

July 15, 2022

Joseph Mansueto  
Executive Chairman

Kunal Kapoor  
Chief Executive Officer  
Morningstar, Inc.  
22 West Washington Street  
Chicago, IL 60602

Dear Mr. Mansueto and Mr. Kapoor:

We the undersigned represent a broad range of organizations from across the United States with a long history of combating delegitimization of Israel, including the Boycott, Divestment and Sanctions (BDS) campaign founded in the denial of the right of Israel to exist as a sovereign nation.<sup>1</sup> We appreciate Morningstar's decision to retain and make public the White & Case (W&C) law firm's report that examined anti-Israel bias in its Sustainalytics subsidiary's Environmental, Social, and Governance (ESG) products and practices. At a time in which ESG reporting and products are receiving investor, legislative and regulatory scrutiny, it is important to demonstrate accountability and provide transparency to all constituencies.

While we commend you for pledging to terminate Sustainalytics' Human Rights Radar (HRR) product, ending the bespoke research that W&C flags as likely to produce biased results, and transparently implementing some of the other recommendations, the report makes clear that built-in bias against Israel<sup>2</sup> infects Sustainalytics' methodology and sources, and thus, its other ESG ratings products. This bias is not only unfair and harmful to Israeli companies and those doing business in and with Israel, but such bias also threatens to tarnish the ESG ratings framework itself. As a leading financial ratings company that seeks to provide its customers with research free of bias, Morningstar should take the opportunity to cleanse its products of all anti-Israel bias and set an example of fairness and reliability for all companies providing ESG ratings, which represent one-third of dollars managed globally.<sup>3</sup>

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<sup>1</sup> "[BDS co-founder says goal of movement is end of Israel](#)," *Jewish News Syndicate*, June 1, 2022;

Julie Nathan, "[The Antisemitism of BDS](#)," *The Times of Israel*, July 6, 2016.

<sup>2</sup> Anti-Israel bias can take various forms. The internationally adopted working definition of antisemitism, for example, includes "applying double standards by requiring of [Israel] a behavior not expected or demanded of any other democratic nation." <https://www.state.gov/defining-antisemitism/>. To that end, singling out Israel disproportionately as compared to other instances of territorial disputes, or at a higher rate than is proportional to the size of its population or economy implicitly accepts a double standard with respect to Israel and creates the risk of isolating it, which can be used by BDS proponents to delegitimize the Jewish state. For more discussion, reference the 3D test proposed by Natan Sharansky, former member of the Government of Israel and human rights activist imprisoned by the former Soviet authorities. <https://www.jcpa.org/phas/phas-sharansky-f04.htm>

<sup>3</sup> Saijel Kishan, "[ESG by the Numbers: Sustainable Investing Set Records in 2021](#)," *Bloomberg*, February 3, 2022.

In your open letter addressing Sustainalytics' biases in rating companies doing business in Israel,<sup>4</sup> you claim that neither Morningstar nor Sustainalytics supports BDS.<sup>5</sup> While opposition to BDS is an important statement to make, the W&C report revealed that Sustainalytics' methodology and choice of sources routinely resulted in biased ratings of Israel-related companies, facilitating the boycott and divestment at the heart of the BDS campaign. This is of serious concern not only to the Jewish community, but to millions of people who reject anti-Israel bias as well as to companies doing business with Israel.

In the spirit of supporting your goal of removing unacceptable bias from all your company's products and engendering the "trust [that] investors place in the data, research, and analytics [you] provide,"<sup>6</sup> we urge you to take additional measures to comprehensively address and eliminate anti-Israel bias in all Sustainalytics' products and practices, including by making broader changes in some of the areas where W&C's recommendations make only partial progress.

Specifically, we urge you to implement the following steps:

1. **Engage with persons with deep knowledge of Israeli and Jewish history and politics (such as the signatories to this letter who understand efforts to undermine Israel) to examine and eliminate sources with a history of anti-Israel activities and/or those that have been denounced by the U.S. Government and other credible stakeholders.** The W&C report made clear that Sustainalytics has used and continues to use sources with known biases against Israel. It recommends removal of some biased sources, including those that had been "inadvertently" left in after a previous review.<sup>7</sup> The fact that biased sources like Electronic Intifada<sup>8</sup> were used until recently, however, demonstrates the depth of the problem. Continuing reliance on known biased sources for an assessment of reputational risk does a disservice to the investors which rely on Sustainalytics. Such sources include: the United Nations Human Rights Council (UNHRC), whose vocal members include notorious human rights violators such as Cuba, Sudan, and Venezuela,<sup>9</sup> and which has a long and infamous history of unfairly singling out Israel for criticism and condemnation;<sup>10</sup> Amnesty International, an organization roundly criticized for libeling Israel an "apartheid" state;<sup>11</sup> and Who Profits, an NGO dedicated to targeting commercial involvement

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<sup>4</sup> Joe Mansueto and Kunal Kapoor, "[A Letter from Joe Mansueto and Kunal Kapoor](#)," Morningstar, June 2, 2022.

