Quarterly Engagement Report Q3 2023

Content

This report summarizes the shareholder engagement activities that Sustainalytics performed on behalf of Stichting Pensioenfonds Provisum during July to September 2023. Use of and access to this information is limited to clients of Sustainalytics and is subject to Sustainalytics' legal terms and conditions.

Cover: All graphics used are part of the public domain under the Creative Commons license CCO or have been procured by Sustainalytics.

Global Standards Engagement

Executive Summary

We are delighted to share Morningstar Sustainalytics' new quarterly report for Global Standards Engagement covering the third calendar quarter of 2023. In a new format, this report provides an overview of statistics for engagement activities between July – September 2023.

Key Highlights

During Q3 2023, the Global Standards Engagement team worked on 153 engagements, including one new engagement. More than 454 emails and phone calls have been exchanged, and 46 meetings have been conducted. The engagement effort has resulted in 15 Milestones achieved and three engagements resolved successfully.

This quarter, we have opened one new 'Engage' case, identified through Global Standards Screening status downgrade to Watchlist. This case results from UBS' acquisition of Credit Suisse Group AG in March 2023. The UBS engagement is related to the multiple business ethics incidents that occurred at its newly acquired subsidiary.

In the quarter, we concluded three engagements, including two related to quality and safety issues linked to the design and production of medical devices in the US – Johnson & Johnson and Stryker Corp. Information on these successful engagements is followed by an article, *Navigating Quality Challenges in the Production of Medical Equipment*. Our in-house healthcare sector expert, Joe Attwood, shares engagement insights and the importance of quality control measures, proving that if robust control systems are not put in place, this may lead to extensive product recalls over a number of years and, ultimately litigation from potentially thousands of claimants, exposing the company to both financial and reputational impacts.

Two engagements have moved to status 'Disengage.' NLC India Ltd. Status has been updated following 24 months of low performance due to company response and insufficient evidence that the issue has been addressed. China Petrochemical Corp., has been classified as non-engageable due to its ownership structure. In addition, we assigned a 'Disengage' status to STARK Corp. Public Co. Ltd. involved in a recent accounting and taxation controversy. Since the company is under significant financial distress, we will not initiate engagement at this time.

Plans for Q4

October is going to be a busy month for our team. Apart from a number of conference calls, we are also going to have in-person meetings with two companies within Global Standards Engagement service. The meeting with Korea-based POSCO STEELON that takes place at the beginning of October in our London office, will focus on the company's activities in Myanmar, whereas a mid-October meeting with Vale SA will focus on the tailings dam failures that impacted the downstream communities and environment of Brumadinho and Mariana in the State of Minas Gerais, Brazil.

Also, at the end of October and then the end of November, we are inviting clients to join Morningstar Sustainalytics online roundtables 'Culture in Mining: Why it's Important'. Our team is going to host a focused discussion on how identifying, managing and improving organizational culture in the mining sector can drive better ESG performance and improve risk culture. The aim is to bring mining companies and institutional investors together to discuss why corporate culture in mining matters.

As we continue to deepen our dialogues throughout the remainder of 2023, clients are welcome and encouraged to participate in Sustainalytics' engagement activities. You can follow our scheduled meetings in the calendar section on Global Access, or via the Weekly Engagement Brief email.

We trust you will find this new Quarterly Engagement Report insightful, and we look forward to continuing our work together.

Navigating Quality Challenges in the Production of Medical Equipment

The production of medical equipment is a critical aspect of the healthcare industry, ensuring that healthcare providers have access to reliable tools for patient care. The medical device market is estimated to be worth over $500 billion annually, with 3,700 companies operating in the US alone. Given such large numbers, it is perhaps unsurprising that regulatory scrutiny is high, resulting in 2,866 recalls in Europe and 2,607 in the US, for the year 2021. Maintaining consistent quality medical equipment production has clearly presented several challenges for some companies in the market.

Two resolved cases (Johnson & Johnson and Stryker Corp.) in this Quarterly Report have centered around the issue of quality in the design and production of medical equipment. An apparent breakdown in the companies' approach to quality control resulted in regulatory involvement and led to extensive product recalls over a number of years and ultimately, litigation from potentially thousands of claimants. Costs associated with both the product recalls and settling litigation claims present a significant financial impact to the two companies, as well as reputational impacts.

An effective Quality Management System (QMS) is crucial to ensure that products are safe, reliable, and meet regulatory requirements. Engagements with the companies focused on several key aspects of their QMS governance through delivery-focused processes, document management, and system auditing-internally and externally. Very specific to the medical equipment sector are the mechanisms to support robust post-market surveillance, gathering feedback for review and potential modifications to be made and the product re-released. Additionally, the issue of ethics was also discussed with a view to ensuring that robust mechanisms were developed to prevent the marketing of faulty products.

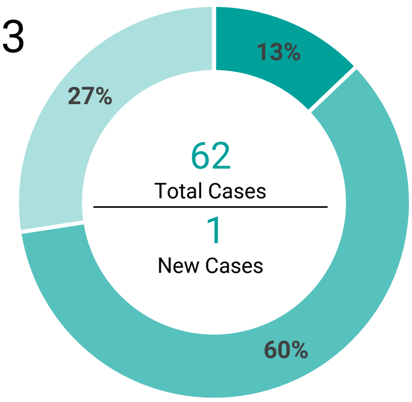
Ethical marketing ensures that medical equipment is promoted and sold with transparency and accuracy. When healthcare providers and institutions make purchasing decisions based on accurate information, patient care is enhanced, and potential harm is minimized. This trust in the marketing process is vital, especially when dealing with life-saving or critical equipment where the consequences of misinformation or manipulation can be dire. Medical equipment must meet stringent regulatory standards to ensure its effectiveness and safety. Ethical marketing practices involve accurately representing a product's capabilities and limitations, and providing appropriate training and support to healthcare professionals who use the equipment. These standards not only safeguard patients but also fosters long-term relationships between manufacturers and healthcare providers, as they rely on each other to deliver quality care. Ultimately, ethical marketing in the medical equipment industry serves as a moral compass, guiding decisions impacting human lives and well-being, and upholding the industry's commitment to the highest patient care and safety standards.

Quarterly Statistics July – September 2023

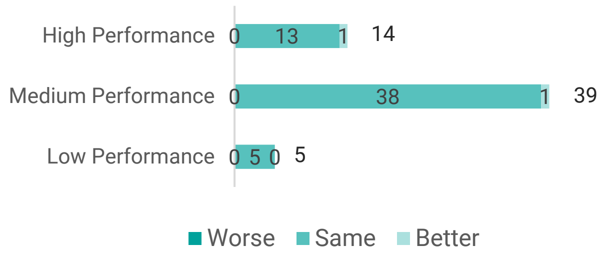
During July 2023 – September 2023, Morningstar Sustainalytics has continued our dialogue to track specified engagement goals and to seek measurable results of business conduct changes in relation to 62 Engagements.

