Morningstar 2021 Shareholders' Meeting

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Opening Comments – Joe Mansueto

Joe Mansueto, Executive Chairman, Morningstar: Good morning everyone. Welcome. Welcome to the 2021 Morningstar Annual Shareholder Meeting. I'm Joe Mansueto, Chairman of the Board. And I'm delighted you could join us here this morning.

Now, like most public companies, we are holding this meeting virtually due to the COVID-19 pandemic. And while we miss seeing everyone in person, we are very excited that virtual capabilities allow all of you to join and participate in this meeting without the time and expense of travel. So, I'm presenting to you today from our Chicago headquarters, which is a step forward from last year, when we all presented from our homes. And we look forward to welcoming you to our offices next year for those of you who wish to travel to be with us in person. I hope everyone has been healthy and safe over the past year during the pandemic, and our hearts certainly go out to anyone who has been negatively affected by the virus. It's certainly, I think, as we know, been a very challenging year for the entire world.

So, the format of our meeting is identical to prior years with some added technological capabilities, which I'll detail as we go along. But first, take a moment to read our Safe Harbor statement. There it is. And we have three main parts to today's meeting. The first is the official business of the meeting, which I don't think will take too long. Then we'll move to the next part of the meeting, which are management presentations. And that will be followed by our question-and-answer period.

Virtual Meeting Access Instructions

Now, if you have questions you'd like us to address during the Q&A portion of the meeting, you'll have an opportunity to ask them via the questions text box in the Broadridge platform, or via chat, or through audio or video participation if you are joining through the Zoom platform. So even though our meeting is virtual, we look forward very much to your questions. I would note that if you'd like to vote during the official part of the meeting, you must be logged on to the Broadridge platform using your Control Number provided with your proxy materials. The meeting is being simulcast on both platforms. So, all participants will be able to hear and watch the meeting in its entirety.

Official Business of the Meeting

So, now, I'd like to get started with the official business of the meeting. Greg Malatia, a representative of Broadridge Financial Services, is here today to act as the Inspector of Elections. Pat Maloney, our General Counsel and Corporate Secretary, will now report on the mailing of the notice of the meeting and the number of shares represented at today's meeting.

Pat Maloney, General Counsel, Morningstar: Thank you, Joe. We are holding this meeting pursuant to a notice mailed on April 1 to each shareholder of record on March 15. A certified copy of the list of shareholders of record has been available at our offices for the last 10 days. I can report that we have established a quorum for the conduct of business at this meeting.

Joe Mansueto: Thank you, Pat. So, the first item of business today is the election of our directors. We will elect 10 directors at today's meeting. The directors elected today will hold office until the 2022 Annual Shareholders' Meeting or until their resignation or removal.

The nominees for directors – you see them on the screen here – are Robin Diamonte, Cheryl Francis, Steve Joynt, Steve Kaplan, Kunal Kapoor, Gail Landis, Bill Lyons, Doniel Sutton, Caroline Tsay, and myself, Joe Mansueto.

The second item of business is the approval of the Morningstar amended and restated stock incentive plan. Our Board believes that continuation of our long-term equity incentive compensation program allows us to align the interests of our employees and directors with those of our shareholders.

The third item of business is the say-on-pay vote. Each year, we ask our shareholders to vote on an advisory basis to approve the compensation of our named executive officers as described in our proxy statement. The goals of our executive compensation program are to attract and retain talented executives and to motivate and reward them for their contributions to our Company. Here you see our named executive officers.

And then, the fourth item is the ratification of the appointment of KPMG as our independent auditors for 2021. The Board recommends a vote for each of these proposals.

So, the fifth item of business is a shareholder proposal we received from the JLens Investor Network. I think there is a representative from JLens here to present that. I will ask our production team to turn on that representative's line.

Julie Hammerman, Executive Director & Founder, JLens Investor Network: Thank you. My name is Julie Hammerman. And I'm here today representing JLens, a network of Jewish institutional investors to ask the board for your moral leadership on an issue of great importance to our investor network. Following the 2020 acquisition of Sustainalytics, Morningstar is now actively promoting a discriminatory political campaign called BDS, short for Boycott, Divest, Sanction Israel. In 2019, the U.S. Congress overwhelmingly condemned BDS and declared that in contrast to protest movements that have sought racial justice and social change, the global BDS movement targeting Israel is not about coexistence, civil rights and political reconciliation, but about undermining the very legitimacy of Israel.

The German parliament, along with other countries, have declared BDS an antisemitic movement. Morningstar's promotion of BDS has real world consequences. When Morningstar's engagement services pressures global companies to seize sales to the Israeli military, Morningstar aims to make it harder for Israel to protect citizens from ongoing violence. When Morningstar's ESG research uses BDS activists' sources to justify elevating a company's controversy score, Morningstar is conducting economic warfare on companies with ties to Israel.

JLens first raised Sustainalytics' promotion of BDS in 2016, but at the time, Sustainalytics was owned by PGGM, a Dutch pension that supports BDS. In April 2020, JLens reached out to Morningstar's CEO to express concerns about the acquisition of Sustainalytics. After JLens filed a shareholder resolution in 2021, Morningstar finally released a statement but claimed an internal review found JLens' claims to be false. It's ironic that a company dedicated to objective analysis of other companies would declare JLens' concerns false without an independent review and despite significant evidence of Sustainalytics' prolonged BDS activity. Among Morningstar's peers and competitors that provide similar investment research services, Morningstar stands alone in your active advocacy on behalf of BDS and your company's failure to acknowledge and address this issue.

As shareholders today, we ask the Board to consider on behalf of all investors, the legal, reputational and financial risks associated with the incorporation of BDS in the Company's business lines, especially as many states including Illinois, have passed measures against companies like Morningstar that support BDS. We recognize that this resolution was not included on your proxy statement this year, and that most shareholders have already voted without an opportunity to support this resolution. However, the only vote that matters on this resolution is a vote by the Board today on whether you will fulfill the request in this resolution and provide overdue transparency on this concern to your investors. Thank you.

Joe Mansueto: Thank you, Julie. Investment research that is independent and unbiased is really the foundation of Morningstar. So, whenever anyone questions that, we take it very seriously and we seek to engage with that party to understand their questions and evaluate their concerns. And we did engage with JLens, but they did not offer any specifics in our research that drove their conclusions, nor do they respond to our offers to constructively reengage on this topic. We did, however, undertake our own investigation of their concerns, and we found no evidence of any bias. We have published a summary of our findings on this topic on our corporate website. And I'd encourage you all to take a look at that. Our Board of Directors consequently then has unanimously recommended that our stockholders vote against this proposal.

Voting Instructions

There is no further business scheduled to come before this meeting. So, I now declare the polls open. If you are a shareholder, you may use the 'vote here' button on the lower right portion of the screen to vote your shares at this time. If you wish to vote on the shareholder proposal, please use the 'other business' Textbox in the lower left portion of the screen and then type for, against or abstain before clicking submit.

Please remember that if you have already sent in your proxy, or voted by the internet, your shares have been voted accordingly. You do not need to vote today unless you are voting for the first time, you want to change your previous vote, or you'd like to vote on the other business. If anyone has a question or a statement related to the proposals, please utilize the 'Ask a Question' field in the lower left portion of your Broadridge window or via chat in Zoom. As I mentioned, there will also be a general question-and-answer session later in the meeting. So, at this time, we will only take questions that are related to the proposals.

Any questions on the proposals? Well, hearing none, I now declare that the polls are closed. Pat, will you please report on the voting results?

Pat Maloney: The Inspector of Election has advised me that more than a majority of shares represented in-person or by proxy and entitled to vote at this meeting have been voted for each of the director nominees listed in our proxy statement to approve the amended and restated 2011 stock incentive plan in favor of our compensation for our named executive officers and to ratify the appointment of KPMG. I've been advised that the shareholder proposal has not received the approval of a majority of the shares voted and therefore is not adopted. We will file an 8-K with more detailed voting results in the next couple of days.

Joe Mansueto: Thank you, Pat. So, this concludes the formal business portion of our annual meeting. But before we sign off on this part of the meeting, I have a few final comments.

First, I want to thank Jack Noonan for his more than 20 years of service on our Board. Jack reached our director retirement age this year and so did not stand for reelection. Jack has just been an outstanding director over the last couple of decades and gave our management team insightful advice and guidance during his tenure. So, thank you, Jack for all of your contributions to Morningstar's growth. You will be missed.

At the same time, I want to welcome Doniel Sutton to our Board. Doniel is a Chief People Officer of Fastly, a leading provider of global cloud platform services. Doniel offers a wealth of experience in human capital management, global business expansion, and executive development. Doniel's experience at rapidly growing technology companies will provide our Board with unique insights on strategies supporting scale and growth. So, I want to give a very warm welcome to Doniel.

I want to thank Kunal Kapoor, our CEO, our management team, and all the staff at Morningstar for doing such incredible work over the past year during the pandemic. Everyone worked extremely hard to transition the company to a work from home environment while continuing to deliver the highest-quality data, research and ratings to investors without any interruptions. Our clients look to us to help navigate the uncertainty and volatility of the last year, which there was a lot, and we were there for them 24x7. So, on behalf of our shareholders I want to thank everyone at Morningstar for all of your very admirable efforts. They are much appreciated.

So, now, we will begin the management presentations followed by a question-and-answer session. We will hear first from our CEO, Kunal Kapoor; then our CFO, Jason Dubinsky; and then Michael Jantzi, CEO of Sustainalytics, a business Morningstar acquired. Thank you very much for joining us this morning. It's terrific having all of you as our shareholders. So, before Kunal Kapoor comes to take the stage, we are going to show you a short introductory video. Enjoy.

[Video]

Empowering Investor Success: Meeting the Moment to Shape the Future – Kunal Kapoor

Kunal Kapoor, CEO, Morningstar: Good morning, everybody. And I want to add my welcome to Joe's welcome from a few minutes ago. It is great to be coming to you live from the auditorium here in Chicago. I was making a comment earlier that I have somewhat become used to speaking to empty auditoriums in the past year-and-a-half. So, let's not make this a habit. Hopefully, you are all safe and in good spirits. And I really hope we are able to welcome you back to this auditorium next year, because I know personally, at least, I get so much energy, when you are here and even walking the halls of Morningstar here in Chicago, at least, as a few more colleagues have started to come back in the office, the energy level just starts to rise so much.

We have got a lot to share with you. Jason is going to follow up, as usual. And then, Michael Jantzi, who leads Sustainalytics, will share some of the things that we are doing in the ESG space. And as you saw from that video, we are putting ESG at the center of everything that we do at Morningstar.

Now, it has, of course, been the most unusual of years, the most unusual 18 months, in fact. And I have to start by just saying thank you to all my colleagues across the world. We are all in different situations right now. The pandemic has taken different turns and twists depending on where folks are. But you should know as stakeholders and shareholders in Morningstar that everyone who gets up and walks our halls everyday has been committed to our mission, committed to our clients, and committed to delivering excellent results, despite all that has been swirling around us. And I'm just so proud of my colleagues and the fine work that we have all done through this unusual period. So, thank you so very much. Morningstar is so much stronger. Because our mission of empowering investor success has allowed us, has propelled us to simultaneously meet this unique moment, while shaping the future that we are all looking forward to.

Mission

Morningstar Today

Our firm is in good health and good shape. Whether you look at it from a financial perspective, whether you look at it from the perspective of the folks who are coming into Morningstar, we have stayed focused on things such as hiring quality, ensuring that we grow our footprint in a thoughtful, sustainable manner, ensuring that when we are investing for growth, we are doing so with opportunities that we believe are going to drive focus around our strategy. And so, every year when I kick off by presenting this slide, the thing I want you to focus on, is that we are focused on living our mission and delivering terrific results, while doing great for all our stakeholders.

Meeting the Moment: We Empowered Investors Through the Events of 2020

Our research empowers and drives so many of the outcomes and things that we do at Morningstar. And we have really stepped up, I believe, and empowered investors through the events of 2020. If you'll recall, last May when I stood up in front of you in my home, I mentioned that we were so proud of the fact that during the market declines around the world in March 2020, our analysts were among the few telling investors to invest, and we had hundreds of stocks rated more than 5 Stars. You could just have taken darts and thrown it at a 5-Star list, and you'd be happy camper today. But we've done so much more than that. PitchBook has been leading the way on SPAC coverage as there has been an explosion in that area. Sustainalytics is everywhere with its fantastic ESG research. Our COVID-related research content has only continued to expand. DBRS Morningstar has done such a fantastic job of thinking about how those events impact the credit markets as well.

So, across the board, you see our analysts and our research team stepping up, and even today they are considering issues such as, is inflation around the bend. The markets around the world have been roiled just this week with some concerns around inflation. Our analysts have already been talking about it, incorporating it into their models. And interestingly, if you are wondering and keeping score at home, I looked yesterday, and we had less than a dozen stocks in our U.S. coverage rated 5-Stars. So, maybe you can't throw darts at them just at this very point anyway.

