

Independent Experts Supplemental Report: Implementation

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Conclusion

After careful review, we conclude that Morningstar has implemented a set of systematic reforms designed to address the potential risk of anti-Israel bias in Sustainalytics research and products. Morningstar's reforms are consistent with our overall intentions and our specific mandate.¹ As a result of these reforms, our research in evaluating implementation of our recommendations revealed no examples of companies directly or indirectly associated with the Israel/Palestinian conflict area (IPCA) whose evaluations were susceptible to anti-Israel bias in the Sustainalytics process. We found no examples of Israeli companies or companies doing business in Israel whose ratings reflect biased processes or anti-Israeli bias.

Introduction

In fulfillment of our engagement with Morningstar, we submit this Supplemental Report assessing the extent to which Morningstar has implemented the recommendations presented in our Initial Report and whether the manner of implementation is consistent with our intentions. The Initial Report explains the background and rationale that led to this Supplemental Report. As noted in the Initial Report, Morningstar engaged us as Independent Experts to review Sustainalytics' models, methods, and assumptions in order to provide actionable recommendations to address concerns of anti-Israel bias in Sustainalytics' research and products.²

The seven recommendations presented in the Initial Report resulted from an evaluation of Sustainalytics' assumptions and methodology vis-à-vis public perceptions of bias with respect to assessing corporate practices related to Israel.³ They were intended to address concerns of actual

¹ See Independent Experts Initial Report: Recommendations, January 31, 2024, https://www.morningstar.com/content/cs-assets/v3/assets/blt9415ea4cc4157833/blt4e8aba256cb91020/Expert_Report_Morningstar.pdf

² Ibid, p 2.

³ 1) Repeal the 'Occupied Territories/Disputed Regions' incident type along with accompanying guidance; 2) Adopt appropriate guidance related to the Society – Human Rights event indicator; 3) Refine procedures for assessing the Materiality and Impact of incident reporting to minimize risk of anti-Israel bias; 4) Mandate that Controversy Ratings be based on defined human rights violations, including enhancement of internal Sustainalytics processes; 5) Incorporate additional legal expertise, including consideration of appointing a designated legal expert under the

or perceived anti-Israel bias in Sustainalytics' research and products, which included the assumptions that supported Sustainalytics' assessment of business activities conducted within the context of the IPCA.⁴

In the preparation of this Supplemental Report, we reviewed revised practices, products, policies, assumptions, and conclusions adopted following the submission of the Initial Report. We also discussed with Sustainalytics and Morningstar staff the meaning, intention, and scope of relevant revisions designed to comply with the letter and/or spirit of our recommendations that have been incorporated in their public and internal guidance documents. We want to thank Morningstar for the continued support and assistance that facilitated our independent implementation review and this Supplemental Report.

Implementation Review

The reforms that Morningstar has undertaken are designed to foreclose areas particularly susceptible to anti-Israel bias related to the IPCA. The focus on geographical criteria risked detracting from Morningstar's objectives of consistency and objectivity when analyzing corporate respect for human rights as a factor in assessing a company's material risks. Sustainalytics implemented Recommendation 1 by repealing the Occupied Territories/Disputed Regions incident type effective April 5, 2024. As we noted in our Initial Report, we considered Recommendation 1 to be the cornerstone of our Recommendations.⁵ Our Recommendations were designed to be implemented as an integrated set of mutually reinforcing improvements. The remaining Recommendations complemented the overall goal of eliminating bias or the potential for bias, albeit in a subsidiary manner.

The Occupied Territories/Disputed Regions incident type was the only tag within Sustainalytics methodology that was not based on functional subcategories (*i.e.* the human rights-based focus

authority of Morningstar's Chief Legal Officer, to advise analysts and Oversight Committees on relevant human rights law, legal aspects of corporate human rights compliance, and jurisprudence; 6) Guidance Documents should prohibit reference to countries not implicated in a particular event or incident in narrative descriptions or rating justifications; and, 7) Enhance guidance and quality oversight to ensure consistency and accuracy of ratings assumptions and language within and across Sustainalytics product lines.

⁴ Ibid, p 4.

⁵ See Independent Experts Initial Report: Recommendations, January 31, 2024, p 5.

within Society – Human Rights). Sustainalytics’ revised eligibility standard now makes human rights issues connected to disputes concerning contiguous territories ineligible for analyst coverage. The IPCA is one of several areas that fall under this exclusion, thereby eliminating the most pernicious source susceptible to anti-Israel bias. The geographic descriptor for ineligibility is not discriminatory in the sense that it applies across countries and contexts.

As of the date of this Report, we found no examples of Sustainalytics products or ratings of issuers cited for human rights related Controversies directly or indirectly connected to their activities in the IPCA. Based on our review, Israeli related companies appear to be equally treated as other similarly situated issuers.

Assurances

The revised ineligibility standard eliminated the primary source of potential anti-Israel bias as noted above. Following its adoption, the commitment to quality control, adequate oversight, and analytical rigor in Sustainalytics’ assessments of human rights related events and incidents remains crucial. In keeping with Morningstar’s overall commitment to methodological standards designed to promote rigor, objectivity, and analytical consistency, our conclusions are buttressed by our understanding of additional safeguards that are already adopted.

1. A commitment to producing and maintaining research that is free from political bias where all steps are taken to ensure that all elements of the research and reporting process do not directly or indirectly support any political agenda of any kind.
2. By adopting the approach described above, Sustainalytics operationalizes Morningstar’s public commitment that “neither Morningstar nor Sustainalytics supports the anti-Israel BDS Campaign.”⁶
3. Sustainalytics will continue to refine internal standards designed to avoid the risk of analysis being based on conjecture or framing by interested parties.

⁶ See Letter from Joe Mansueto and Kunal Kapoor, June 2, 2022, <https://morningstar.com/company/esg-research-integrity>

4. Morningstar has established a position under its Chief Legal Officer to serve, among other things, as a designated human rights resource to provide legal expertise available to analysts and management across Sustainalytics products. We understand that this position will remain filled and supported.
5. Sustainalytics eliminated gratuitous references to Israel or companies with business operations in Israel associated with unrelated incidents or events.

Expert Affirmations

The experts herewith confirm that this Supplemental Report was executed consistent with the terms of our confidential Agreement with Morningstar. No one interfered with our ability to conduct the Work as specified in our contractual arrangement. The views expressed in this Report represent our independent and shared assessments, opinions, and judgments. Our efforts have been fully independent of Morningstar and no employee or agent attempted to influence or suppress our views.