Cases by Theme

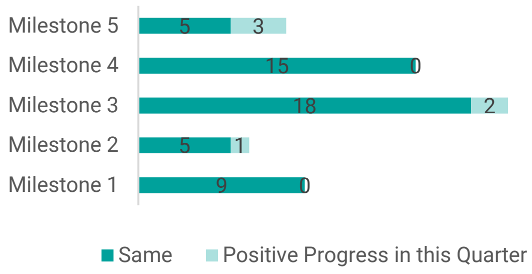
Environmental	8
Social	37
Governance	17



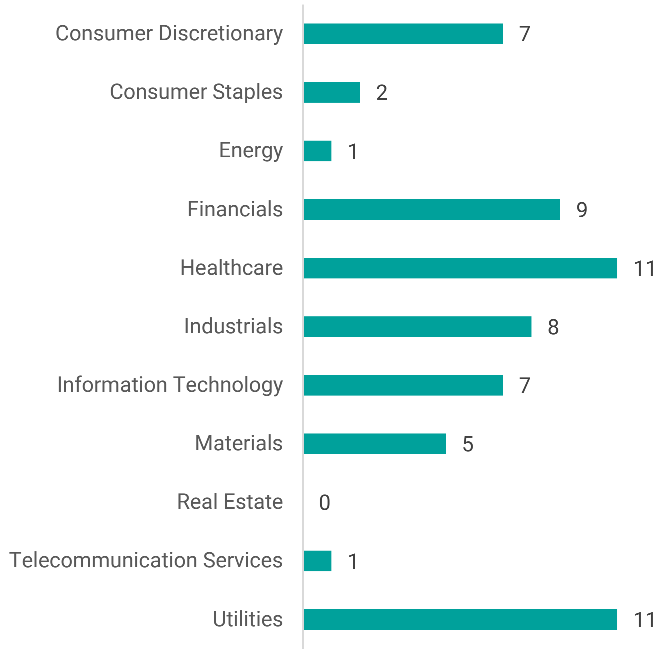
Engagement Performance Overview



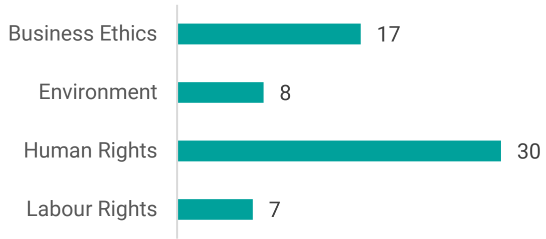
Milestone Overview



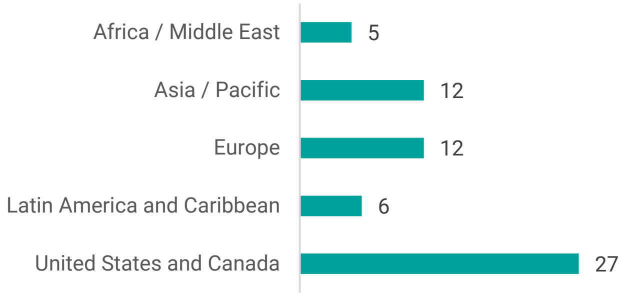
Cases by Sector



Cases by Norm

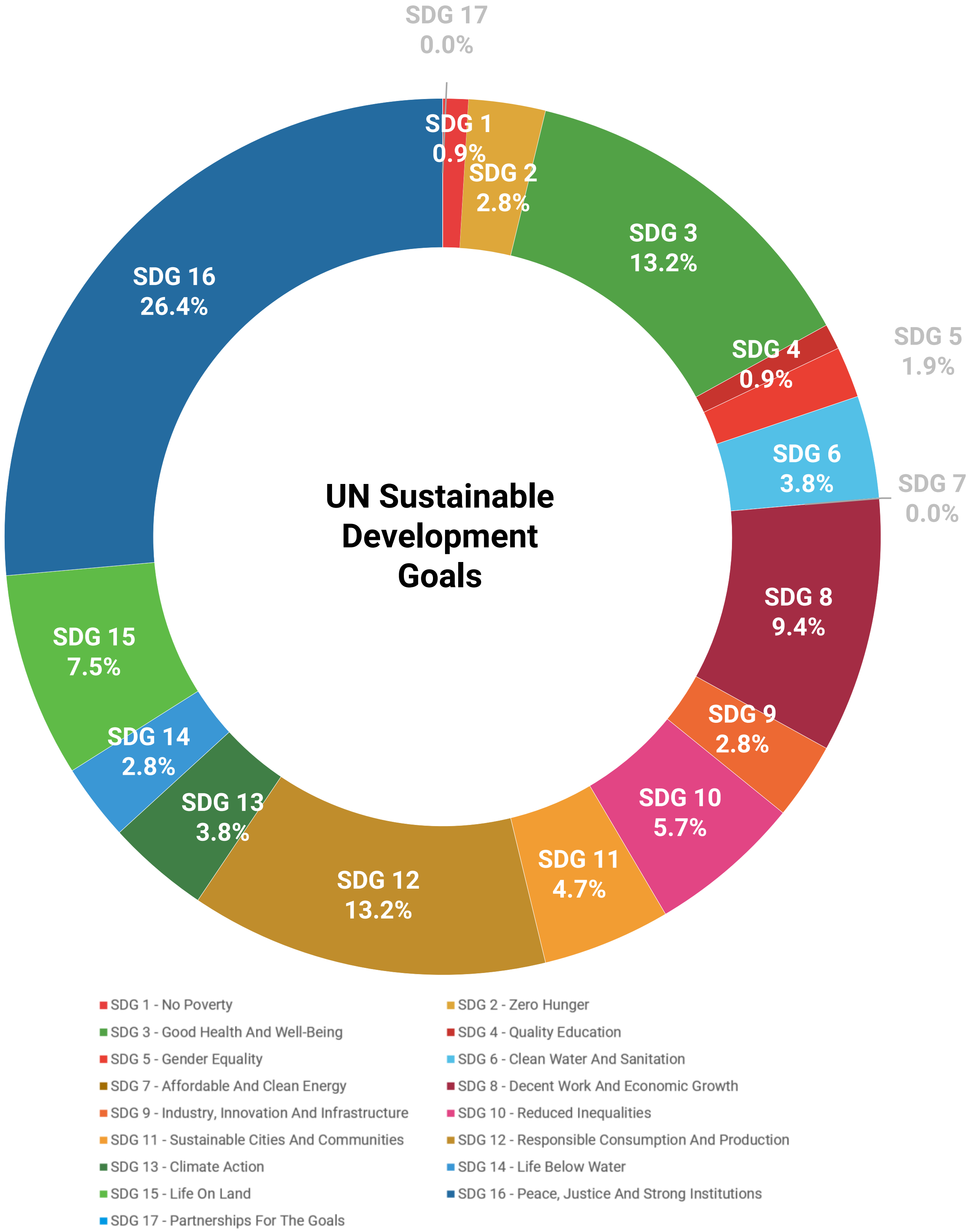


Cases by Headquarter



UN Sustainable Development Goals Attribution

62 Engagements in this quarter can be attributed to the following SDGs. The count within the chart below might add up to more than these cases as a case can relate to more than one SDG. We map the Global Standards Engagement cases with relevant SDGs and our engagement dialogue aims to work toward achieving sustainable outcomes.