Shaping the Future by Capturing the Signals of Tomorrow's Investors

What's also interesting is that we are welcoming new investors to Morningstar. It's been a given, at least during my 20-plus years here at Morningstar, that our most loyal core customers tend to be older and wealthier. Well, guess what? That too has changed during the pandemic. We are increasingly welcoming younger cohorts of investors to our ecosystem. And whether it's because they were attracted to GameStop or because they have taken a fancy to cryptocurrency. The good news is they are coming to Morningstar to start thinking about things and to become investors.

Our CMO, Rob Pinkerton, often likes to say that Pizza Hut doesn't care where folks got their first pizza as long as they come to Pizza Hut for their second pizza. And so, it is with investors. We don't really care how you became an investor. But it's our mission that once you've become an investor, or that if we've helped you become one, that we help you through that journey. And we see a great opportunity to really help expand Morningstar's footprint and connect with a whole new generation of investors who are coming into the markets around the world.

Strategy

Morningstar's Growth Enables the Evolution of the Investor

Our strategy of delivering insights essential to investing has always required us to anticipate investor needs. And I believe Morningstar is meeting the moment, perhaps even exceeding the moment, because we have been doing just that by thinking about where the investor portfolio is going and anticipating the needs of the investor versus waiting for the investor to get there. Most recently, of course, you've seen that with our huge focus on ESG. The pandemic has bought a lot of interest in ESG. But as you'll hear from Michael Jantzi, ESG has been around for a long time. And the fact that people are waking up to it today is perhaps a coincidence, a quirk of time, but Morningstar and Sustainalytics have been working at it and planning to meet investors there because we have thought about the fact that investors will be personalizing their portfolios as time passes.

We Expand our Data Universe to Meet Evolving Investor Needs

To do this, we keep expanding our data universe. Think of this as the plumbing that keeps Morningstar running. Every year, when Jason and I sit down and think about budgeting, we start by thinking about how can we expand our moat when it comes to the data we have? And the wonderful thing is that data is really differentiated. Oftentimes, I will hear people say, but yeah, is data really different? And I'm very quick to say, it absolutely is, whether you are looking at the breadth of data, the depth of data, the quality of data, the timeliness of data, we are focused on it and driving it across the board and investing in this, year in and year out, because we think it makes our firm so much stronger and is the center piece around which our analysts then go ahead and build all that wonderful research.

Incorporating ESG Risk Factors Across Our Solutions

Most recently, our data extensions have been particularly meaningful in the ESG space. We have introduced an additional number of ESG ratings. And we'll cover more of what we are doing in the ESG space as we wind through the next hour. But the important thing is that we are on a journey when it comes to ESG to normalize it into an investor's portfolio. My colleague, Scott Burns, who runs our RISE group, as we call it, which is where our Data group sits, often likes to say that when he came into Morningstar, it used to be the case that most people didn't care about risk in a portfolio. And when you talk to them about risk, they would say, well, it's only returns that matter. And sometimes, today, you get the same with ESG. People aren't quite set on how to use it. But you don't get that with risk anymore. It's moved to the center of our portfolio. And our estimate and bet is that as is the case with pure risk, ESG risk and other ESG factors too will become commonplace and just secondary to the way investor portfolios are built.

Sprinting into the Future: Empowering Sustainable Investing

And so, as we think about a concept within Morningstar that we call the new sustainability, we are focused on how it's impacting the flow of capital, particularly as it pertains to an investor's portfolio. We think investors are all going to have sustainability objectives, and then they will use benchmarks and new risk factors to enhance how they build those portfolios, and ultimately, they will use those to monitor, to disclose and to connect with the goals that we all seek to meet or even exceed with our financial resources. So, look to hear more from us around this concept of the new sustainability. But we are pegging it to the core of an investor's workflow of how an investor goes about starting the investing process and ends it by achieving their goals.

Empowering Investor Success has us Well-Positioned to Continue our Growth

We also think a lot at Morningstar about growth and where growth is going to come from. And we've been showing this chart to you for a number of years now with the idea being that the hotter things are, the higher the growth. And what I'm really proud of is that we are standing at a moment today where over the past few years as we have invested in certain initiatives, those have grown to be among the biggest for our firm, while retaining the most attractive growth profiles that we have across Morningstar. And that was the intent of how we were investing. If you think back to things we've said at this meeting, it was to focus on a few things that were our key drivers. And I think the validation of that is that those things today are the most meaningful part of our business.

Investor Demand for Data Supports Large and Growing Markets

And we are particularly excited about the fact that even though they have become meaningful parts of our business, the addressable market opportunities available to us are still so meaningful. When Jason and I talk about Morningstar and our growth trajectory, we don't wake up and say, how do we get to be a $2 billion company. We wake up and talk about how do we become three times our size, five times our size.

And one of the reasons we can do that is primarily because the addressable market available to us across different parts of our business remains so meaningful and so attractive, whether you are looking at our licensing business, our assets under management businesses, or our credit ratings business, which is just beginning on its wonderful journey, I believe, to really change the way credit ratings are impacted and used across the world. We have a really unique and wonderful proposition in this part of our business.

Sustainalytics Advances the Mainstreaming of Sustainable Investing

And of course, we are going to make sure you hear as much as possible today about our journey when it comes to sustainable investing. We've just started here, and the opportunity is growing fast, and we want to be prepared to be part of that opportunity, and we are investing heavily here. So, hopefully, that little rectangle that you see today will in fact become one of those large rectangles if we execute as we plan.

Shaping the Future: Empowering Investors with Personalized Portfolios

And one of the ways we are going to do that is by empowering investors with personalized portfolios. We are taking our data assets, marrying it with our assets in the indexing space, and bringing it together with things we have put together in our investment management area, in our workplace area, so that investors in the future have this unique opportunity not just to get cookie cutter portfolios, but to get technology-forward personalized portfolios at scale, which we think is something Morningstar is uniquely going to be able to do for investors.

Shaping the Future of Retail Wealth: Empowering Advisors to Empower Individuals

And one way we will do that is by continuing to drive our deep relationship and integration with wealth managers, advisors, financial advisors, whatever you like to call them in your part of the world, because we have a shared mission here with them to empower great outcomes for individual investors. In fact, we think the opportunity in wealth management is only going to continue to grow around the world. And that's why you see in our assets under management businesses, in both our traditional investment management business and in our workplace business, we are increasingly driving more and more connections into the wealth management space and putting that at the center of our strategy.

Execution

Execution: Our Four Strategic Priorities Help Keep a Growing Global Firm Accountable

Now, we are also really focused on centering our execution on four key things, differentiation, scale, talent, and sustainability. And they all are very important to our shared future success here at Morningstar.

Differentiation is one we keep talking about every year. And so, hopefully, it's become second nature to you. And what that means is that with everything we do here, we want to introduce unique Morningstar IP. So, our data should have unique Morningstar IP to be more valuable. Our software should have unique design touches so that when you look at certain things, you know that that is a Morningstar-centered thing. The way we interact with clients should ensure that we are using technology in a way that really reduces the friction that clients feel. So, when we think about differentiation, it's all about how we provide a unique value proposition to the investors who work with us.

I touched on scale already several times during this presentation. But the key here is that we want to be planning and thinking about Morningstar as a much larger, more impactful company, and our planning is centered around just that as we move forward.

And then, there is talent. In past meetings, several of you have asked me, what keeps you up at night, Kunal. And I think I always give the same answer. And that answer is, the next person who is hired at Morningstar. And I give that answer because what has kept us going is the fact that our talent, our culture, are so special. And it's really important to me and everyone here that the next person who walks into these doors feels as committed and as involved in living that mission and living our values and delivering the results that we expect here. And so, even as we are growing, and even through this unique period in the pandemic, we have doubled down on ensuring that the way we go about recruiting talent, growing talent are all central to our focus.

And sustainability, establishing a leading position here across our businesses is incredibly important and an area of major focus. Whether we talk about our credit ratings business, whether it's one of our licensing businesses, or even our workplace business, we are focused everywhere, on ensuring that each of our businesses is thinking about how they can have a leading position. Even if it's early for them, we want to make sure that we are well ahead of the market in this context.

So, we think these are four very important strategic priorities and good ways for you to hold us accountable to how we drive growth here in the future.

Measuring Morningstar's Sustainability

We also hope that you've had an opportunity to read our first Enterprise Sustainability Report. We view the first report as a great benchmark through which we can use and then think about how we improve in the future. And already by publishing this, it's led to many good conversations and activities within Morningstar to ensure that next year when we publish this report, you see real progress, that you see real commitment to the things that we've laid out. We want to walk the talk in this context, and we plan to.

Empowering Investor Success in the Moment. Empowering Sustainable Outcomes for the Future

Empowering investor success in the moment has been critical to how we have navigated the past 18 months. How we empower sustainable outcomes for investors' portfolios so that they match up to their individual goals is going to be critical to how we ultimately empower their own individual success in the future. We think we have got a great plan ahead of us at Morningstar. It's mission-aligned, but it also is really, really valuable in terms of, I think, bringing great outcomes to our shareholders and our stakeholders.

We have a unique proposition at Morningstar, a unique culture. And we are doing everything we can even in this environment to ensure that it all continues to grow and thrive. And we hope that you are as excited about where we have ended up after this unique period as we are. The opportunities to continue impacting investors and driving success are quite significant.

Now, I'd like to invite my colleague and friend, Jason Dubinsky, to the stage. Jason is coming up now on four years being our CFO. And I think the two of us have had a terrific partnership leading this firm. And I think you will enjoy hearing from Jason next and getting a little bit more granular detail on how our financials have played out as well as hearing about some of our investment plans for the future. So, thank you, and I look forward to coming back up for the Q&A. Jason?

Financial Highlights – Jason Dubinsky

Jason Dubinsky, CFO, Morningstar: All right. Well, good morning, everyone, and welcome. And I would echo Joe and Kunal's sentiment that it's really nice to be here in downtown Chicago today, although speaking to a pretty sparse auditorium, a very different perspective than what we had last year. So, thank you for participating this morning. And it's great to be here with you, but it's hard to imagine that it has been a year – and I think if you remember when we were speaking to you last year at this time, it was a much different environment. And I spent a lot of time talking about how our business could react in periods of uncertainty and prolonged economic downturn. But I think if we look back, and if you heard our sentiment, we really felt that if we could be successful despite a lot of that uncertainty, we could emerge and come out of the pandemic in a stronger position than where we started. And while we are not fully out of the woods yet, I think we are really pleased with where the business is today. And importantly, we thank all of you for your support and your engagement over the past year.

Agenda and Topics

So, today, as Kunal mentioned, I'd like to cover a few things – take a look back at historical performance over the past three years and do a bit of a checkup on how we have done. I will review the current state of our financial performance and business and importantly, start to frame a few of the strategic priorities, particularly in how we are investing and how we see that shaping our future.

Financial Success Over Past Three Years

So, I will start with where I think I've always started in these annual meetings with financial success, and financial success is a core tenet to our culture and a key value here at Morningstar. And I've always believed that financial success is really a win-win. Meaning, if we stay true to our mission to empower investor success, financial performance and good results will come. And I think that's certainly been the case over the past few years, particularly when we outlined an investment plan back in 2017 to really focus on key areas where we thought we can deliver outsized growth here at Morningstar relative to the market. And I think largely, we have been successful in that effort, particularly across the key measures that we focus on so intently here at Morningstar, and that's in revenue and operating income, cash flow, and importantly, shareholder returns.

So, if we look at how we have done over the past three years, I think, generally we have been incredibly successful. If we look at our revenue performance, it's grown nicely, but the measure that we look at with great intent is organic growth. And the average over the past three years has been close to 9%, and that's great to see.

On the operating income front, we report adjusted operating income. And for those of you who follow us, we strip out M&A-related costs as well as amortization to make sure we have a pure comparison there and more of a cash basis. So, if you see operating income growth, it's in excess of revenue growth over the past three years, which means that we've expanded margins nicely.

Cash flow has also been a nice story here. Our free cash flow has grown almost 19%, in excess of our reported revenue and in excess of our adjusted operating income, which means that our conversion rates have improved over time.

And then, finally, over the past three years, we've had strong shareholder returns. And I know many of you have participated in that journey with us. But it's also nice to see that our TSR is above the peer group, which we track for you on a regular basis in our annual report.

So, it's a nice picture and a nice snapshot and a real testament to the hard work of our folks globally to live our mission and empower investor success.

Drivers of Growth

So, if we look at where we ended 2020, today, we're about a $1.4 billion company and even higher if you look at the run rate based on the first quarter. But we are up over 50% from where we were in 2017. And we've arrived there through the strength and diversity of our business, and a nice mix of both organic and inorganic growth. Roughly 60% of our growth is organic. And that's been driven by three key product areas, and that's PitchBook, Morningstar Direct and Morningstar Data. And we have completed several acquisitions over the past few years, but the most meaningful to our inorganic growth has been DBRS Morningstar. And our inorganic growth through M&A has represented roughly 40% of the growth that you've seen from 2017 to 2020.

So, we are still going to be opportunistic with M&A. It's important. But organic growth and the shoots that we have and the opportunities in the addressable markets are equally attractive, if not more attractive to us, and you are going to continue to see us focus and invest in the organic opportunities ahead.

