

Morningstar Sustainability Ratings (Globe Ratings) | Advisor Cheat Sheet

Purpose

Morningstar's Sustainability Rating helps investors understand the level of the financially material ESG risks in a fund when compared with similar funds.

Highlights

- **Morningstar Sustainability Ratings** are determined using **bottom-up financial risk assessments** of the underlying holdings within a portfolio, underpinned by Sustainalytics' methodologies for **assessing corporate and sovereign ESG risk**.
- The rating, based on Morningstar's portfolio holdings database, is expressed as **1 to 5 'globes'**, with higher globe numbers indicating lower ESG risks.
- The rating is **relative to other funds** within the same Morningstar Global Category. Funds in different categories may receive different ratings despite having varying levels of ESG risk.

Key Insights for Financial Advisors

A. How to Use Sustainability Globe Ratings for Screening

- Use Globe Ratings to **compare funds within the same Morningstar Category** (e.g., Canadian Large Growth).
- A fund with **4–5 globes** has holdings that, on average, are **managing ESG risk better** than peers.
- Use in combination with the **investment objective, fees, performance, manager's investment policy and client sustainability goals**.

B. Limitations

- **Not absolute:** A fund with 4 globes in one category may still have more ESG risk than a 3-globe fund in another.
- **Does not measure impact:** Globe Ratings assess ESG **financial risk**, not real-world outcomes or values alignment.
- **Not suitable as sole decision tool:** Always consider the investment strategy, exclusions, and stewardship practices.

C. Best Practice

- Pair Globe Ratings with **CIFSC classification**, and manager **sustainability policies** for a fuller picture.

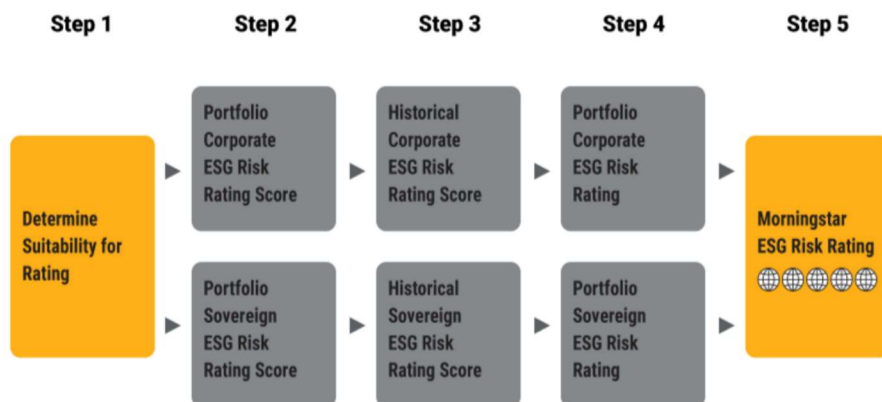
Rating Scale

ESG Risk Score	Risk Category	Globes
0 - 9.99	Negligible	
10 -19.99	Low	
20 - 29.99	Medium	
30 - 39.99	High	
>=40	Severe	

Rating Inputs

- 1) Portfolio-level ESG Risk Ratings** of a fund’s historical holdings, assessing the magnitude of each company’s unmanaged ESG-related financial risks (adjusted for sector and geography). The rating signals the extent to which investors’ holdings—whether individual assets or entire portfolios—are exposed to ESG risks faced by companies, including both manageable and unmanageable risks.
- 2) Country Risk Ratings** assesses risks to a sovereign entity’s socioeconomic well-being by combining an assessment of the government entity’s current stock of capital with an assessment of its ability to manage the wealth in a sustainable manner. To quantify the amount of risk, the rating combines two dimensions: Wealth and ESG Performance.

Morningstar ESG Risk Rating Calculation Steps



Source Documents: [The ESG Risk Ratings for Funds . Methodology 4.0](#) – March 2025

https://www.morningstar.com/content/dam/marketing/shared/research/methodology/744156_Morningstar_Sustainability_Rating_for_Funds_Methodology.pdf