Companies Mentioned in this Engagement Brief

Engage   Associated   Disengage   Resolved   Archived

Engage Cases

UBS Group AG

Associated company: **Credit Suisse Group AG (**New**)*

Background
Credit Suisse Group (CS), acquired by UBS Group in June 2023, has been accused of involvement in multiple business ethics-related controversies over the past decade. Since the bank pleaded guilty in a tax evasion case in 2014 and paid USD 2.8 billion to several US regulators, it has remained under regulatory scrutiny for market manipulation, money laundering, bribery, insufficient due diligence and fraud. In September 2018, the Swiss Financial Market Supervisory Authority (FINMA) identified deficiencies in CS's anti-money laundering process.It appointed an independent third party to monitor the implementation of new measures aimed at strengthening its compliance process. In December 2020, the US Federal Reserve ordered CS to improve its anti-money laundering policies and to create a plan to improve its monitoring of improper activities. In addition, CS employees were involved in a USD 2 billion debt scandal in Mozambique. US prosecutors stated that, between 2013 and 2016, Mozambican state-owned companies borrowed more than USD 2 billion through loans guaranteed by the government and arranged by CS and two other banks. Three now-former CS employees have pleaded guilty to receiving bribes to arrange loans and laundering money from illegal activities. In October 2021, CS was fined USD 475 million by US and UK regulators for deceiving investors. The bank further agreed to forgive USD 200 million of Mozambique's outstanding debt. Separately, in March 2021, CS came under scrutiny for its business relationship with corporate clients, Greensill Capital and Archegos Capital, both of which collapsed. There are ongoing investigations into the bank's relationship with the firms. In June 2022, CS was fined USD 22 mn for having lax controls that allowed a drug ring to launder money through the bank. Furthermore, in October 2022, CS agreed to pay USD 234 million to settle a French criminal probe into allegations that the bank helped clients hide undeclared funds between 2005 and 2012.

Engagement Objective and Activity
The focus of the engagement with UBS is to implement a robust risk management system, have accountable risk governance, drive improvements in risk culture and have a strong compliance function company-wide, including across its subsidiaries. UBS should also establish a robust AML programme.

Next Step
Organize a conference call in Q4 to discuss the agenda items regarding business ethics.

STATUS

Engage

ISSUE(S)

- Business Ethics

ENGAGEMENT MANAGER

Angela Flaemrich
Associate Director
Toronto

CONTRIBUTION TO SDGs

16 PEACE, JUSTICE & STRONG INSTITUTIONS

Resolved Cases

Johnson & Johnson

Background
Johnson & Johnson (J&J) has been implicated in repeated quality and safety issues in relation to several of its products, which have resulted in severe adverse impacts on customers. According to J&J's April 2023 quarterly filing, the company is still facing around 55,000 lawsuits in the US regarding its products, including hip implants, pelvic mesh and talc-based baby powder. Over the past few years, though, the company has settled many lawsuits, partially remedying for its adverse impacts on stakeholders. In 2018, a US jury ordered J&J to pay USD 4.7 billion (reduced to USD 2.1 billion by the appeals court in 2020) to 22 women who claimed that the company's talcum powder contributed to the development of their ovarian cancer. In May 2019, it agreed to pay USD 1 billion to resolve nearly 6,000 US lawsuits, pertaining to claims that J&J sold defective metal-on-metal Pinnacle hip implants that ultimately had to be removed. In 2020, a California judge ordered J&J to pay nearly USD 344 million (later reduced to USD 302 million) for deceptively marketing its pelvic mesh products, while a New Jersey jury awarded USD 750 million (later reduced to USD 186.5 million) to four plaintiffs alleging that J&J's baby powder product caused their cancer. In May 2020, J&J decided to stop selling its talcum-based baby powder in the US and Canada and, in August 2022, the company announced that it will stop selling talc-based product globally in 2023.

Engagement Objective
Johnson & Johnson should ensure that the lessons learned from the numerous product quality issues have been incorporated into its protocols and procedures to minimize the risk of future litigation.

Engagement Outcomes
Johnson & Johnson's effective quality control can be evidenced through reduced FDA activity against the company and subsequent product recalls. The company has mostly resolved its product controversies. The decision to discontinue talc-based products eliminates any potential future issues relating to its safe use. The company also favours regular internal audits to monitor the effectiveness of its quality management system, complemented with external regulator-led audits.

Conclusion
Considering improvements in product quality and safety management and a lack of any new severe product quality and safety issues over the past few years, Morningstar Sustainalytics decided to resolve the case.

STATUS

Resolved

ISSUE(S)

- Quality and Safety - Human Rights

ENGAGEMENT MANAGER

Joe Atwood
Associate Director
London

CONTRIBUTION TO SDGs

3 Good Health & Well-being

12 Responsible Consumption & Production

DIALOGUE STATISTICS

104	Number of Contacts
4	Conference Calls
45	Correspondence
0	Meetings in Person

CASE TIMELINE

Engagement Since	Dec 2016
Milestone 1	Dec 2016
Milestone 2	Jul 2018
Milestone 3	Nov 2019
Milestone 4	Apr 2021
Milestone 5	Jan 2023
Case Resolved	Aug 2023

Stryker Corp.

Background
Over the past several years Stryker has been involved in a number of controversies related to product quality and safety. The most serious one concerns its Rejuvenate and ABG II hip replacement devices, for which the company has faced thousands of claims from plaintiffs who alleged that Stryker was negligent in designing, manufacturing and marketing the product, which has caused metal poisoning in patients. Stryker has paid around USD 2 billion to settle thousands of lawsuits filed over these defective devices as well as allegations that the company downplayed the risks of using other defective devices. Settlements were made in 2018 and 2021 in relation to these lawsuits.

Engagement Objective
Stryker should take appropriate actions to responsibly address the negative impacts of its products. The company should continue to improve the quality and safety of its devices and improve the disclosure of all product-related data to ensure that relevant information is communicated to the public.

Engagement Outcomes
Throughout the four years of engagement the company has shown considerable improvements in the level of meaningful disclosure, culminating in a dedicated quality website. While the company responded to queries with strong technical responses, it also provided additional assurances that its quality system was effective through compliance and certification with international standards (ISO). The effectiveness of the company's refreshed approach to quality is seen through reduced numbers of the US Food and Drug Administration interventions.