2020 Performance

So, 2020 capped off a nice track record of three-year performance for us. And there are a few things that I will mention in 2020. I think many of you are familiar with this performance based on our annual report and being with us at year end. But if you ask me where we were last year at this time, if we would achieve these levels of performance, I think certainly there was uncertainty, and that's (certainly surrounded), would there be a short recovery, what would the shape of the recovery be? And I think looking back today, these results definitely exceeded our expectations, and I bet you the shape of the recovery probably exceeded many of yours. And our performance really is a testament to the resiliency and the diversity of our business globally, and again, the hard work of our people across the globe.

So, last year, in 2020, we reported almost 20% reported revenue growth. Adjusted operating income increased over 35%, so grew in excess of revenue. So, again, we expanded margin. And importantly, our free cash flow increased over 20%. But the neat thing to know about free cash flow is that we reached a high watermark for Morningstar last year, and each year is typically a record year in free cash flow, but we achieved $300 million of free cash flow for the first time in Morningstar history. So, a great accomplishment and a testament to the strength and resiliency of the business.

2020 Success Factors

So, if I look back in 2020, and reflect on a few critical success factors that drove performance, there are a few things that stood out from my perspective. First is the business resiliency that I mentioned. We had over 8%, organic growth last year in 2020, and that was really supported by the strong and consistent license-based growth that we have where not only did we have a strong recurring base, but we expanded revenue here. And that was critical to our success.

We also decided early in the year that we had to manage the cost line prudently, and both protect the P&L in the short term, but still make sure we were making the right investments for the long term and not giving away our future for the current state and current environment. And I think we were successful in that balance. And our teams definitely made some sacrifices here, but we all shared in the positive outcome in performance. On the cost side, we were definitely mindful of discretionary spend, but also at other benefits last year, things like lower travel costs and lower facilities-related costs, which helped our operating expenses. And you can see our underlying operating expense just grew modestly last year, and our margin, and our adjusted operating margin, increased over 300 basis points.

And I think even more importantly to that theme, we continue to be optimistic for the future and deployed our free cash flow in prudent ways, with the largest outflow being the Sustainalytics acquisition, which we announced in April and closed in early July. So, a really nice picture and a testament to the strength and resiliency of the business last year.

Q1 2021 Performance

And that strength has definitely continued into the first quarter of this year. And we've seen continued momentum. We published our financial results a couple weeks ago. And hopefully, you've had all time to review and digest those. I'll give you a few highlights there. And I think the most important thing with our first quarter results is you really saw a broad-based growth across the entire business, both product line and geography, leading to over 21% reported growth. Although not on the page, we recorded 13% organic growth for the first quarter. And if you look at performance over the past several years, that 13% organic growth is really a high watermark for any quarter that we've reported in recent history. So, really nice to see.

The other highlight on this page is that our adjusted operating income increased over 50%. So, again, that's in excess of revenue and shows that we are expanding margin. And a nice thing that we saw in the first quarter with some of our transactional areas like credit ratings really had a nice positive impact on our operating performance and our margin. And again, a very nice story with free cash flow, in the first quarter up over 23%. Remind you that our free cash flow – our cash flow in the first quarter is typically the lowest part of the year, because that's when we pay out our bonus payments.

And the only other thing I note in the first quarter and we alluded to that in the press release, if you saw it, is that there are some expenses that will start to have harder comparisons as we get into the back half of the year as things like travel expenses normalized to the environment that we were in the prior year. So, those comparisons will not be as strong and favorable as we enter into the back half of the year. But we are very excited about the strong start to the year. And I think it's a real testament to the strength of the business, good market conditions, but importantly, the execution across our product teams across the globe.

A Successful Long-Term Operating Model

So, our business is in good shape, and we are on solid footing. And as we look ahead, I thought it would be helpful to review our operating model to give you a bit of perspective, not only on how we got here, but reinforce how our operating model is unique, and I think will serve us well heading into the future, particularly how our business continues to evolve.

So, I will start on the top-line and revenue. And across the board, we are still weighted in revenue more towards licensed-based areas. So, two-thirds of the business today is licensed-based. So, again, that's areas like PitchBook and Morningstar Data and Morningstar Direct, and that provides stability, but also from our perspective, still pretty significant growth opportunities. Our asset-based and transaction-based areas are more leveraged to asset levels and market conditions. And that could be fixed income market conditions and equity market performance, but also credit market conditions in the new issue environment. And we really like these characteristics. And our success isn't going to be on market performance. Our success going forward is to continue to be successful on our ability to penetrate and gain share in these markets. And that can be further increasing our flows into managed portfolios. It's increasing the penetration of our managed retirement accounts or expanding our coverage in structured financing and corporates in credit ratings. And you will see with these areas when they move in the right direction, they have got significant earnings power for the company.

So, next, on the operating expense side, you can see that our cost structure is geared more towards our people with compensation and benefits being about two-thirds of our cost. And we've grown headcount over time, and I think we've done it in a purposeful manner across key areas of the firm. And are going to continue to do that where it makes sense to add capabilities and drive growth. And I hope you've seen us balance the short-term and the long-term in a responsible way in order to capitalize on market opportunities. And future scale is very important, and I'm going to touch on that a bit later.

And finally, with our cash flow and balance sheet, our business model creates very strong and steady cash flow. Over time, we've prudently managed our balance sheet and capital allocation in a balanced way, and I think 2020 was another good example of that. And that served us well over time. And I think importantly, as we ended 2020 and as we sit here today, our balance sheet is in great shape. If you look at our adjusted debt to EBITDA based on our credit facility and private placement definitions, we are less than one time levered, and that gives us significant financial flexibility to continue to invest back into the business for organic opportunities, be opportunistic for inorganic opportunities, and continue to return cash to shareholders.

Our Four Strategic Priorities

So, let's start to look forward. And we've got four key strategic priorities that we've outlined and Kunal touched upon, and I'll try to provide a bit more context and perspective here as we look ahead.

Delivering Differentiated Insights

So, first is delivering different differentiated insights, our first priority here, and that shows up across our product portfolio and how we are investing behind it to drive growth. And we are fortunate here at Morningstar to have great IP and great products and very large addressable markets with strong brands and capabilities. But that doesn't guarantee us success unless we continue to push and innovate for the future. And there are very few areas in this portfolio where we are not investing today. But I think there are some where we are pushing the pedal a little bit harder in 2020, given our strong performance and recent performance, and our ability to move in the short time to capitalize on market opportunities.

So, I'll give you a few examples here. So, first, in Morningstar Data, we continue to invest in new data sets, like fixed income is a good example, and DBRS Morningstar and credit ratings, we are building out greater corporate coverage for middle market credits in both the U.S. and Europe. In PitchBook, we continue to build on our private market coverage, across geographies as well as new equity data sets and continue to focus on product development and new user capabilities. In our workplace and retirement business, we are driving managed account creation and adoption of managed advisor accounts across the market. In indexes, we are driving new IP in both investable product as well as our benchmark data offerings. And in Sustainalytics, we are continuing to capitalize on the demand for core ESG products and launching new opportunities in areas like carbon. So, as long as we feel good about the returns we are getting across the portfolio, we are going to continue to invest in resources and technology and data and marketing, in sales and service to support our clients and our growth opportunities. And hopefully, our performance over the past and of late has given you the confidence that we can do that responsibly for you over time.

So, much of the growth across the portfolio is enabled by our core capabilities that underlie our growth. And I think as we've said in the past, our commitment to data and research are essential to our business and essential for us continuing to be able to innovate in the market and serve our clients. We think about this as our R&D engine that can be used and deployed across our portfolio and our channels in many different ways to serve our clients to meet their needs. And there are two important ways where we can show incremental investment here.

First is just the growth in data and research over time. And you can see that this year we are on a run rate path to spend roughly $255 million in these core areas. And that includes our research and credit analysts, our data collection and production, as well as our analytical platforms to support that. And you see a nice trajectory of growth here over the past few years, and that's been very purposeful, and very deliberate. And outside of these investments, we continue to develop software and applications to support our business and support our clients. Our capitalized software development measure is a great indication of that effort. And you should think of that as incremental spend each year and investment in new applications and capabilities. And you are seeing an acceleration and increase each year, and we are at a run rate to surpass $75 million this year, given heavier internal and external development activities.

Drive Operational Excellence and Scalability

So, I'll now turn to another strategic priority to drive operational excellence and scalability and talk a bit about leverage. I think about leverage in a couple of ways. First, I think about it in terms of financial leverage. And back to the operating model that we just went through, our focus is to grow the top-line over time in excess of expenses, and that will help us drive incremental margin over time in a smart and responsible way. The left side of the page depicts some of the progress we've made over the past few years in terms of margin expansion. And you can see, our adjusted operating margin from 2017 to 2020 has increased roughly 160 basis points.

So, I've said over time that this path isn't necessarily going to be linear, because from year-to-year, we are going to make the right investments to balance the short-term and the long-term. But this presents, I think, a nice picture over the past few years. And you can see that leverage has primarily come in the cost of goods line and that's where a lot of our product development and input cost lie. And remember, the R&D costs in terms of research and data that I just shared with you fall primarily in here.

Sales and marketing have remained relatively flat, and we've leveraged that pretty well to support growth over the past few years. But G&A actually has increased. So, that leverage has gone backwards a bit. And that's for a couple of reasons. I think, first, we actually have added to certain corporate areas here at Morningstar over the past few years to support some of that leverage and scale, as well as things like facilities costs to support headcount growth would show up here. The other thing in G&A is some of the M&A that we've done recently. And we'd expect some of the expenses here to normalize over time as we continue to grow and integrate operations.

But the other aspect of leverage that I want to talk to is our ability to invest, to grow and scale over time. So, as Kunal mentioned, we're roughly $1.5 billion company today, but that is not our goal. Our goal is to continue to increase the size and scale of this business to $2 billion, $3 billion, $4 billion, $5 billion over time. But we need to be able to do that in the right way to scale our operations and drive profitable growth. So, that includes things like standardizing our technology platforms and systems and infrastructure; it's finding common ways of working across our development teams and building up go-to-market processes and sales and service and digital marketing. But importantly, it's a continued focus on putting people and resources against the right opportunities to drive growth, by continuing to leverage things like automation across the firm to increase our efficiency. We are going to continue to invest to grow, but doing it with the future enterprise and a future larger enterprise and profitable enterprise in mind is definitely our focus.

Establish Leading ESG Position By Example

And we see ESG as an important core to that future enterprise, and our product offerings and solutions are a key priority, and we are confident that they are going to deliver across the business in many different ways and opportunities to drive the top-line as well as financial returns. Kunal touched on this and Michael Jantzi will touch on this in a bit. But I also think that ESG is important for our business in a different way, because I also think that we have a unique responsibility as a corporate citizen in the markets that we serve, to the people and institutions that we touch, and can make a real difference in the market with issues that matter to us, whether that's DE&I, whether that's climate or business ethics or even employee engagement. But I also think we have an added responsibility just because we are Morningstar and that you are stakeholders, and that includes other employees and clients, individual investors, our peers, and even regulators, often look to us for leadership. And I really believe we can provide this here.

If we stay true to our principles in ESG and focus on areas that we believe we can continue to make a difference, I really think we can provide meaningful business impact and performance and create real value over time. And we've worked hard to-date. We are only just getting started. And you've seen our CSR report and it highlights lot of the core metrics and data that we are going to track. And now, we have a foundation and benchmarks to move forward to hold ourselves accountable to progress in ESG at Morningstar.

Talent

And I'll close here where Kunal started, and that's our people. Building an inclusive culture that drives exceptional talent and development is a critical priority, and I think probably our most important priority. I've always said that our most important assets here at Morningstar are our people. They live our mission every day, and that's clearly been the case over the past 18 months. And it speaks for the fabric of Morningstar and the organization. I couldn't be proud of all of our teams across the globe coming together, first and foremost, to support each other, and then secondarily, to all of our clients, and we are still doing that today. And in many ways, I think, this will continue to have the most defining impact on our future success. And if we focus on our people, and if we protect our culture, then everything else will fall into place.

A great example of that is the Sustainalytics team. We've always had a strong, purposeful culture here at Morningstar. And the most important part of our M&A process, when we look at partners, is to evaluate them in a similar lens, and that organization, are they going to be a good fit, is their culture going to be aligned and their mission values be aligned with Morningstar? And I think our early success in bringing Sustainalytics into the Morningstar family is certainly a reflection of that. They're an incredibly talented team and they brought a lot to Morningstar in just a short amount of time.

And Michael Jantzi is a great example of that. He is a great partner and he is a great leader. And we are fortunate to have him here. I've appreciated his partnership myself. He has got a great passion for ESG, and his ability to challenge us and push us not just to make sure that ESG will be a commercial success here at Morningstar, but that Morningstar can play a role as a corporate citizen is also meaningful to me as well. And Michael's had a very big impact here in a short amount of time. So, it's my pleasure to turn you over to Michael Jantzi, who will lead you through Sustainalytics and ESG.

Michael, thank you, and over to you.

