



# Material Risk Engagement 2022 Q1 Quarterly Report

Material Risk Engagement promotes and protects long-term value by engaging with high-risk companies on financially-material ESG issues.

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This report summarizes the shareholder engagement activities that Sustainalytics performed between 16 November 2021 to 15 February 2022.

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**Palle Ellemann**  
 Director and Product Manager  
 for Material Risk Engagement

## Executive Summary

Sustainalytics' Material Risk Engagement program continues to expand and produce positive results from engagement activities. Over the past three months, we conducted 53 meetings and had 423 email exchanges and phone calls. More importantly, our efforts are generating results, including 53 positive developments and three successfully resolved engagements.

### Realizing progress

Positive developments are defined as new initiatives that engaged companies have implemented related to our suggested actions that generate tangible results.

An engagement dialogue is considered resolved when a company's ESG Risk Rating score improves to below 28 (moving it into the Medium ESG Risk Rating category), reflecting lower unmanaged ESG risk. This quarter, we resolved three engagements with Kia Corp, Olympus Corporation and Sociedad Química y Minera de Chile. In other engagements, we have achieved 53 positive developments, where companies are implementing new initiatives related to

the recommendations that we give them. The report provides examples of these positive developments and as a client, you can export the full list of positive developments with the reporting tool on the online platform Global Access.

### Onwards and Upwards in 2022

In 2022, we will continue scaling up and expect to reach 500 engagements. This will lead to more engaged companies in all regions, particularly the APAC region. As we continue developing our engagement dialogues and have more follow-up meetings with companies, we expect to see more positive developments and resolved engagements.

Clients are encouraged to actively participate in engagements. You can follow the scheduled engagement meetings in the calendar in Global Access or via the weekly engagement brief. For general program questions, please email [mre@sustainalytics.com](mailto:mre@sustainalytics.com) or your Sustainalytics' regional client team.



