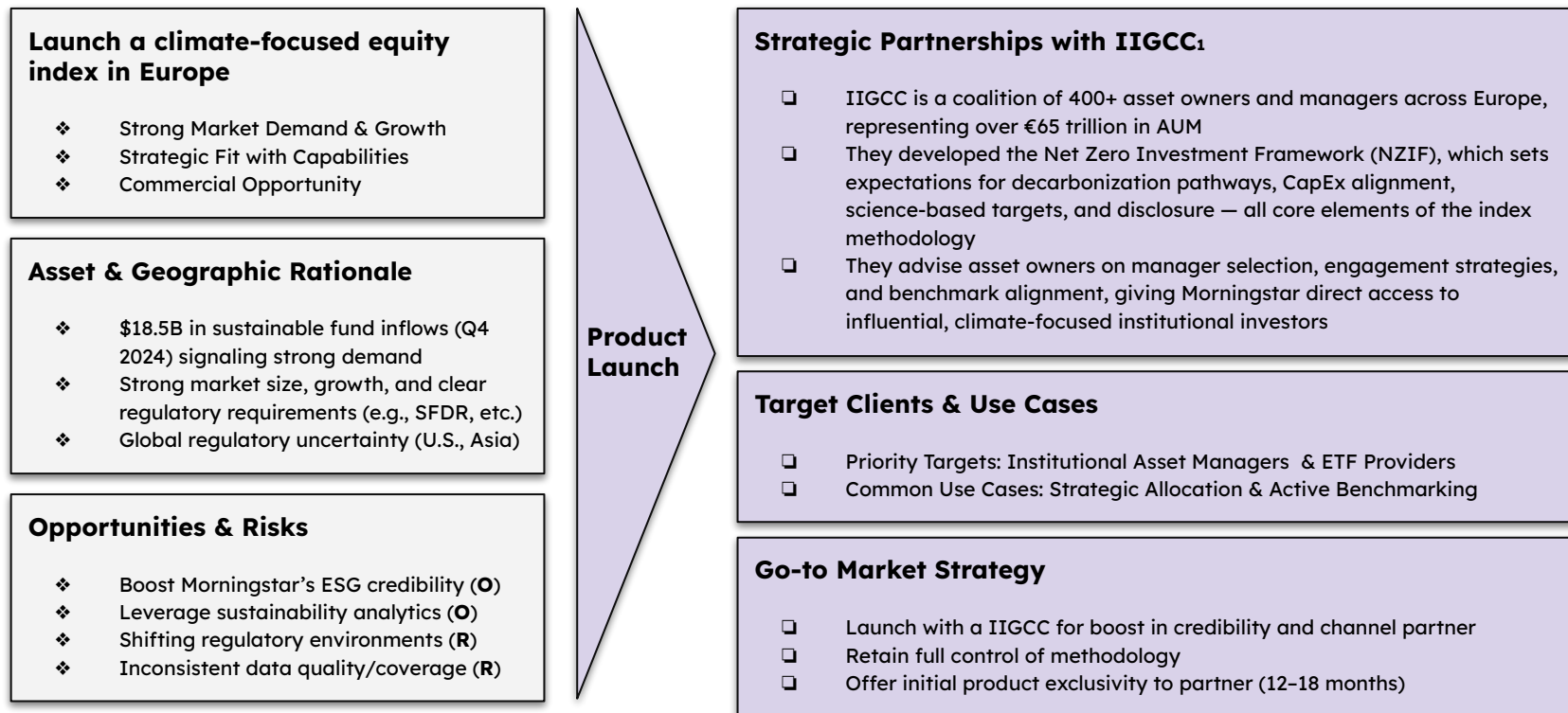


Executive Summary

Morningstar has a strategic window to become a leader in Europe by launching a climate-focused ESG equities index