Our Path to ESG Leadership – Michael Jantzi

Michael Jantzi, CEO, Sustainalytics: Thank you, Jason, and Hello, everyone. Greetings from Toronto, Canada on a beautiful spring day. And it's certainly my pleasure to be here with you to talk a little bit about Morningstar's path to ESG leadership. As you can tell from Jason and Kunal's comments, sustainability is a core objective at Morningstar. But as I'm sure you picked up from the opening video, it's also a passion for many of my colleagues across the globe. So, today, I'm going to talk a little bit about Sustainalytics, I'm going to talk about the market in which we operate, and I'm going to talk about why we are excited about the combined strength of Morningstar and Sustainalytics and what we think that's going to allow us to do in empowering our investors moving forward.

Our Path to ESG Leadership Began Over a Decade Ago

Before I do that, allow me a slight detour, because I do want to pick up on some comments Jason just made about the last 10 months of integration, because integration is hard work. But I'm really pleased to say that on balance it's gone strongly positively. This is a success story over the last 10 months. And I think there are various reasons for that. But I want to highlight just one, and that is the fact that our relationship didn't start 10 months ago. Morningstar and Sustainalytics have been working together since 2015 and 2016. Of course, that relationship deepened when Morningstar took a minority interest in Sustainalytics in 2017. But we've had the opportunity to build long and trusting relationships across our organizations. We've learned how to work together.

And that's been really important over the last 10 months, because we've been able to work through the challenges that integration always presents, and we've been able to do so in a way that has meant that the integration process, although it's hard work, it's always hard work, but it hasn't been an undue distraction, and we've still been able to focus intently on really the two most important objectives we had over the last 10 months when it comes to sustainable investing, and that is, ensuring that we are embedding that ESG research and capability across Morningstar, and Kunal touched a little bit on that, but also ensuring that we are keeping our eye on the ball and ensuring that we are continuing to drive that robust growth at Sustainalytics.

Sustainalytics Overview

Who We Are

So, let me turn my attention now a little bit to Sustainalytics and maybe just give you a snapshot about what the team is all about. Sustainalytics is a team of now more than 900 people and we operate and serve our clients on the investor and corporate side of the equation from our global footprint. We have always been intentional at Sustainalytics about both growing and supporting that global footprint. It's certainly been useful for us in regards to informing our product development and innovation. It's informed our research and our insights, which of course, is key in helping us achieve our collective mission of empowering investors. And obviously, it's kept us close to our clients.

Sustainable Finance Ecosystem

It's been a really important part of Sustainalytics' success, also that, we work in the midst of a very vibrant and evolving sustainable finance ecosystem. We work with investors and we help them integrate environmental, social, governance issues into their investment processes. But we also work alongside corporates, issuers, as they are looking to raise capital in a myriad of different ways with the sustainability lens, and with the financial intermediaries that serve those two core pillars of the capital markets. So, being in the midst of that robust sustainable finance ecosystem allows us to play the strengths and with the trust that we have on the investor side to build our business with issuers and corporates and vice versa. We are in the midst of a virtuous circle in this vibrant ecosystem.

Who We Serve: Investors and Corporates

Our breadth across that ecosystem, I think, is highlighted given the relationships we have on the investor and corporate side. What this slide indicates is that our core audience traditionally at Sustainalytics on the investor side of our business is really on the institutional side of the ledger, with asset owners and then the investment firms that serve their needs. On the corporate side, you see the breadth of Sustainalytics' relationships, not just with the companies, the corporates, the issuers, but again, with the intermediaries that serve that part of the market. And again, across the investor and corporate landscapes, that global footprint comes alive, and you see that in play in real terms.

What We Do

Now, those relationships don't happen – those long-standing relationships don't happen by luck. They are underpinned by the breadth of the research and support and the quality of the support we bring to our clients. And you see here a snapshot of the range of research and support we provide to our clients on the investor and on the corporate side of the arena, and how we support them and the intermediaries that serve them in an ongoing and critical manner.

ESG Investment Value Chain

And in fact, one of the key differentiators for Sustainalytics from our perspective is that we are able to work with our investor clientele across what we call the investment value chain. We can provide the research, data, and insights and support they need at that pre-investment stage, helping them inform their investment decisions. We can provide the insights and analytics at the portfolio stage and help them report out to their clients and stakeholders on the outcomes of their portfolios and decision-making process. And we can help them when they shift their attention to being good stewards of their clients' assets over the long term. But our differentiation isn't just in the fact that we can work with our clients across this investment value chain. It's the fact that we ensure that we have high-quality research and support within each of these components.

Market Leading ESG Risk Rating and Research

And I don't have time this morning to go into each area in depth, but I do want to focus a little bit on what is our key differentiation in the market. And it bears repeating that Sustainalytics is one of the two most prominent and most important ESG rating organizations in the world. And that is underpinned by our flagship ESG Risk Rating. And as the name suggests, at Sustainalytics, our ESG rating is laser focused on evaluating ESG from a materiality and risk perspective. Our rating allows our clients to understand the exposure that companies have to ESG risks. It highlights how well those companies are managing those risks and are prepared to manage those risks over time. And ultimately, the rating looks at that unmanaged risk and evaluates it on a scale from negligible to severe.

Our ESG risk ratings are underpinned by a robust methodology, and they cover a broad universe of companies. Those are two critical elements that provide significant differentiation for Sustainalytics, especially against new entrants into the ESG space, like S&P who do have ratings but certainly can't match that breadth of coverage or methodology like Sustainalytics' ESG ratings do. That laser focus on ESG risk also provides us with a significant differentiator against competitors like ISS, who also have ratings in the market, but whose ratings are underpinned with an impact-oriented approach. Now, that's just a different approach. But the fact is, for our core audience of institutional investors, those owners and investment managers that are integrating ESG, materiality is key. They need ESG risk ratings. And so, our ratings have great traction in the market.

And last, but certainly not least, our robust methodology takes an absolute approach to managing risk. That means that our clients are able to evaluate a company's ESG risk regardless of what sector or business they are in or where they are operating around the world. That means that our tool can be used to evaluate risk across that broad universe of companies. And that's in stark contrast to the ratings of our primary competitor, whose ESG risk ratings only allow for that evaluation within sectors. So, again, our ESG risk ratings are becoming ubiquitous within the investor and the corporate side of our client base.

Making Our Ratings, Research, and Data Available for Multiple Use Cases

Now, I have talked a lot about products. But obviously, it's also important to make sure that our research and our insights, get into the hands of our clients in the way that they need to receive those insights. The fact is that we believe that Sustainalytics historically has driven a differentiation in the market, because we've been prepared to provide that research and insights and embed it into the platforms and the tools and the systems and the workflows that our clients use every single day. So, we obviously have our own proprietary platforms and tools. We've invested heavily in data delivery and APIs. We are very excited, obviously, with our deepening relationship with Morningstar. That's allowed us to embed ESG in the tools that are serving a new entry into the sustainable investing store, which I'll talk a little bit about later, that retail and wealth space. And we've been able to embed at a security and fund level that research in a way that is really frictionless for our clients, and it's allowing the individual and the financial advisors that serve those individual investors to embrace sustainable investing in a new way. And that's very exciting. If for no other reason, it's part of our North Star. That's part of our mission at Morningstar to empower investors. So, that's also a differentiation for us here.

Sustainalytics Has Supported 600+ Sustainable Bonds

And I do want to touch on the corporate solution side as well, because we do work, as we say, with issuers and intermediaries. And there's various ways I could highlight our strengths, but I'm going to focus on just one and that's the SPO market. That stands for second party opinion market. And Sustainalytics is the largest verifier second party opinion provider for green, social and sustainability bonds in the world. In fact, earlier this year, Environmental Finance when looking at this space, highlighted our number one status and estimated that we had market share of about 36.5%. That was about three times larger than our nearest competitor, ISS. And in fact, our market share was almost as large as a collective share of our four next largest competitors. We don't take that dominant position in the market for granted in any way, but it certainly gives us a position of strength. And when you add the fact that our ESG risk ratings have such traction and ubiquity with investors, that continues to drive our performance and leading position in regards to sustainability-linked loans and ESG licenses and benchmarking.

Rapid Growth in Core ESG & Sustainable Finance Solutions

So, again, we have a strong differentiation across the investor and corporate sides of our business. And these have allowed us to drive sustainable and robust growth rates at Sustainalytics. In fact, we believe that our growth rates at Sustainalytics are at or exceed the growth rates of the market overall. And you can also see from this slide the strength of our ability to work within that ecosystem, working with investors, corporates and intermediaries, you see the strength that that that brings to Sustainalytics and how we expect that to drive our success moving forward.

Looking Ahead: Growth of the ESG Market Is Robust

So that's a little bit about our markets and how Sustainalytics has operated within them. But I do want to turn my attention now to the future. Why is it that Morningstar and Sustainalytics feel that we have an opportunity now to serve investors across the spectrum in a new way?

Market Trends: Sustainable Investing Continues to Grow

Well, first, I just want to focus on what has been Sustainalytics' historical strength in audience, the institutional investor. One thing we follow very closely is the principles for responsible investment, because we do believe that it's a good proxy for measuring the health of the institutional investment community when it comes to sustainable investing. And what we've seen is a long trend of growth in regards to signatory growth and AUM that accompanies that. But it's not just the large trends that we look at. We look at the drivers of those trends. And those also lead us to believe that the institutional market is going to continue to engage with sustainable investing in a meaningful way. In fact, the growth that we've seen, and PRI signatory growth has been global, and maybe more importantly, in regards to how Sustainalytics or Morningstar is prepared to serve our clients and support them, that growth has been driven by a desire on the part of institutional investors to integrate ESG across asset classes. Equities, fixed income, private markets, and the credit side of the business are clearly motivators for institutional investors to continue to embrace sustainable investing.

Market Trends: Sustainable Fund Flows are Increasing

Another reason we are very excited about the market opportunity is that if you look over the last 15 years, the mainstreaming story of sustainable investing has largely been an institutional one. The retail and the wealth space is really absent from that story. But that is changing, and it's changing in a significant way. And Morningstar's research and data shows this is becoming a reality. If you look at the flows into sustainable funds over the last several years, you've seen continued momentum over quarter after quarter after quarter. And so, on a global scale, we saw a record flow of assets into sustainable funds in 2020. But again, it's not those aggregate, sort of, numbers that provide the insights that we are looking for in regards to our opportunities. You really want to get down a level or two.

So, if we look at Europe, which has been a relatively mature, sustainable investing market, we are still seeing that same good momentum on the retail and wealth space in that marketplace. In fact, 2020 was a record year for fund flows into sustainable products. It was twice the fund flows in 2020 versus 2019. And in fact, in Europe, we saw almost five times of fund flows last year versus three years earlier.

So, that's Europe. But we are really excited about what's happening in the United States. And I suppose it goes almost without saying that the U.S. is such an important market. Morningstar is critical in this market. The retail and wealth audience were so well embedded and trusted, and it's a core part of our mission. Look at what's happening in the United States. Now, again, record flows into sustainable funds in the United States in 2020, double the assets we saw flowing in, again, a year before that, and 10 times the asset flows in 2018. So, we believe there is tremendous opportunity here. As Kunal highlighted, there's lots of things happening in the retail and wealth space around personalization and technology, and sustainable investing is part of that story. And we believe that Morningstar is well-positioned, again, to meet our mission of empowering investors and meet the needs of this new audience. And we are very excited about that.

Market Trends: Sustainable Finance Market Continues to Expand

And again, on the corporate solution side of our business – I won't focus too much on this – but again, this absolutely remains a very innovative space in the ecosystem. And just on this tiny little narrow piece of data, when we are looking at debt issuances, the first quarter of 2021 was a record quarter for us, and it continues to become diverse and it's a vibrant space. And again, Sustainalytics and Morningstar are in the midst of that, not only supporting that innovation, but helping to inform it. So, again, we think our position in that ecosystem, the sustainable finance ecosystem, bodes well.

ESG Regulatory Initiatives are Serving as Tailwinds

And last but certainly not least, I'm going to talk a little bit about the regulatory framework. To be honest with you, historically, I didn't focus a lot of commentary on regulations being sort of a force, a tailwind for sustainable investing. But that has changed in a significant way. You can look at most developed markets around the world now, and in some capacity, you see a regulatory framework being put into place that is supporting the growth of sustainable finance in some way, shape or form. There are a lot of examples I could point to, but I'm just going to spend a few moments talking about what's happening in the EU.

I'm sure you are aware of the EU sustainable finance action plan. It's probably the most significant regulatory framework to come into place. And it would be a mistake to think of this as simply a regional sort of regulatory framework. It has actually global implications. First of all, the framework, as it rolls out, is going to impact investors and corporates, which is very comfortable for Morningstar Sustainalytics, because we work in both of those spheres. And it's already impacting investors and corporates globally, because it's not just about investors that are domiciled in Europe, for example. If you are selling funds in Europe, or doing business in Europe as a company, you will also be touched by this regulation. And so, Morningstar Sustainalytics has already worked hard and has rolled out some initial products and support for clients that are having to respond to the early releases on the regulatory side. And this is an area that's going to continue to get a lot of attention from the combined enterprise. So, we are focused intently on supporting clients on both sides of the ledger again and supporting them as they navigate this new regulatory reality unfolding in the EU.