Conclusion
Considering improvements in product quality and safety management and the lack of any new severe product quality and safety issues over the past few years, Morningstar Sustainalytics decided to resolve the case.

STATUS

Resolved

ISSUE(S)

- Quality and Safety - Human Rights

ENGAGEMENT MANAGER

Joe Atwood
Associate Director
London

CONTRIBUTION TO SDGs

3 Good Health & Well-being

12 Responsible Consumption & Production

DIALOGUE STATISTICS

49	Number of Contacts
5	Conference Calls
21	Correspondence
0	Meetings in Person

CASE TIMELINE

Engagement Since	May 2019
Milestone 1	Nov 2020
Milestone 2	Nov 2021
Milestone 3	May 2022
Milestone 4	Jun 2023
Milestone 5	Jul 2023
Case Resolved	Aug 2023

Company Dialogue & Progress Summary

Legend

Country

The country in the list indicates where the business conduct issue occurred. The breakdown into the regions: Africa/ Middle East, Asia/ Pacific, Europe, Latin America and Caribbean and United States and Canada is based on where the company headquarter is.

Year

The year shows when the case was downgraded to Engage status.

Response

The indicator describes how the company responds to Sustainalytics' inquiries.

None	Poor	Standard	Good	Excellent

Progress

The indicator describes whether or not the violation continues, or how the company's work to prevent future violations is developing.

None	Poor	Standard	Good	Excellent

Performance

The indicator describes the combined company progress and response performance.

▲ **High Performance** - good or excellent Response in combination with good or excellent Progress.

▶ **Medium Performance** - standard level of Response and Progress.

▼ **Low Performance** - poor or no Response in combination with poor or no Progress.

New, **Same, Better** or **Worse Performance -** indicates the change in either Response or Progress since the last quarterly report.

Low Performance Tracker (Tracker)

The indicator describes the time elapsed with Low Performance. One piece equals three months.

0-3	3-6	6-9	9-12	12-15	15-18	18-21	21-24

After two years, the case will be reviewed by Sustainalytics and a Disengage status can be selected if all other engagement options are ineffective.

Milestones

The indicator describes the milestone achieved from 1 to 5.

3/5 Achieve

Engage

AFRICA / MIDDLE EAST

Eskom Holdings SOC Ltd. (South Africa, 2019)
▶ Air Pollutant Emissions

Change Objective: Eskom should make sure that more extensive maintenance programme is introduced to its plants and the implementation of environmental offset programmes in the communities is confirmed. It should prioritize the plants which will remain operational for a longer time and be able to prove it takes all the possible actions to minimize the impacts of its operations.

Milestones
Response
Progress
Performance Same

Eskom Holdings SOC Ltd. (South Africa, 2023)
▶ Business Ethics

Change Objective: Eskom should ensure that business ethics issues are thoroughly investigated, and it should cooperate with investigating authorities. It should develop robust business ethics - related policies, programs, controls, and training.

Milestones
Response
Progress
Performance New

Eskom Holdings SOC Ltd. (South Africa, 2023)
▶ Quality and Safety

Change Objective: Eskom should establish electricity system reliability to minimize disruptions to society and critical services. The company should achieve this by restructuring into three separate units (generation, transmission and distribution), implementing loadshedding schedules, utilizing smart power grid technology, and upgrading security to protect infrastructure from criminal activity.

Milestones
Response
Progress
Performance New

MTN Group Ltd. (South Africa, 2019)
▶ Involvement With Entities Violating Human Rights

Change Objective: MTN Group should implement a robust human rights due diligence programme to improve its business policies and practices in line with internationally accepted standards. The programme should provide clear guidance criteria to identify high risk jurisdictions and manage that heightened exposure. The company should also provide transparent reporting on human rights issues that provides insight into its management of these issues and exposure in high-risk markets.

Milestones
Response
Progress
Performance Same

Teva Pharmaceutical Industries Ltd. (United States, 2019)
▶ Price-Fixing Violations

Change Objective: Teva should take appropriate actions by investigating the alleged misconduct internally and cooperate with authorities to address the issue. The company should also develop and implement a drug pricing model that ensures equitable access to medicine and implement competition guidelines.

Milestones
Response
Progress
Performance Same

ASIA / PACIFIC

Adani Enterprises Ltd. (Australia, 2016)

▶ Controversial Project(s) - Environmental and Human Rights Impacts

Change Objective: Adani should respect the rights of the indigenous people living in the project's area by obtaining their consent for the land use. The company should prevent the projected environmental impacts of the Carmichael mine and, in case this is proven to be impossible, withdraw from the project.

Milestones
Response
Progress
Performance Better

Ntpc Ltd. (Bangladesh, 2017)

▶ Controversial Project(s) - Environmental and Human Rights Impacts

Change Objective: NTPC should work to mitigate its environmental and human rights impacts in alignment with international norms. It should commit to keeping its plants updated to current environmental standards with respect to efficient technologies and treatment of effluents and waste. It should also establish proper due diligence measures that fully take into consideration environmental and human rights concerns prior to developing new projects.

Milestones
Response
Progress
Performance Better

Ntpc Ltd. (India, 2018)

▶ Occupational Health and Safety

Change Objective: NTPC should make sure that families to the decedent workers have received financial support. The company should also demonstrate that the causes of the accidents have been fully investigated and that safety management systems are improved in accordance with the findings.

Milestones
Response
Progress
Performance Same

Rio Tinto Ltd. (Australia, 2020)

▶ Community Relations - Indigenous Peoples

Change Objective: RioTinto should agree on a compensation package with the Puutu Kunti Kurrama and Pinikura (PKKP), the Traditional Owners of the destroyed rock-shelters. The company should ensure that it rebuilds community relations with the PKKP and has suitable community relations mechanisms across all its operations that inform communities of important findings in a timely manner. The company should ensure that its community relations teams are fully integrated into its operations to ensure that all operational decisions are made in conjunction with the community relations teams to prevent similar incidents in the future.

Milestones
Response
Progress
Performance Same

SAMSUNG BIOLOGICS Co., Ltd. (South Korea, 2020)

▶ Accounting and Taxation

Change Objective: Samsung Biologics should ensure that robust policies and internal controls addressing business ethics – and accounting fraud especially – are implemented effectively throughout the organization, including subsidiaries. It should strengthen its corporate governance and culture of integrity. Furthermore, no allegations related to business ethics should arise.

Milestones
Response
Progress
Performance Same

Samsung Electronics Co., Ltd. (South Korea, 2017)

▶ Bribery and Corruption

Change Objective: Samsung should adopt detailed policies for political, charitable contributions, facilitation payments, gifts and travel expenses. The company should further ensure that its anti-corruption policies are properly implemented and monitored. Samsung should increase independence of its board of directors and assure its audit and related party committees are fully independent.