<sup>5</sup> [Ibid.](#)

<sup>6</sup> [Ibid.](#)

<sup>7</sup> Tara Lee, "Report of Independent Investigative [Counsel Regarding Alleged Anti-Israel Bias in Morningstar, Inc. ESG Products and Services](#)," White & Case LLP (Report of the Investigative Counsel), May 11, 2022, p. 71.

<sup>8</sup> Electronic Intifada "is an online platform that publishes viciously anti-Israel and antisemitic articles, promoting BDS campaigns," [https://www.ngo-monitor.org/ngos/electronic\\_intifada/](https://www.ngo-monitor.org/ngos/electronic_intifada/).

<sup>9</sup> The UN Human Rights Council (UNHRC) has condemned Israel 125 times out of the 179 times it has censured UN member states. [UN Watch Database](#). During the recently ended 2022 session, it condemned Israel four times, while Russia has been censured only once during the very period that it is carrying out a war in Ukraine. [UNHRC approves 4 anti-Israel resolutions, calls for limited arms embargo – Jewish News and Israel news – Breaking News](#). Moreover, the UNHRC has established a permanent inquiry based on the assumption that Israel is an "apartheid" state, a commission that the US Government vigorously opposes. <https://www.state.gov/the-un-human-rights-councils-commission-of-inquiry-on-the-situation-in-israel-the-west-bank-and-gaza/>

<sup>10</sup> "Report [of Independent Investigative Counsel](#)," pp. 43, 72-73.

<sup>11</sup> Gabby Deutch, "Israel '[shouldn't](#) exist as a Jewish state,' Amnesty USA director tells Democratic group," *Jewish Insider*, March 11, 2022.

with Israel and promoting BDS activities.<sup>12</sup> While the W&C report states that sources such as UNHRC are not dispositive, heavy reliance on anti-Israel sources predisposes Sustainalytics' review and necessarily compromises the integrity of Sustainalytics' ESG system.

2. **Rather than undertaking only smaller process changes<sup>13</sup>, address the inherent flaws in the existing methodology of reputational reporting on Israel that produces the structural bias.**

The report does not conclude that *only* the Human Rights Radar has indicia of bias; indeed, W&C found indications of bias in various Sustainalytics products.<sup>14</sup> For example, the report reveals pre-existing bias in the GES list of engaged companies. Within the Controversies Research product, the report acknowledged that the most severe controversy ratings were attributed to the Israeli-Palestinian conflict 21 times out of 30—or 70% of the time.<sup>15</sup> The report suggests that this result may be due to a disproportionate amount of media attention. But simply equating reputational risk to how, and the frequency with which, an event is covered by the media—including biased media sources—invariably leads to higher risk scoring for companies that do business in Israel and are thus the subject of advocacy and divestment campaigns. Perversely, such methodology punishes a democracy like Israel with its vibrant and uncensored press and NGO community, subjecting it inappropriately to higher ESG scrutiny.

3. **Seek the assistance of experts, such as the signatories to this letter, in removing inappropriate language about Israel.**

W&C identifies as a problem HRR's inflammatory language and statements that gave rise to the perception of "an evaluative judgment made with confirmation bias."<sup>16</sup> But the W&C report merely recommends highlighting such bias for customers and investment managers. That solution inappropriately places the burden on those who are using this ratings product, many of whom rely without further inquiry on the reliability of such reports and leaves unresolved the core problem that biased language colors the ratings.

4. **Establish systems and implement trainings to ensure Sustainalytics officers and employees are better educated on the issues and able to identify and avoid anti-Israel bias in sources and terminology.**

The W&C report reveals recurring, troubling instances of insufficiently controlling for anti-Israel bias among employees who analyze Israel-related companies. Morningstar should engage reputable organizations and use reputable sources to train Sustainalytics personnel on antisemitism, including contemporary manifestations of antisemitism, such as demonization of Israel and application of double-standards to Israel. The company should establish systems to ensure that persons responsible for analyzing and rating companies doing business in or with Israel receive the training and oversight to ensure that bias in choices of sources, terminology or other aspects of their work do not continue.

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<sup>12</sup> ["Who Profits: Foundation for the UN BDS Blacklist,"](#) *NGO Monitor*, January 24, 2019.

<sup>13</sup> "Report of Independent Investigative Counsel," p. 5.

<sup>14</sup> *Ibid*, p. 92.

<sup>15</sup> *Ibid*, p. 91.

<sup>16</sup> *Ibid*, pp. 95-97, 104.

5. **Avoid overly broad categorization of business activities that indiscriminately capture and brand run-of-the-mill companies as controversial.**<sup>17</sup> Sustainalytics places companies on a “watchlist” or claims they are “noncompliant” when they are engaged in a broad category of activity such as “security for the checkpoints or walls,”<sup>18</sup> even though this category also captures equipment used for Israeli residents’ security. Such simplistic categorization<sup>19</sup> effectively denies Israel’s right and responsibility to protect its own people, including its Arab citizens and residents, its American visitors, and newly arrived refugees from countries like Ukraine and Sudan.<sup>20</sup>

Again, we appreciate the initial steps that you have committed to taking to remove some of the anti-Israel bias from Sustainalytics and your willingness to engage with stakeholders. In that spirit, we urge you to complete the work you began with the W&C investigation by addressing the additional issues highlighted above, which would ensure that you do not provide a foundation for the BDS campaign by discriminating against Israel and damaging Israeli companies and those doing business with Israel. We would be glad to collaborate with you and the Ombudsperson in further work to rectify these issues.