But also, we are seeing regulatory reform and change closer to home, or at least closer to home for me. Of course, the Biden administration is more proactive, it appears, on the sustainable finance and sustainable investing front than some previous administrations. We do expect one of the large trends that we are going to see is on the corporate disclosure front. So, we believe that, while by and large, it's been a voluntary now framework for issuers disclosing what they are doing on the sustainability front, we think that's over the next several years going to shift to a more mandatory reporting environment. And again, we believe, alongside what's happening in the EU, in the United States and Canada, some other jurisdictions, that we are going to be well-positioned to support our clients as they are now increasingly going to be expected to report on not just how they are integrating ESG or sustainability into their processes, but then, in fact, the outcomes of those processes that have an impact on their clients and their clients' right to know. So, again, these are some of the things that we believe are happening in the space and position us well moving forward.

The New Sustainability: Morningstar + Sustainalytics = ESG Leadership

Morningstar and Sustainalytics: Across All Relevant Channels

So, why is it that we're so excited at Morningstar and Sustainalytics about the combined strength that we have as an organization? And I guess what it comes down to is this. We believe that we are well-positioned to become relevant to our clients across all channels, that we can become the market standard across the capital markets. We have talked about our core audiences. And you can see, we now think we have the ability to serve those audiences across a broad spectrum. We believe we are well-positioned to provide the ESG insights and solutions that our clients need across asset classes, and we believe that we can do so at the security, fund and portfolio levels in ways that our competitors simply can't match.

Sustainalytics + Morningstar Empower All Investor Workflows

Now, I'm not going to focus a great deal of time on this. Kunal and Jason have already touched on this. But over the last 10 months, we have been really focused on ensuring that we can embed at the security and fund level ESG research and insights through those platforms and tools across Morningstar that you are well aware of. Whether that's Direct or Advisor Workstation, Office, Enterprise Components or the myriad of wonderful reporting tools we have in place for our clients, we have made great progress on embedding, as I say, that research and insights in a friction-free way, allowing our clients and users to really embed it into their day-to-day workflows. There is more work to be done, but we are happy with the execution that we have seen in that space thus far.

But it's not just in the platforms and tools. Our Index colleagues have launched an array of sustainability-based index products. Really, it's a fantastic array of themes, whether it's low carbon and climate, or gender awareness, minority empowerment, societal development. You have seen us on the credit side. You have seen Morningstar DBRS start to develop a methodology and integrate that methodology into their credit ratings process, and you have seen them publish how ESG risk can affect credit ratings across a number of different sectors. So, it really is something that's embodying across the entire Morningstar enterprise. And again, that gives us the ability to become relevant across all market channels.

2021 Product Portfolio: Strategic Innovation Priorities

I've already touched on some of the things that we will be focusing on, as Kunal and Jason already have, the EU side. Carbon is a big focus for us. We are investing in that side of the business. We already have a toolbox of offerings for our clients in this space, including our carbon risk ratings. But we are really going to be focused on both the investor and corporate side, helping our clients understand the exposure that they have to carbon risk, and then giving them the tools that they need to manage that, whether it's to create more resilient portfolios or to transition their business models or portfolios to a lower carbon economy, or simply help them with reporting, which again, going back to something I said earlier, we believe is going to become mandatory and not in that voluntary regime anymore. So, those are the areas that we are going to focus on at Morningstar now as we move forward on our sustainable investing journey.

Walking the Talk

2020 Morningstar Enterprise Sustainability Report

And last but not least, and I won't focus too much on this because again, Kunal and Jason have both talked about it. But our commitment to walk the talk is authentic, and it's real. And the fact is that we have talked about various times this morning about the fact that we published our first enterprise sustainability report. But reporting is not an end in and of itself. It's simply a means to an end. And the process that we have gone through at Morningstar in getting ready for this report and publishing it has certainly highlighted things that we are doing well, and we can celebrate those things. But it's highlighted things where we need to do more work. And that's really important, because as Jason highlighted, we have taken a materiality approach to sustainability at Morningstar, and we need to get better at these things, because we believe it's going to improve our performance over time across the company.

Transforming Values into Core Competencies

But we are also excited because our focus now is really on, as we say, working to transform our values as an organization into core competencies and making sure that what we believe are now embedded into our strategic decision-making and our operational footprint. I'm excited about that for a variety of different reasons, not the least of which is, it's because we get the chance to engage an energetic and excited workforce across the globe that's really interested in embracing sustainability in a way that both impacts Morningstar and the society around us.

So, it's been my pleasure to spend a few moments with you talking about our path to leadership. We are very happy to be part of the Morningstar family. And we are really happy that you, our shareholders, and our key stakeholders are alongside us on this journey. Thanks very much.

Questions-and-Answers

Kunal Kapoor: Awesome. Well, thank you, Michael, for that wonderful presentation. And we now get to what I think is my favorite part of the meeting, and hopefully, one that many of you look forward to as well. It's our Q&A session. And joining me for the Q&A session, of course, Jason and Michael, who you both heard from, but also here in the auditorium in Chicago, our Chief Revenue Officer, Danny Dunn, and just down the hall in a room on her laptop, because she wants to have all the data handy if she needs it, is our Chief Human Resources Officer, Bevin Desmond, who leads Talent & Culture here at Morningstar, as well. So, you've got five of us ready to answer questions, as well as obviously Joe is here himself in the auditorium; Pat Maloney is here, and members of our Board are available too if anything ends up coming on. And I think, since we are not in my home this year, my son will not be ordering pizza and having it delivered in the middle of the Q&A, as was the case last year.

So, with that, I'm going to turn the reins over to Barb Noverini, who leads IR for Morningstar and does a great job of planning this event. So, Barb, over to you, and then we will take questions and I've been asked to highlight that you can either raise your hand and we will put you on camera, which we'd love to do and I think is a really engaging way. Or if you just want to send in a comment, you can do that through the chat feature as well. But we strongly encourage you to raise your hand and we will give you the camera so we can look at you directly and talk to you. So, Barb, over to you.

Barbara Noverini: Thanks, Kunal. Hello, everybody. Thank you for joining us today. We do actually have a question from Pankaj Nevatia of Fidelity, and he is going to be using his camera to ask the question. So, give him a couple seconds to show up. There he is.

Pankaj, you are unmuted, so go ahead and ask your question. Pankaj, you may still be muted. There we see you now. But we can't hear you. These are the technical difficulties - try your headset maybe. All right, we still can't hear you. I think we can hear you now. Yes.

Pankaj Nevatia: Perfect. Sorry. Apologies for that.

Barbara Noverini: No worries.

Pankaj Nevatia: Just a question on Morningstar Direct. Morningstar Direct has seen a decelerating growth, I think, since 2017. Can you talk about what's causing that? I think you've touched on it a little bit on your annual report. And sort of related to that both for Morningstar Data and Direct, you've talked about long growth runway. Can you just help me understand what and where is the opportunity? Is it replacing incumbents or is just an underpenetrated market? I know financial data market is big, but I believe these products are targeting a specific subset. So, can you just help me understand where is the opportunity to sort of take share?

Kunal Kapoor: Yeah, thanks, Pankaj. That's a great question. And Danny, maybe you can take the lead first in addressing the first part of Pankaj's question, and then I'm happy to round it out as well.

Daniel Dunn: Yeah. So there are a couple things, as you talked about Direct and you talked about Data. When we look at Direct, we actually do see great opportunity ahead. I'd sort of describe it in two different ways. One would be sort of more on the product and the capabilities. And as we look at that platform, we see big opportunity with some areas like ESG and plugging ESG into that platform, which opens us up to a whole new set of users and teams across our client bases in both wealth and asset management. So, you look at ESG, and then we think about other things like model portfolios and bringing that kind of data and analytics into the platform. So, we feel pretty confident about the roadmap. And when we think about addressable market for Direct, we don't provide all the specifics on it, but we see a pretty long runway in the core asset management and wealth management segments, and in particular globally, we've seen nice growth coming from our global markets.

Related to Data, again, I think, Kunal's comments in the opening that we continue to invest in new data sets, that's really a big opportunity for us. So, we feel confident there. The other part I would talk about is go to market. And we continue to make select investments in our go to market strategy. And I'd say two really important things to think about there are sales capacity, and we do that thoughtfully. And it's not just an annual process. We do it in real time, as we see the market and opportunity evolve. So, there is a big opportunity there for us to keep thinking about how we look at salesforce sizing and capacity.

The other thing I'd say about is there are opportunities to get more precise in our obtainable market with our marketing and demand gen capabilities. And I'd say this applies broadly to the entire firm. But taking what we have learned from PitchBook, which I would say, is industry best-in-class demand generation function, we are taking the best of that and scaling that across our other Morningstar businesses. And so, this brings us the ability to take more precise angles into where to find the opportunity, how to drive campaigns and engagement with those audiences, and extend the growth. So, I think it's a bit more of sort of a data-driven sort of approach to finding new pockets of opportunity. So, I'm pretty confident about that. And Jason and Kunal have been very, very thoughtful with investment and encouraging as we go down that path.

Kunal Kapoor: Yeah, I would just say that on Direct, one of our key goals with Frannie leading it is really just to focus now very, very heavily on the asset management segment. I think we tried to move a little bit into the wealth management area with Direct and candidly, some of that maybe just drove a little bit less of a focus than we would have liked. And it was not a great fit. We have other better products in the wealth management space, and Direct for the wealth management space really only makes sense, for example, for those who are building portfolios within, let's say, wealth management shop versus a smaller RIA, who may be looking for something that's more workflow oriented. So, we've tried to clarify that as well.

And then, in terms of growth, all I would say is that Data and Direct both tend to grow off of some of the same opportunities. And one we've talked about here, very significant, is ESG. We think that that will be very meaningful for both of them. But we are also looking at shifts in the way investors are building portfolios. And you've seen us roll out more of a focus in both Data and Research around the phenomenon of models. So, more and more investors are buying models today versus buying individual strategies. And so, we are trying to basically build more database around non-registered products, if you will, because the demand is there. And we certainly see that as a significant leg of growth that we can bring to bear. And there's other areas such as structured products, which we have not really built things out, and we are thinking about how to approach those as well.

Pankaj Nevatia: Can I ask a follow-up on DBRS?

Kunal Kapoor: Yeah, please do.

Pankaj Nevatia: Just on DBRS, I know you've talked about – so, if I go back and look at the history, the business grew in Europe post GFC as we stand today. I mean, I'm just trying to understand what is the incentive for an issuer in U.S. or Europe to sort of switch to an additional credit agency or add a credit rating agency? Because things as they stand today, I guess, it's not as – from what I know, it's not as hard to raise capital if you are rated by even two of the three legacy agencies, right? I mean, back post GFC, there was a credibility issue with, sort of, maybe because of what happened with some of the agencies. But I guess as we stand today, is it harder to sort of convince an issuer to adopt DBRS if they haven't done in the past?

Kunal Kapoor: So, Pankaj, the way I would answer the question, and I think it's a really good question, it's true that the legacy three firms have a very strong moat around them and that they have basically been able to grow their business by taking inbound calls, whereas we are active and out there certainly talking about our value proposition in a more meaningful way. So, what I will say is that this is not an industry or an opportunity that will kind of come to life overnight. And we view it as a long-cycle opportunity. And we've been thoughtful just to take strengths that we have and use those strengths to move into adjacent areas versus trying to basically go and cover the entire universe right out of the gate.

So, for example, we have a leading position, as you know, in Canada, and we work very well with Canadian financial institutions. And so, as they have started to expand around the world, we have tried to follow them and work with them in jurisdictions that they are getting going in and trying to expand into them. So, that relationship can carry. If you look at our strengths in the structured area, and you look at what's happening in Europe, we've done really well in that space. And so, rather than immediately kind of jump into a different sector, we've basically run with structured and tried to go into different markets around Europe and kind of build on that space. Or if you look at corporates, rather sort of than just kind of going head on, we sort of concentrated heavily on the middle market, as well as in private placements and tried to focus on those areas where maybe we have an opportunity to establish a leading position, and then kind of try to use that to come at it.

We've also talked a lot about the fact that we are using technology to bring more transparency to the ratings process. And what we hear very heavily from issuers and investors in the market is that they don't have the transparency that they want, and that they still, even though the financial crisis that you referred to has blown over, they still don't have a high degree of conviction in some of the firms that they work with, and they are actually open to an alternative. And so, it is a process of chipping away and being thoughtful about how you approach it, and that's what we've been doing.

I think the best thing I can say about the way the team has executed in the last year is that we have now emerged as the alternative to the three firms globally. And that has put us in a very strong position to start competing with them head on. And in several markets around the world, we are now considered to be basically among the four as among the three as used to be the case. So, I think it's steady progress. And we are going to be at this for a long time and intend to continue to chip away and grow at a steady pace.

Pankaj Nevatia: Thank you for taking my questions.

Kunal Kapoor: Yeah, thank you.

Barbara Noverini: We are going to take a question from the Q&A box this time and this question is from Mindee Wasserman, who is a repeat attendee of our shareholder meeting. So, welcome again, Mindee. She says congratulations on your excellent performance during the pandemic. Have you gotten specific feedback as to how you were able to help retail investors and institutional clients through the deep dive and recovery in the markets and in financial planning in general in 2020?