Milestones
Response
Progress
Performance Same

SDIC Power Holdings Co., Ltd. (Indonesia, 2022)

▶ Controversial Project(s) - Environmental and Human Rights Impacts

Change Objective: SDIC Power should leverage its influence on the board of PT NSHE company, to ensure biodiversity protection and livelihood security in the project areas. SDIC Power should conduct environmental and social due diligence as part of its project screening and risk management system.

Milestones
Response
Progress
Performance Same

Tencent Holdings Ltd. (China, 2021)

▶ Involvement With Entities Violating Human Rights

Change Objective: Tencent should take steps to manage human rights risk exposure and limit impact on its users where possible. The company should demonstrate efforts to establish human rights due diligence practices, define policies relevant to digital rights, and to report on external data requests and content moderation requirements.

Milestones
Response
Progress
Performance Same

TOSHIBA Corp. (Japan, 2020)
▶ Accounting and Taxation

Change Objective: Toshiba should ensure that robust policies and internal controls addressing business ethics – and accounting fraud especially – are implemented effectively throughout the organization, including subsidiaries.

Milestones
Response
Progress
Performance Same

Toyota Motor Corp. (Japan, 2022)
▶ Consumer Interests - Business Ethics

Change Objective: Toyota should improve its global subsidiary governance framework. The company should have an adequate risk management framework and have robust oversight of its global subsidiaries. Furthermore, the company should explore emissions mitigation and offset options for its subsidiary's non-compliant excess emissions.

Milestones
Response
Progress
Performance Same

Westpac Banking Corp. (Australia, 2020)
▶ Money Laundering

Change Objective: Westpac should ensure it is not complicit in any money laundering. The company should strengthen its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) processes and implement all improvements in accordance with the Response Plan. The company should ensure it has robust internal controls, risk management, sufficient and effective board oversight.

Milestones
Response
Progress
Performance Same

Wilmar International Ltd. (Indonesia, 2019)
▶ Community Relations - Indigenous Peoples

Change Objective: Wilmar should resolve active complaint cases in Indonesia, Liberia, Nigeria and Uganda and take appropriate measures against any identified gaps. The company should also strengthen implementation of its policies by reporting more regularly on progress and the outcomes of site audits.

Milestones
Response
Progress
Performance Same

EUROPE

Barclays PLC (United Kingdom, 2019)
▶ Business Ethics

Change Objective: Barclays should ensure on-going implementation of whistle-blower policies as mandated by regulators, as well as relevant international organizations and global banking industry best-practices. The company should also implement best practices regarding whistle-blower protections and procedures, ensure that whistle-blower bodies have the appropriate independence and provide disclosures regarding the on-going enforcement of whistle-blower policies. To the extent possible, Barclays should disclose all relevant material regarding whistleblowing protections, business ethics at the executive level, and corporate culture.

Milestones
Response
Progress
Performance Same

Bayer AG (United States, 2018)
▶ Quality and Safety

Change Objective: Bayer (formerly Monsanto) should ensure that it has a policy and procedure for the disclosure of health, safety, and environmental data to both regulators and consumers.

Milestones
Response
Progress
Performance Same

Bolloré SE (Cameroon, 2019)
▶ Activities Resulting in Adverse Human Rights Impacts

Change Objective: Bolloré should ensure that affected communities are consulted according to the principle of free, prior and informed consent. The company should also implement its human rights policy and demonstrate due diligence in its different business relationships to prevent adverse human rights impacts.

Milestones
Response
Progress
Performance Same
Tracker

Danske Bank A/S (Estonia, 2018)
▶ Money Laundering

Change Objective: Danske Bank should ensure that it has implemented risk management systems and internal controls that aim to prevent financial crime and money laundering and demonstrate that they are robust and universally applied. Danske Bank should ensure that the board has sufficient and effective oversight of the business. To the extent possible, Danske Bank should disclose all changes related to its AML program.

Milestones
Response
Progress
Performance Same

Deutsche Bank AG (Russia, 2019)
▶ Money Laundering

Change Objective: Deutsche Bank should ensure that robust policies, programmes, compliance processes and risk management systems addressing anti-money laundering (AML), Know-Your-Customer (KYC), and sanctions issues are in place. The bank should publish comprehensive disclosures on how it is managing AML risks, how it trains employees in different ways, and how the board is set up to prevent financial crime.

Milestones
Response
Progress
Performance Better

EDP-Energias de Portugal SA (Portugal, 2020)
▶ Bribery and Corruption

Change Objective: EDP should commission an independent investigation into the allegations, it should disclose the findings and show how it plans to enact any recommendations. The company should also ensure that executive contracts have both malus and clawback provisions.

**Associated company: EDP Renováveis SA*

Milestones
Response
Progress
Performance Same

Koninklijke Philips NV (United States, 2022)
▶ Quality and Safety

Change Objective: Koninkjilke Philips NV should take appropriate actions to responsibly address the negative impacts of its products to compensate those affected and ensure no repeat of quality failures. The company should continue to improve quality and safety of its devices to achieve industry recognized good practice. It must address issues preventing effective product recall.

Milestones
Response
Progress
Performance Same

Medtronic Plc (United States, 2022)
▶ Quality and Safety - Human Rights

Change Objective: Medtronic should take appropriate actions to responsibly address the negative impacts of its products to compensate those affected and ensure no repeat of quality failures. The company should continue to improve quality and safety of its devices to achieve industry recognized good practice and improve the disclosure of all product-related data to ensure that relevant information is communicated to the public.

Milestones
Response
Progress
Performance Same

Sanofi (Philippines, 2020)
▶ Quality and Safety - Human Rights

Change Objective: Sanofi should have a robust governance, compliance, and risk management system in place with respect to its research and development of new products. Sanofi should also ensure appropriate levels of disclosure on the risks and side-effects of its products.

Milestones
Response
Progress
Performance Same

Telefonaktiebolaget LM Ericsson (Sweden, 2020)
▶ Bribery and Corruption

Change Objective: Ericsson should continue to strengthen its anti-corruption and ethical compliance processes in accordance with commitments its public commitments and the settlement with US authorities. Ericsson should maintain transparency regarding the implementation of these improvements or any new concerns that arise.

Milestones
Response
Progress
Performance Same

Teleperformance SA (France, 2021)
▶ Freedom of Association

Change Objective: Teleperformance should ensure no anti-union practices or other labour rights violations are occurring and should provide any remediation of issues, as appropriate.
It should demonstrate that across its operations its labour practices align with international standards, enable freedom of association, and that due diligence practices are sufficient to manage concerns.