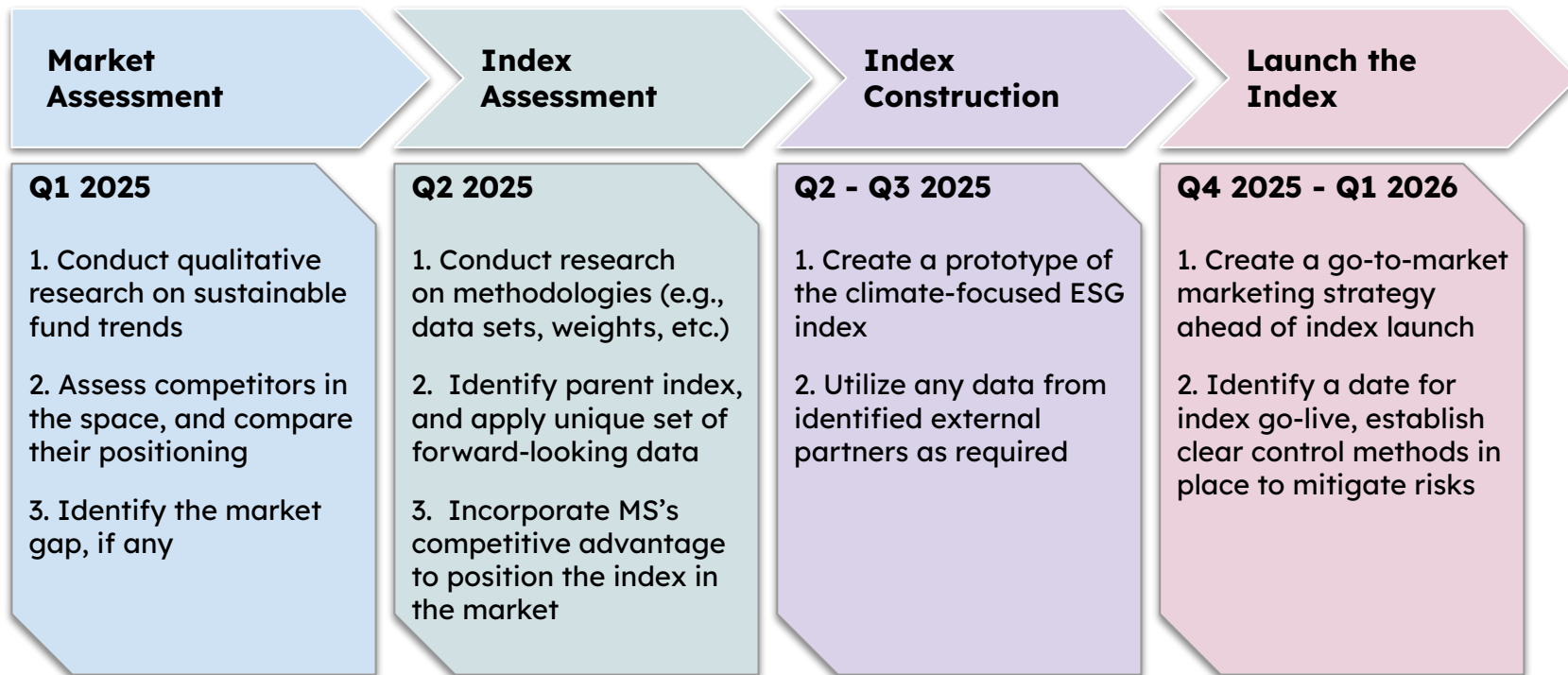


1. Institutional Investors Group on Climate Change

Approach

Morningstar can successfully launch a climate-focused index, by following a structured four-phase approach

Four Phased Approach



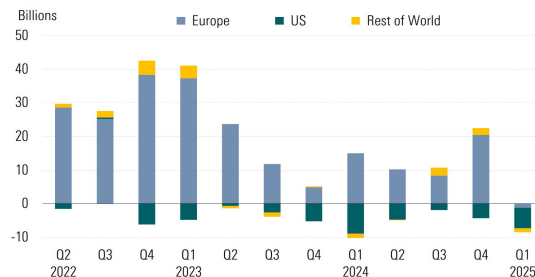
Market Assessment: Trends & Demand by Region/Assets

Europe leads in ESG assets, with equities as the core, driven by regulation and demand

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)



Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



Region Highlights:

- Europe holds ~84% of global sustainable fund assets; U.S. at 10%
- Europe saw first outflows since 2018, amid U.S. climate policy uncertainty