# 2022 Q1 Statistics



# 320

Active Engagements  
as of 15 February  
2022

# 423

Emails and  
Phone Calls



# 53

Meetings



# 440

companies  
engaged since  
March 2020

# 53

Positive Developments



## COMPANY RESPONSE

Excellent	4%
Good	48%
Standard	26%
Poor	6%
None	16%

## COMPANY PROGRESS

Excellent	2%
Good	23%
Standard	66%
Poor	2%
None	8%

# 3

Engagements  
Resolved



# Material Risk Engagement 2022 Q1 Statistics

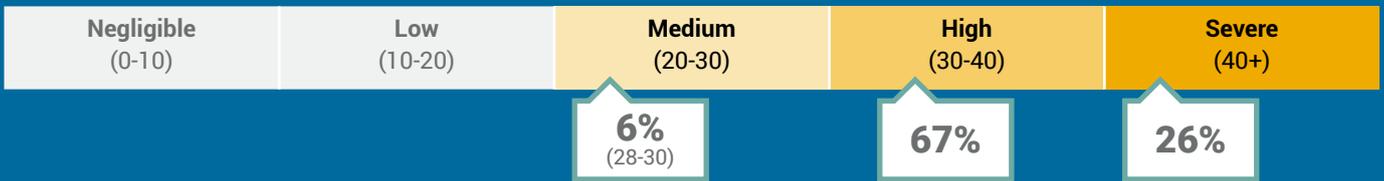


## Status of Engagement by Research Universe

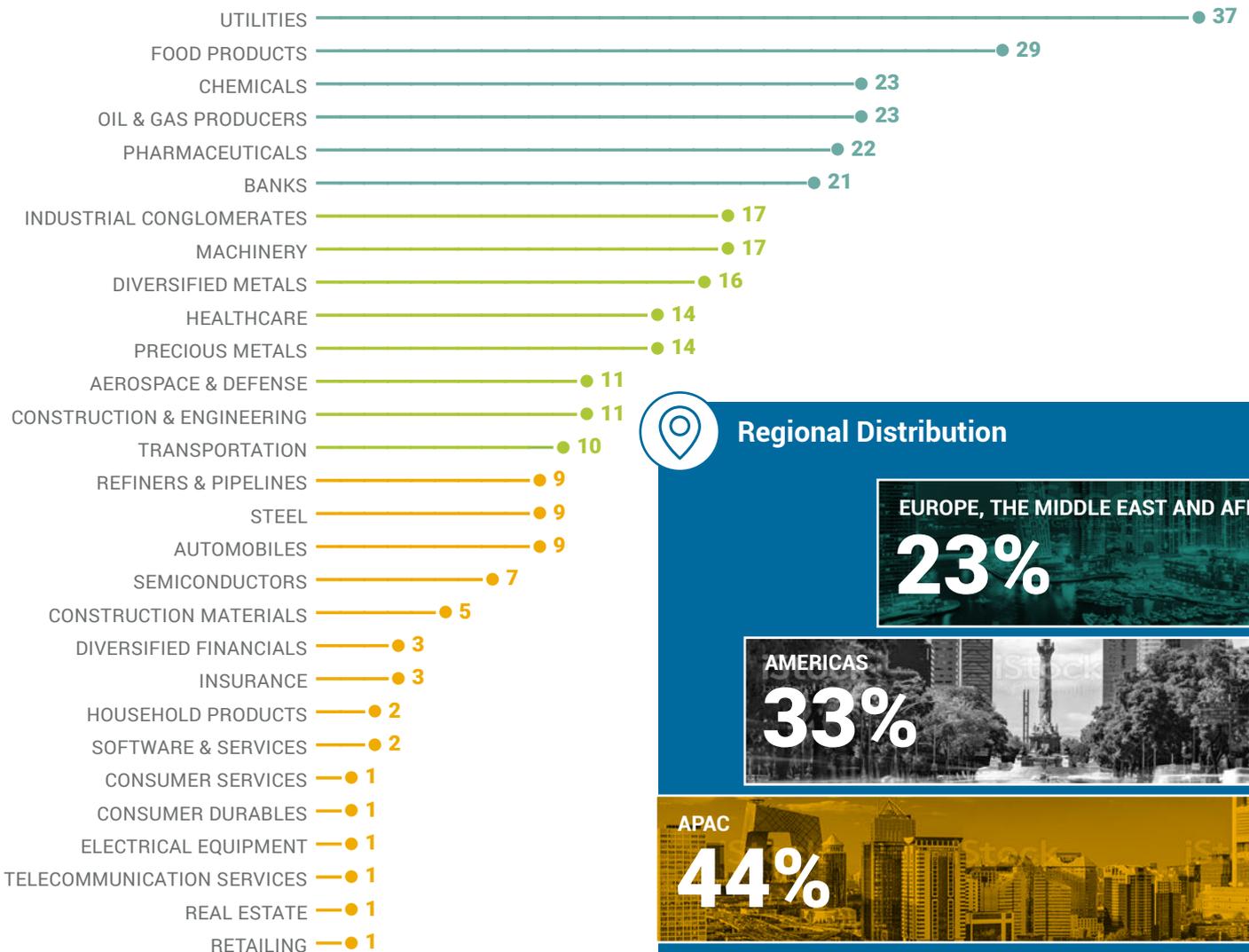
Ratings	RATINGS (GLOBAL)	GLOBAL DEVELOPED	GLOBAL EMERGING
Total Engagements	<b>360</b>	<b>217</b>	<b>151</b>
Resolved	<b>3</b>	<b>1</b>	<b>2</b>
Archived	<b>37</b>	<b>22</b>	<b>15</b>
Remaining Active Engagements	<b>320</b>	<b>194</b>	<b>134</b>



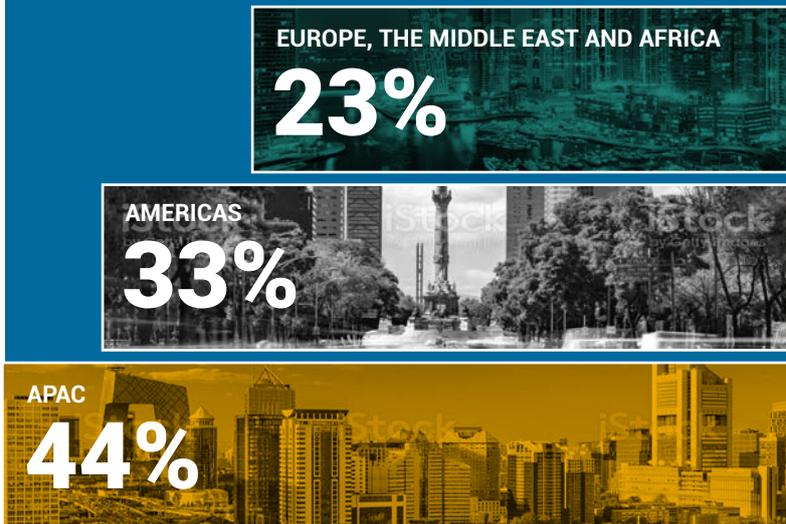
## Active Engagements by ESG Risk Ratings Categories



