

Morningstar® Low Carbon Designation™ for Funds

Initial Coverage

Approximately 30,000 funds globally receive Morningstar Portfolio Carbon Metrics. Of those, around 20% qualify for the Morningstar Low Carbon Designation.

Universes

Open-end funds, closed-end funds, exchange-traded funds, insurance funds, separate accounts, collective investment trusts, and unit investment trusts

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support@morningstar.com

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SustainableInvesting

Background

Investors increasingly agree that climate change represents one of the biggest economic challenges in the 21st century. Climate change presents significant risks and opportunities for investors. Fiduciary responsibility and increased regulations require investors to analyze and understand risk exposure in a risk-constrained future. Morningstar has introduced Morningstar® Portfolio Carbon Risk Score™ to analyze the risk companies in a portfolio face from the transition to a low-carbon economy and to help investors easily identify low-carbon funds.

Morningstar uses in its portfolio metrics an innovative company carbon risk rating from Sustainalytics, a leading provider of environment, social, and governance research.

Morningstar® Portfolio Carbon Risk Score™

The Morningstar Portfolio Carbon Risk Score assesses how companies in a portfolio manage carbon risk. This assessment moves beyond traditional carbon footprinting to evaluate how well management of companies held in a portfolio can handle fossil fuel exposure and develop green solutions, including renewable energy and green transportation, that support a low-carbon economy. The portfolio score is an asset-weighted carbon risk score across portfolio holdings over the trailing 12 months. To provide context, the score can be compared to a fund's benchmark, Morningstar category, and other portfolios.

At least 67% of assets must have a carbon risk rating from Sustainalytics to receive a Portfolio Carbon Risk Score.

Morningstar® Portfolio Fossil Fuel Involvement™

Morningstar Portfolio Fossil Fuel Involvement is the portfolio's percentage exposure to fossil fuels, averaged

over the trailing 12 months. Fossil-fuel involvement represents companies with at least 7% of their revenue from the following activities: thermal coal extraction, thermal coal power generation, oil and gas production, and oil and gas power generation. It also includes companies with at least 50% of their revenue from oil and gas products & services.

Morningstar Low Carbon Designation

The Morningstar Low Carbon Designation is given to portfolios with low carbon-risk score and low levels of fossil fuel exposure. These portfolios must have a Carbon Risk Score below 10 and Fossil Fuel Involvement below 7% of assets, based on an average of the portfolios over the trailing 12 months.

Using Morningstar® Portfolio Carbon Metrics™

Portfolio managers and analysts can use these metrics to analyze long-term risks and conduct carbon portfolio analysis. Wealth management firms can enhance manager research due diligence by adding portfolio carbon metrics to existing financial criteria in Morningstar™ Cloud screeners. Asset managers committed to reporting to stakeholders on portfolio carbon-risk can use the data to communicate progress towards de-carbonization and fossil-fuel divestment.

Product Availability

Key Portfolio Carbon Metrics are available in the Morningstar Fund Report on Morningstar websites. The complete dataset is offered in all Morningstar Cloud editions and data feeds. Throughout 2018, the carbon metrics will be available in additional platforms, including Morningstar Advisor Workstation, Morningstar Direct, and the Morningstar Essentials portal.

Low Carbon Designation for Funds Inputs