Exhibit 8 European Sustainable Fund Flows by Asset Class (USD Billion)

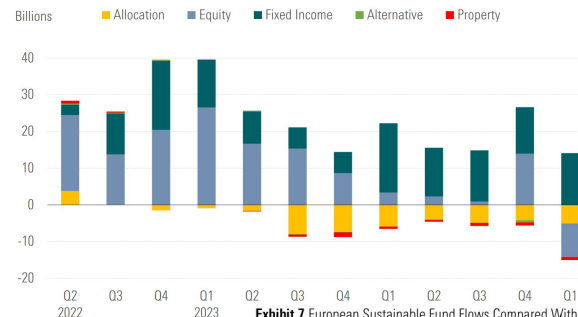


Exhibit 7 European Sustainable Fund Flows Compared With Conventional Fund Flows by Asset Class

USD Billion	Sustainable Funds		Conventional Funds		Overall Fund Universe	
	Q1 2025	Q4 2024	Q1 2025	Q4 2024	Q1 2025	Q4 2024
Allocation	-5.1	-4.2	5.8	5.9	0.7	1.8
Alternative	0.0	-0.6	2.5	0.5	2.5	-0.1
Commodities	0.0	-0.1	5.1	-1.9	5.1	-1.9
Convertibles	-0.1	-0.3	-1.0	-0.4	-1.2	-0.7
Equity	-9.2	13.9	80.7	73.2	71.5	87.1
Fixed Income	14.0	12.7	69.2	65.3	83.2	78.0
Miscellaneous	-0.1	-0.2	2.4	1.2	2.2	0.9
Property	-0.8	-0.8	-2.0	-2.7	-2.8	-3.6
Total	-1.2	20.4	162.6	141.1	164.1	165.1

Asset Highlights:

- Sustainable equity funds saw \$9.2B in outflows — first quarterly loss since 2018
- Sustainable fixed-income funds gained \$14B — highest in a year
- Equities offer most reliable data due to disclosure standardization

Market Assessment: Competitive Landscape

Morningstar should leverage their competitive advantage around data integration, coverage, methodologies, and alignment with frameworks to compete within the Ecosystem (e.g., MSCI, S&P, FTSE, etc.) on a climate-focused index

Metric	Morningstar	MSCI	S&P	FTSE	Bloomberg
1. Climate Data Integration	Integrated with Sustainalytics	Extensive proprietary metrics	Uses Trucost data	Advanced through green rev. & TPI	Integrates CDP, ISS data
2. Climate-Index Coverage	6	45	123	56	500+
3. Transparency & Methodology	Detailed reports	Proprietary Methodology	Less granular	Rules-based methodology	Improving with ESG initiatives
4. Alignment with Global Frameworks	Paris-benchmarks aligned	Global Standards aligned	TCFC/SDG aligned	TCFD / EU Taxonomy aligned	Growing alignment with TCFD/SFDR
5. Usage in Products	Increasing in ESG theme	Adapted across passive & active	Used in major ETFs	Broadly used in ETFs	Limited Usage

Weak

Moderate

Strong

Index Design: Scope & Coverage

Morningstar should create an index focused on European equities with strong climate disclosures



Geographic Focus

- Europe, including EU + UK, Norway, Switzerland
- Offers the most mature and credible environment for climate investing
- Ensures better data transparency and comparability with clear regulations



Market Capitalization

- All-cap developed public companies (large, mid and small)
- Diverse list of companies across large-cap (e.g., Nestle, ASML), mid-cap (e.g., Vestas, Adyen), and small-cap (e.g., Bonesupport)
- This “all-inclusion” ensures high liquidity and institutional relevance