### **National Organizations**

The Jewish Federations of North America  
ADL (Anti-Defamation League)  
American Jewish Committee  
Combat Antisemitism Movement  
Conference of Presidents of Major Jewish Organizations  
Christians United for Israel  
Hadassah, The Women’s Zionist Organization  
Jewish Funders Network  
JLens  
The Louis D. Brandeis Center for Human Rights Under Law

### **Jewish Federations**

Buffalo Jewish Federation  
Center for Jewish Philanthropy of Greater Phoenix  
Charleston Jewish Federation  
Colorado Springs  
Combined Jewish Philanthropies of Greater Boston  
Congregation Bnai Zion  
Congregation Kneseth Israel, Annapolis, MD  
Greater Miami Jewish Federation  
Greensboro Jewish Federation  
Israel Action Committee, Cape Cod Synagogue

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<sup>17</sup> Ibid, pp. 77-79.

<sup>18</sup> Ibid, p. 79.

<sup>19</sup> For more analysis, please see [Morningstar’s ‘Modified Limited Hangout’ \(jewishlink.news\)](#).

<sup>20</sup> [“Five killed by Palestinian gunman in latest deadly attack in Israel,” BBC News, March 30, 2022.](#)

Ithaca Area United Jewish Community  
Jewish Alliance of Greater Rhode Island  
Jewish Community Center- Federation of San Luis Obispo  
Jewish Community Federation & Endowment Fund  
Jewish Community Federation of San Francisco, the Peninsula, Marin & Sonoma Counties  
Jewish Community of Louisville  
Jewish Community Relations Council of Columbus  
Jewish Community Relations Council of Greater Harrisburg, PA  
Jewish Council of North Central Florida  
Jewish Educational Alliance  
Jewish Federation & Foundation of Northeast Florida  
Jewish Federation and Jewish Foundation of Nashville and Middle Tennessee  
Jewish Federation in the Heart of New Jersey  
Jewish Federation of Broward County  
Jewish Federation of Central CA  
Jewish Federation of Central New York  
Jewish Federation of Chicago  
Jewish Federation of Cleveland  
Jewish Federation of Columbus GA  
Jewish Federation of Delaware  
Jewish Federation of Fort Wayne  
Jewish Federation of Greater Ann Arbor  
Jewish Federation of Greater Atlanta  
Jewish Federation of Greater Charlotte  
Jewish Federation of Greater Chattanooga  
Jewish Federation of Greater Dallas and its Jewish Community Relations Council  
Jewish Federation of Greater Des Moines  
Jewish Federation of Greater Fairfield County  
Jewish Federation of Greater Harrisburg  
Jewish Federation of Greater Kansas City  
Jewish Federation of Greater MetroWest, NJ  
Jewish Federation of Greater Naples  
Jewish Federation of Greater New Orleans  
Jewish Federation of Greater Philadelphia  
Jewish Federation of Greater Pittsburgh  
Jewish Federation of Greater Portland  
Jewish Federation of Greater Portland  
Jewish Federation of Greater Rockford  
Jewish Federation of Greater Seattle  
Jewish Federation of Greater Toledo  
Jewish Federation of Greater Washington

Jewish Federation of Huntsville and North Alabama (JFHNA)  
Jewish Federation of Madison  
Jewish Federation of Metro Detroit  
Jewish Federation of Northeastern NY  
Jewish Federation of Northern New Jersey  
Jewish Federation of Ocean County  
Jewish Federation of Palm Beach County  
Jewish Federation of Peoria  
Jewish Federation of Somerset, Hunterdon & Warren Counties  
Jewish Federation of Springfield, IL  
Jewish Federation of the Greater San Gabriel and Pomona Valleys  
Jewish Federation of the Quad Cities  
Jewish Federation of Ventura County  
Jewish Federation of Western Massachusetts  
Jewish Federation of St. Louis  
Jewish Foundation of Greater Hartford  
Jewish Foundation of Greater New Haven, Inc.  
Jewish Nevada  
Jewish Philanthropies of Southern Arizona  
JewishColumbus  
Knoxville Jewish Alliance  
Milwaukee Jewish Federation  
Milwaukee Jewish Federation  
Minneapolis Jewish Federation  
Savannah Jewish Federation  
Shalom Austin  
St. Paul Jewish Federation  
Tampa Jewish Federation  
The Associated: Jewish Community Federation of Baltimore  
The Birmingham Jewish Federation  
The Jewish Federation of Greater Binghamton  
The Jewish Federation of Greater Dayton  
Treasure Coast Jewish Federation  
UJA Federation of Greater Toronto  
UJA-Federation of New York  
UJA-JCC Greenwich  
United Jewish Federation of Stamford, New Canaan & Darien  
United Jewish Federation of Tidewater  
United Jewish Federation of Utah  
Wilmington, NC UJA  
Youngstown Area Jewish Federation

