Morningstar Developed Markets ex-Japan Human Capital Index

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Human capital has emerged as an important determinant of long-term corporate performance. This reflects a broader shift in the sources of corporate value, as an increasing share of market capitalization is now attributable to intangible assets rather than physical capital. Companies that consistently invest in attracting, developing, engaging, and retaining top talent are better positioned to drive innovation, enhance productivity, and deliver sustainable long-term value. Academic research supports this link, suggesting that companies rated among the best employers tend to deliver stronger long-term stock returns. As a result, human capital management has become an important consideration for investors seeking a more comprehensive understanding of long-term business quality.

The Morningstar Developed Markets ex-Japan Human Capital Index is designed to enhance exposure to companies with strong human capital management practices while minimizing the tracking error to the parent benchmark. The index reduces exposure to companies involved in high controversies and those that are not compliant with the United Nations Global Compact (UNGC).

What is Human Capital Management Score?

The Human Capital Management (HCM) Score provides a comprehensive, data-driven assessment of how effectively a company manages its human resources and labor relations practices including:

- attracting and retaining talent
- providing advancement opportunities in a diverse and equal environment
- providing an inclusive corporate culture
- freedom of association
- non-discrimination
- working hours
- minimum wage

The HCM Score for a company is derived from a set of management indicators. These include policy and program indicators, freedom of association policy, working hours policy, discrimination policy, programs for gender pay equity, employee training, and human capital development. They also include outcome-focused indicators. Outcome-focused indicators measure management performance either directly in quantitative terms (e.g., employee turnover rate, percentage of temporary workers) or via a company's involvement in controversies (represented by the company's risk event indicators like Labour Rights Risk or Employee Human Rights Risk).

Exposure to Human Capital risk is driven primarily by a company's labour structure, which is based on its labour and skill intensity, the propensity for work stoppages and level of diversity within the workforce. The management evaluation considers how well a company is mitigating its exposure through suitable policies and programmes and how these efforts are reflected in the actual performance of a company on relevant metrics. The management score is determined by aggregating the weighted individual management and risk event indicator scores. The selection of indicators and their respective weights are determined at subindustry level based on their thematic relevance for a given subindustry and Sustainalytics Research & Methodology experts' assessment of what management is needed for mitigating exposure to Human Capital risks. The scoring scale is 0–100, with higher being better.

Index eligibility

The Morningstar Developed Markets ex-Japan Human Capital Index derives its constituents from the Morningstar Developed Markets ex-Japan Target Market Exposure Index, which represents the top 85% of the investable market by market cap. To be eligible for index inclusion, securities must be covered by the Morningstar Global Standard Risk Model (USD Currency). Additionally, secondary share classes are excluded with the primary share classes representing the full company weight.

Portfolio construction

An optimizer allocates weights to constituents with the goal of minimizing the tracking error relative to the parent index, subject to following constraints:

- Ex-ante tracking error of the portfolio is minimized with respect to the benchmark.
- No short positions allowed
- The maximum weight of the constituent is restricted to lesser of 3 times the benchmark weight and benchmark weight + 2%. Constituents with high controversy scores or UNGC non-compliance are assigned lower weights of 0.9 times the benchmark weight.
- The sector, region, and country's active weights are set within +/-2.5%, +/-1.5% and +/-1%, respectively, relative to the parent weight.
- Weighted Average Human Capital Management score of the portfolio is at least 10% higher relative to the Weighted Average Human Management Capital Score of parent index.
- The turnover constraint is relaxed up to 30% in increments of 1% starting from 5%.

Reconstitution

The index is reconstituted and rebalanced quarterly in March, June, September, and December.

Construction process

Starting universe	Eligibility	Portfolio construction	
• Morningstar Developed Markets ex Japan Target Market Exposure Index • Represents the top 85% of the investable market by market cap	• Securities must be covered by the Morningstar Risk Model. • Only the primary share class is included, representing the full company weight.	• Constituent weights are allocated via an optimizer with the goal of minimizing tracking error relative to the parent index, subject to constraints.	Morningstar Developed Markets ex-Japan Human Capital Index

About Morningstar Indexes

Morningstar Indexes was built to meet 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. In February 2026, the acquisition of CRSP brought the CRSP Market Indexes—benchmarks for over $3 trillion in AUM—into the Morningstar Indexes family. Rebranded to the Morningstar Market Indexes in July 2026, these indexes are recognized globally for their high-quality methodology and focus on investability. Additionally, CRSP's Research Data Products, renowned for their academic rigor, historical depth and accuracy, will further enhance Morningstar's equity research and data capabilities. This integration unites two trusted sources of market insight, reinforcing a shared commitment to transparency, quality, and investor-focused solutions.

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