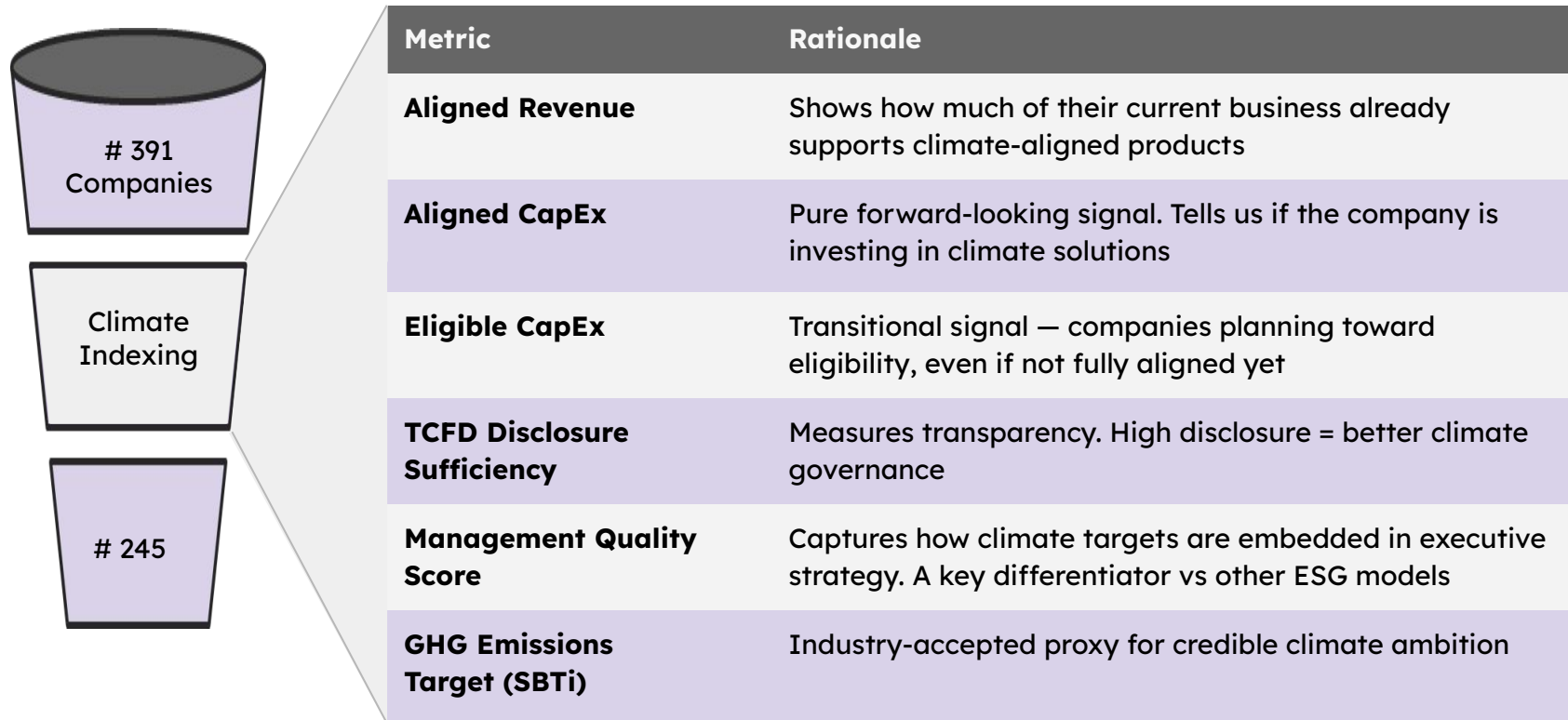


Asset Class

- ESG adoption is most advanced in equities
- From -\$300B in 2010 to over \$600B in 2019
- Equities provide:
 - better disclosures (e.g., emissions, green revenue, CapEx)
 - forward-looking metric application
 - flexible index design

Index Design: Methodology

Filtering European Equities to Identify Forward-Looking Climate Leaders through a Data-Driven Methodology



Index Design: Competitive Advantage

Morningstar's ESG Index Strategy Must Account for Real-World Constraints Across Policy, Data, and Performance

Feature	Rationale
✓ Forward-Looking Signals	Focuses on CapEx, targets, and governance — not just emissions
✓ Reported Data Only	Transparent, auditable; avoids opaque modeling seen in MSCI, S&P
✓ Blended Investment + Governance Tilt	Combines where money is going and how the climate is managed

MSCI Climate Transition Benchmark

- ✗ Overweight to large-caps, uses black-box ESG ratings and backward-looking emissions. Often has unclear methodology