## Industry Distribution



## Regional Distribution



## Engagement Topics

Engagement with companies within the MRE program focuses on Material ESG Issues with the largest management gaps as measured by Sustainalytics' ESG Risk Ratings. Engagement typically covers multiple Material ESG Issues as most companies have several ESG management gaps. The table below outlines the main topic(s) of each engagement (most engagements involve more than one issue).

About one third of the engagements are focused on ESG risk assessment and disclosure practices. A sound and efficient ESG risk assessment process is fundamental for effective ESG risk management. A good risk assessment process should inspire constructive dialogue with internal and external stakeholders and help companies establish accountability and focus on material issues. Once a company is clear on its risks, it can move on to risk mitigation. As seen in practice, robust ESG disclosure is an important driver for commitment to, and consistency in, ESG practices. What gets measured, gets done.

Beyond ESG disclosure, carbon-related issues are the most common focus. This is even more evident when we also consider the additional issues that the engagements touch upon. Carbon/climate related issues are very often highlighted among the suggested actions for companies to address. Product governance is another prevalent engagement focus, as it often relates to significant liabilities for companies and investors.

TOPICS	NUMBER OF ENGAGEMENTS
 Risk Assessment and ESG Disclosure	<b>90</b>
 Carbon Risk Management	<b>57</b>
 Product Governance	<b>36</b>
 Emissions, Effluents, and Waste	<b>20</b>
 Corporate Governance	<b>16</b>
 ESG Integration in Financials	<b>10</b>
 Occupational Health and Safety	<b>10</b>
 E&S Impact of Products and Services	<b>7</b>
 Community relations	<b>6</b>
 Business Ethics	<b>6</b>
 Human capital	<b>5</b>
 Land Use and Biodiversity	<b>2</b>
 Resource use	<b>1</b>
 Data Privacy and Security	<b>1</b>



## Engagement Results

Throughout the current period, we conducted 53 meetings and exchanged 423 emails and phone calls with companies in our MRE program. We track our target companies’ performance in various ways throughout the engagement process.

First, we assess each company on its awareness of ESG and willingness to engage with Sustainalytics and investors. 52% of engaged companies achieved a good or excellent response, a five-point increase from the previous period. For companies that did not respond to our initial outreach, Engagement Managers explore alternative strategies to establish a dialogue. Effective practices include reaching out to senior management or board members, joining investor calls and engaging investor clients with a specific interest in the non-responding companies.

Second, we assess the extent to which engaged companies adopt our suggested actions. As there are still a high number of new engagements, verification of actions is still in progress. These companies received a neutral rating

of “standard progress,” accounting for 66 percent of total cases. Additionally, we track when suggested actions are implemented as “positive developments”.

Finally, company performance is evaluated as part of its ESG Risk Ratings assessment, which we update annually. An engagement is considered resolved once the company improves its performance to bring its ESG Risk Ratings score below 28.

*In the previous quarter of the year, Sustainalytics recorded 53 positive developments in engagements where the companies implemented the suggested actions. Three engagements were resolved.*

### Examples of Positive Developments

COMPANY	INDUSTRY	POSITIVE DEVELOPMENT
The Kansai Electric Power Co., Inc.	Utilities	Kansai Electric Power provided investors with CAPEX plan for short term for investments in low carbon power plants.
Gazprom PJSC	Oil and gas producers	Gazprom’s oil business has joined the “Zero Routine Flaring by 2030 Initiative” and committed to eliminate routine flaring.
Nissan Motor	Automobile	Nissan started to report product recalls in the 2021 ESG report.
UGI Corp	Utilities	Established new enterprise-wide reduction target of 55% for Scope 1 GHG emissions over the next 5 years.
China State Construction International Holdings Ltd	Construction and Engineering	The company is conducting climate scenario analysis under the TCFD framework to gain insight into the impact of climate change on company operations and financial performance.