Kunal Kapoor: Thank you, Mindee, for coming back to the meeting and lending your voice. We always appreciate it. And I would say that the best way we hear back from folks, especially in the individual investor space, is often just by looking at traffic on our websites around the world and engagement that people have. And I showed you some statistics that highlighted sort of change in demographics that's taking place on some of our individual investor properties. But it's also fair to say that we've had a very strong year for traffic across the board, with more and more investors coming to the individual investor websites, particularly here in the U.S. and in Australia. So, I think if you are looking for vindication, that's certainly the one way. We certainly get feedback, have client surveys, look at all those things as well. And the feedback has generally been very positive. And our individual investor team, as you may be aware, are in the process of launching some new software, the beta versions of which are available right now. And if you haven't tried them out, I'd encourage you to take a look and participate in that.

In the institutional space, I think the best vindication always is when you are able to grow relationships with your clients. And if Danny and I are to look at some of our largest relationships across the board, they've been growing in the past year. The thing is, people always come to us and they want to work with Morningstar. They see the value of our mission; they believe our people are there to really help them with good outcomes. And I would just say that in the institutional space, we've gradually chipped away and taken share as measured essentially by the growth in some of our biggest relationships that we have today.

Barbara Noverini: Thanks, Kunal. And then, Mindee also has a follow up question. And she says, can you please explain what services at Morningstar utilize target date funds and what is the future of this asset class in your opinion?

Kunal Kapoor: Yeah. So, we actually help build target date funds in our registered entities. And we also have what are called managed portfolios, which while not target date funds, essentially, are portfolios that help investors save for particular retirement goals. And my belief is that they are really good solutions. And you've actually seen across the mutual fund industry that growth in target dates and managed portfolios, as well as goal-based portfolios have really been meaningful, and we've been focused on ensuring that we are also meeting that need.

But possibly the best thing I can say about them is that when you look at market downturns in particular, investors in those types of portfolios tend to stick it out. And they don't tend to have the lows and the highs and some of the behavioral failings that other investors tend to have when they are only in certain narrow products. And so, the experience, if you look at the achieved returns, versus the published returns, they tend to be very, very close, which I think is a vindication, and our own research into managed portfolios in our workplace area has shown that investors tend to stick things and earn very good returns as a result of doing just that. So, my belief is, from a future perspective, the future continues to be bright for them. But as I indicated, personalization is coming along, and that's the one piece that they don't necessarily meet today. And so, I could see goal-based target date portfolios personalized at scale becoming a very important trend in the industry in the coming years.

Barbara Noverini: Thanks, Kunal. We have another question coming in via the Q&A box. And this question is – we received a question as to why the shareholder proposal was not included in the proxy statement.

Kunal Kapoor: Yeah. So, I'm going to invite Pat Maloney, our General Counsel and Corporate Secretary, to answer that question.

Pat Maloney: So, thank you for the question. For a U.S. public company like Morningstar, there are two ways for a shareholder to submit a shareholder proposal. One is under a specific SEC rule called Rule 14a-8. And under that rule, there are a bunch of procedural requirements, including requirements around the timing of the proposal. And we set forth in our proxy statement each year, what the timing of that is for the next annual meeting. In that case, if the shareholder submits a proposal, the proposal is published in the company's proxy statement typically with a supporting statement and usually response from management.

The second way to present a proposal is under our bylaws. In that case, there are separate timing requirements. In this case, the shareholder proponent elected to submit it under our bylaws. The difference is that the timing is different. So, they met the timing requirements. But the voting on those occurs outside the proxy statement process that the company uses to solicit votes. Now, the shareholder in this case had the option to actually solicit proxies from other shareholders with respect to its proposal, but it's my understanding it elected not to do so. So, the only voting on this occurred at this meeting. So, I hope that answers your question.

Barbara Noverini: Thanks, Pat. And just as a reminder, if you have a question, you can either raise your hand using the function at the bottom of your screen, and you can ask it live via camera or audio, or you can use the Q&A box at the bottom of the screen. And we do have another question in the Q&A box. And this is from John Nesbitt. Would you please disclose your ESG revenue and how fast they are growing? Or can we back into them based on your public disclosures?

Kunal Kapoor: Jason, I'm going to let you answer that one.

Jason Dubinsky: Yeah. So, thanks for the question. Maybe I'll answer in a couple different ways. So, we are not disclosing ESG revenue as of yet. And I think as we lap the Sustainalytics transaction and are getting more into organic growth, I think that will be a bit more visible in our reporting. And I think we announced that at the time of the transaction. But let me give you a sense of how ESG is going to show up in Morningstar in different ways over time. And I think Michael alluded to some of the proliferation of ESG across our products and our portfolio, but there are different ways that it will show up and it is showing up today.

So, first, is just in the Sustainalytics revenue. So, that's against the core ESG business and the SFS business, which is some of the ratings on and validations of things like green bonds. So, the Sustainalytics revenue is a discrete component. And that's the most significant part of what I'd call our ESG revenue today. But over time, as ESG becomes a bit more pronounced, in a lot of our products and services, whether we are selling data directly, or research directly, or Global Ratings will show up in things like essentials, or we will have ESG-based managed portfolios or ESG indexes that are even investable products or benchmark data, you'll see ESG being a bit more pronounced in product areas that we do have today. I would say the size of that is smaller relative to the size of the Sustainalytics revenue.

And then, there are other areas where ESG is going to show up in the portfolio where we may not have necessarily a revenue metric, but ESG is going to be an important component to folks staying with us or buying products. So, utilization is going to be important. Danny talked about Direct. That's a great example where ESG will show up on the platform and could definitely influence buying behavior. But we are going to heavily monitor utilization and activity and engagement with ESG data on platforms like Direct to make sure we are meeting investor demand and needs and Morningstar.com might be another example.

So, it's going to be showing up. And I think we are committed to providing the right ways to share that with you over time, particularly when we start to lap the Sustainalytics transaction in the back half of the year.

Barbara Noverini: All right. Thanks, Jason. We do have another question from the Q&A box. And this is from Maneesh Sagar of RS Metrics. What type of environmental data sets like emissions, water, land usage are impact asset managers asking for especially in Europe?

Kunal Kapoor: I think that's a good question for Michael.

Michael Jantzi: Thank you, Maneesh. Appreciate your question. The first way I'm going to answer that is to say that your question is really insightful because it highlights what is a real trend in the industry. And it's driven – I mean, you mentioned Europe specifically, and it's in part a reflection of and driven by the EU action plan that I referenced during my comments. So, what's happening in the industry is that historically there was a lot of attention paid to how investing was done, how ESG was integrated into investment decisions. And as your question alludes to, the focus is now shifting increasingly to what are the outcomes of those decisions. And so, I think that's a really important point and a real driver of both the changes we are seeing and why we are getting the traction, especially in the retail and wealth space.

So, your questions in regards to carbon data, I'm going to start with as an example. And the fact is, what I will say is that globally now there is an increasing alignment in regards to what investors are looking for. And that alignment is largely based on what is being published as part of the Task Force on Climate-Related Financial Disclosures. So, the demands now for investors are across Scope 1, 2, and 3 emissions, for example, on the carbon side. Investors are demanding data increasingly in regards to not just about emissions, but about how business models, for example, on the issuer side are being positioned to be either resilient to climate change risk, or more importantly, how they are transitioning to take on the opportunities that are afforded by climate change risk. They are looking for scenario-based planning disclosure on the carbon side. So, those are the types of things that investors are looking for as far as carbon data sets. And I would suggest that it's largely being informed by what you see driven by the Task Force on Climate-Related Financial Disclosures. And I think that will increasingly be the case.

I think, when it comes to water, and other emissions you mentioned, it's similar understanding, from a corporate perspective, how important these issues if they are material to the business models they want. Investors are demanding to see metrics that highlight the importance of those issues have and how the companies are managing them. They are looking for metrics that are in some way relevant to the business, so informed by ratios, whatever they might be.

I think one of the interesting things we are going to start to see, Maneesh, is an increased demand for companies to begin to focus on how water, carbon, other emissions are interacting with each other and the impact that they are having on biodiversity, for example. I think this is going to become an increasingly important part of the equation. So, the focus, I think, is not – or is going to move from a focus on each individual component, as you've suggested, into a much more interconnected and interrelated relationship between these things. And I think, as I said, there is going to be an increased focus on that interrelatedness and biodiversity and how these types of themes operate, against and within one another.

Barbara Noverini: Thank you, Michael. And now, we are going to take a question from Alex Braid from Artisan Partners. He is going to ask the question live, so it will just be a few seconds before he shows up.

Alex Braid: Can you hear me?

Barbara Noverini: Yes, we can. Nice to see you, Alex.

Alex Braid: Perfect. Nice to see you as well. And thank you very much for the presentation. Just a quick question on ESG. Understand that it's nice to see kind of that revenue growth, maybe it'd be helpful just to break it down by, kind of, growth within existing customers and then the revenue growth coming from new customers, and maybe just some examples about the revenue growth within the existing customers, how does that journey kind of progress from when they get on boarded, and today, like, fully embed ESG within their investment process?

Kunal Kapoor: Michael, do you want to take the lead, and perhaps, Jason, you want to weigh in as well?

Michael Jantzi: Yeah, I mean, I'm happy to talk in generalities. I am going to look to Jason – maybe I'll ask Jason, if you can start to just provide the boundaries in regards to what I'm able to speak about.

Jason Dubinsky: I think in generalities, it is fine. We don't disclose revenue, but I think it'd be helpful to say, well, what's prompting customers to renew or expand with, let's say, Sustainalytics products or services, or how do you win in the marketplace with new customers, I think, we can address.

Michael Jantzi: All right. Thank you. And thank you, Alex, for your question and allowing me to have my call to Jason to help out on that. As a newbie to the Morningstar family, I want to make sure I'm following the rules. But I think – so, a couple things. I'm going to start on the investor side and I think I'm going to go back to something that I said in my presentation that the attractiveness, why do clients come to us in the first place. Again, I think the fact that we have those differentiation in the market in regards to our ESG risk rating attracts them to us, for example. And once we have a client, generally, what we find is we have the ability to continue to work with that client as their ESG journey continues.

So, whether they are starting to look at integrating ESG into different asset classes, they can begin to look at a number of our products like the country risk ratings that looks at ESG issues from that sovereign side. They may be focusing very specifically on ESG risks. So, they may look at our product on the controversy side, which is something that gives them the ability to take a slightly different look and lens on the issue on our corporate governance ratings, on our carbon ratings. So, we have the ability to once we are working with clients really grow with them as their interest and scope continues to expand.

We are continuing to expand our growth in different areas of the market, like our impact toolbox. So, as we've already talked about, there is a lot more demand now on the investor base, not just to to understand how investors are integrating these issues, but what the outcome of those decisions are, especially on impact metrics evaluated through Sustainable Development Goals. And so, we've got an increasing number of products on that side, the carbon solutions side. So, when they come into Sustainalytics, we have the ability to work with them across that spectrum.

I think on the corporate side, Alex, again, clients come to us for a number of different reasons. We just have such deep and trusted relationships with both the issuers and with the banks and underwriters that work with them. They like, again, the fact that Sustainalytics has a strong brand and relationship with investors. And so, they know if we are the second party opinion provider, that's something that's going to go to be trusted in the marketplace. And again, that's a recurring business in the sense that those underwriters and issuers if they are issuing again in the market, or if they are going to raise debt in a different way through a sustainability-linked loan, for example, if they are looking to benchmark their performance, there's lots of opportunities for us there to expand the relationship, either at the banking or the issuer level.

So, those are the types of things that attract them to us in the first place. And once they are with us, the quality of the research – we spend a lot of time in regards to investing in client service, both aided by technology, we have the largest clients services business team in the business. And so, working with them and building those trusted relationships alongside the the breadth of our products allows us to grow alongside the client and innovate with the client in a way that they need Sustainalytics and Morningstar to support them.

Kunal Kapoor: Yeah, one way I think about this, and Danny, maybe you have a view on this too, is I think about ESG growing across our client segments and across our global footprint. And so, on client segments, Sustainalytics historically did not focus on what I'll call the retail wealth area. And so, we are trying to take our relationships in retail wealth and introduce those folks to ESG. And I would say, growth in those areas, I'd put sort of Alex, in the new bucket, if you will. And then, Sustainalytics, I think is really continuing to grow in the asset managers space and in the asset owner space. And we have strength at Morningstar in the asset manager space already, but we don't have strength necessarily in the asset owner space. That's not been one that we focused on historically. And now, we're suddenly building capabilities with the index business, with ESG business for that space as well.

So, it, sort of, opens up a new opportunity, if you will. And you look at what's happening in the private markets, it's fair to say that even within PitchBook, we are really getting focused on how you take this capability, and that would be expansion of current relationships if we are able to execute as we hope. And then, from a geographic perspective, Europe has historically obviously been ground zero, but growth in the U.S. is very meaningful. And we are starting to have success in places like China, where I would consider this business to be entirely nascent and new and we are having discussions about how we can accelerate there. Because the SFS business in China, for instance, is nascent, but growing really fast as that country tries to meet some commitments it has made. And so, you are just going to see more issuance in that context. So, maybe that helps. And Danny, maybe you want to add a little bit of perspective. But I mean, suffice it to say that there's opportunities all over the place. And so, for us at this point, it's an execution game and also, just kind of trying to make sure we can keep up with the pace and exceed the pace candidly that the market is growing at.