S&P Paris-Aligned Index





- ✗ Heavy exclusions, low transparency. Based mostly on emissions intensity, not investment or forward planning

FTSE TPI Climate Transition

- ✗ Strong methodology, but relies heavily on transition pathways that can be harder to apply to small/mid-caps. Limited revenue alignment analysis

Index Design: Risk & Challenges

Filtering European Equities to Identify Forward-Looking Climate Leaders through a Data-Driven Methodology

	Items	Risk	Mitigation
	Evolving Regulatory Landscape	The regulatory environment is dynamic and may shift index eligibility criteria	Design the index to be modular and flexible without complete reengineering
	Data Gaps and Coverage Inconsistency esp. forward looking metrics	Data gaps & inconsistency across emissions data, forward-looking metrics, etc.	Leverage Sustainalytics' hybrid methodology and apply confidence scoring
	Competitive Market Saturation	The European ESG index space is already crowded	Emphasize transparency, customizable frameworks, and differentiated scoring
	Performance Scrutiny vs. ESG Ambition	A strong ESG tilt may lead to tracking error or short-term underperformance	Balance exclusions with forward-looking transition metrics to maintain investability

Strategic Partnership

Partnering with IIGCC would allow MS to validate its index using IIGCC forward-looking climate criteria and directly engage with leading institutional investors

Why IIGCC?

- ❑ IIGCC is a coalition of 400+ asset owners and managers across Europe, representing over €65 trillion in AUM
- ❑ They developed the Net Zero Investment Framework (NZIF), which sets expectations for decarbonization pathways, CapEx alignment, science-based targets, and disclosure — all core elements of the index methodology
- ❑ They advise asset owners on manager selection, engagement strategies, and benchmark alignment, giving Morningstar direct access to influential, climate-focused institutional investors

Partnership Structure

- ❑ **Morningstar** retains full control of methodology and data (via Sustainalytics)
- ❑ **IIGCC** acts as a validation and distribution partner
- ❑ Index co-branded or endorsed as aligned with **NZIF** standards
- ❑ Enables engagement with members like **Brunel, Nest, Scottish Widows**

Mutual Benefit

Morningstar Benefits

- ❑ Enhances credibility and market positioning
- ❑ Drives institutional adoption & visibility
- ❑ Aligns with Article 8/9 and SFDR priorities

IIGCC & Asset Owner Benefits

- ❑ Gains credible, forward-looking benchmark
- ❑ Supports manager selection & engagement frameworks
- ❑ Provides practical index aligned with NZIF objectives

Target Clients & Use Cases

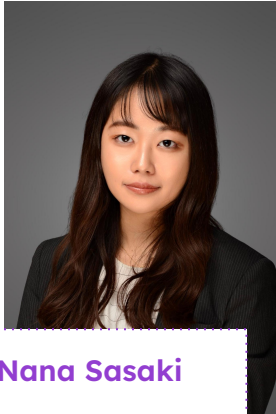
Prioritizing Institutional Asset Managers & ETF Providers Based on Demand and Product Fit

Client Segment	Main Needs	Product Fit	Strategic Allocation	Active Benchmarking	Index Product Devt.
Institutional Asset Managers	Differentiated benchmarks for model portfolios, long-term exposure to megatrends	Index with transparent methodology enables conviction-based allocation	✓	✓	✓
ETF Providers	Ready-to-launch index products with investor appeal and regulatory viability	Thematic and climate exposure + Morningstar brand boosts marketability	✓	✓	
Wealth Managers & RIAs	Scalable, rules-based exposure for high-net-worth and retail clients	Index offers easy integration into client portfolios, tax-efficiency potential	✓		
Pension and Sovereign Funds	ESG-compliant, long-horizon strategies with downside risk controls	Index can be customized with ESG filters and geographic constraints	✓	✓	
Digital Platforms & Fintechs	Turnkey investable products for app-based investing and model portfolios	Index can be embedded in digital wrappers or robo-advisory offerings	✓		✓