Milestones
Response
Progress
Performance Same

UBS Group AG (Switzerland, 2023)
▶ Business Ethics

Change Objective: UBS should implement a robust risk management system, have accountable risk governance, drive improvements in risk culture and have a strong compliance function company-wide, including across its subsidiaries. UBS should also establish a robust AML programme.

Associated company: **Credit Suisse Group AG (New)*

Milestones
Response
Progress
Performance New

LATIN AMERICA AND CARIBBEAN

Centrais Elétricas Brasileiras SA (Brazil, 2020)
▸ Controversial Project(s) - Human Rights Impacts

Milestones
Response
Progress
Performance Same

Change Objective: Eletrobras should carry out a human rights' due diligence process of projects with alleged human rights impacts and address the identified issues in alignment with international norms. It should disclose information on progress, dialogue with the affected communities and conclusions. The company should also be transparent about the methodology used, remediation measures and, where necessary, cooperate with third-party experts.

Empresas Públicas de Medellín ESP (Colombia, 2019)
▸ Controversial Project(s) - Environmental and Human Rights Impacts

Milestones
Response
Progress
Performance Better

Change Objective: EPM should conduct a comprehensive assessment of the safety and stability of the dam, together with independent experts. The company should take appropriate mitigation measures as a result, both on legacy issues and identified impacts and risks. The company should make sure consultations with, and compensation to, project-affected communities are aligned with international norms, such as the IFC performance standards or similar and put in place relevant processes to ensure compliance with international norms for future projects.

Grupo México S.A.B. de C.V. (Mexico, 2020)
▸ Freedom of Association

Milestones
Response
Progress
Performance Same

Change Objective: Grupo Mexico should improve its labour practices in accordance with international standards. The company should demonstrate how it is meeting these obligations by improving its external disclosure on the implementations of the measures and their effectiveness.

Grupo México S.A.B. de C.V. (Mexico, 2020)
▸ Leaks, Spills and Pollution - Environmental and Human Rights Impacts

Milestones
Response
Progress
Performance Same

Change Objective: Grupo Mexico should consult with affected communities and authorities to address concerns over shortcomings in the remediation and compensation measures taken.
The company show mitigate any remaining negative impacts of the spill and address shortcomings in compensation measures.
Grupo Mexico should strengthen its management of its tailings storage facilities to meet international tailing dam standards.

Petróleos Mexicanos EPE (Mexico, 2015)
▸ Incident(s) Resulting in Negative Human Rights and Environmental Impacts

Milestones
Response
Progress
Performance Same

Change Objective: PEMEX should mitigate environmental and health impacts from the spills. The company should trace the causes of spills and strengthen its internal programmes, leak control and monitoring systems to minimize likelihood of new spills. The company should also exert its influence on all stakeholders to counter oil theft activity and its related impacts.

Vale SA (Brazil, 2019)
▸ Incident(s) Resulting in Negative Human Rights Impacts

Milestones
Response
Progress
Performance Same

Change Objective: Vale should commission an external technical review into the causes of the collapse; strengthen its management of its tailings storage facilities using best available technology; adopt a policy of designing tailings facility based upon safety first and cost second; ensure remedial programmes are in place and improve the technical knowledge of its board with reporting lines are in place to ensure potential concerns are addressed appropriately.

UNITED STATES AND CANADA

3M Co. (United States, 2019)
▶ Activities Resulting in Adverse Environmental and Human Rights Impacts

Change Objective: 3M Co. should provide greater clarity and public disclosure on its PFAS stewardship initiative and how it is mitigating potential liability from the historic sale/use of its products outside of the US. In addition, the company should explain how it is applying the lessons learnt from PFAS to its product development.

Milestones
Response
Progress
Performance Same

Activision Blizzard, Inc. (United States, 2021)
▶ Discrimination and Harassment

Change Objective: Activision Blizzard should cooperate with ongoing investigations and, if found guilty, compensate plaintiffs. Furthermore, the company should reinforce anti-discrimination policies by conducting related sensitization training, to move towards a culture of gender equality, diversity and inclusion. Moreover, the company should assure a robust grievance-mechanism is in place and appoint a senior level anti-discrimination expert to lead such activities with a strong mandate from the executive team and company board, and with sufficient resources. The company should disclose regularly on such efforts, along with external assurance.

Milestones
Response
Progress
Performance Same

Amazon.com, Inc. (United States, 2021)
▶ Freedom of Association

Change Objective: Amazon should ensure no anti-union practices take place within its operations. The company shall ensure union elections are performed in a fair and impartial manner. Amazon should demonstrate how its Global Human Rights Principles, addressing ILO standards and freedom of association, is implemented throughout its entire operations.

Milestones
Response
Progress
Performance Same
Tracker

Amazon.com, Inc. (United States, 2020)
▶ Occupational Health and Safety

Change Objective: Amazon should take steps to understand the health and safety risks faced by its workers. It should introduce appropriate improvements involving H&S policies and practices aligned with international standards, including proactively mitigating hazards and improving working conditions. The company should report on its H&S performance and consider independent third-party verification of its management system.

Milestones
Response
Progress
Performance Same

AmerisourceBergen Corp. (United States, 2023)
▶ Consumer Interests - Human Rights

Change Objective: AmerisourceBergen Corporation (ABC) should ensure that there are robust governance, compliance, and risk management systems in place. These should address marketing practices, the disclosure of risks from its products, and ethical business practices such as, demonstrated enhancements to anti-diversion systems, and compliance with regulatory requirements.

Milestones
Response
Progress
Performance Worse

Blackstone, Inc. (United States, 2023)
▶ Child Labour

Change Objective: Blackstone should have a robust governance framework to ensure effective oversight and support to Packers of the implementation of the compliance and remedial programme. The company should demonstrate responsibility to provide remedy and respect human rights, especially the rights of children.

Milestones
Response
Progress
Performance New

Blackstone, Inc. (Australia, 2022)
▶ Money Laundering

Change Objective: Blackstone should have a robust governance framework to ensure effective oversight of the implementation of Crown Resorts anti-money laundering (AML) programme and remedial plan. The company should have an adequate risk management framework covering AML, reporting and monitoring. The company should demonstrate strong leadership on financial crime issues.

Milestones
Response
Progress
Performance Same

Bunge Ltd. (Brazil, 2021)
▶ Land Use and Biodiversity

Change Objective: Bunge should stop sourcing soy from suppliers that are directly or indirectly involved in deforestation practices. Bunge should fully implement comprehensive measures to identify non-compliant suppliers, use best practice to achieve its commitments in relation to deforestation, and provide related public disclosure.

Milestones
Response
Progress
Performance Same

Caterpillar, Inc. (Myanmar, 2020)
▶ Involvement With Entities Violating Human Rights

Change Objective: Caterpillar should use its leverage with importers and distributors in high-risk locations to reduce the risk of its products being implicated in human rights violations. It should establish clear criteria to identify high-risk countries and collaborate with local business partners to conduct human rights due diligence and report transparently on these processes.

