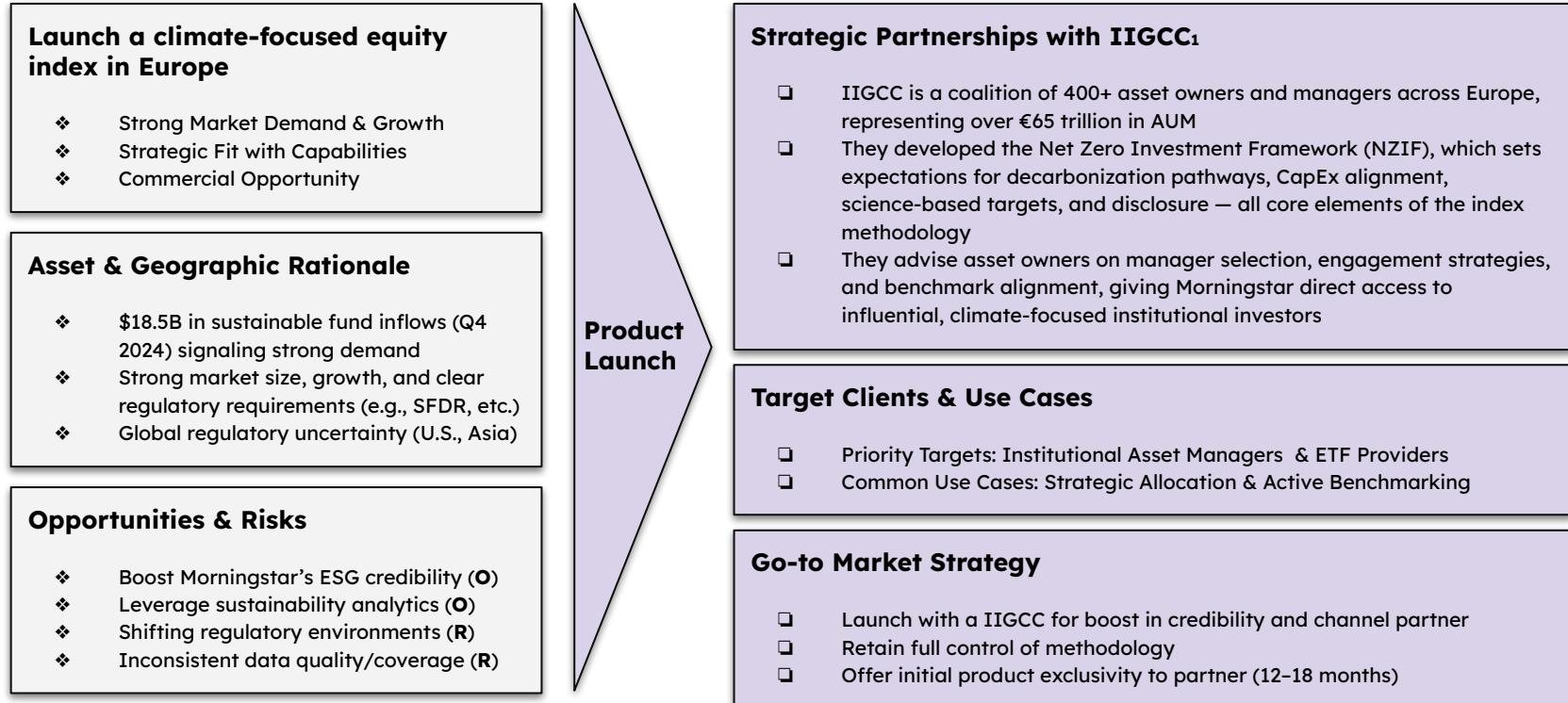


# Executive Summary

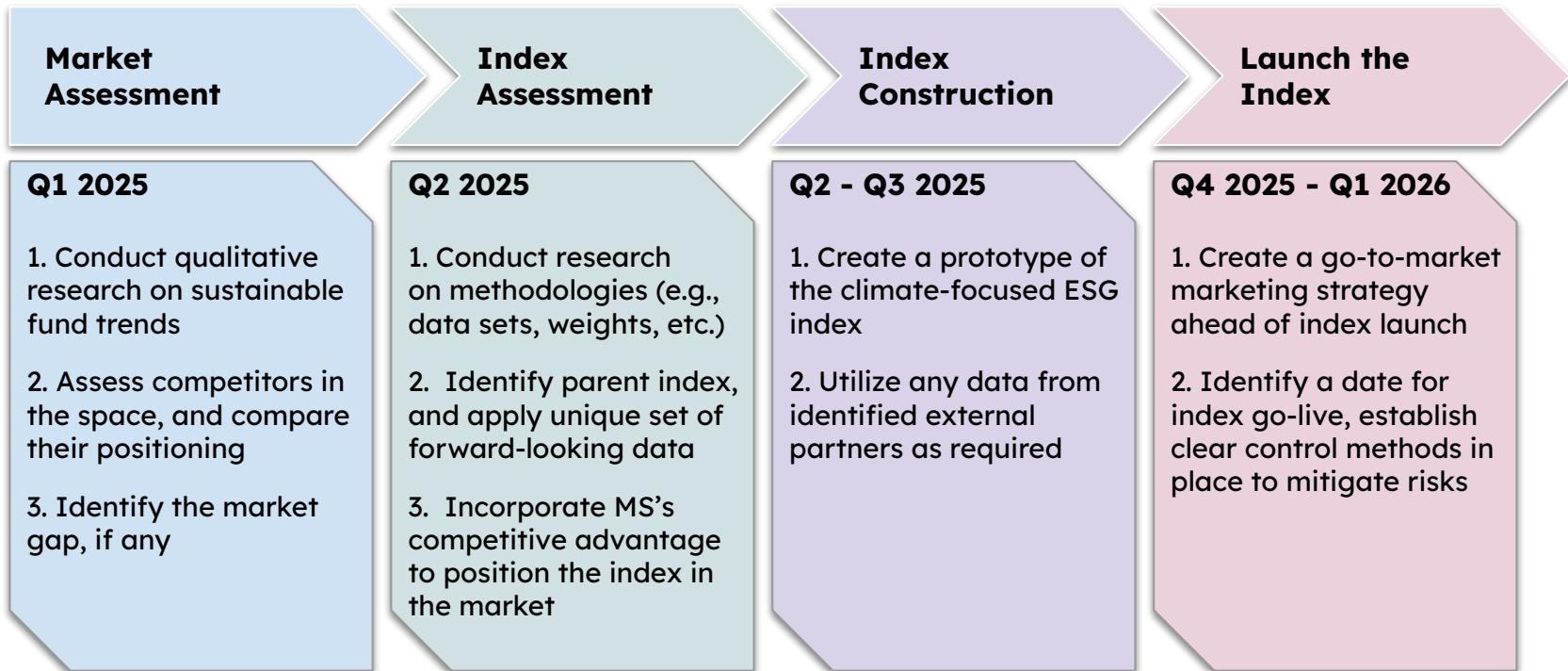
Morningstar has a strategic window to become a leader in Europe by launching a climate-focused ESG equities index



## Approach

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

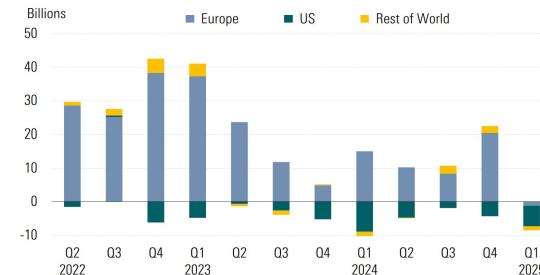
### Four Phased Approach



# 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)



## 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)

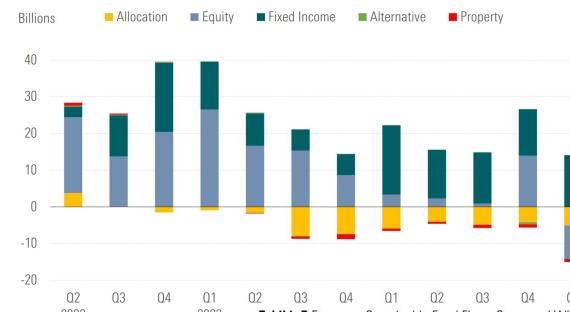


Exhibit 7 European Sustainable Fund Flows Compared With Conventional Fund Flows by Asset Class

| 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*



| Metric                             | Rationale   |
|------------------------------------|---|
| <b>Aligned Revenue</b>             | Shows how much of their current business already supports climate-aligned products                        |
| <b>Aligned CapEx</b>               | Pure forward-looking signal. Tells us if the company is investing in climate solutions                    |
| <b>Eligible CapEx</b>              | Transitional signal — companies planning toward eligibility, even if not fully aligned yet                |
| <b>TCFD Disclosure Sufficiency</b> | Measures transparency. High disclosure = better climate governance  |
| <b>Management Quality Score</b>    | Captures how climate targets are embedded in executive strategy. A key differentiator vs other ESG models |
| <b>GHG Emissions Target (SBTi)</b> | Industry-accepted proxy for credible climate ambition   |

