of RECs from a Texas wind farm equal to the total kWh consumption of our Chicago office each month. Our energy provider will retire the voluntary RECs for a given calendar year in May the following year—this ensures our ownership of the REC and that the credit is permanently removed from the market and cannot be sold again.

We found many of these new initiatives to be successful in Chicago. In 2024, we plan to bring similar strategies and programs to our offices globally—with an emphasis on our top-emitting locations.

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# Governance

At Morningstar, governance of our climate commitment sits with the highest level of our company through our board, management teams, and business units overseeing this day-to-day work. We seek to align Morningstar's approach to governance, board composition and management, and management oversight with the practices that our research analysts have identified as consistent with good stewardship, shareholder transparency, and long-term value creation. The graphic on the next page demonstrates how company sustainability initiatives are integrated into our firm structure and operations. More details can be found in the Governance section of our 2023 TCFD Report.

### **Environmental Statement**

We understand that to effectively manage our organization's environmental impact, we must develop a robust internal process to measure, manage, reduce, and report on that impact. In 2023, we created an **Environmental Statement** that demonstrates our focus on environmental stewardship and our efforts to drive climate action within Morningstar. It outlines how the firm can work to advance its environmental impact prevention, mitigation, and reduction efforts in a manner consistent with our publicly stated goals and objectives. The statement focuses on near- and long-term efforts to build a more sustainable business and workplace for Morningstar and its subsidiaries.

# Morningstar's Sustainability and Environmental Programs



### **Board of Directors**

Reviews corporate strategy including the company's approach to sustainability and oversees Morningstar's Enterprise Resilience efforts.

**Audit Committee** members discuss major financial, product, technology, and cybersecurity risk exposures and oversee the firm's disclosure controls and procedures.

**Nominating & Corporate Governance Committee** members review the company's sustainability reporting efforts and strategy.



### **Executive Leadership**

Morningstar executive leaders oversee the organizational functions that drive our environmental sustainability program forward. This involves crossfirm coordination to operationalize our data collection and transparency, establish programs and strategies to reduce our emissions and increase efficiency in other environmental considerations, and determine future goals.

**Chief Executive Officer** Kunal Kapoor

**Chief Financial Officer** 

Jason Dubinsky

**Chief People Officer**Marie Trupzek-Lynch

James Rhodes

**Chief Technology Officer** 

**Chief Legal Officer** Kathleen Peacock **Chief of Staff**Frannie Besztery

President, Morningstar Sustainalytics

Ron Bundy



#### **Enterprise Sustainability**

Works across the organization to set the strategy for the firm's material ESG issues and reports on progress; meets with the board to provide updates on the firm's sustainability program.



#### **Corporate Systems**

Advances enterprise emissions data security, scalability, and analytical automation through our carbon-reporting software.



#### **Human Resources**

Maintains policies, programs, and expectations pertaining to our workforce and in-office attendance, such as our hybrid working model.



#### **Legal and Compliance**

Advises on regulatory requirements as appropriate and reviews external disclosures.



#### **Central Technology**

Collects data-center energy consumption and identifies, prioritizes, and implements data-center-focused energy-efficiency opportunities.



## **Morningstar Sustainalytics Research**

Analyzes Morningstar as a use case through our in-house climate-related product offerings.



#### Financial Reporting & Internal Audit

Financial reporting: Documents, audits, and validates environmental data for external reporting. Internal audit: Consults on program enhancements and supports compliance with relevant policies and expectations.



#### **Facilities/Real Estate**

Collects emissions and other environmental data related to Morningstar's built-environment and implements real-estate-focused sustainability programs.



#### **Procurement**

Collects business travel emissions and supply chain data.

Reflects organizational structure as of Dec. 31, 2023.

Climate Transition Update

Governance

**Appendix** 

**2023 Climate Transition Update** 

# Endnotes

- This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on our current expectations about future events. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and often contain words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," "prospects," or "continue." These statements involve known and unknown risks and uncertainties that may cause the events we discuss not to occur or to differ significantly from what we expect. We describe risks and uncertainties that could cause actual events to differ materially in the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures about Market Risk" sections of our Forms 10-K and 10-Q. Morningstar undertakes no obligation
- to publicly update any forward-looking statements as a result of new information, future events, or otherwise, except as required by law. Information contained in links to this report/information on our website are not incorporated by reference into this report.
- ii. The data reflected in this report is as of Dec. 31, 2023, unless otherwise noted.
- iii. Represents the number of Morningstar offices and data centers under our operational control at any point in 2023.
- iv. As defined by the Greenhouse Gas Protocol, a scope 2 location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). A scope 2 market-based method reflects emissions from electricity that companies have purposefully chosen (or their lack of choice). It derives

emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims.

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