

# In an AI-Led Stock Market, Sustainable Investments Struggle to Keep Up

## 5 factors explain Morningstar Sustainable Index performance in 2025.

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For the third consecutive year, global equity markets were led largely by a small group of mega-cap companies largely tied to the artificial intelligence theme. Their outsize influence created a market environment where outperforming a broad benchmark became increasingly difficult for any approach that didn't fully embrace this concentrated leadership.

Sustainable investing is not monolithic, which becomes clear when examining the dispersion of returns across Morningstar's sustainability index ranges. Morningstar segments its sustainability index range into three categories: Climate, ESG Risk, and Impact Aligned.

Each group uses materially different sustainability data and pursues unique outcomes. Unlike in previous years, such as 2024, when climate indexes soared, all three categories struggled on a relative basis. A clear trend emerged in 2025: Indexes with high relative active share, or those that are materially different from their benchmarks, struggled on a relative basis. This highlights the importance of portfolio construction and of understanding active bets against a benchmark.

For sustainability indexes, that challenge was especially acute. In 2025, relative performance was the second-worst year since this study began in 2018, behind only 2022. Historically, indexes centered on environmental, social, and governance factors tend to perform better during periods when less carbon-intensive sectors, such as technology and communication services, lead equity markets. However, concentration in global equity market leadership in 2025 led to uneven performance across sustainability indexes.

This report begins by focusing on these five factors that largely explain sustainable-index performance in 2025.

- ▶ The Mega-Cap Conundrum of 2025 shows the challenges of portfolio construction in a top-heavy market.
- ▶ Alphabet's exclusion drives large underperformance in many global benchmarks.
- ▶ Renewable energy finally bounced back, thanks in part to easing interest rates.
- ▶ Strong performance for carbon-intensive sectors, including precious metals, hurt relative returns for indexes that targeted lower emissions.
- ▶ Equities outside the US finally swam ahead in 2025, but the lack of defense and financial-services exposure sank European indexes.

The remainder of the paper reviews each sustainability index family and examines their outcomes for 2025.

### **Key Takeaways**

- ▶ In calendar-year 2025, 26% (38/145) of Morningstar's sustainability indexes outperformed their non-ESG equivalents, compared with 45% in 2024 and 44% in 2023.
- ▶ From 2021 to 2025, 32% (46/145) of Morningstar's sustainability indexes beat their non-ESG equivalents. For the five-year period ended 2024, 46% outperformed. Four straight years of sub-50% outperformance have been a drag on five-year numbers.
- ▶ Climate and net-zero aligned indexes saw a significant reversal in 2025. After 77% outperformed in 2024, only 32% (12/38) did so in 2025. The Morningstar Global Low Carbon Transition Leaders Index was one of the few bright spots, supported by a structural overweighting to communication-services stocks.
- ▶ On the risk side, 33% (48/145) of sustainability indexes lost less than their non-ESG equivalents during down periods from 2021 to 2025, as measured by downside capture. This compares with 42% for the five-year period through 2024.
- ▶ ESG-risk-focused indexes saw 19% (15/81) outperform. As in 2024 and 2023, underperformance in 2025 was primarily driven by deviation from US mega-caps for global indexes.
- ▶ Impact-aligned indexes, which feature more concentrated baskets of stocks aligned to sustainable activities or social areas such as gender diversity, also had a forgettable year, with 42% (11/26) outperforming.
- ▶ In a year when top-performing stocks came from high-carbon-intensive areas of the economy such as precious metals, renewable energy's bounceback was a major bright spot in 2025.
- ▶ 2025 saw equities outside the US finally outperform US equities; however, ex-US sustainability indexes struggled relative to their non-ESG equivalents. Underweighting or excluding strong performers in financial services and defense stocks outside the US was a main driver of underperformance.

## **5 Factors That Drove Sustainable Index Performance in 2025**

### **1. The Mega-Cap Conundrum**

Increasingly, investors and practitioners face a “mega-cap conundrum.” Either you continue investing a large portion of a portfolio into a small handful of stocks and ride the AI wave, or you remain diversified and accept the risk of potential large deviations from the market.

In the current market environment, it has become extremely difficult for any portfolio that does not follow pure market-capitalization weighting to outperform its benchmark without significant risks of overconcentration. This challenge is not specific to sustainability indexes. When a very small group of companies drives a disproportionate share of global equity gains, even well-constructed and disciplined investment approaches are likely to lag because they avoid the level of concentration now embedded in the market. Investors are effectively forced to choose between increasing exposure to this narrow cohort or accepting periods of short-term underperformance in order to maintain diversification, manage risk, or express a particular investment philosophy.

The rapid acceleration of artificial intelligence also raises important questions about the relationship between technological growth and sustainability objectives. According to the World Economic Forum,<sup>1</sup> the computational power required to sustain the rise of AI is doubling roughly every 100 days. This trend places increasing pressure on energy systems and creates a tension between the momentum of AI-driven innovation and the resource efficiency goals that underpin many sustainability strategies.

The Magnificent Seven<sup>2</sup> accounted for approximately 18.45% of the Morningstar Global All Cap Target Market Exposure Index by weight, which represents 99% of developed- and emerging-market equities, and the seven drove one-fifth of the returns of the parent benchmark. Structural underweightings, exclusions, and methodological tilts all contributed to this outcome. It's worth noting that there was clear underperformance in non-US sustainability equity indexes, so not all performance issues can be blamed on the Magnificent Seven.

## **2. The Exclusion of Alphabet in Many Sustainability Indexes**

The construction of most sustainability indexes typically combines at least two methodological approaches to balance differing data inputs and objectives. As in any nonpure market-capitalization-weighted portfolio, it is important for investors to understand what drives meaningful differences from the broad market. The clearest example is how indexes employ ESG exclusions.

As the exhibit below illustrates, the Magnificent Seven generally perform well on sustainability metrics, although there is meaningful variation across companies. Although leadership shifts are always possible, a broad reversal in the relative performance of sustainability indexes is unlikely if global equity markets remain as concentrated as they are today.

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<sup>1</sup> Ammanath, B. 2024. "How to Manage AI's Energy Demand: Today, Tomorrow and in the Future." World Economic Forum.

<https://www.weforum.org/stories/2024/04/how-to-manage-ais-energy-demand-today-tomorrow-and-in-the-future/>

<sup>2</sup> Amazon.com, Apple, Alphabet, Meta, Microsoft, Nvidia, and Tesla.

**Exhibit 1** How Are the Magnificent Seven Stocks on ESG Risk and Controversies?

Name	Annual Return 2025 USD (%)	Sustainalytics ESG Risk Category (Lower is better)	Highest Controversy Rating (Lower is better)	Contribution to Return (%)	Benchmark Weight (%)*
Amazon.com	5.21	Low	3.00	0.14	2.25
Apple	9.04	Low	3.00	0.40	3.76
Meta Platforms Class A	13.09	Medium	4.00	0.19	1.56
Nvidia	38.92	Low	2.00	1.44	3.77
Tesla	11.36	Low	3.00	0.16	1.06
Alphabet Class A	66.01	Low	4.00	0.85	1.27
Alphabet Class C	65.44	Low	4.00	0.74	1.12
Microsoft	15.59	Low	2.00	0.57	3.66

Source: Morningstar Direct &amp; Sustainalytics as of Dec. 31, 2025.

\*Weight and contribution is average across 2025 in Morningstar Global All Cap Target Market. Exposure Index

Many sustainability index families employ the Morningstar Sustainalytics Controversy Rating to assess companies' involvement in media-reported ESG incidents, taking into account both real-world impacts on stakeholders and the environment and the potential financial materiality for the company. The Morningstar Sustainability Index family, for example, excludes all companies with a Controversy Rating above 3, reflecting High or Severe stakeholder or environmental impact, or elevated financial risk. While such exclusions can help mitigate headline and reputational risk, they may also create performance trade-offs.

In 2025, the Morningstar US Sustainability Index underperformed its parent benchmark by 3.5 percentage points, with a significant portion of this relative underperformance, approximately 2.7 percentage points, attributable to the strong performance of Alphabet. Alphabet was excluded because of its Category 4 Controversy Rating related to anticompetitive practices, as the company continues to face extensive antitrust scrutiny across the US, EU, and UK. These ongoing legal and regulatory actions increase the risk of structural remedies, substantial fines, and mandated changes to Google's core business practices.

Exhibit 2 showcases the importance of understanding ESG exclusions and their impact on portfolio construction. Different indexes may apply very different approaches, as seen by the vast difference in results between the Morningstar Global Climate Transition Benchmark Enhanced Index, which excluded 2.16% of its broad market parent, and the Morningstar Global Sustainable Activities Involvement Index, which excluded nearly 20% of its broad market parent.

