

Morningstar® Global Sustainability Index FamilySM

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Sustainalytics

A global leader in environmental, social, and governance ratings and research, Sustainalytics was acquired by Morningstar in 2020. Sustainalytics offers data on 40,000 companies worldwide and ratings on 20,000 companies. Since 2016, Sustainalytics and Morningstar have collaborated to supply investors around the world with new analytics, including the Morningstar Sustainability Rating for funds. Aggregating company-level ESG Risk Ratings assigned by Sustainalytics, the fund rating focuses on how effectively companies in a portfolio are managing their material ESG-related issues.

Sustainable investing, defined by Morningstar as an approach that considers environmental, social, and governance factors and their impact, is gaining traction across the globe. Growing numbers of investors are sensitive to issues such as climate change, diversity, and business ethics—not just in their personal lives but also in their portfolios. While sustainable investing is partially about aligning capital with values or organizational mission, the field has broadened. ESG issues are increasingly recognized as material financial risks.

The Morningstar Global Sustainability Index Family includes publicly traded equities across the globe, highlighting companies that are effectively managing their ESG-related risks. The indexes provide broad, marketlike exposure and can serve as benchmarks for sustainable investments or as the basis for ESG-screened passive investment strategies.

Measuring ESG Risk

To highlight how well a company proactively measures the ESG issues that are most likely to affect financial results, Sustainalytics (see sidebar) developed the ESG Risk Rating. The ESG Risk Rating considers both subindustry-level and company-specific risk. It captures the fact that certain subindustries face more ESG risks than others and that those risks vary. For example, oil and gas companies are highly exposed to carbon emissions-related risks, while software companies are threatened by data privacy and security breaches. Oil and gas companies are

inherently riskier. But a company's circumstances and risk-management efforts matter. Two oil companies can carry different risk ratings depending on several variables, including their ESG risk management.

Index Eligibility

The Morningstar Global Sustainability Indexes derive their constituents from the large-mid capitalization segment of their equivalent Morningstar region/country equity index (parent). The parent indexes represent 90% of equity market capitalization in the targeted market or grouping. Because of the indexes' sustainability focus, constituent businesses are excluded if they:

- ▶ derive more than 50% of revenue from tobacco products
- ▶ have any involvement in the production of controversial weapons (land mines, for example)
- ▶ have any involvement in the manufacture and sale of firearms to civilian customers
- ▶ have any involvement in the manufacture and sale of key components of small arms

Because securities are selected based on their ESG Risk Rating, companies must be under analytical coverage by Sustainalytics to be eligible and are excluded if they are assigned:

- ▶ an ESG Risk Rating of Severe (highest risk level)
- ▶ Controversy Score of 4 or 5 on 5-point scale (Controversy research focuses on incidents with negative stakeholder impact.)



Morningstar Global Sustainability Index Family

Membership

Broad Regional Markets	Developed Markets	Emerging Markets	Single Country
Global Markets	Developed Markets ex-US	Emerging Markets	United States
Global Markets ex-U.S.	Developed Asia Pacific ex-Japan	Emerging Americas	Japan
Asia	Developed Europe		United Kingdom
Asia ex-Japan			Germany
Asia Pacific			Canada
Asia Pacific ex-Japan			Australia
Europe			India
Eurozone			
Nordic			

Index Selection

Securities with the lowest ESG Risk Ratings are selected until 50% coverage of the parent index's market capitalization is reached, subject to constraints explained below. Indexes' constituent count is variable.

Index Weighting

Index constituents are weighted according to float-adjusted market capitalization. Individual constituent weight is limited to 10% at the time of reconstitution, while weight in constituents consuming more than 5% of index weight cannot collectively exceed 40% of the portfolio. The indexes manage deviation from their parent index by maintaining weights in regions and economic sectors that do not exceed those within the parent index by more than 2 percentage points. These constraints make the indexes appropriate for investors looking to achieve broad-based exposures or to retain a strategic asset allocation.

Rebalancing and Reconstitution

The indexes are reconstituted (membership reset) semi-annually, in December and June. They are rebalanced quarterly, in March, June, and September, and December. At the quarterly rebalancing, companies with a recent material controversy are removed from the portfolio.

Morningstar Global Sustainability Index Family Construction Process