NYU Stern MBA Team



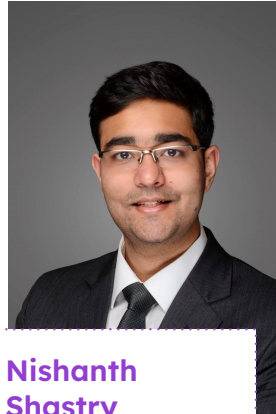
Jacob Case



Nana Sasaki



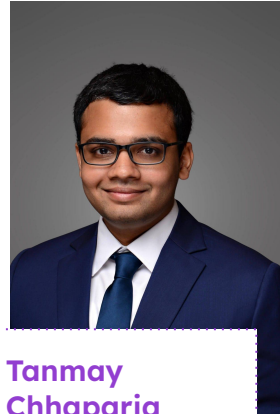
Biraj Rijal



Nishanth
Shastry



Nive Venkat



Tanmay
Chhaparia

Appendix.

Market Assessment: Trends & Demand by Region

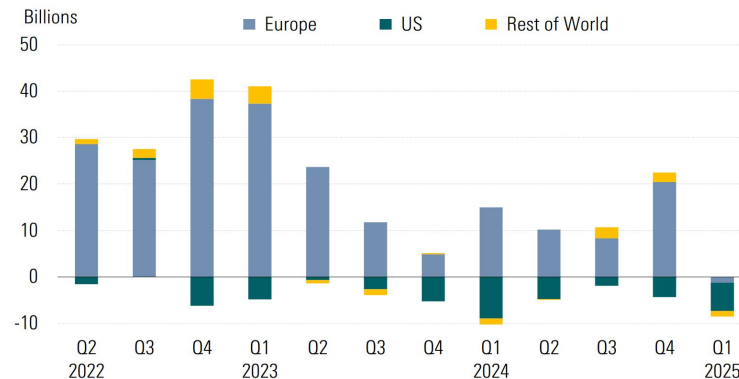
Europe remains the largest market by investable ESG assets, as investing assets have grown in absolute terms

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of March 2025.

Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of March 2025.

Region Highlights:

- Europe dominates the pool of sustainable fund assets, accounting for ~80% of all asset allocation
- Europe makes up 84% of global sustainable fund assets, second is the U.S. at 10%
- For the first time since at 2018, European sustainable funds suffered outflows, mostly due to market uncertainty amid the U.S. President's anti-climate change position

Market Assessment: Trends & Demand by Asset Class

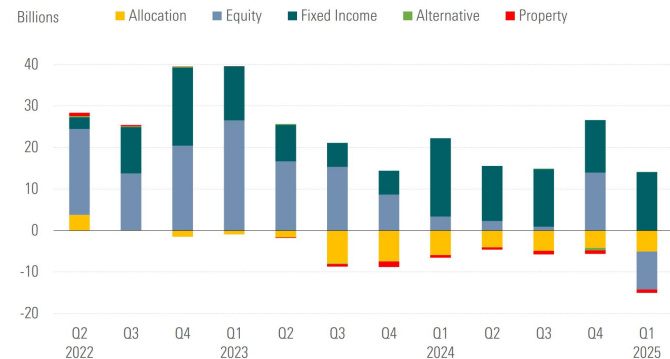
Equities are the clear cornerstone of sustainable investing - driven by regulation and investor demand

Exhibit 7 European Sustainable Fund Flows Compared With Conventional Fund Flows by Asset Class

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Property	-0.8	-0.8	-2.0	-2.7	-2.8	-3.6
Total	-1.2	20.4	162.6	141.1	164.1	165.1

Source: Morningstar Direct. Data as of March 2025.

Exhibit 8 European Sustainable Fund Flows by Asset Class (USD Billion)



Source: Morningstar Direct. Data as of March 2025.

Asset Highlights:

- Equity funds were the biggest flow detractors among sustainable funds in the first quarter of the year, shedding \$9.2B
 - Marking the first quarter of withdrawals since 2018
- By contrast, inflows to sustainable fixed-income funds reached their highest level in a year
 - Ending the first quarter with \$14B
- Disclosure standardization presents equities as the most reliable dataset

Market Assessment: Competitive Landscape

Morningstar is comparable to the Broader Ecosystem of ESG Climate Index Providers (e.g., MSCI, S&P, FTSE, etc.)