**Exhibit 2** Sustainability Index Construction—ESG Exclusions by Index Family

Index Name	Number of stocks in broad market index	Number of stocks excluded because of ESG Exclusions	% of parent index market capitalization excluded
Morningstar Global Markets Sustainability	4,840	767	15.85%
Morningstar Developed Markets ex-US Sustainability	1,564	103	6.59%
Morningstar Global Paris Aligned Benchmark Enhanced	2,686	289	10.76%
Morningstar Global Climate Transition Benchmark Enhanced	2,686	58	2.16%
Morningstar Global Sustainable Activities Involvement	7,484	1,448	19.35%

Source: Morningstar Indexes as of Dec 31, 2025

### 3. The Renewable Energy Reversal of Fortune

Since 2022, renewable energy indexes have suffered major underperformance, and thanks to three positive factors, 2025 was finally the bounceback year.

- ▶ Interest Rate Pressure: The capital-intensive nature of renewable energy projects meant that a lower interest rate environment provided a tailwind for both project financing and equity valuations. In parallel, electricity demand growth accelerated, driven by data-center expansion linked to artificial intelligence adoption and the ongoing electrification of transportation and industrial activity.
- ▶ Demand: For the first time in years, renewables weren't competing just on climate goals—they were the fastest, cheapest way to add capacity. In the US and Europe, renewables accounted for nearly all new generation additions in early 2025. Though natural gas remains the dominant fuel source for US power generation (accounting for around 35% of generation in the first quarter of 2025), the overwhelming majority of new capacity additions have been concentrated in renewable energy, including solar, wind, and battery storage.<sup>3</sup>
- ▶ Policy Clarity: Government support and greater policy clarity, notably through initiatives such as the European Union's Net-Zero Industry Act and the US Inflation Reduction Act, helped reduce regulatory uncertainty and supported capital allocation toward clean energy assets, albeit unevenly across regions. At the same time, heightened geopolitical tensions reinforced energy security considerations, prompting governments and corporates to diversify energy sources and reduce reliance on imported fossil fuels.

At a micro level, it's useful to look at two top performers from 2025. Enlight Renewable Energy, a relatively pure-play renewable developer and operator, benefits from a diversified, multitechnology portfolio spanning wind and solar assets, alongside a geographically diverse footprint focused on

<sup>3</sup> Castelli, B. 2025. "Our Top Picks for Investing in US Renewable Energy." Morningstar.com. July 1, 2025. <https://www.morningstar.com/stocks/investment-opportunities-us-renewable-energy>

Europe, the United States, and Israel. The company derives the majority of its revenues from electricity generation, primarily from wind and solar projects in Europe, providing direct exposure to renewable capacity expansion and power-price dynamics<sup>4</sup>. Acciona SA was another notable contributor, albeit with a more diversified business model. In addition to its renewable energy operations, which center on wind, solar, hydro, and biomass, Acciona maintains a substantial infrastructure division encompassing construction, water treatment, industrial, and services activities<sup>5</sup>. While both companies benefit from structural clean-energy buildout trends, Acciona's diversified model provides risk mitigation, whereas Enlight's more-focused exposure amplifies both the upside and downside associated with renewable energy market dynamics.

#### Exhibit 3 Morningstar Developed Markets Renewable Energy Index

Leading Contributor Examples	Weight (%)	Return (%)	Contribution to Return (%)	Green Tech Revenue %	Examples of Activities
Enlight Renewable Energy	0.62	162.56	0.83	97.38	Wind Renewable Energy Generation, Solar PV Renewable Energy Generation, Solar PV Renewable Energy Support, Wind Renewable Energy Support
Acciona SA	0.55	100.71	0.45	52.05	Wind Renewable Energy Generation, Low Carbon Infrastructure Green Transportation, Construction Green Buildings, Hydropower Renewable Energy Generation, Technologies Maintenance, Technologies Maintenance Green Buildings, Renewable Energy, Solar PV Renewable Energy Generation, Renovation Green Buildings, Professional Services Green Buildings, Bioenergy Renewable Energy Generation, Technologies Green Vehicles

Source: Morningstar Direct & Sustainalytics as of Dec. 31, 2025.

#### 4. The Success of Carbon-Intensive Sectors Punishing Lower-Emitting Indexes

Outside the Magnificent Seven-driven technology and communication sectors, many of the best performing in 2025 were among the most carbon-intensive in the global economy. Elevated geopolitical tensions, historically high levels of central bank purchasing, and strong industrial demand sent precious-metals prices soaring. These industries carry some of the highest direct emissions because they depend on extraction, processing, and energy-heavy refining.

Industrial metals such as copper, aluminum, and fabricated metals also surged, despite their significant carbon footprints driven by smelting and high-temperature manufacturing. Even technology-adjacent industries, including semiconductor equipment and electronic components, rely on resource-intensive production and electricity-heavy supply chains.

In a somewhat ironic twist of fate, many investors will also recognize that the transition to a lower carbon economy is materials-heavy, not light. Steel, cement, copper, aluminum, chemicals, and

<sup>4</sup> PitchBook Data, Inc., "Company profile: Enlight Renewable Energy," PitchBook, accessed January 27, 2026

<sup>5</sup> PitchBook Data, Inc., "Company profile: Acciona SA," PitchBook, accessed January 27, 2026

hydrocarbons remain essential inputs. Even many clean technologies are more material-intensive per unit of energy delivered. This “materials paradox” was one of the most underappreciated drivers of 2025 performance.

Overall, 2025 rewarded some of the world’s highest-emitting industries. This dynamic naturally created performance headwinds for sustainability-tilted strategies, which tend to underweight or totally exclude these carbon-intensive sectors.

**Exhibit 4** Top 10 Performing Global Industries of 2025

Index Name	Annual Return 2025 USD (%)
Morningstar Global Other Precious Metals & Mining	202.67
Morningstar Global Gold	149.82
Morningstar Global Metals & Mining	88.48
Morningstar Global Copper	77.34
Morningstar Global Aluminum	67.80
Morningstar Global Semiconductor Equipment and Materials	65.23
Morningstar Global Electronic Components	60.78
Morningstar Global Metal Fabrication	56.06
Morningstar Global Aerospace and Defense	55.14
Morningstar Global Banks-Diversified	48.31
Morningstar Global All Cap TME	

Source: Morningstar Direct as of Dec. 31, 2025.

**5. The Lack of Defense and Financial-Services Exposure Ruining Non-US Equities Return to Form**

Outside the United States, mega-caps cannot be blamed for the underperformance of sustainability indexes. The drivers of underperformance were not as uniform across ex-US sustainability indexes. However, the too clear drivers were missing out on strong returns from the financial-services sector and heavy exclusions to the defense sector.

For example, the Morningstar Developed Markets ex-US Paris Aligned Benchmark underperformed its parent benchmark by less than 1 percentage point. This was driven largely by inherent overweight positions in healthcare, real estate, and consumer cyclical stocks, as well as an underweighting to financial services. Notably, the index held a significant overweighting to Novo Nordisk AS Class B, which finished 2025 down 39.32%.

The story was very different for the Morningstar Developed Markets ex-US Sustainability Index, which underperformed its benchmark by 4.62 percentage points in 2025. This methodology follows the best-in-class approach described earlier and struggled because of poor stock selection in financial services, industrials, and basic materials. The index failed to capture several of 2025’s strongest performers, including HSBC Holdings PLC, Banco Santander SA, Rolls-Royce Holdings PLC, and Barrick Mining.

It is also impossible to tell the story of sustainable investments in 2025 without discussing the defense industry. Investors, notably in Europe, are increasingly reconsidering long-standing exclusions on

defense within responsible-investment policies. Geopolitical tensions and Russia's 2022 invasion of Ukraine have prompted some to view defense spending as part of Europe's social responsibility, especially following the European Commission's clarification on how defense activities can align with the EU Sustainable Finance Disclosure Regulation. Rising defense budgets reinforce this shift. Morningstar Equity Research projects European defense spending to grow 6.1% annually through 2035, far outpacing the United States, Russia, and China, which has supported higher industry revenues, margins, and valuations. This momentum is reflected in sector performance, including a 79.43% gain in the Morningstar Developed Europe Aerospace and Defense Index in 2025.

However, many investors remain skeptical about defense's compatibility with sustainable-investment principles. Concerns focus on civilian harm, ethical considerations, limited transparency on export destinations, and elevated risks of bribery or corruption. Sustainalytics ESG Risk Ratings highlight these governance and human rights exposures as financially material for defense companies. The absence of a global standard for applying ESG criteria to defense adds further complexity, although evolving ESG data now allow investors to distinguish between conventional and controversial weapons. As of June 2025, the Morningstar Global Target Market Exposure Index included 17 companies flagged for involvement in controversial weapons, defined by Sustainalytics as weapons that cause indiscriminate or long-lasting civilian impacts.

