

April 25, 2025

Morningstar ESG Enhanced Indexes Consultation

Morningstar Indexes is considering a methodology change for the Morningstar UK ESG Enhanced Index and Morningstar Developed Europe ex-UK ESG Enhanced Index. These indexes employ an optimization framework powered by the Morningstar Global Equity Risk Model (global risk model). Morningstar Indexes is considering transitioning these indexes to the Developed Europe regional risk model from the global risk model.

This proposal is intended to improve the performance of the optimizer in terms of utilizing the full budget of the ex-ante tracking error targets. This is achieved by delivering less conservative tracking error forecasts, which should reduce the frequency with which the constraints are relaxed to find feasible solutions. This should also allow for greater reduction in the overall portfolio-level ESG risk. A pro forma impact analysis suggests this change would have delivered higher tracking error and turnover to the parent benchmark, relative to the indexes' live records, as summarized [here](#).

These changes would be effective from the June reconstitution on, effective after the close of Friday, June 20, 2025.

We are soliciting client feedback on this proposal.

Submit your responses and questions

Responses to this consultation can be submitted [here](#).

General questions about the consultation may also be sent to indexes@morningstar.com.

Key dates

- **Consultation:** The consultation will be open for response from April 25 to May 8, 2025
- **Decision announcement:** Final decisions will be announced by May 16, 2025.
- **Proposed implementation:** June 20, 2025.

Questions

1. Should Morningstar Indexes move the Morningstar UK ESG Enhanced and Morningstar Developed Europe ex-UK ESG Enhanced Indexes to the Developed Europe regional risk model?
 - a. Yes, make this change for both indexes.
 - b. No, keep both indexes on the global risk model.
 - c. Only move the Morningstar Developed Europe ex-UK ESG Enhanced Index to the regional model.
 - d. Only move the Morningstar UK ESG Enhanced Index to the regional model.
2. If Morningstar Indexes adopts these changes, when should they first be applied?
 - a. At the June reconstitution, after the close of June 20, 2025.
 - b. Other, please explain.
3. What other factors should Morningstar Indexes consider in making these decisions?

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.

Contact Us

MorningstarIndexesAlerts@morningstar.com is a no-reply email address. For questions concerning this notification, please contact us at Indexes@morningstar.com.

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