

Morningstar® Sustainability Rating™ for Funds

Coverage

- ▶ Approximately 31,000 funds globally with Morningstar Sustainability Ratings.
- ▶ Sustainability Ratings and Portfolio Scores: Open-end funds, closed-end funds, exchange-traded funds, pension/life/insurance funds, separate account composites, collective investment trusts, unit investment trusts, and private funds.

Contact Us

support@morningstar.com

Learn More

global.morningstar.com/
SustainableInvesting

Background

Investors need better tools to help them determine whether the investments they own or are considering for their portfolios reflect strong sustainability practices. That’s why we’ve created the Morningstar Sustainability Rating™ for funds based on environmental, social, and governance—or ESG—factors.

Morningstar Sustainability Rating™ for Funds

To date, ESG research has taken place largely at the company level and has been available to asset managers and large institutional investors to help them incorporate ESG issues into their investment process. Morningstar’s Sustainability Ratings and other metrics provide a new set of tools to view and analyze investment portfolios through an ESG lens.

Rating Methodology: A Two-Step Process

Morningstar first calculates a fund’s Portfolio Sustainability Score, which measures how well the companies it holds are managing their ESG risks and opportunities. The scores use analytics from Sustainalytics, a leading provider of company-level ESG research and ratings. Sustainalytics delivers company-level ESG scores along with assessments of companies’ involvement in ESG-related controversies. Morningstar’s Portfolio Sustainability Score is an asset-weighted average of the company ESG scores with deductions made for holdings involved in controversial incidents. The Morningstar Sustainability Rating™ is the Portfolio Sustainability Score relative to Morningstar Category peers.

Ratings are distributed on a bell curve into five groups—Low, Below Average, Average, Above Average, and High—and depicted with corresponding globe icons (Low=1 globe; High=5 globes). The ratings are not based on exclusion of

products or industries and are completely portfolio-based, not performance-based. They do not reflect a fund’s performance on either an absolute or risk-adjusted basis, nor are they a qualitative Morningstar evaluation of a fund’s merits.

For a portfolio to receive a Portfolio Sustainability Score, at least 50% of its assets must be in one of the more than 6,500 companies covered by Sustainalytics globally. Sustainalytics’ ESG analytics apply at the company level, allowing Morningstar to score both equities and corporate debt. To receive a Morningstar Sustainability Rating™ at least 10 funds in a Morningstar Category must receive a Portfolio Sustainability Score.

Using the Morningstar Sustainability Rating™ for Funds

Our Sustainability Rating allows investors to assess how well the companies in a fund’s portfolio are managing their ESG risks and opportunities. The rating can also be used for:

Comparisons: How does a fund compare with its category peers and its benchmark index on ESG factors?

Screening: Investors interested in sustainability and ESG factors can use the rating to identify higher-rated funds for further investigation or to eliminate lower-rated funds from consideration. The ratings, of course, should not be the sole basis for an investment decision.

Portfolio Assessment: The ratings can help investors assess the level of sustainability of a current portfolio, set sustainability targets, and identify funds they might want to replace. Some investors may prefer only funds that have high ratings; others may wish to avoid funds with low ratings. Still others may wish to achieve an above-average rating across all funds in their portfolios.

Sustainability Rating Distribution

Within each Morningstar Category, the following distribution is used to assign ratings:

Distribution	Score	Descriptive Rank	Rating Icon
Highest 10%	5	High	
Next 22.5%	4	Above Average	
Next 35%	3	Average	
Next 22.5%	2	Below Average	
Lowest 10%	1	Low	