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#### Exhibit 5 Regional Index Performance 2025

Index Name	Annual Return 2025 USD (%)
Morningstar Developed Markets Europe Target Market Exposure	36.35
Morningstar Developed Markets ex-US Target Market Exposure	32.67
Morningstar Emerging Markets Target Market Exposure	32.08
Morningstar US Target Market Exposure	17.80

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Source: Morningstar Direct as of Dec. 31, 2025.

#### 2025 Sustainable-Investment Results

The remainder of this publication goes into performance details on each standard Morningstar Index family. This study focuses on several series of indexes that select and/or weight constituents on ESG criteria.<sup>4</sup> A handful of indexes that are derived from broader benchmarks are excluded because the exposures they provide are already analyzed and are idiosyncratic in nature.

A total of 145 unique indexes spanning equities and bonds are analyzed in 2025, all of which have five-year performance histories except the Morningstar Low Carbon Transition Leaders Indexes. Sustainability indexes are classified into three broad buckets: ESG Risk, Climate, and Impact Aligned.

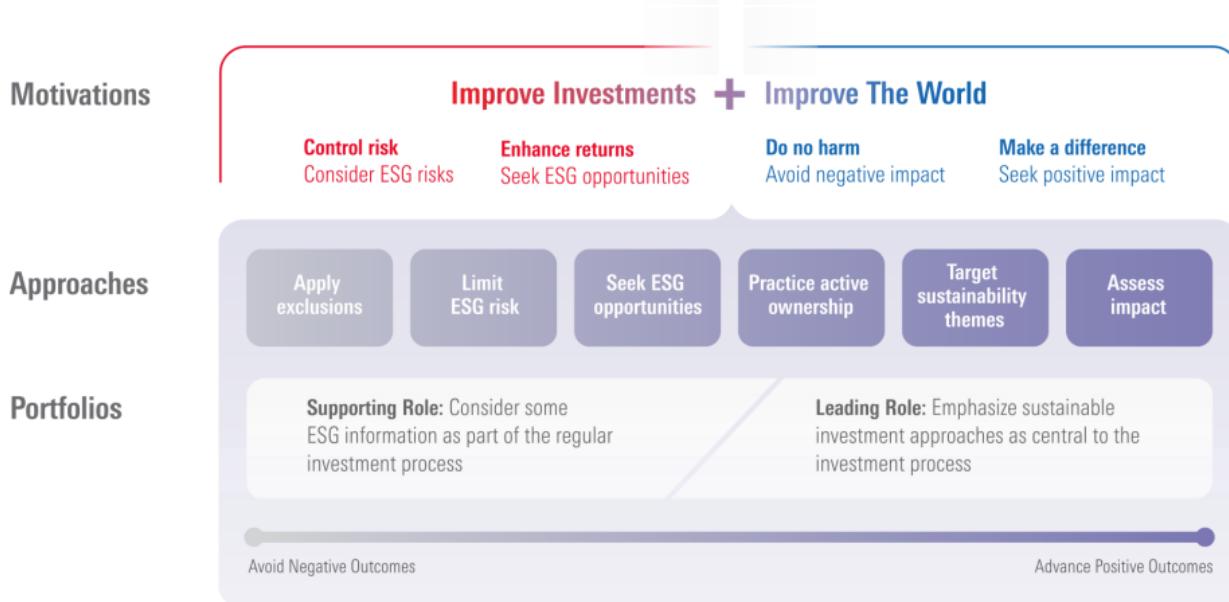
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<sup>4</sup> For a full methodological discussion of the indexes mentioned, refer to their construction rules and other documentation posted on the Morningstar Indexes website. <https://indexes.morningstar.com/>

### Representing Sustainable-Investing Approaches With Morningstar Indexes

Sustainable investments vary in their motivations, implementations, and applications. The Morningstar Sustainable-Investing Framework displayed in Exhibit 6 illustrates a broad spectrum of approaches with different goals and profiles. It is important to note that the approaches are not mutually exclusive. Many sustainable investments incorporate more than one approach—such as applying exclusions and limiting ESG risk.

**Exhibit 6** The Morningstar Sustainable-Investing Framework



Source: Morningstar.

Morningstar Indexes' range of sustainable-investing index solutions covers most of the approaches within the framework. Many indexes screen companies using the Sustainalytics ESG Risk Rating so can be considered primarily focused on limiting ESG risk relative to the market. Sustainalytics, a Morningstar company specializing in ESG data and research, covers tens of thousands of companies across the globe with a range of solutions. Sustainalytics products employed for index selection and weighting include Product Involvement Research, ESG Risk Ratings, Low Carbon Transition Rating, Country Risk Ratings, Sustainable Activities Involvement, Impact Metrics, and carbon data.<sup>7</sup>

<sup>7</sup> For a full discussion of Sustainalytics' data and research, see: <https://www.sustainalytics.com/>

**Exhibit 7** Morningstar Indexes' Sustainability Range (Number of Indexes in Index Family)

ESG Risk	Climate	Impact
Morningstar Sustainability (23)	Morningstar ex-Fossil Fuels Indexes (3)	Morningstar Sustainable Activities (6)
Morningstar Sustainability Leaders (10)	Morningstar Low Carbon Transition Leaders (9)	Morningstar Minority Empowerment
Morningstar Corporate Bond Sustainability (5)	Morningstar EU Climate (8)	Morningstar Women's Empowerment
Morningstar Sustainability Tilt (10)	Morningstar ESG Enhanced (6)	Morningstar Gender Diversity (8)
Morningstar Global Treasury Bond Sustainability (4)	Morningstar EU Climate Enhanced (12)	Morningstar Renewable Energy (4)
Morningstar Sustainability Styles (12)		Morningstar Societal Development
Morningstar Sustainability Moat Focus (5)		Morningstar LGBTQ+ Leaders
Morningstar Sustainability Dividend Yield Focus (12)		

Source: Morningstar Indexes.

For the purposes of risk/return analysis, most sustainability indexes are compared with their parent indexes (the non-ESG broad market benchmarks from which they are derived). For example, the Morningstar Global Markets Sustainability Index is compared with the Morningstar Global Markets Index. But in some cases, the sustainability index is compared with a closer equivalent. For example, the Morningstar Sustainability Moat Focus Indexes and the Morningstar Sustainability Dividend Yield Focus Indexes are compared with their non-ESG equivalents, the Morningstar Moat Focus Indexes and Morningstar Dividend Yield Focus Indexes, respectively. The goal is to isolate the effect of the ESG considerations. For all indexes, gross return or total return index variants in US dollars are examined for purposes of apples-to-apples comparison.

Indexes are compared with their non-ESG parent indexes (or non-ESG equivalents) on three parameters:

- ▶ 2025 excess returns
- ▶ Five-year trailing excess returns through year-end 2025
- ▶ Five-year downside capture through year-end 2025

While the returns comparison is straightforward, downside capture is chosen from a variety of risk measures because it helps gauge a portfolio's ability to preserve capital in bad market conditions. Capital preservation is critical to long-term investment success. A downside capture ratio above 100% implies greater losses than the market during losing periods; a downside capture ratio below 100% suggests lesser losses.

As with any study, this one has caveats:

- Attribution analysis will not be discussed for every index. Many of the contributors and detractors discussed regarding the Morningstar Sustainability Indexes apply more broadly.
- In 2019, Morningstar Sustainability Indexes transitioned from the Sustainalytics' ESG Rating, which was industry-relative, to the Sustainalytics ESG Risk Rating, which is an absolute gauge of ESG-related material financial risks to enterprise value. Returns until 2019 incorporate the ESG Rating, and returns from 2019 incorporate the ESG Risk Rating.
- Given the relatively recent development of sustainability indexes, the time periods assessed sometimes include back-cast returns. The oldest series studied, the Morningstar Sustainability Indexes, was launched in mid-2016, so its history spans the entire five years. Other indexes analyzed are newer. Preinception returns are simulated based on historical Sustainalytics ratings.

## Section 1 – ESG Risk

### Morningstar Sustainability Indexes

The Morningstar Sustainability Indexes represent broad equity market exposure while limiting ESG risk. After excluding companies exposed to tobacco, controversial weapons, and civilian firearms, as well as companies experiencing serious ESG-related controversies, the indexes select companies in order of their Sustainalytics ESG Risk Rating until 50% coverage by market cap of the parent index is reached. Sector and regional weights are kept within 2 percentage points of their equivalent market weight. Index constituents are weighted by market capitalization.

