November 07, 2023

Announcement: Update to Climate Transition Matrix for Morningstar Climate Transition (CTB) and (PAB) Indexes

Due to the pending retirement of Sustainalytics Carbon Risk Rating and replacement of Sustainalytics Sustainable Products Research, Morningstar Indexes will make changes to the Climate Transition Matrix featured in many of our Climate Transition (CTB) and Paris Aligned Benchmarks (PAB).

In summary, Morningstar will simplify our Climate Transition Matrix to only identify and reward companies that have more than 50% green revenue. A visual of our old and new methodology is shown below. Sustainalytics Impact Metrics product will be used to replace the now retired Sustainalytics Sustainable Products Research.

These changes will take effect at the December 2023 reconstitution.

**Old Climate Transition Matrix:**

- **Observe**: Companies with low carbon intensity at risk to a low carbon economy
- **Control**: Companies with high carbon intensity at risk to a low carbon economy
- **Neutral**: Companies with low carbon intensity transitioning to a low carbon economy
- **Support**: Companies with high carbon intensity in transition to low carbon economy
- **Promote**: Companies with low carbon intensity

**New Climate Transition Matrix:**

- **Neutral**: 0x benchmark weight
- **Support**: 1.25x benchmark weight
- **Promote**: 1.5x benchmark weight

Company exposure to green revenue
Impacted Indexes:

- Morningstar Developed Europe Large Cap Target Market Exposure Paris Aligned Benchmark Select
- Morningstar Developed Europe Target Market Exposure Paris Aligned Benchmark Select*
- Morningstar Developed Markets Target Market Exposure Paris Aligned Benchmark Select
- Morningstar Emerging Markets Target Market Exposure Paris Aligned Benchmark Select
- Morningstar Japan Target Market Exposure Paris Aligned Benchmark Select
- Morningstar US Large Cap Target Market Exposure Paris Aligned Benchmark Select
- Morningstar US Target Market Exposure Paris Aligned Benchmark Select
- Morningstar Developed Markets EU Climate Transition Benchmark
- Morningstar Developed Europe EU Climate Transition Benchmark
- Morningstar Emerging Markets EU Climate Transition Benchmark
- Morningstar Global Markets EU Climate Transition Benchmark
- Morningstar Developed Europe Paris Aligned Benchmark
- Morningstar Emerging Markets Paris Aligned Benchmark
- Morningstar Developed Markets Paris Aligned Benchmark
- Morningstar Global Markets Paris Aligned Benchmark

*For the Morningstar Developed Europe Market Target Market Large Mid Exposure Paris Aligned Benchmark Select Index, Morningstar will also change the implementation of the active sector constraint from individual NACE sector level to cumulative high-impact sector.

About Morningstar Indexes
Morningstar Indexes has been designing modern solutions for 20 years, but what makes us truly unique has been more than three decades in development. Our rich history began in 1984, when Morningstar was founded on a promise to empower investors with data and research that is independent and objective. Over time, our collection of data has expanded considerably—and so has its application. Today, Morningstar Indexes draws on unique IP to unlock an extensive range of emerging opportunities for investors of every kind, while providing a robust institutional beta platform for core investing.

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