Milestones
Response
Progress
Performance Same

Citigroup, Inc. (United States, 2019)
▶ Business Ethics

Change Objective: Citigroup should implement on-going systematic controls related to money laundering, financial crime risk management; implement strong oversight mechanisms to govern those systems and disclose these systems and changes whenever appropriate. The company should adopt a robust strategy to positively influence the corporate culture into one that results in less regulatory challenges and accusations.

Milestones
Response
Progress
Performance Same

FirstEnergy Corp. (United States, 2021)
▶ Bribery and Corruption

Change Objective: FirstEnergy should cooperate with all related investigations and implement the recommendations from them. The company should ensure anti-bribery and corruption management system including anti-bribery training for staff are robust. The company should adopt a suitable grievance and whistleblower mechanism. The company should demonstrate transparency and integrity in its lobbying activities.

Milestones
Response
Progress
Performance Same

Lockheed Martin Corp. (Saudi Arabia, 2020)
▶ Involvement With Entities Violating Human Rights

Change Objective: Lockheed should establish clear criteria to identify high-risk destination countries and develop human rights due diligence procedures to be applied to military equipment sales deals.

Milestones
Response
Progress
Performance Same

McDonald's Corp. (United States, 2015)
▶ Labour Rights

Change Objective: McDonald's should actively promote the company's Standard of Business Conduct among its franchisees, and ensure franchisees live up to this especially with regards to labour rights. Efforts taken by the company to ensure compliance in this area should be transparently reported to relevant stakeholders.

Milestones
Response
Progress
Performance Same
Tracker

McKesson Corp. (United States, 2019)
▶ Consumer Interests - Human Rights

Change Objective: McKesson should implement the necessary enhancements to its anti-diversion systems in compliance with regulatory requirements. McKesson should also demonstrate how it has implemented the preventative measures in response to the FDA's warning letter.

Milestones
Response
Progress
Performance Same

Meta Platforms, Inc. (United States, 2018)
▶ Data Privacy and Security

Change Objective: Facebook should implement its commitments to privacy and data security by ensuring that it has in place adequate internal controls systems and risk management procedures to manage the cybersecurity risks. Specifically, the company should ensure an adequate protection level for personal data. Facebook should increase transparency in reporting on the management of data security and users' privacy.

Milestones
Response
Progress
Performance Same

Meta Platforms, Inc. (United States, 2021)
▶ Social Impact - Products

Change Objective: Meta should undertake human rights due diligence of its policies and business impact on users. The company should increase transparency of enforcement of content moderation policies and provide insight into their implementation by country. The company should demonstrate governance structures and competency to oversee implementation of human rights standards in the company's products and practices.

Milestones
Response
Progress
Performance Better
Tracker

Pan American Silver Corp. (Guatemala, 2019)
▶ Community Relations - Indigenous Peoples

Change Objective: Pan American Silver should align policies and practices to international human rights norms, in particular with regards to security and human rights and community relation, and in particular with regards to the Escobal mine.

Milestones
Response
Progress
Performance Same

PG&E Corp. (United States, 2019)
▶ Quality and Safety - Human Rights

Change Objective: PG&E should address the impacts of the incident and ensure that suitable remedial measures have been put in place. The company should also develop a comprehensive, risk-based, safety strategy. The company-wide strategy should address the employee, contractor and public safety and consider future potential risks, including those related to changing climate conditions. The company should also establish a process for monitoring the execution of the strategy.

Milestones
Response
Progress
Performance Better

RTX Corp. (Saudi Arabia, 2020)
▶ Involvement With Entities Violating Human Rights

Change Objective: Raytheon should establish clear criteria to identify high-risk destination countries and develop human rights due diligence procedures to be applied to military equipment sales deals.

*Previously as **Raytheon Technologies Corp.***

Milestones
Response
Progress
Performance Same

Starbucks Corp. (United States, 2022)
▶ Freedom of Association

Change Objective: Starbucks should promote good labour relations and ensure no anti-union practices take place within its operations. The company should cooperate with investigations and take appropriate steps to identify any barriers to dialogue with its workforce and introduce corrective actions. Starbucks should ensure it respects its commitments to international standards are implemented throughout its operations. Relevant actions should be transparent.

Milestones
Response
Progress
Performance Same
Tracker

Tesla, Inc. (United States, 2022)
▶ Discrimination and Harassment

Change Objective: Tesla should have these incidents investigated by an independent third party and fully participate with the investigation. Tesla should reinforce anti-discrimination policies by conducting related sensitization training, to move towards a culture of gender equality, diversity and inclusion. The company should ensure a robust grievance-mechanism is in place and appoint senior level anti-discrimination and human resource experts to lead such activities with a strong mandate from the executive team and company board, and with sufficient resources. The company should disclose regularly on such efforts, along with external audit.

Milestones
Response
Progress
Performance Same

The Boeing Co. (United States, 2019)
▶ Quality and Safety - Human Rights

Change Objective: Boeing should accomplish the safe return of the 737 MAX aircraft to commercial flight (i.e. re-certified and flight bans lifted). It should ensure that the people affected by the two accidents are appropriately supported and compensated. Boeing should adopt a robust, precautionary approach to product quality management at all of its commercial aircraft manufacturing facilities.

Milestones
Response
Progress
Performance Same

Thermo Fisher Scientific, Inc. (China, 2021)
▶ Involvement With Entities Violating Human Rights

Change Objective: Thermo Fisher should improve its human rights due diligence and disclosure, especially in relation it its products/services and business relationships. The company should also demonstrate efforts to support internationally accepted human rights standards as well norms governing the collection, use and storage of human genetic data.

Milestones
Response
Progress
Performance Same

Uber Technologies, Inc. (United States, 2019)
▶ Data Privacy and Security

Change Objective: Uber Technologies should improve its privacy programme in line with regulatory requirements and international norms including implementation of measures to ensure and monitor compliance with global privacy and data protection laws and standards, respect for customer privacy, security of user data, and appropriate processing and use of data. Uber should also improve public disclosure to provide transparency on its progress toward improvement and preparedness to manage its related risk exposure.

Milestones
Response
Progress
Performance Same

Wells Fargo & Co. (United States, 2019)
▶ Business Ethics

Change Objective: Wells Fargo should ensure that it implements adequate risk management processes and internal controls meant to reduce compliance breaches, and regulatory action, and disclose the results where appropriate.

Milestones
Response
Progress
Performance Same

Disengage

Please note that Sustainalytics does not provide investment or divestment advice; the decision of investment or divestment lies solely with the client. Sustainalytics merely provides engagement services with companies, and in light of the engagement outcome it is the client's sole responsibility and decision on how to manage their portfolio.