#### Exhibit 8 Morningstar Sustainability Indexes

Broad Regional Markets	Developed Markets	Emerging Markets	Single Country
Global Markets	Developed Markets	Emerging Markets	United States
Global Markets ex-US	Developed Markets	Emerging Markets Americas	Japan
Asia	Developed Markets ex-North America		United Kingdom
Asia ex-Japan	Developed Markets ex-US		Germany
Asia Pacific			Canada
Asia Pacific ex-Japan			Australia
Europe			India
Eurozone			Brazil
Nordics			

Source: Morningstar Indexes.

Launched in 2016, the Morningstar Sustainability Indexes are derived from the large- and mid-cap segment of the equivalent Morningstar Global Market Indexes. Indexes include back-cast returns based on historical Sustainalytics' company-level assessments.

As displayed in Exhibit 9, three of the 23 sustainability indexes outperformed in calendar-year 2025. On a five-year basis, two of 23 sustainability indexes outperformed their parent indexes. In terms of risk, three of 23 sustainability indexes lost less than their broad-market equivalents during down markets over the past five years.

**Exhibit 9** Morningstar Sustainability Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar Sustainability	2025 Excess	5Yr Excess Return	5 Year Down
Morningstar Asia	-3.83	0.27	104.57
Morningstar Asia Ex-Japan	-5.22	-0.12	103.62
Morningstar Asia Pacific	-4.63	0.00	103.96
Morningstar Asia Pacific Ex-Japan	-4.85	-0.18	101.27
Morningstar Australia	4.79	0.59	98.53
Morningstar Brazil	-3.39	-5.18	112.22
Morningstar Canada	-0.95	-0.66	100.75
Morningstar Developed Markets	-4.24	-0.84	102.49
Morningstar Developed Markets Europe	-6.52	-2.06	106.05
Morningstar Developed Markets ex North America	-4.57	-1.40	108.27
Morningstar Developed Markets ex US	-4.62	-1.70	109.95
Morningstar Emerging	-3.33	-0.16	105.62
Morningstar Emerging Americas	2.99	-0.30	102.14
Morningstar Europe	-6.46	-1.68	104.35
Morningstar Eurozone	-4.51	-0.45	99.71
Morningstar Germany	-0.58	-2.53	103.96
Morningstar Global	-4.31	-0.80	104.27
Morningstar Global xUS	-3.90	-0.48	106.36
Morningstar India	-0.22	-2.25	104.11
Morningstar Japan	-4.49	-0.56	108.55
Morningstar Nordic	3.45	-1.03	99.19
Morningstar UK	-12.61	-4.53	113.51
Morningstar US	-3.49	-0.77	102.06

Source: Morningstar Direct. Data as of Dec. 31, 2025.

**Morningstar Sustainability Leaders Indexes**

The Morningstar Sustainability Leaders Indexes are similar to the Morningstar Sustainability Indexes but more concentrated. They can deviate further from market weights by sector and region, and they exclude more classes of companies. The indexes exclude nuclear products and companies with significant exposure to gambling, alcohol, or adult entertainment, as well as those exposed to tobacco, controversial weapons, and civilian firearms. Companies experiencing serious ESG-related controversies according to Sustainalytics are excluded, as are companies that are not compliant with the United Nations Global Compact.

The Morningstar Sustainability Leaders Indexes are derived from the large-cap segment of the equivalent Morningstar region/country index. They select a fixed number of companies in order of their Sustainalytics ESG Risk Ratings. Index constituents are weighted by market cap.

**Exhibit 10** Morningstar Sustainability Leaders Indexes—Membership and Constituent Counts

Broad Regional Markets	Developed Markets	Emerging Markets	Single Country
Global Markets 100	Developed Markets 75	Emerging Markets 50	United States 50
Global Markets 75 ex-US	Developed Markets ex-US 50		Japan 25
Asia ex-Japan 50	Developed Europe 50 Nordics 50		

Source: Morningstar Indexes.

As displayed in Exhibit 11, two of 10 indexes outperformed their parent benchmarks in 2025, and three of 10 beat their parent indexes over the five-year period through the end of 2025. All 10 lost more in down markets than their non-ESG equivalents. The indexes are much more concentrated and less constrained in their sector weights than the Morningstar Sustainability Indexes, increasing their margins of outperformance/underperformance.

**Exhibit 11** Morningstar Sustainability Leaders Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar Sustainability Leaders Indexes	2025 Excess	5Yr Excess Return	5 Year Down
Morningstar Asia Ex-Japan	-4.37	-3.58	111.33
Morningstar Developed Markets	-6.52	0.27	133.57
Morningstar Developed Markets Europe	-4.29	0.52	121.69
Morningstar Developed Markets ex US	-10.78	-0.29	128.79
Morningstar Emerging	0.62	-2.46	108.96
Morningstar Global	-0.01	2.27	131.89
Morningstar Global ex US	-11.40	-0.06	131.79
Morningstar Japan	-13.00	-2.26	112.35
Morningstar Nordic	12.56	-3.62	103.05
Morningstar US	-5.42	-1.35	118.47

Source: Morningstar Direct. Data as of Dec. 31, 2025.

**Morningstar Corporate Bond Sustainability Indexes**

The Morningstar Corporate Bond Sustainability Indexes are essentially the fixed-income equivalents of the Morningstar Sustainability Indexes. After excluding issuers exposed to tobacco, controversial weapons, and civilian firearms, as well as companies experiencing serious ESG-related controversies according to Sustainalytics, the indexes select securities reflecting the top 50% of the parent universe by

market value of securities with the lowest Sustainalytics ESG Risk Ratings across 27 distinct categories. The indexes maintain similar interest rate sensitivity, yield, sector weights, and credit quality as the corporate bond index parents from which they are derived. The Morningstar US Corporate Bond Sustainability Index launched in 2019, and the other indexes launched in 2021 with performance back-cast to 2016. The indexes are:

- ▶ Morningstar Global Corporate Bond Sustainability Index
- ▶ Morningstar US Corporate Bond Sustainability Index
- ▶ Morningstar Eurozone Corporate Bond Sustainability Index
- ▶ Morningstar UK Corporate Bond Sustainability Index
- ▶ Morningstar Canada Corporate Bond Sustainability Index

As displayed in Exhibit 12, one of the five indexes outperformed their parent benchmarks in calendar-year 2025. On a five-year basis, two of the five indexes outperformed their parents. In terms of risk, two of the five corporate bond sustainability indexes lost less than their non-ESG equivalents during down markets over the past five years.

**Exhibit 12** Morningstar Corporate Bond Sustainability Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar Corporate Bond Sustainability Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Canada	-0.13	-0.11	101.54
Morningstar Eurozone	0.03	0.07	99.64
Morningstar Global	-0.16	-0.07	100.79
Morningstar UK	-0.01	0.09	99.92
Morningstar US	-0.26	-0.14	101.62

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Morningstar Sustainability Tilt Indexes

The Morningstar Sustainability Tilt Indexes aim to minimize portfolio-level ESG risk while delivering diversified exposure similar to their parent indexes, the Morningstar Global Markets Indexes. The tilt indexes exclude companies exposed to tobacco, controversial weapons, and civilian firearms, as well as severe ESG-related controversies and companies out of compliance with the United Nations Global Compact. Each eligible company is weighted according to market capitalization modified by the Sustainalytics ESG Risk Rating. The indexes' sector and regional weights are constrained to within 2 percentage points of their parent indexes. The indexes were launched in 2022 with performance history back-cast to December 2015 based on historical Sustainalytics ratings. The indexes are:

- ▶ Morningstar Global Markets Sustainability Tilt Index
- ▶ Morningstar Developed Markets Sustainability Tilt Index
- ▶ Morningstar US Sustainability Tilt Index
- ▶ Morningstar Global Markets ex-US Sustainability Tilt Index
- ▶ Morningstar Developed Markets ex-US Sustainability Tilt Index

- ▶ Morningstar Asia Pacific Sustainability Tilt Index
- ▶ Morningstar Developed Markets Europe Sustainability Tilt Index
- ▶ Morningstar Emerging Markets Sustainability Tilt Index
- ▶ Morningstar Japan Sustainability Tilt Index
- ▶ Morningstar Canada Sustainability Tilt Index

As displayed in Exhibit 13, one of 10 indexes outperformed in 2025, while two of 10 indexes outperformed over the five-year period and two of 10 lost less in down markets than their non-ESG equivalents for the trailing five-year period.