**Company: Kia Corp**  
**ESG Risk Ratings Score**

Negligible (0-10)	Low (10-20)	Medium (20-30)	High (30-40)	Severe (40+)
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INDUSTRY  
**Automobiles**

BASE LOCATION  
**South Korea**

ENGAGEMENT FOCUS  
 Product governance  
 Carbon product and services  
 Corporate governance  
 Human capital

**RATIONALE FOR RESOLVED STATUS**

**Kia Corp improved the ESG Risk Rating score to below 28.**

**Positive Development Highlights:**

- Established a new ESG team to drive ESG risk management and improve ESG disclosure.
- Disclosing statistics on the use and outcome of its grievance mechanism.
- Significantly improved product governance disclosure, including coverage for QMS and scope of recalls and the costs associated with recalls.
- Developed more details around intermediate carbon reduction targets for 2030 and 2040 before the final carbon neutrality goal in 2045. The roadmap includes initiatives and capex to achieve the targets.

In our latest ESG Risk Rating update, Kia Corp’s risk management score improved by more than 20 points, bringing the company into the medium risk category and below the 28-point threshold for engagement.

## Olympus Corporation ESG Risk Ratings Score

Negligible (0-10)	Low (10-20)	Medium (20-30)	High (30-40)	Severe (40+)
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**25.8**



INDUSTRY  
**Healthcare**

BASE LOCATION  
**Japan**

ENGAGEMENT FOCUS  
**Product governance  
Human capital  
Corporate governance**

### Positive Development Highlights:

- Olympus has established a system where the ESG risk assessment and performance review is scheduled according to a board cycle, so ESG reporting is more regular and comprehensive.
- Olympus has obtained ISO 13485 certification for all its medical departments and ISO 9001 certification for other divisions as appropriate.
- Olympus has addressed any issues with the duodenoscopes and established a stronger governance system for quality management driven by a new Chief Quality Officer.

In our latest ESG Risk Rating update, Olympus’s risk management score improved by 9 points, bringing the company into the medium risk category and below the 28-point threshold for engagement.

## Sociedad Química y Minera de Chile ESG Risk Ratings Score

Negligible (0-10)	Low (10-20)	Medium (20-30)	High (30-40)	Severe (40+)
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27.6



INDUSTRY  
**Chemicals**

BASE LOCATION  
**Chile**

ENGAGEMENT FOCUS  
**Community Relations**  
**Carbon own operations**  
**Corporate governance**  
**Emissions, effluents and waste**

### Positive Development Highlights:

- SQM has updated the materiality assessment with stakeholder consultation. There is now a much better alignment with the Sustainalytics material ESG issues.
- SQM has implemented real time monitoring and transparency on brine extraction and water consumption together with a commitment to reduce brine extraction with 50%.
- SQM has implemented a software tool to manage community engagement with more consistency and better reporting to the headquarters. This will allow for better governance of this area.

In our latest ESG Risk Rating update, SQM's risk management score improved by 17 points, bringing the company into the medium risk category and below the 28-point threshold for engagement.

## Plans for Q2 2022

Next quarter, we will hold follow-up meetings with many of engagements we started in 2021. We anticipate a related increase in positive developments. We will continue scaling up the number of engagements, in particular with large-cap companies that have been included due to the changes in our selection criteria for MRE. Clients are encouraged to follow new cases in the EMEA region, where we will be opening engagement with many well-known companies.

Covid-19 continues to make it difficult to travel for in-person meetings, but we will closely monitor travel restrictions. We look forward to the possibility of scheduling in-person meetings in 2022.