Metric	Morningstar	MSCI	S&P	FTSE	Bloomberg
Climate Data Integration	Strong via Sustainalytics; Integrated with Analytics	Extensive proprietary climate metrics & models	Uses Trucost data; robust scenario analysis	Advanced through Green Revenues & TPI alignment	Integrates CDP, ISS data; expanding data partnerships
Index Coverage & Breadth (# of climate indices)	Moderately growing; thematic & Paris-aligned indices	Broad suite incl. Climate Paris-Aligned & Low Carbon (45)	Wide range: Fossil Fuel Free, Net Zero, Carbon Efficient (5)	Diverse coverage incl. climate transition & risk focus (n/a)	Limited indices; increasing climate-focused offerings (500+)
Transparency & Methodology	High – detailed reports via Sustainalytics	Moderate – some methodology is proprietary	Moderate – available but less granular	High – transparent rules-based methodologies	Moderate – improving with ESG initiatives
Alignment with Global Frameworks	Strong TCFD, EU SFDR, Paris-aligned indices	Strong adherence to global standards	Strong alignment including TCFD, SDGs	Strong – aligned with TCFD, EU taxonomy	Emerging – growing alignment with TCFD and SFDR
Use in Investment Products	Increasing, especially in ESG-themed funds	Widely adopted across passive & active funds	Very high – used in major ETFs (e.g., SPDRs)	Broadly used in ETFs and institutional mandates	Limited usage; growing in fixed income ESG products

Index Design: Asset Class Identification

Morningstar should create a climate-focused ESG index using equities as the ideal foundation

Criteria	Equities	Other Assets
ESG Data Quality	✓ High (standardized, Scope 3 included)	✗ Inconsistent, esp. in fixed income
Regulatory Clarity	✓ Strong (SFDR, CSRD, EU Taxonomy)	✗ Fragmented, evolving
Market Size for ESG Funds	✓ Largest (~\$14T AUM)	✗ Lower penetration
Index Construction Feasibility	✓ High (e.g., frequent disclosure, liquidity)	✗ Challenging (e.g., bond maturity limits)

Equities are the most ESG-integrated asset class, with strong investor preference, clear climate disclosures, and flexible index design. Europe stands out as a strategic region given the mature regulatory ecosystem and dominant share of sustainable assets.

Regulatory Summary

Morningstar must navigate region-specific reporting demands while aligning to global norms like TCFD and SFDR

Regulatory Focus	Regions & Examples
Disclosure & Transparency	<ul style="list-style-type: none">- EU SFDR: Article 6/8/9 classification- Japan Corporate Governance Code- HK ESG Fund Requirements- SEC guidance for fund managers
Climate Benchmark Standards	<ul style="list-style-type: none">- EU BMR: CTBs & PABs- UK Sustainability Disclosure Requirements- Australia's climate risk disclosures
Greenwashing Prevention & Integrity	<ul style="list-style-type: none">- U.K. labeling system- Canada's fund disclosure rules- Singapore ESG fund reporting standards

To stay ahead of shifting regulations, Morningstar should:

1. Design Indices with Built-In Flexibility
2. Lead with Transparent, Auditable ESG Data
3. Align Products to Regulatory Use Cases

Index Design: Morningstar Capabilities & Data

Leveraging Morningstar's Integrated Data, Analytics, and Technology to Build a Scalable Climate ESG Index

Morningstar's Integrated ESG Index Creation Framework

- ❑ Morningstar Sustainalytics ESG Risk Ratings - Provide comprehensive assessments of companies' exposure
- ❑ Morningstar Indexes Platform - Offer a robust infrastructure for index development
- ❑ Morningstar Direct & ESG Reporting Tools - Facilitate in-depth analysis and reporting of ESG data
- ❑ Global Access APIs and Data Feeds - Ensure seamless integration and distribution of ESG data

Key Capabilities:

- ❑ Comprehensive ESG Data Coverage - Access to ESG Risk Ratings for over 16,000 companies
- ❑ Advanced Index Construction Tools - Utilization of Morningstar's indexing methodologies
- ❑ Customizable Reporting Solutions - Provision of tailored ESG reporting templates