**Exhibit 13** Morningstar Sustainability Tilt Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar Sustainability Tilt Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Asia Pacific	-0.95	0.13	100.37
Morningstar Canada	-5.01	-0.29	97.11
Morningstar Developed Markets	-2.65	-1.17	103.97
Morningstar Developed Markets Europe	-3.07	-1.11	105.60
Morningstar Developed Markets xUS	-2.94	-0.82	106.23
Morningstar Emerging	0.32	0.52	99.39
Morningstar Global	-2.13	-0.79	103.63
Morningstar Global xUS	-1.21	-0.19	102.83
Morningstar Japan	-2.12	-0.11	103.64
Morningstar US	-3.52	-1.68	102.82

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Morningstar Global Treasury Bond Sustainability Indexes

Morningstar Global Treasury Bond Sustainability Indexes include developed-market, investment-grade Treasury bonds issued in each country's home currency. The indexes leverage Sustainalytics Country Risk Ratings, which are applied to 172 countries. The rating measures risk to a country's long-term prosperity and economic development by assessing how sustainably it is managing its natural, human, and institutional capital. Sustainalytics assesses more than 30 indicators to score three areas that correspond to the E, S, and G pillars. Meanwhile, an event rating assesses incidents that might have negative impact, such as state corruption or violent conflict. The indexes are tilted toward those countries with lower country sustainability risks and incorporates environmental, social, or governance criteria. The indexes are:

- ▶ Morningstar Global Treasury Bond Sustainability Index
- ▶ Morningstar Global ex-US Treasury Bond Sustainability Index
- ▶ Morningstar Global ex-Japan Treasury Bond Sustainability Index
- ▶ Morningstar Eurozone Treasury Bond Sustainability Index

The indexes launched in 2021 with returns back-cast to 2014 based on Sustainalytics' ratings. As displayed in Exhibit 14, zero of four indexes outperformed in 2025, while one of four indexes with five-year histories outperformed over the five-year period and one of four lost less than their non-ESG equivalents for the trailing five-year period.

**Exhibit 14** Morningstar Global Treasury Bond Sustainability Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar Global Treasury Bond Sustainability Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Eurozone	-0.39	-0.24	100.91
Morningstar Global	-0.01	0.25	99.04
Morningstar Global Treasury	-0.23	-0.02	100.94
Morningstar Global ex Japan Treasury	-0.06	-0.23	103.23

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Morningstar Sustainability Styles Indexes

The Morningstar Sustainability Styles Indexes represent broad equity market style segments while reweighting constituents of their parent indexes to favor companies with lower ESG risk, as measured by their Sustainalytics ESG Risk Rating. The indexes are derived from the Morningstar Global Style Indexes or Morningstar Broad Style Indexes (US only). They exclude companies exposed to tobacco, controversial weapons, or civilian firearms, those deemed to be noncompliant with the United Nations Global Compact, and those with severe ESG-related controversies. Each eligible company is weighted according to market capitalization modified by Sustainalytics ESG Risk Rating. Weights at the security, region, and sector levels are constrained to within 5 percentage points of parent index weight. The indexes launched in 2022 with back-cast returns to 2015 based on historical Sustainalytics data. The indexes are:

- ▶ Morningstar Global Sustainability Large-Mid Cap Growth Index
- ▶ Morningstar Global Sustainability Large-Mid Cap Value Index
- ▶ Morningstar Global Sustainability Large Cap Growth Index
- ▶ Morningstar Global Sustainability Large Cap Value Index
- ▶ Morningstar Global Sustainability Mid Cap Growth Index
- ▶ Morningstar Global Sustainability Mid Cap Value Index
- ▶ Morningstar US Sustainability Large-Mid Cap Broad Growth Index
- ▶ Morningstar US Sustainability Large-Mid Cap Broad Value Index
- ▶ Morningstar US Sustainability Large Cap Broad Growth Index
- ▶ Morningstar US Sustainability Large Cap Broad Value Index
- ▶ Morningstar US Sustainability Mid Cap Broad Growth Index
- ▶ Morningstar US Sustainability Mid Cap Broad Value Index

It is useful to compare the Morningstar Sustainability Styles Indexes to both their broad equity market parents and to their style-specific equivalents. The latter comparison is the one that contributes to this study's overall results. Comparing the sustainability styles indexes to their non-ESG equivalents isolates the risk/return effect of the sustainability screens.

First, we observe in Exhibit 15 that three of 12 Sustainability Style Indexes outperformed their broad equity market equivalents in 2025 and four of 12 for the five-year period. Downside capture ratios versus the broad market are not computed.

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**Exhibit 15** Morningstar Sustainability Styles Indexes Return Record vs. Broad Equity Market Index

Morningstar Sustainability Styles Indexes	2025 Excess	5Yr Excess Return
Morningstar Global Large Growth	-4.42	-1.41
Morningstar Global Large Value	-0.36	0.34
Morningstar Global Large-Mid Growth	-3.89	-1.87
Morningstar Global Large-Mid Value	0.91	0.40
Morningstar Global Mid Growth	-7.43	-3.91
Morningstar Global Mid Value	2.70	1.93
Morningstar US Mid Val	4.30	2.35
Morningstar US Large Broad Growth	-16.93	0.00
Morningstar US Large Broad Value	-8.17	-5.08
Morningstar US Large-Mid Growth	-1.10	-0.95
Morningstar US Large-Mid Value	-5.31	-3.22
Morningstar US Mid Growth	-6.06	-4.32

Source: Morningstar Direct. Data as of Dec. 31, 2025.

In Exhibit 16, when we compare the Morningstar Sustainability Style Indexes to their available non-ESG style equivalents, with three of 12 outperforming in 2025. Over the five-year period, two of 12 indexes outperformed their non-ESG screened equivalents and three of 12 lost less during down periods.

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**Exhibit 16** Morningstar Sustainability Styles Indexes Risk/Return Record vs. Morningstar Style Index Equivalent

Morningstar Sustainability Style Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Global Large Growth	0.42	0.94	101.29
Morningstar Global Large Value	4.48	2.69	61.15
Morningstar Global Large-Mid Growth	-0.89	-0.12	101.43
Morningstar Global Large-Mid Value	-2.36	-1.05	106.85
Morningstar Global Mid Growth	-8.69	-6.36	107.62
Morningstar Global Mid Value	-4.82	-3.70	127.09
Morningstar US Mid Val	1.04	-0.19	99.33
Morningstar US Large Broad Growth	-16.37	-0.40	115.81

Morningstar US Large Broad Value	-8.81	-3.95	111.14
Morningstar US Large-Mid Growth	-0.06	-0.68	98.81
Morningstar US Large-Mid Value	-6.43	-2.90	109.46
Morningstar US Mid Growth	-2.71	-1.48	103.73

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Morningstar Sustainability Moat Focus Indexes

The Morningstar Sustainability Moat Focus Indexes target the shares of a select set of companies with durable competitive advantages, relatively attractive valuations, and moderate to low exposure to ESG risks. The principal sustainability screen, the Sustainalytics ESG Risk Rating, focuses on the issues most likely to affect a company's financial results. The other two inputs rely on Morningstar's team of stock analysts, who assign Morningstar Economic Moat Ratings and fair value estimates to each company they cover. The indexes exclude companies exposed to tobacco, controversial weapons, companies with Sustainalytics ESG Risk Ratings of High or Severe, those that have experienced serious ESG-related controversies over the past three years. The indexes also screen out securities in the bottom 20% in terms of negative share price momentum. Every quarter, the indexes select a target number of companies with wide or narrow Morningstar Economic Moat Ratings that carry the lowest current price/fair value ratios that meet the ESG criteria. The indexes launched in 2020 with back-cast returns to 2014. The indexes are:

- ▶ Morningstar Global Markets Sustainability Moat Focus Index
- ▶ Morningstar Developed Markets Sustainability Moat Focus Index
- ▶ Morningstar US Sustainability Moat Focus Index
- ▶ Morningstar Global Markets ex-US Sustainability Moat Focus Index
- ▶ Morningstar Developed Markets Europe Sustainability Moat Focus Index

Although the Morningstar Sustainable Moat Focus Indexes are derived from their all-capitalization market equivalents, they are compared below both with their broad equity market parents and their equivalent Morningstar Moat Focus Index. The latter comparison is the one that contributes to this study's overall results. Comparing Morningstar Sustainable Moat Focus Indexes to their non-ESG equivalents isolates the risk/return effect of the sustainability screens.

First, we observe in Exhibit 17 that one of five Sustainable Moat Focus Indexes outperformed its broad equity market equivalents in 2025 or for the five-year period. Downside capture ratios versus the broad market are not computed.

**Exhibit 17** Morningstar Sustainability Moat Focus Indexes Risk/Return Record vs. Broad Equity Market Index

Morningstar Sustainability Moat Focus Indexes	2025 Excess	5Yr Excess Return
Morningstar Developed Markets	-1.65	-2.01
Morningstar Developed Markets Europe	7.68	1.59
Morningstar Global	-5.67	-2.52
Morningstar Global xUS	-2.49	-0.87
Morningstar US	-9.60	-5.37

Source: Morningstar Direct. Data as of Dec. 31, 2025.