Daniel Dunn: Sure. I think you are spot on there. I'd add a few points. First, we have the benefit of having had a multi-year partnership before we actually completed the acquisition. So, some of the muscle memory in the teaming has been built. But I would say, as we think about sort of scaling and growing, first, the Sustainalytics team is a highly talented client-facing team and very well instrumented. So, having that come on board day one was great, but I think the places we see an opportunity to scale in the market is really connecting them into our existing global coverage model. And it's fair to say before the Sustainalytics acquisition, we did have an ESG salesforce, but it was thin. And so, now what happens is, we bring on board really what is our global ESG specialist salesforce. And when we bring that team into, say, our enterprise coverage model, where we have strategic account execs and other specialists that engage with our clients, we can create a very interesting story for clients across the portfolio of products. So, I think the the coverage model integration is a big opportunity.

And then, I'd also say helping work with Sustainalytics on scaling, what my comments were regarding Direct on demand generation, and so working with Diedrich and Bob at Sustainalytics, we are now looking at how to extend investments in campaign management, in lead qualification, and things like that, to help kind of capture the long tail of the opportunity as well. So, I think some of those things along with, helping them scale – we have made investments in sales training and made some really good hires there to help build what is going to be a rapidly expanding salesforce across the firm. So, work to do, but it's probably some of the most exciting work inside the firm.

Kunal Kapoor: I think we gave you the answer without running afoul of any statisticals.

Alex Braid: Thank you very much for the detailed response across everyone, I think, looking forward to hearing or seeing Jason's metrics across how ESG is impacting the other business areas, because I do agree that's a big opportunity. If possible, just a follow-up question for Jason on expense growth. You made the comment and the presentation fully shows that there's a lot of growth opportunities ahead of Morningstar. But you also have, kind of, over the last 12 months being able to increase your operating margins. How should we think about the balancing of kind of the top-line growth, but also potentially the opportunity to expand margins relative to your peer set?

Jason Dubinsky: Yeah, thanks for the question. I think I get it every year, and I probably try to answer it in a bit of the same way in the sense that it's definitely a balance. And I think that's where – our goal is definitely to scale this company and have a larger and profitable enterprise in the future. And we know there is inherent leverage in this business, in our operating model, and we are going to get it over time. It just not might necessarily be linear. And that's why I tried to show you, kind of, where we've come over the past few years in the margin expansion, and I think we were doing that. But when we see opportunities in the marketplace, I think you as shareholders want us to act on that in a responsible way with the long term in mind. And ESG is a great example of that as we are sitting here today. And not only did we just deploy capital, for the acquisition of Sustainalytics, in many ways, we are doubling down on that with investments in infrastructure and more support to get more research and content out there. Danny mentioned sales enablement. So, we know we have work to do there where we have large addressable markets. So, you want to see us do that, and ESG is a good example.

So, that's a way of saying that we are going to – our goal is to grow; our goal is to increase margin over time. We know there is leverage in the business, but you are going to see pockets where we are going to invest heavily, because we are long-term focused and have that long-term return mindset. And hopefully, you have seen us do that regularly and in a responsible way, and that's our continued commitment to you all, and to start to be a bit more transparent and hopefully, you've seen this a bit today, in where some of those investments maybe going into the products and services where we see the large addressable markets and where we are actually earning – we are seeing pretty high organic growth rates and want to sustain that.

Alex Braid: Great. Makes sense. Thank you very much.

Barbara Noverini: Thanks, Alex, for your questions. We will go back to the Q&A box for the next question. And Jason, this is another operating margin question that's asked from a slightly different perspective. But this one is from John Nesbitt from Millennium. And he says, thanks, Jason, for touching on operating margins in your section of the presentation. From my seat, it looks like when Kunal took over, there was a period of investment and now cost growth has trailed revenue growth for the last year or two. Can you walk through what you think the business has delivered in operating leverage ex-M&A and excluding COVID T&E savings over the last year or two years? And is that a fair way to think about margin progression going forward?

Jason Dubinsky: Okay. So, thanks for the questions. There's a lot there. So, let me try to unpack a few things on what I thought that I have heard. So, we've definitely made some progress over the past couple of years. And I'll least start on some of the impacts. If we just look at over the last year in terms of operating margin growth, you saw that 300-basis-point increase year-over-year in adjusted operating margin. I'd say roughly 70 or so basis points of that relates to what I would call COVID-related expenses, meaning the fact that we got benefits, because people were not travelling and there were travel restrictions, we weren't operating our facilities. So, you can carve that out in some respect. And then, we did make some deliberate decisions on things like compensation and slowing down headcount just to be prepared for whatever uncertainty, or when the recovery would happen, and that benefitted us last year. So, you could see the fact that we had roughly 3% underlying expense growth. That excludes the impact of the Sustainalytics transaction and M&A.

What I'd say is that it's probably not a sustainable growth level based on the opportunities that we have going forward and the amount of revenue and the addressable markets in front of us. So, without continuing to break it down, I come back to the fact that we have seen some growth. I think Kunal definitely has come in with an execution mindset, but one that is executing over the long term. And again, we do believe margins will come and there is margin expansion opportunity, but we don't want that to get in the way of the short term of investing for the long term in the business. And the fact that heatmap has changed over time for when you looked at it at the beginning of '16 and '17, to where it is today and that we were conscious in investing in areas back then, if you look at our top six or seven products today, it's 70% of the portfolio. So, that should give you confidence that where we've put capital, it's driving performance and return in terms of the top-line. And without getting into it, I think it's safe to say that a lot of those areas are driving some of the disproportionate margin growth in the business. So, we feel good about it. And without providing targets, I think you should look at our track record over longer periods and what we are delivering, and our commitment is to scale the business in a responsible way with a mindset on returns.

Barbara Noverini: Thanks, Jason. And we are going to go back to the topic of ESG. This is another question from the Q&A box. And this one is from Matias Galarce from Black Creek Investment Management, who is one of our Canadian shareholders. So, the question is, in order to increasingly become a standard Sustainalytics ESG Ratings will need to increase their global coverage of companies. What is their current coverage percentage of listed companies? And what are the plans and timing to grow that coverage? And then, lastly, can ESG ratings be automated?

Kunal Kapoor: For sure. Michael, would you like to start?

Michael Jantzi: Yeah. Matias, thank you. Those are great questions, and always nice to get questions from a fellow Canadian. So, let me start with the the universe coverage on the ESG risk ratings. So, you are correct with one caveat that the coverage we have today on the ESG risk ratings is exceedingly competitive in the market. So, what I'm going to do is follow up with the exact number because I want to make sure that it's up to date, because coverage does keep increasing on the ESG risk ratings. And so, that may be part answer to the second part of your question is, are we continuing to commit to expanding that universe of ratings? And the answer is, yes, we are, because as clients demand reaches across broader universes, we need to respond to that.

And the third part of your question is, can we reach a point where technology drives ESG ratings in their entirety? I'm going to say that we are already using technology to inform components of our ratings. And that has been a very important part of our ability to drive the universe growth that you have already seen. And in certain parts of our business, I think the answer is, yes, technology will take a greater – or have a greater role in helping us develop and deliver our ESG ratings. Whether or not it will do that in its entirety across our core universe and the ESG risk ratings, I'm not prepared to say at this point. But I mean, technology is already playing a huge role in enabling us to support the universe that is there for the ESG risk ratings.

Kunal Kapoor: Yeah, we always view technology as being particularly good to use where we have standardised data both on the collection side and on the output side. And obviously, ESG is still kind of on its way along that journey. And so, I would only expect as Michael said that technology will play a bigger role. But relative to our other data sets, the standardisation is still not at the same level.

Barbara Noverini: Great. Thanks, everybody. We do have another question from Imran Halani from Praesidium Investment Management, and he is going to ask his question live. So, give him a couple of seconds to show up. Imran, we see you.

Imran Halani: Great. Can you guys hear me?

Barbara Noverini: We can.

Imran Halani: Fantastic. And thanks for hosting this. What do you see as the sustainable growth rate of your organic licence-based revenue excluding PitchBook over the medium term, given the opportunities you see in the market? And what's the biggest risk to achieving that organic growth in licence-based revenue ex-PitchBook?

Kunal Kapoor: You want to go ahead?

Jason Dubinsky: Yeah. So, maybe it was the question more PitchBook or licence-based…

Kunal Kapoor: Ex-PitchBook? Okay.

Imran Halani: Yeah, license-based ex-PitchBook?

Jason Dubinsky: Ex-PitchBook, well maybe Danny can give some comments there. First, just, if you look at PitchBook, it's clearly part of the overall licence-based portfolio and is growing nicely. I think if you look at the rest of the portfolio, at least in recent quarters, you've seen Data being high single digits to low double digit growth for us and Direct, kind of, the mid to high single digit growth areas. We continue to believe that there is significant opportunity and addressable markets for both our Data business as well as in Direct as Danny mentioned, and to go into it. And I think that, Data, we've had very strong and sustainable growth in those levels over the past few years. And without giving future expectations, we believe that the markets can support that if we execute, and we deliver and continue to innovate. And I think, Danny, Kunal would attest to the fact that we see higher potential for Direct in the marketplace, and we are not fully satisfied necessarily with the growth that we've been getting. But we believe that a lot of the work that we are doing in terms of the product delivery and execution, as well as a lot of the sales enablement efforts, our goal is to continue not only to sustain that but increase that over time. So, those aren't going to be at PitchBook levels. But I give you a lot of focus and confidence that these are flagship areas, flagship products for us that we believe have a lot of runway and significant market opportunity, and they are getting a lot of focus and attention.

Daniel Dunn: Yeah, thanks for the question. I would just add a bit to Jason's, which would be – so, you have the commentary on Data and Direct, and I just double down on Data that, clients continue, as they think particularly about their own go to market operations, as well as their home office operations on the wealth side, they continue to invest in data and data scientists teams, and they are looking at new use cases and the way we engage with our clients, that creates new opportunity for us quarter-after-quarter. So, I think, that's really an important part of that business. So, we do see sustainable growth in those mid high single digits.

I would say there are a couple other parts of the portfolio that we didn't talk about. And I think it's important to show some of the trajectory change there. And so, if we look at Advisor Workstation, if you saw the full year 2020 growth versus what we delivered in Q1, you are starting to see some green shoots of a revival around that product. And I'd like to see what Jeff Schwantz, who is our GM over that product line, driving really good success there, both on the UI and then bringing new capabilities around goal planning, risk planning, as well as a number of capabilities around regulatory workflows. So, we see that in Q1 coming back to 4% year-over-year growth. And it's already a web-based platform, and I don't think we disclose exactly how many advisor desktops that sits on, but it's a massive number in the U.S. So, there is a lot we can do with that platform.

And then, the other one we talk about is Office, our portfolio accounting for RIAs. And under new leadership, we are making some pivots and driving investment in some really focused areas on that product roadmap. And I think the key part there is we are really trying to drive client centricity in that roadmap, delivering on those features. And so, we are optimistic about, I think, what were some of the lighter growth colours you saw on the square box, on our ability to move those into better growth rates as well.

Kunal Kapoor: Yeah. One thing I will say is, obviously, there has been a lot of consolidation in our general space and there continues to be lot of rumours out there about other firms possibly consolidating. And I have to say, from our perspective, we like that, because generally, when big firms are consolidating and sort of spending time looking internally, it gives us an opportunity to get after them and take share. And I think if we stay focused on Data and taking away friction for clients, it's a pretty compelling case for all our licence-based businesses, and I feel very good about where they are headed in that context.

Daniel Dunn: Yeah. And there are even pockets of growth, like market data, which is a smaller business for us, but growing well, and when we can bring that alongside equity data and fund data sets in the solution, we can bring good value to clients globally.

Imran Halani: Great. And just a follow-up with the second piece of that question. You touched on it a bit Kunal, but what do you see as the biggest risks to kind of achieving some of that growth as you look forward? Is it competition, is it otherwise?

Kunal Kapoor: Yeah, there's a few things. I certainly think consolidation among asset managers and wealth managers is something that we think about a lot, because not only does that somewhat reduce the pool, but it also consolidates power among a few. And so, that's certainly one that I would, sort of, point out as being significant. The second is, I think, reduction in fees will continue. It obviously his hit asset managers the most over the past decade. But I feel like it's inevitable that pressure will come to the wealth space. I think it will come to the private space as well, maybe not immediately, but everyone has sort of had a period of exceptional returns. And generally speaking, it's when those returns start to normalise a bit, that focus kind of comes back on things such as expenses. And so, I think fee pressure is the other thing that we think about a lot as well. So, I don't know if you'd add anything else.

Daniel Dunn: No, I think that's fair to me. I think about talent a lot in our client-facing teams. And I feel confident on the talent landscape as well. I mean, as we look at where we are bringing talent in from the outside, we see competitors' talent wanting to be a part of Morningstar, our mission and our value proposition. So, I think from sort of a FinTech landscape, I think we are able to attract great outside talent. And then, again, I think our career progression and things we are doing with our talent internally, to grow them into new roles and offer a wide breadth of opportunities globally across different business lines, I think, is a pretty good value proposition.

