

# The Morningstar Global Sustainability Index Family

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Investors increasingly use their capital to reflect their values related to environmental, social, and governance issues. What’s more, a growing body of research suggests that companies adhering to high standards on ESG factors may outperform industry peers over the long haul.<sup>1</sup>

## Morningstar Sustainability Indexes

At Morningstar, we define sustainable investing as an approach that takes into account ESG factors and their impact throughout the investment process. The Morningstar Sustainability Index family delivers exposure to companies that exhibit high standards of sustainability while maintaining a risk/return profile similar to that of the overall market. The indexes provide benchmarks for ESG investment strategies.

## Best-in-Class Methodology

Construction of the indexes within the Morningstar Sustainability Index family follows a five-step process:

1. Defining the eligible universe. The indexes draw from the large- and mid-capitalization subsets of the Morningstar Global Equity Indexes, which represent 90% of global market capitalization in developed and emerging markets.
2. Applying a product involvement screen. We exclude companies manufacturing controversial weapons—anti-personnel mines, cluster munitions, chemical, or biological weapons—as well as those that derive more than 50% of revenue from tobacco products.
3. Assigning Company Sustainability Scores. Eligible companies are compared to industry peers on ESG factors based on three metrics:
  - a. A Company-level ESG Score is assigned based on a company’s management systems, practices, policies, and other ESG indicators on a 0-100 scale.
  - b. The Controversy Score gauges the seriousness of incidents related to a company—taking into account the intensity and impact of events impacting a business employing—on a 1-5 scale, with 5 being severe.
  - c. The Company Sustainability Score is the firm’s ESG Score with the firm’s Controversy Score subtracted.
4. Selecting best-in-class companies. Stocks are selected in priority order of their sustainability scores until they reach 50% coverage by float-adjusted market capitalization of the parent index. Eligible companies that have experienced serious controversies are excluded from the index.
5. Controlling for deviation from underlying benchmarks. Weights in underlying regions and sectors may deviate from the parent index by two percentage points. These constraints make the indexes appropriate for investors looking to achieve broad-based exposures or restricted from deviating significantly from their strategic asset allocation.

## The Morningstar Sustainability Benchmark Series Construction Process



<sup>1</sup> Gordon Clark, et al., “From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance,” University of Oxford and Arabesque Partners, September 2014  
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### Constituent Weighting

Index constituents are weighted according to their free float of shares outstanding. The free float is defined as a company's outstanding shares adjusted for block ownership to reflect only shares available for investment. The types of block ownership that are considered during float adjustment are cross ownership, government ownership, private ownership, and restricted shares.

### Rebalancing and Reconstitution

The indexes are reconstituted semiannually and rebalanced quarterly. Companies with a recent material controversy at rebalance are removed from the portfolio.

### Efficient Portfolio Building Blocks

The Morningstar Sustainability Index family is a complete, non-overlapping system with each index representing a unique opportunity set. The index family works as an integrated system, allowing for meaningful global views across regions, countries and market capitalization. Each index can be used as a building block for creating investment products and constructing efficient portfolio.

### Powered by Sustainalytics

Morningstar uses company-level sustainability research provided by Sustainalytics, an independent firm with global reach and a reputation for insightful research. The firm covers 4,500 companies with its comprehensive ESG ratings and more than 10,000 companies with its controversial incidents indicators. Its transparent ratings methodology spans dimensions of preparedness, disclosure, quantitative data-points, and qualitative performance, considering 60-80 indicators per company.



### Morningstar Global Sustainability Index Family

Our sustainable investing indexes, built with proprietary Morningstar research and company-level information from Sustainalytics.

Broad Regional Markets	Developed Markets	Emerging Markets	Single Country
Global Markets	Developed Markets ex-U.S.	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			