But in Exhibit 18, when we compare the Morningstar Sustainability Moat Focus Indexes with their non-ESG moat focus equivalents, we see that zero of five outperformed in 2025. Over the five-year period, zero of five indexes outperformed their non-ESG screened equivalent, and two of five lost less during down periods.

**Exhibit 18** Morningstar Sustainability Moat Focus Indexes Risk/Return Record vs. Morningstar Moat Focus Equivalent Index

Morningstar Sustainability Moat Focus Indexes	2025 Excess	5Yr Excess Return	5 Year Down
Morningstar Developed Markets	-2.29	-0.94	104.33
Morningstar Developed Markets Europe	-0.73	-0.86	96.07
Morningstar Global	-3.85	-0.50	102.14
Morningstar Global ex US	-6.46	-0.94	91.21
Morningstar US	-6.06	-4.80	104.75

Source: Morningstar Direct. Data as of Dec. 31, 2025.

**Morningstar Sustainability Dividend Yield Focus Indexes**

The Morningstar Sustainability Dividend Yield Focus Indexes select the shares of dividend-paying companies that are competitively advantaged and financially healthy. To be eligible, a security must have paid a dividend in the past 12 months, be assigned a Morningstar Economic Moat Rating or a Quantitative Economic Moat Rating, a Sustainalytics ESG Risk Rating, a Sustainalytics Controversy Rating, and a Morningstar Distance to Default score. The indexes exclude companies exposed to tobacco, controversial weapons, and those with serious ESG-related controversies. Eligible securities that are assigned wide or narrow moat ratings must rank in the top 50% of their Morningstar region-sector cohort by Distance to Default score. The portfolio of securities passing the screens is optimized to achieve a high Portfolio Corporate Sustainability Score. To maximize yield, the index is weighted based on trailing 12-month available dividends, which considers dividend per share and number of shares. The indexes launched in 2020 with back-cast returns to 2012. The indexes are:

- ▶ Morningstar Global Markets Sustainability Dividend Yield Focus Index
- ▶ Morningstar Developed Markets Sustainability Dividend Yield Focus Index
- ▶ Morningstar US Sustainability Dividend Yield Focus Index

- Morningstar Global Markets ex-US Sustainability Dividend Yield Focus Index
- Morningstar Developed Markets ex-US Sustainability Dividend Yield Focus Index
- Morningstar Emerging Markets Sustainability Dividend Yield Focus Index
- Morningstar Japan Sustainability Dividend Yield Focus Index
- Morningstar Developed Markets Asia Pacific ex-Japan Sustainability Dividend Yield Focus Index
- Morningstar Developed Europe Sustainability Dividend Yield Focus Index
- Morningstar Nordic Sustainability Dividend Yield Focus Index
- Morningstar UK Sustainability Dividend Yield Focus Index
- Morningstar Canada Sustainability Dividend Yield Focus Index

Although the Morningstar Sustainability Dividend Yield Focus Indexes are derived from their all-capitalization broad market parents, they are compared both with their parent indexes and their equivalent Morningstar Dividend Yield Focus Indexes. The latter comparison is the one that contributes to this study's overall results. Comparing Sustainability Dividend Yield Focus Indexes to their non-ESG equivalents isolates the risk/return effect of the sustainability screens.

First, we observe in Exhibit 19 that four of 12 Sustainability Dividend Yield Focus Indexes outperformed their broad equity market equivalents in 2025. For the five-year period, eight of 12 outperformed. Downside capture ratios versus the broad market are not computed.

**Exhibit 19** Morningstar Sustainability Dividend Yield Focus Indexes Risk/Return Record vs. Broad Equity Market Index

Morningstar Sustainability Dividend Yield Focus	2025 Excess	5Yr Excess Return
Morningstar Canada	-9.37	-2.78
Morningstar Developed Europe	-7.36	-1.54
Morningstar Developed Markets	5.00	0.25
Morningstar Developed Markets Asia Pacific Ex-Japan	-5.23	0.73
Morningstar Developed Markets ex US	0.94	3.44
Morningstar Emerging	-8.95	2.66
Morningstar Global	3.51	1.45
Morningstar Global ex US	-0.91	4.07
Morningstar Japan	-5.90	1.49
Morningstar Nordic	11.01	1.65
Morningstar UK	-24.54	-10.65
Morningstar US	-7.87	-2.39

Source: Morningstar Direct. Data as of Dec. 31, 2025.

But in Exhibit 20, when we compare the Morningstar Sustainability Dividend Yield Focus Indexes to their non-ESG Morningstar Dividend Yield Focus Index equivalents, we see that five of 12 outperformed in 2025. Over the five-year period, seven of 12 indexes outperformed their non-ESG screened equivalents, and seven of 12 lost less during down periods.

**Exhibit 20** Morningstar Sustainability Dividend Yield Focus Indexes Risk/Return Record vs. Morningstar Dividend Yield Focus Equivalent Index

Morningstar Sustainability Dividend Yield Focus	2025 Excess	5Yr Excess Return	5 Year Down
Morningstar Canada	1.37	-0.72	95.25
Morningstar Developed Markets Europe	-7.63	-2.08	106.51
Morningstar Developed Markets	1.53	-0.49	104.12
Morningstar Developed Markets Asia Pacific Ex-Japan	2.53	0.29	99.95
Morningstar Developed Markets ex US	-2.46	0.01	96.69
Morningstar Emerging	1.84	2.18	86.83
Morningstar Global	0.07	0.36	93.11
Morningstar Global ex US	-0.95	1.01	103.99
Morningstar Japan	-2.49	2.27	83.21
Morningstar Nordic	-8.11	-1.81	105.54
Morningstar UK	-20.03	-6.37	112.35
Morningstar US	-2.20	0.53	93.57

Source: Morningstar Direct. Data as of Dec. 31, 2025.

## Section 2: Climate

### Morningstar Low Carbon Transition Leaders Indexes

The Morningstar Low Carbon Transition Leaders Indexes are designed to provide diversified, broad market exposure to companies leading their sector peers in their commitment to climate transition. Eligible companies from the large/mid-cap parent index are grouped by sector and ranked according to their composite Low Carbon Transition Leaders Score, which is based on a combination of a company's current carbon intensity and its Management Score, as measured by Sustainalytics' Low Carbon Transition Rating. The indexes target the best-scoring 50% of companies from each sector (by market cap). The indexes also seek to emphasize companies that report carbon emissions and are reducing their carbon intensity, as well as those whose business activities contribute positively to the environment. For each sector, companies are ranked by their Low Carbon Transition Leaders Composite Score in ascending order, and their cumulative weight is calculated. Securities with the best scores are selected for membership until a maximum of 50% of the parent benchmark sector weight is achieved.

**Exhibit 21** Morningstar Low Carbon Transition Leaders Indexes

Broad Regional Markets	Developed Markets	Emerging Markets	Single Country
Global Markets	Developed Markets	Emerging Markets	United States
Asia Pacific	Developed Markets ex-North America		Japan
	Developed Europe		
	Nordics		

Source: Morningstar Indexes.

The Morningstar Low Carbon Risk Indexes launched in 2025, but the indexes have returns back-cast to December 2021, meaning we do not currently perform the five-year tests. The Morningstar Low Carbon

Transition Leaders Indexes are derived from the large- and mid-cap segment of the equivalent region/country index.

As displayed in Exhibit 22, four of the eight Morningstar Low Carbon Transition Leaders Indexes outperformed in 2025. Over the five-year period, five of eight indexes outperformed their non-ESG screened equivalents, and three of eight lost less during down periods.