## Material Risk Engagement Approach

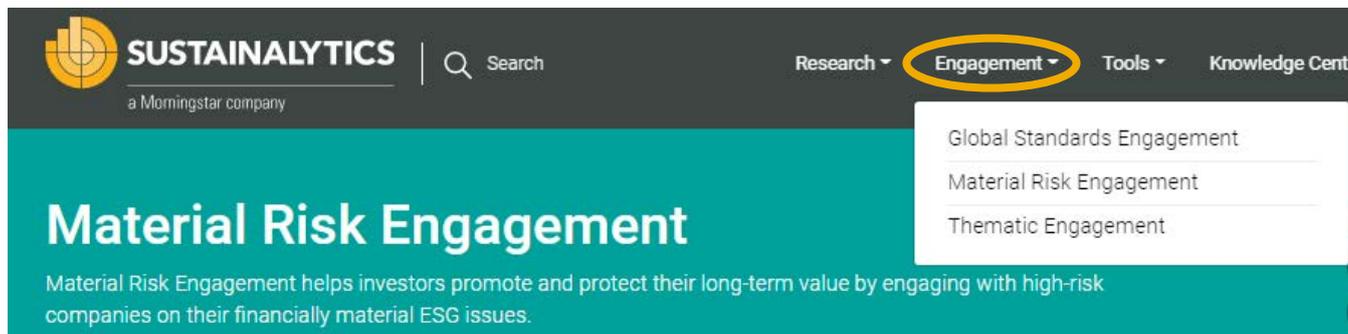
Sustainalytics' Material Risk Engagement (MRE) engages with high-risk companies on the material ESG issues with the greatest levels of unmanaged risks. The purpose is to protect and develop long-value in our clients' portfolio companies. MRE is an engagement overlay of Sustainalytics' flagship product, ESG Risk Ratings.

The Stewardship team will engage with companies in Sustainalytics' Ratings universe, consisting of more than 4,500 companies, that have an ESG Risk Ratings Score of 30 or more. The ESG Risk Ratings score reflects the unmanaged ESG risk, so the higher the score, the more risk the company is exposed to.

The engagement is driven by constructive dialogue. The research from ESG Risks and the Controversies research are leveraged to encourage companies to cover gaps in Material ESG Issues risk management. Engagement response, progress and positive developments are consistently tracked to measure commitment and capability to change in addition to the engagement outcome. When a company improves by bringing the ESG Risk Ratings score below 28, the MRE will be considered resolved.

## How to Generate Reports from Global Access

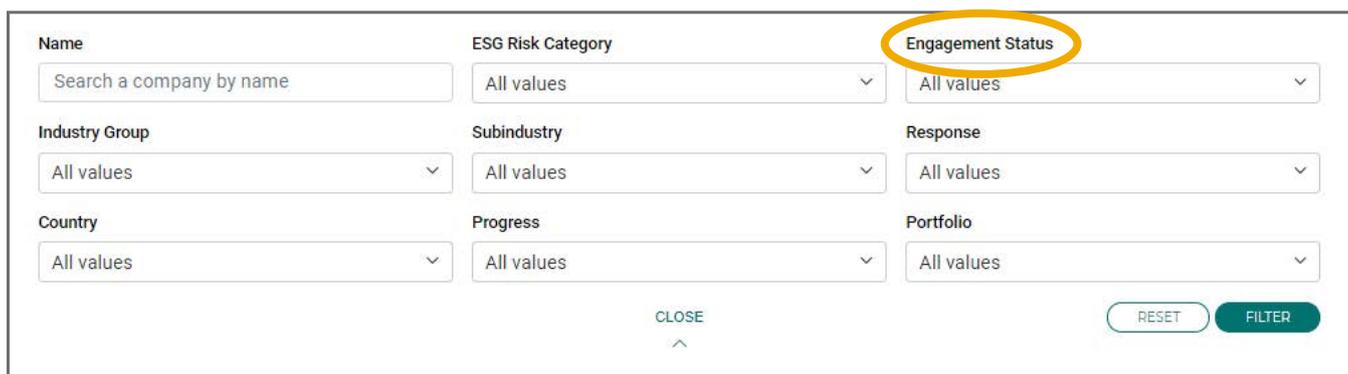
MRE clients can generate individual reports from Global Access, allowing visibility to the status of engagement activities and progress. From the landing page of **Global Access**, find **Material Risk Engagement** under the **Engagement** tab.



On the **Material Risk Engagement** landing page, scroll down to the search section, to search for a specific company or filter by various criteria including industry group, country, response, and progress.

Reports can be generated for an individual portfolio if a portfolio has been uploaded to the user’s account in the **Portfolios** section under the **Tools** tab. Once a portfolio is uploaded, it is available under the **Portfolio** filter in the search section, in addition to other standard research universes.

To see the number of engagements in a portfolio, select **Engage** under the **Engagement Status** and the portfolio under **Portfolio**. This will produce a report that includes multiple data points for the companies selected.





Do you have any questions regarding our  
Stewardship Services?  
**Contact us today to connect with our team of experts.**

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## Learn More About Sustainalytics

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