# Index Design: Competitive Advantage

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

| Feature   | Rationale  |
|---|--|
|  <b>Forward-Looking Signals</b>              | Focuses on CapEx, targets, and governance — not just emissions   |
|  <b>Reported Data Only</b>                   | Transparent, auditable; avoids opaque modeling seen in MSCI, S&P |
|  <b>Blended Investment + Governance Tilt</b> | 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   |
|--|--|--|
|  <b>Evolving Regulatory Landscape</b>                                     | The regulatory environment is dynamic and may shift index eligibility criteria | Design the index to be modular and flexible without complete reengineering           |
|  <b>Data Gaps and Coverage Inconsistency esp. forward looking metrics</b> | Data gaps & inconsistency across emissions data, forward-looking metrics, etc. | Leverage Sustainalytics' hybrid methodology and apply confidence scoring             |
|  <b>Competitive Market Saturation</b>                                     | The European ESG index space is already crowded                                | Emphasize transparency, customizable frameworks, and differentiated scoring          |
|  <b>Performance Scrutiny vs. ESG Ambition</b>                             | 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

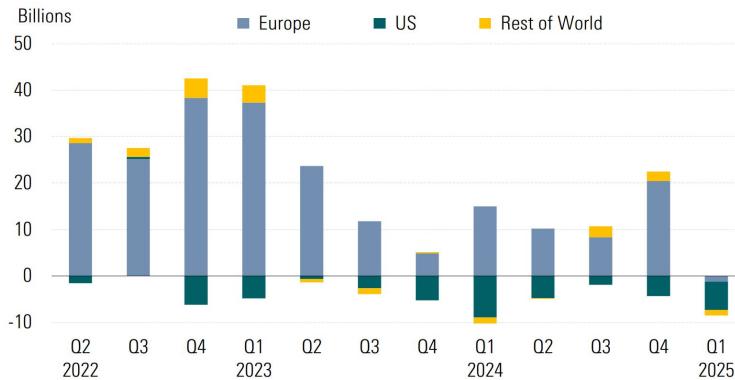
*Europe remains the largest market by investable ESG assets, as investing assets have grown in absolute terms*

**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 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

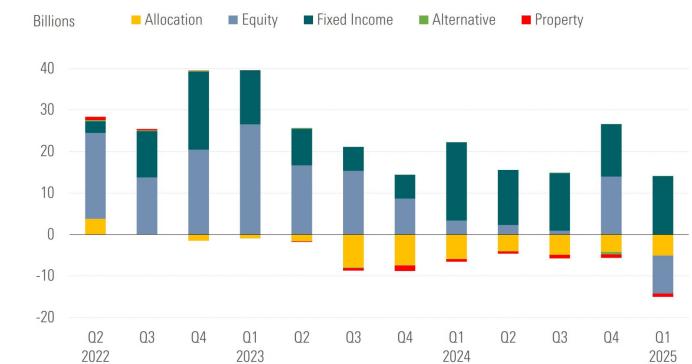
*Equities are the clear cornerstone of sustainable investing - driven by regulation and investor demand*

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

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

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  |
|--|--|---|--|--|--|
| <b>Climate Data Integration</b>                            | 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        |
| <b>Index Coverage &amp; Breadth (# of climate indices)</b> | 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+) |
| <b>Transparency &amp; Methodology</b>                      | 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                    |
| <b>Alignment with Global Frameworks</b>                    | 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              |
| <b>Use in Investment Products</b>                          | 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   |
|---------------------------------------|--|--|
| <b>ESG Data Quality</b>               |  High (standardized, Scope 3 included)          |  Inconsistent, esp. in fixed income       |
| <b>Regulatory Clarity</b>             |  Strong (SFDR, CSRD, EU Taxonomy)               |  Fragmented, evolving                     |
| <b>Market Size for ESG Funds</b>      |  Largest (~\$14T AUM)                           |  Lower penetration                        |
| <b>Index Construction Feasibility</b> |  High<br>(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  |  |
|--|---|--|
| <b>Disclosure &amp; Transparency</b>           | <ul style="list-style-type: none"><li>- EU SFDR: Article 6/8/9 classification</li><li>- Japan Corporate Governance Code</li><li>- HK ESG Fund Requirements</li><li>- SEC guidance for fund managers</li></ul> | To stay ahead of shifting regulations, Morningstar should:   |
| <b>Climate Benchmark Standards</b>             | <ul style="list-style-type: none"><li>- EU BMR: CTBs &amp; PABs</li><li>- UK Sustainability Disclosure Requirements</li><li>- Australia's climate risk disclosures</li></ul>                                  | <ol style="list-style-type: none"><li>1. Design Indices with Built-In Flexibility</li><li>2. Lead with Transparent, Auditable ESG Data</li><li>3. Align Products to Regulatory Use Cases</li></ol> |
| <b>Greenwashing Prevention &amp; Integrity</b> | <ul style="list-style-type: none"><li>- U.K. labeling system</li><li>- Canada's fund disclosure rules</li><li>- Singapore ESG fund reporting standards</li></ul>  |  |

# 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