**Exhibit 22** Morningstar Low Carbon Transition Risk/Return Record vs. Equivalent Large/Mid-Cap Index

Morningstar Low Carbon Transition Leaders	2025 Excess	5Yr Excess Return	5 Year Down
Morningstar Asia Pacific	-5.66	-1.67	111.00
Morningstar Developed Markets	0.01	1.33	99.74
Morningstar Developed Markets Europe	-6.84	-1.20	104.76
Morningstar Developed Markets ex North America	-3.89	0.36	108.84
Morningstar Emerging	-1.98	-0.23	96.59
Morningstar Global	1.03	2.33	102.06
Morningstar Japan	-0.71	-1.05	105.08
Morningstar Nordic	23.17	3.16	95.28
Morningstar US	4.86	2.72	100.68

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Morningstar EU Climate Indexes

The Morningstar EU Climate Indexes achieve the EU Carbon Transition Benchmark (CTB) and EU Paris-Aligned Benchmark (PAB) requirements by providing a decarbonization trajectory to limit the global increase in temperatures to below 1.5 degrees Celsius while minimizing tracking error to their parent indexes. The indexes are powered by Sustainalytics' carbon emissions data. The CTB indexes target a 30% minimum reduction in average emissions versus their parent benchmarks, while the PAB indexes target a 50% minimum reduction. Both follow an ongoing decarbonization trajectory of at least 7% per year. The indexes are derived from the large- and mid-capitalization segment of the equivalent Morningstar Global Markets Index. They exclude companies involved in controversial weapons, those deemed to be noncompliant with the United Nations Global Compact, and those experiencing ESG-related controversies as according to Sustainalytics. For the PAB indexes, companies are also excluded if they earn more than 5% of revenue from thermal coal extraction, 10% or more from oil sands extraction, oil and gas production, Arctic oil extraction, or more than 50% of revenue from shale extraction, oil and gas generation, or thermal coal power generation. The indexes launched in 2021 with back-cast returns to December 2014 based on historical Sustainalytics data. The indexes are:

- ▶ Morningstar Global Markets EU Climate Transition Benchmark Index
- ▶ Morningstar Global Markets Paris Aligned Benchmark Index
- ▶ Morningstar Developed Markets EU Climate Transition Benchmark Index
- ▶ Morningstar Developed Markets Paris Aligned Benchmark Index
- ▶ Morningstar Developed Europe EU Climate Transition Benchmark Index
- ▶ Morningstar Developed Europe Paris Aligned Benchmark Index

- Morningstar Emerging Markets EU Climate Transition Benchmark Index
- Morningstar Emerging Markets Paris Aligned Benchmark Index

As displayed in Exhibit 23, zero of eight outperformed in 2025. For the five-year period, three out of eight outperformed and one of eight lost less than its parent index during down periods.

**Exhibit 23** Morningstar EU Climate Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar EU Climate Indexes	2025 Excess	5Yr Excess Return	5 Year Down
Morningstar Developed Markets Europe CTB	-7.48	-2.55	109.09
Morningstar Developed Markets Europe CTB	-7.24	-1.98	105.19
Morningstar Developed Markets PAB	-1.05	-0.11	104.48
Morningstar Developed Markets PAB	-1.55	0.10	101.86
Morningstar Emerging Markets CTB	-0.43	0.04	99.11
Morningstar Emerging Markets PAB	-0.10	-0.16	100.86
Morningstar Global CTB	-1.34	0.12	102.08
Morningstar Global PAB	-0.89	-0.11	104.50

Source: Morningstar Direct. Data as of Dec. 31, 2025.

**Morningstar EU Climate Enhanced Indexes**

The Morningstar EU Climate Enhanced Indexes achieve the EU Carbon Transition Benchmark (CTB) and EU Paris-Aligned Benchmark (PAB) requirements by providing a decarbonization trajectory to limit the global increase in temperatures to below 1.5 degrees Celsius while minimizing tracking error to their parent indexes. The indexes are powered by Sustainalytics' carbon emissions data. The CTB indexes target a 30% minimum reduction in average emissions versus their parent benchmarks, while the PAB indexes target a 50% minimum reduction. Both follow an ongoing decarbonization trajectory of at least 7% per year. The indexes are derived from the large- and mid-capitalization segment of the equivalent Morningstar Global Target Market Exposure Index. They exclude companies involved in controversial weapons, those deemed to be noncompliant with the United Nations Global Compact, and those experiencing ESG-related controversies as according to Sustainalytics. For the PAB indexes, companies are also excluded if they earn more than 5% of revenue from thermal coal extraction, 10% or more from oil sands extraction, oil and gas production, Arctic oil extraction, or more than 50% of revenue from shale extraction, oil and gas generation, or thermal coal power generation. The indexes launched in 2025 and feature an objective to minimize tracking error relative to the parent index.

As displayed in Exhibit 24, five of 12 outperformed in 2025. For the five-year period, two out of 12 outperformed and two of 12 lost less than their parent index during down periods.

**Exhibit 24** Morningstar EU Climate Enhanced Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar EU Climate Enhanced Indexes	2025 Excess	5Yr Excess Return	5 Year Down
Morningstar Developed Markets CTB	-0.28	-0.24	100.76
Morningstar Developed Markets Europe CTB	-1.29	-0.43	104.14
Morningstar Developed Markets Europe PAB	-1.16	-0.96	107.02
Morningstar Developed Markets PAB	0.67	-0.45	101.96
Morningstar Developed Markets ex US CTB	-1.50	-0.53	102.82
Morningstar Developed Markets ex US PAB	-1.16	-0.51	103.80
Morningstar Emerging Markets PAB	0.74	0.15	93.85
Morningstar Emerging Markets CTB	0.99	0.37	94.04
Morningstar Global CTB	-0.40	-0.16	100.49
Morningstar Global PAB	0.50	-0.44	101.70
Morningstar US CTB	-0.42	-0.16	100.73
Morningstar US PAB	0.28	-0.27	102.41

Source: Morningstar Direct. Data as of Dec. 31, 2025.

**Morningstar ex-Fossil Fuels Indexes**

The Morningstar ex-Fossil Fuels Indexes are derived from the large- and mid-capitalization segment of the equivalent Morningstar Global Markets Index for equity and the Morningstar Global Core Bond Index for fixed income. The indexes exclude companies that derive more than 5% of revenue from thermal coal extraction, thermal coal power generation, oil and gas production, oil and gas power generation, oil sands extraction, or Arctic oil and gas exploration and extraction. The index also excludes companies that derive more than 50% of revenue from oil- and gas-supporting products/services.

As displayed in Exhibit 25, two of three indexes outperformed in 2025, while two of three indexes outperformed over the five-year period and two of three lost less than their non-ESG equivalents for the trailing five-year period.

**Exhibit 25** Morningstar ex-Fossil Fuel Indexes Risk/Return Record vs. Non ESG Parent Index

Morningstar Global Ex-Fossil Fuel Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Canada	4.51	0.25	104.80
Morningstar Global	0.30	-0.22	103.17
Morningstar Global Core	0.00	-0.04	100.39

Source: Morningstar Direct. Data as of Dec. 31, 2025.

**Morningstar ESG Enhanced Indexes**

The Morningstar ESG Enhanced Indexes aim to minimize portfolio-level ESG risk and reduce carbon emissions intensity while delivering diversified exposure similar to their parent indexes, the Morningstar Target Market Exposure Indexes, which target 85% of equity market capitalization. The indexes exclude companies exposed to tobacco, controversial weapons, and civilian firearms, as well as

those experiencing severe ESG-related controversies and companies out of compliance with the United Nations Global Compact. They aim to minimize portfolio-level ESG risk as measured by aggregated Sustainalytics ESG Risk Ratings. The indexes limit tracking error versus their parents by constraining active weights at the security level, sector, and country levels, employing the Morningstar Global Industry Standard Risk Model. The indexes were launched in 2021 with performance history back-cast to December 2015 based on historical Sustainalytics ratings. The indexes are:

- ▶ Morningstar US Markets ESG Enhanced Index
- ▶ Morningstar UK ESG Enhanced Index
- ▶ Morningstar Developed Europe ex-UK ESG Enhanced Index
- ▶ Morningstar Japan ESG Enhanced Index
- ▶ Morningstar Developed Asia Pacific ex-Japan ESG Enhanced Index
- ▶ Morningstar Emerging Markets ESG Enhanced Index

As displayed in Exhibit 26 below, one of six indexes outperformed in 2025, while two of six indexes outperformed over the two-year period and two of six lost less than their non-ESG equivalents for the trailing five-year period.

**Exhibit 26** Morningstar ESG Enhanced Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar ESG Enhanced Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Developed Europe ex-UK	-2.06	-0.13	99.42
Morningstar Developed Markets Asia Pacific Ex-Japan	1.62	0.39	100.45
Morningstar Emerging	-0.69	-0.22	97.79
Morningstar Japan	-1.29	0.02	101.28
Morningstar UK	-5.03	-1.20	105.44
Morningstar US	-0.34	-0.42	103.27

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Section 3: Impact Aligned

#### Morningstar Sustainable Activities Involvement Indexes

The Morningstar Sustainable Activities Involvement (SAI) Indexes are designed to deliver exposure to companies whose business activities contribute positively to the United Nations Sustainable Development Goals. Index constituents must pass stringent ESG screens and derive at least 50% of revenues from one or more of the following Sustainalytics' Impact Themes: Human Development, Climate Action, Healthy Ecosystems, Resource Security, and Basic Needs. There are indexes built to capture each of the individual themes, and in these cases, a threshold of 25% is used. To emphasize companies signaling positive contribution, index weights are tilted toward those with the greatest percentage of revenue derived from SDG-aligned activities, as measured by Sustainalytics' SAI data, which is part of Sustainalytics' Impact Metrics products. The indexes launched in 2023 with returns back-cast to 2018 based on historical Sustainalytics data. All of the SAI are compared with the

Morningstar Global All Cap Target Market Exposure Index, which serves as the starting point for SAI index construction.