Kunal Kapoor: Yeah.

Daniel Dunn: So, talent is a big deal for us. But I feel pretty confident about the way that's been turning.

Kunal Kapoor: I think the reality is that we have some really wonderful organic growth opportunities available to us. And as with all things, when it comes to running a business, how you execute against them is ultimately the thing that is going to lead to the final result. And so, we talk a lot here about just being focused, hyper-focused on how we are executing and making sure that our investments are going to certain group of areas and that we are very clear on the things that we need to deliver in those areas to win.

Imran Halani: Thank you.

Barbara Noverini: Thank you, Imran, for your question. The next question comes from Daniel Welden from Numerus and he has also elected to ask this question live. So, give him a couple of seconds to show up.

Daniel Welden: Hi, I had a question about the reporting construct of the key product areas. It sounds like you are more optimistic about Office, which I believe is not listed in the key licencing product areas. Index, I believe is outside of the key product areas. And now, Sustainalytics is outside. So, I'm kind of wondering is that still the right way to think about the business as sort of high growth versus low growth? And then, maybe a different spin on the same question is, like, what are the areas outside of key products where you see more, sort of, sustained headwinds because there's been a lot of positive updates on growth elsewhere. Thanks.

Jason Dubinsky: Yes, maybe I'll just start with the reporting aspect specifically, and I think, historically, what we've tried to do is provide – we're a one segment company but tried to provide at least some sizing and metrics to some of the key products at Morningstar. And I think that the portfolio continues to shift a bit, and the products that have made it kind of to the top of the scale have tended to be our larger products. So, if you look at the products that we disclosed anywhere from Advisor Workstation all the way up to, let's say, PitchBook, we're kind of in the $80 million to $200 million range. But we've got products that are below that that are growing at nice clips, whether that be Sustainalytics, which we'll lap soon, Indexes is a great example, other smaller products with lower growth rates like Office. So, I think we can look at that formulation over time to make sure we are providing the right disclosure on some of those smaller products that could have a bigger impact, and as Kunal said, be bigger piece of the pie going forward. But that's been the rationale historically, but it's something we continue to look at and provide more disclosure on. I'll Danny speak to some of the opportunities for things like Office.

Daniel Dunn: Yeah. Again, the purpose of highlighting AWS and Office is just to give you an indication that there are these high-growth – I mean, I think the prior question was ex-PitchBook what does growth look like? And so, we go to Data and Direct as the biggest franchises or biggest products. And then, I think it's important to shed light on what might be holding back high single digit growth in the rest of the licence portfolio. So, that's why we try and give some insights on – that's why I provided a little insight on the trajectory and our optimism around AWS based on the Q1 results. And then, Office, we don't disclose that data. But in general, just, we know that there's work to do on that roadmap. We think it's a critical part of our business to stay close to those advisors. And so, we have work to do there. So, it's really just some commentary that I think we feel confident about the roadmap, and the way to take those offerings.

Daniel Welden: Thank you.

Barbara Noverini: Thanks, Dan. And then, the next question we have from the Q&A box, and this is from Shane Connor from Huffman Prairie. And he's a repeat attendee. He was here with us last year at the meeting as well. Last year, there was some discussion around the use cases for PitchBook multiplying. Can you give an update on that, and some examples of newer use cases for PitchBook, or even potentially new use cases beyond that for PitchBook?

Kunal Kapoor: Yeah, for sure. So, one of the things that's interesting is if you go back and look at PitchBook five years ago and you look at it today and you look at who the core users were and you look at the core user groups today, there have been some meaningful shifts. And so, for example, our corporates have become a very meaningful part of the PitchBook story, partly because in different companies now when you are assessing your competitors, you are not just looking at the public set anymore, you have to look at the private set as well. So, the use cases started to multiply in that context.

We are also very much continuing to focus on growing in the buy side area and investment banking. And so, there, we've been investing in our equity franchise, both from a data and a research capability and kind of bringing that into pitchbook. And one of the interesting stats is that the pageviews for public equities have actually exceeded pageviews now within PitchBook for private equities. Some of that obviously, you can attribute to the fact that people check prices and that sort of inflates the numbers a little bit, but you are starting to see that use case shift.

And so, we've been making this – we've been building the story that it can kind of work across the public and private markets, and that has really been our goal. And so, if you think about the use cases, a really good way of thinking about that trajectory, starting it from there and kind of moving it across. I'd also add that while PitchBook has historically had a very small data business, and it's still relatively small, one of the use cases that we are starting to see some growth there is in the Data business in terms of folks taking the data sets and using it outside of the software platform itself, as is the case with our Direct and traditional Data business as well. So, that's another use case that's been popping up. Danny, I don't know if you'd add anything.

Daniel Dunn: I might add one too that I think the team has seen really solid momentum on, which is, that private company and deal database is a hugely valuable tool for sales and business development groups. And so, they've seen some really nice logos across tech companies, professional services companies, others that are trying to target private companies, and that's become a really important prospecting tool. And so, they've done some nice enterprise deals. I won't share the names of the logos, but big branded tech companies that are buying PitchBook for their insight and business development – insight sales and business development teams. So, really nice growth coming from there, which again, these are pockets of different addressable market which have long runway.

Kunal Kapoor: And Jason alluded earlier to our fixed income investments, and the fixed income investments stretch across what you think of as sort of traditional fixed income. But I would also just point out that private debt is growing pretty meaningfully. And that is increasing area of focus in terms of us gathering data for PitchBook and exposing it to clients who may not have come to the platform before but are coming to it because of that data set.

Barbara Noverini: All right. Thanks for that. And then, the next question is from the Q&A box. This one is probably for Michael. MSCI is your most important competitor on a global scale. And why would a client choose Sustainalytics over MSCI? And can you walk us through some of the differentiating aspects of Sustainalytics versus MSCI?

Kunal Kapoor: We are always ready to answer that question, Michael.

Michael Jantzi: Yeah, and I will first of all thank you for the question. And I think you will not be surprised to hear me agree with your underlying hypothesis. We also view MSCI as our primary competitor. So, with the risk of repeating some of the things that I've talked about in my presentation, I do think that, again, we have the ability to work with clients across that investment value chain in a way that MSCI does not. And I'm going to focus a couple of comments on part of that value chain, which I didn't talk about in the presentation. But through – the pre-investment and investment process, I'll come back to – but once an investor has made those decisions, increasingly, you see a focus on those managers of capital, really driving to become good stewards of those assets on behalf of their clients over the long term. And what that means is that increasingly investment managers and asset managers are viewing part of their responsibility to engage with companies in their portfolios on issues of environmental and social aspects that they think are material to long-term performance or can have a long term impact on the value that those portfolios are going to generate for their clients over time.

So, we are positioned. We have a large team that works in our stewardship area to engage on behalf of our clients on material E, S, and G issues to engage on key themes across that sustainability spectrum. We also have the ability to work on behalf of our clients to provide ESG overlays in regards to the responsibilities they have to vote their proxies because that increasingly is being seen as part of their fiduciary duty. So, again, we have the scope to work across that footprint with our clients in ways that MSCI does not.

But again, I do want to revisit just for a moment, again, the advantages and the differentiation we have with MSCI in regards to that flagship ESG Risk Rating. And I do believe what I pointed out there that the methodology that we have that underpins that rating is a significant differentiator in the market because it does allow our clients to evaluate risk of companies across that broad universe. It's not restricted to an analysis within sectors. And when we were developing and innovating our new ESG Risk Rating, we were talking to our clients, we were talking to the market. And from an institutional perspective, that message came out to us loud and clear. They wanted the ability to have that absolute or agnostic rating across the universe. So, I do think that that is one of the ways that again we are able to differentiate ourselves across the market.

And I'm going to just add one more thing, which again, is a theme that I think Jason, Kunal, myself and Danny has picked up here in a variety of different ways. But, the strength now of Morningstar and Sustainalytics together just provides us to be the most relevant provider of the ESG research insights and data across that range of market channels, and I really think that is a very powerful thing. So, we can work with individual investors, the advisors that serve individual investors, the asset managers, the asset owners and issuers, and being interconnected into that vibrant system, I think, is really powerful. Because, of course, some of the clients that we work with serve both institutional asset owners and individual investors. And so, again, we have an advantage there vis-à-vis our ability to serve across asset classes and integrate ESG across asset classes from not just equities and fixed income, but again, on the credit side and on the private market side and to do so in an aligned way through the security, fund level and portfolio spectrum. So, I think, those are some of the things that we are able to do at Morningstar that MSCI isn't able to compete with at all levels. And I think it really provides us a strong differentiation in the market and provides us a unique value proposition and that's why clients are coming to us.

And again, one last thing is that we are focused on client service, again, whether it's how we deliver that information – I've already mentioned, and Danny has talked about the fact that we bring an educated and large client services team to the table on ESG. And that's a team that's focused on partnering with our clients and supporting the clients so that they are able to drive that value proposition out of our research in the way that they need it. So, those are a couple of things that I would point to that differentiate us and have driven our success.

Barbara Noverini: All right. Thank you, Michael. I'd say we have time for maybe one or two more questions. Once again, if you have a question, please enter it either into the Q&A box or raise your hand. All right. We do have one more question. This is a follow-up from Pankaj Nevatia from Fidelity, and he has elected to ask it live. So, give a couple of seconds for him to show up.

Pankaj Nevatia: Thank you. Thank you, Barb. Can you hear me?

Barbara Noverini: Yes, we can.

Kunal Kapoor: Yes, we can.

Pankaj Nevatia: Perfect. Thanks for taking my question. Just on Workplace Solutions, over the last five years, if I look at AUM, it's kind of grown at a 15% CAGR and revenues have grown around 5%. I think you've talked about hitting sort of breakpoints with clients which has kind of caused the revenue to be growing at a slower pace. But as you look ahead, do you see growth coming from existing clients or new clients? And how do you see that impacting, I guess, your ratio of revenue to AUM growth? And secondly, I know it's not all equities, but given that S&P is also up 15% CAGR over the last five years, the AUM growth have you seen, I mean, has it met your expectations? Or you think would you have expected a higher growth given sort of the increase in the market? Thank you.

Kunal Kapoor: Sounds good. I think when you referenced the index, Pankaj, you meant the Morningstar U.S. market index, right? Okay. So, maybe Danny, I'll start.

Daniel Dunn: Yeah, sure.

Kunal Kapoor: And then, you can take it from there. So, one of the beautiful things about our Workplace business is it truly helps people and it's a very steady business as well. And so, I think your question is spot on. It's true, we have hit certain breakpoints with clients where our fees basically are a little bit lower because of the asset numbers that we've hit with those clients. It's also just the case that certainly there is pressure on fees. And we have, in some instances, adjusted fees to stay competitive and be in the right spot in the market based on what's going on.

But the second part of your question was do we think that that makes good change, and that's our belief. We think that the core business will continue to have good growth characteristics. But when you look at some of the things we are starting to do in the advisor space, in particular, we think that part of the business can grow much faster, and probably at a higher fee realisation than what you see in the core business today. So, that opportunity certainly exists. And as we talked about in the past, one of the reasons for that is because once we build a plumbing, it's very hard for anyone to duplicate that and it just gives us some unique opportunities. And as you know, Pankaj, really differentiation in asset management these days is not just about managing the money, it's also about the technology and the experience that you wrap around it. And so, certainly, what we are doing in the advisor space starts to answer to those portions of it quite well, as well. So, I don't know, if you want to add anything on there, Danny.

Daniel Dunn: Yeah, the only thing I would say is, kind of, as we think about forward-looking strategy there, I mean, first, it's critical to maintain excellent relationships with our record keeping partners as they go to market and try and land new business. And so, that partnership is really strong, and we want to continue to invest there, and we have made some investments to scale that team. In addition, we see an opportunity to better educate participants or potential participants on enrolling into those capabilities. They have choice. And so, we are making investments to help ramp up enrollment, partnered with those key record keepers and plan sponsors, which is sort of a bit of – I guess, you'd call it education and enablement, because we know it's a great service and the data shows that and the research shows that there's particularly strong outcomes for participants in that program. So, I think, enrollment investments are a big deal to help drive AUM as well.

Pankaj Nevatia: Thank you.

Barbara Noverini: Thank you, Pankaj. And it looks like we do not have any more questions.

Kunal Kapoor: Okay. Well, as always, if you do think of something as you are thinking about the meeting, or if there's something that we didn't answer that you'd like to go deeper into, please feel free to send us a question and we are happy to answer it in our monthly filing. We do take a lot of time and effort to put those answers together. And so, feel free to follow on if anything kind of comes to mind.

But as always, thanks for taking the time to join us. Thanks for being on this journey with Morningstar. It's obviously been unique times as number of us have said through the course of today's presentations, we'd love to see you in person, next year, obviously, if health conditions allow that. In the meantime, wishing you and your family's continued health and success. And thank you for being a supporter of Morningstar. Have a good day.

Daniel Dunn: Thank you.

Jason Dubinsky: Thank you.