



Morningstar Global Energy Transition Index Frequently Asked Questions

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Index Overview

What is the objective of this index?

The Morningstar Global Energy Transition Index is designed to deliver unparalleled, thematically pure exposure to the energy transition theme by drawing on the in-depth knowledge and forward-looking insights of Morningstar's equity research team. It targets the stocks of companies well positioned to benefit from Renewable Energy, Energy Storage, Hydrogen, and Carbon Capture Technologies.

Is this an ESG index?

While the energy transition theme is related to sustainability, this index does not incorporate environmental, social, or governance (ESG) criteria in its construction approach and is not positioned as an ESG index. The index targets companies that are likely to be net beneficiaries (based on projected revenue and profits over the next five years) from their exposure to the energy transition theme, but it does not consider the ESG characteristics of how they operate.

How is this different from an energy sector index?

The traditional energy sector classification is not well suited to capture the energy transition theme, as there are many stocks in other sectors that may benefit from

the theme, including lithium miners (basic materials), providers of solar power technologies (technology), renewable energy providers (utilities), and providers of carbon capture, hydrogen and smart grid products and services (industrials). In addition, many traditional energy stocks have considerable exposure to fossil fuels and may be negatively impacted by the transition to clean energy solutions.

The Morningstar Global Energy Transition Index is sector agnostic, focusing on companies well positioned to benefit from the energy transition theme regardless of their sector classification. As such, it cuts across several sectors and has historically exhibited a low correlation to traditional energy sector indexes, like the Morningstar Global Energy Index.

Investment Case

What is the investment case for investing in companies with exposure to the energy transition theme?

Per Morningstar's equity research team, investments in energy transition may provide a growth opportunity for companies with exposure to this theme, potentially resulting in a future net profit increase. Energy sector greenhouse gas emissions represent 80% of U.S. economy-wide

greenhouse gas emissions. Clean energy, which will need to be the primary energy source to reach net-zero emissions, remains a small percentage of the world's energy source which today overwhelmingly relies on coal, oil, and gas. With the adoption of intermittent renewables, the need for energy storage has become even greater. Hydrogen is expected to help reduce emissions of hard-to-decarbonize sectors such as industrial processes and heating.

Is this theme resilient to shifting political and regulatory conditions?

Per Morningstar's equity research team, the clean energy transition theme will be relevant for many decades to come. Despite shifting political and regulatory conditions, wind and solar power generation has increased annually since 2001. Cost declines have made renewable energy competitive with traditional sources of electricity generation. Additionally, as EVs reach cost and functional parity with internal combustion engines over the next few years, we see strong growth in the second half of the decade, lessening the reliance on political and regulatory support. Lastly, we believe there will be ample government support for expanded hydrogen adoption. Hydrogen should prove to be highly scalable, creating opportunities to reduce carbon emissions from traditional oil and gas.

Index Construction

How does Morningstar assess each company's exposure to the energy transition theme?

Morningstar equity analysts consider four criteria when determining a company's thematic exposure to a given theme: current % of companywide revenue, projected % of companywide revenue five years forward, probability of the thematic exposure driving a material net profit increase over the next five years, and the company's role in the supply chain for related

products/services. These analyst inputs are routed through a decision tree to determine a company's thematic exposure to each sub-theme within the Index, with sub-theme exposure scores ranging from zero to four. Ultimately, the higher the company's exposure to the selected sub-themes, the more likely it will be included in the index.

How does this approach differ from others?

The Morningstar Global Energy Transition Index leverages forward-looking insights from Morningstar equity analysts in order to provide a high degree of thematic purity. This differs from lower-touch thematic index construction approaches, such as relying on historical revenue figures or keyword searches across public filings. However, due to the index's transparent, rules-based construction methodology, it also differs from strategies that employ more "active" approaches to stock selection.

What determines eligibility for inclusion in the index?

Constituents are derived from the Morningstar Global Markets Index, which covers developed and emerging market stocks representing the top 97% of the global investable market by market capitalization. To be eligible for inclusion in the Morningstar Global Energy Transition Index, stocks must have an energy transition thematic exposure score of 1 or higher, indicating that they will likely be net beneficiaries with at least 10% revenue exposure to the theme five years forward. Eligible stocks are ranked on their thematic exposure scores, and the top-ranked 50 are included in the index. Where there is a tie, current constituents and smaller-cap stocks are favored.

Do analysts have discretion to select stocks for the index?

The insights of Morningstar equity analysts determine company-level thematic exposure scores and, in turn, these scores determine which stocks are eligible for index membership. However, beyond the thematic

scoring process, equity analysts have no discretion regarding stock selection. Analyst-driven thematic exposure scores are implemented through a transparent, rules-based index construction methodology that aims to maximize thematic purity.

How is the index weighted?

The index is weighted by float-adjusted market capitalization, subject to caps to improve diversification. The top constituent weighting is capped at 10%, while constituents with weightings above 5% may not sum to more than 40%.

Is there minimum representation across each sub-theme?

While each sub-theme (renewable energy, energy storage, hydrogen, carbon capture technologies) is represented in the index, there is no minimum

weighting for each sub-theme. Many constituents offer exposure across multiple sub-themes.

Are there any sector or regional constraints?

Thematic purity is the primary objective of this index. As such, there are no constraints on sector or regional weightings.

How often is the index updated?

The index is reconstituted and rebalanced once per year, after the close of the market on the third Friday of December.

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