As displayed in Exhibit 27, four of nine outperformed in 2025 while two of nine indexes outperformed over the five-year period and two of nine lost less than their non-ESG equivalents for the trailing five-year period.

**Exhibit 27** Morningstar Sustainable Activities Involvement Indexes vs. Non-ESG Parent Indexes

Morningstar Sustainable Activities Involvement Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Developed Markets Europe SAI	-8.08	-8.18	123.64
Morningstar Developed Markets SAI	7.83	0.21	109.42
Morningstar Global Basic Needs	-3.47	-3.35	79.71
Morningstar Global Climate Action	13.41	-0.72	126.79
Morningstar Global Healthy Ecosystems	-23.08	-8.71	94.67
Morningstar Global Human Development & Resource Security	-13.03	-10.26	120.44
Morningstar Global Resource Security	-12.37	-10.05	121.59
Morningstar Global SAI	3.32	-0.81	105.53
Morningstar Transatlantic SAI	8.33	0.60	113.28

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Morningstar Societal Development Index

The Morningstar Societal Development Index includes 200 companies from developed and emerging markets that are contributing to the United Nations' 17 Sustainable Development Goals, which target global challenges such as poverty, inequality, and stewardship of land, air, and sea. Its scoring considers policies and programs related to human rights, labor protection, environmental protection, and corruption as assessed by Sustainalytics. The index has an emphasis on companies that are contributing to global development, so companies active in lesser-developed countries are emphasized.

### Morningstar Minority Empowerment Index

The Morningstar Minority Empowerment Index targets the shares of 200 US companies selected for their commitment to diversity and inclusion. Its scoring leverages indicators researched by Sustainalytics, including board diversity, discrimination policies, and support for community development programs.

### Morningstar Women's Empowerment Index

The Morningstar Women's Empowerment Index is similar in that it also targets 200 companies listed in the United States, but its focus is a commitment to gender equity. Companies are assessed by specialist researcher Equileap on 19 criteria, including gender balance within a company's workforce, board, and executive ranks, as well as equal compensation and policies such as paid maternity leave.

### Morningstar LGBTQ+ Leaders Index

The Morningstar Developed Markets LGBTQ+ Leaders Index is designed to deliver exposure to 100 large- and mid-cap companies with strong LGBTQ+ inclusive policies and practices from a range of regions and sectors. The index is underpinned by data from Morningstar Sustainalytics and ExecuPride, a socially focused enterprise that harnesses data science to monitor advancements and provide insights on LGBTQ+ inclusion.

All of the above indexes are derived from their equivalent large- and mid-cap market segment indexes. For all of the indexes except the LGBTQ+ index, sector and regional weights are kept to within 4 percentage points of their market weight.

As displayed in Exhibit 28, two of four impact indexes outperformed in 2025, while three of four indexes outperformed over the five-year period. Three lost less than their non-ESG equivalents for the trailing five-year period.

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#### Exhibit 28 Morningstar Socially Focused Risk/Return Record vs. Non-ESG Parent Index

Morningstar Socially Focused Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Developed Markets LGBTQ+ Leaders	-2.70	0.45	93.83
Morningstar Minority Empowerment	5.38	1.50	101.84
Morningstar Societal Development	7.89	1.15	99.93
Morningstar Women's Empowerment	-8.39	-2.09	96.40

Source: Morningstar Direct. Data as of Dec. 31, 2025.

### Morningstar Gender Diversity Indexes

Morningstar Gender Diversity Indexes use Equileap assessments, like the Women's Empowerment Index discussed above, but hold most of the same constituents as their parent indexes with weights tilted toward better-scoring companies. Companies embroiled in legal cases involving gender-based violence and discrimination are excluded. The indexes are tightly constrained against their parent indexes, the equivalent large/mid-cap broad equities segment indexes. The regional gender diversity indexes launched in 2020 with back-cast history from 2014 based on historical Equileap data.

As displayed in Exhibit 29, one of nine gender diversity-focused indexes outperformed in 2025. For the five-year period, five of the nine outperformed, and eight of the nine lost less during down markets over the last five years.

**Exhibit 29** Morningstar Gender Diversity Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar Gender Diversity Indexes	2025 Excess Return	5Yr Excess Return	5 Year Down
Morningstar Canada Eurozone	0.46	0.55	99.15
Morningstar Developed Markets Asia Pacific	-0.87	0.09	101.18
Morningstar Developed Markets Europe	-0.85	0.58	94.65
Morningstar Developed Markets Eurozone	-1.54	-0.54	98.27
Morningstar Developed Markets Ex-Japan Eurozone	-0.35	-0.55	99.41
Morningstar Japan Eurozone	-1.26	0.51	98.33
Morningstar Japan ex REIT Tilt	-0.45	0.43	98.37
Morningstar UK Eurozone	-1.72	-0.42	99.37
Morningstar US Eurozone	-2.04	-0.94	98.01

Source: Morningstar Direct. Data as of Dec. 31, 2025.

For Developed Markets Gender Diversity Indexes, overweighting healthcare, consumer defensive, and energy in 2025 hurt performance. Technology companies tend to score worse, which also led to underweighting and underperforming relative to the benchmark. In Japan, performance continues to be strong. Modest overweightings in communication services and financial services improved performance the most.

**Morningstar Renewable Energy Indexes**

The Morningstar Renewable Energy Indexes highlight the shares of companies leading the transition to the low-carbon economy. The indexes select companies exposed to renewable energy or green transportation and include companies that meet a significant percentage of their energy needs from renewable sources. The 30-stock indexes focus solely on renewable energy and green transportation. The indexes rely on Sustainalytics' Sustainable Product Research and Carbon data using revenue to determine a company's involvement. For the indexes that include both producers and users of renewable energy, there are two index sleeves. The first sleeve, which selects companies that generate revenue from renewable energy or green transportation involvement, represents 75% of index weight. The second, which highlights heavy consumers of renewable energy, represents 25% of index weight. Companies are equally weighted within their sleeves.

The Morningstar North America Renewable Energy Index launched in 2019, with back-cast returns to June 2018 based on historical Sustainalytics data. The other indexes launched in 2020 with back-cast returns to December 2015 based on historical Sustainalytics data. The indexes are derived from their equivalent all-capitalization market segment. The indexes rare:

- ▶ Morningstar Global Markets Renewable Energy Index
- ▶ Morningstar Developed Markets Renewable Energy Index
- ▶ Morningstar North America Renewable Energy Index
- ▶ Morningstar Developed Europe Renewable Energy Index

As displayed in Exhibit 30, four of the four renewable-energy-focused indexes outperformed in 2025. For the five-year period, zero of four indexes with five-year performance histories outperformed, and one of four lost less than its broad market equivalent in down periods.

**Exhibit 30** Morningstar Renewable Energy Indexes Risk/Return Record vs. Non-ESG Parent Index

Morningstar Renewable Energy	2025 Return Excess	5Yr Excess Return	5 Year Down
Morningstar Developed Markets Europe	5.89	-5.34	125.69
Morningstar Developed Markets	10.63	-6.46	100.64
Morningstar Global	2.74	-5.58	95.20
Morningstar North America	5.12	-7.16	105.66

Source: Morningstar Direct. Data as of Dec. 31, 2025.

**Understanding Sustainable Investments Performance Requires Understanding Broader Market Drivers**

Investors should look at longer-term performance as well as calendar-year returns and keep in mind that sustainable investing encompasses a broad range of strategies, some of which are riskier or more volatile than others. Morningstar Indexes' annual sustainability performance study began in 2018, and each year has unique drivers of over- or underperformance for each index family.

The year 2025 is a good reminder that, to understand the performance of any portfolio, you must fully recognize and understand any active risk you are taking versus the broad market. What is certain now is that any deviation from a market portfolio will produce a different outcome. Some market environments will favor sustainable-investment strategies and others won't. Studying past behavior can help guide sustainability-focused investors going forward. 

**About Morningstar Indexes**

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. From traditional benchmarks and unique IP-driven indexes, to index design, calculation and distribution services, our solutions span an investment landscape as diverse as investors themselves.

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The logo for Morningstar Indexes. The word "MORNINGSTAR" is in a bold, black, sans-serif font, with the "M" being significantly larger than the other letters. To the right of "MORNINGSTAR", the word "Indexes" is written in a smaller, regular black font.

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