Disengage due to low performance

AFRICA / MIDDLE EAS	**Orascom Investment Holding SAE** ▸ Involvement With Entities Violating Human Rights	North Korea
ASIA / PACIFIC	**63 Moons Technologies Ltd.** ▸ Fraud	India
	AviChina Industry & Technology Co., Ltd. ▸ Involvement With Entities Violating Human Rights	China
	China Huarong Asset Management Co., Ltd. ▸ Bribery and Corruption	China
	China National Petroleum Corp. ▸ Involvement with Entities Violating Human Rights	China
	China Northern Rare Earth (Group) High-Tech Co., Ltd. ▸ Activities Resulting in Adverse Environmental and Human Rights Impacts	China
	CH. Karnchang Public Co. Ltd. ▸ Controversial Project(s) - Environmental and Human Rights Impacts	Laos
	CK Power Public Co. Ltd. ▸ Controversial Project(s) - Environmental and Human Rights Impacts	Laos
	Coal India Ltd. ▸ Occupational Health and Safety	India
	Inner Mongolia Baotou Steel Union Co. Ltd. ▸ Emissions, Effluents and Waste	China
	Metallurgical Corp. of China Ltd. ▸ Emissions, Effluents and Waste	Papua New Guinea
	Steel Authority of India Ltd. ▸ Occupational Health and Safety	India
	The Aviation Industry Corporation of China, Ltd. ▸ Involvement With Entities Violating Human Rights **Previously as **Aviation Industry Corporation of China, Ltd.***	China
	Unitech Ltd. ▸ Consumer Interests - Business Ethics	India
LATIN AMERICA AND CARIBBEAN	**Petróleos de Venezuela SA** ▸ Bribery and Corruption ▸ Leaks, Spills and Pollution ▸ Occupational Health and Safety	Venezuela

Disengage due to no publicly traded securities or significant distress

AFRICA / MIDDLE EAST	**Mumias Sugar Co. Ltd.** ▸ Accounting and Taxation	Kenya
	Tongaat-Hulett Ltd. ▸ Accounting and Taxation	South Africa
	Uchumi Supermarkets Ltd. ▸ Business Ethics	Kenya
ASIA / PACIFIC	**China North Industries Corp.** ▸ Involvement With Entities Violating Human Rights	China
	Chongqing Energy Investment Group Co., Ltd. ▸ Occupational Health and Safety	China
	Cox & Kings (India) Ltd. ▸ Fraud	India
	Serba Dinamik Holdings Bhd. ▸ Accounting and Taxation	Malaysia

EUROPE	**Endo International Plc** ▶ Marketing Practices - Human Rights	United States
	NMC Health Plc ▶ Accounting and Taxation	United Arab Emirates
	Wirecard AG ▶ Fraud	Germany
LATIN AMERICA AND CARIBBEAN	**Americanas SA** ▶ Accounting and Taxation	Brazil

Disengage due to involvement in controversial weapons

AFRICA / MIDDLE EAST	**Israel Aerospace Industries Ltd.** ▶ Cluster Weapons	Israel
	Makine ve Kimya Endüstrisi AS ▶ Cluster Weapons	Turkey
	Roketsan Roket Sanayii ve Ticaret AS ▶ Cluster Weapons	Turkey
ASIA / PACIFIC	**Aerospace Long-March International Trade Co., Ltd.** ▶ Cluster Weapons	China
	Anhui GreatWall Military Industry Co., Ltd. ▶ Cluster Weapons	China
	Bharat Dynamics Ltd. ▶ Nuclear Weapons	India
	China Aerospace Science & Technology Corp. ▶ Cluster Weapons **Previously as **China Aerospace Science & Technology Group Co., Ltd.***	China
	China North Industries Corp. ▶ Cluster Weapons	China
	China Spacesat Co., Ltd. ▶ Cluster Weapons	China
	Defense Research & Development Organization ▶ Cluster Weapons ▶ Nuclear Weapons	India
	Larsen & Toubro Ltd. ▶ Nuclear Weapons	India
	LIG Corp. ▶ Cluster Weapons	South Korea
	LIG Nex1 Co., Ltd. ▶ Cluster Weapons	South Korea
	National Development Complex ▶ Cluster Weapons	Pakistan
	Nityanand Udyog Pvt Ltd. ▶ Anti Personnel Mines	India
	Poongsan Corp. ▶ Cluster Weapons	South Korea
	POONGSAN HOLDINGS Corp. ▶ Cluster Weapons	South Korea
	SNT DYNAMICS Co., Ltd. ▶ Anti Personnel Mines	South Korea
	SNT Holdings Co., Ltd. ▶ Anti Personnel Mines	South Korea
	Synthetic Moulders Ltd. ▶ Anti Personnel Mines	India
	Tata Advanced Systems Ltd. ▶ Nuclear Weapons	India
	Tata Sons Pvt Ltd. ▶ Nuclear Weapons	India
	Walchandnagar Industries Ltd. ▶ Nuclear Weapons	India
EUROPE	**Aeroteh SA** ▶ Cluster Weapons	Romania

	Compania Nationala ROMARM SA ▶ Cluster Weapons	Romania
	Rostec Corp. ▶ Cluster Weapons	Russia
	RPA Splav named after A.N. Ganichev JSC ▶ Cluster Weapons	Russia
	Tactical Missiles Corp. JSC ▶ Cluster Weapons	Russia
LATIN AMERICA AND CARIBBEAN	**Avibras Indústria Aeroespacial SA** ▶ Cluster Weapons	Brazil
UNITED STATES AND CANADA	**Mil-spec Industries Corp** ▶ Anti Personnel Mines ▶ Cluster Weapons	United States
	The Day & Zimmermann Group, Inc. ▶ Cluster Weapons	United States

Disengage due to state-owned enterprises complicit in human rights abuses

AFRICA / MIDDLE EAST	**Saudi Arabian Oil Co.** ▶ Involvement With Entities Violating Human Rights	Saudi Arabia
EUROPE	**Academician V.P. Makeyev State Rocket OJSC** ▶ Involvement with Entities Violating Human Rights	Russia
	ALROSA PJSC ▶ Involvement with Entities Violating Human Rights	Russia
	Development Bank of The Republic of Belarus ▶ Involvement with Entities Violating Human Rights	Russia
	Gazprombank OJSC ▶ Involvement with Entities Violating Human Rights	Russia
	Gazprom PJSC ▶ Consumer Interests - Business Ethics ▶ Involvement with Entities Violating Human Rights	Russia
	Irkut Corp. ▶ Involvement with Entities Violating Human Rights	Russia
	Promsvyazbank PJSC ▶ Involvement with Entities Violating Human Rights	Russia
	Rosneft Oil Co. ▶ Involvement with Entities Violating Human Rights	Russia
	Rostec Corp. ▶ Involvement with Entities Violating Human Rights	Russia
	Rostelecom PJSC ▶ Involvement with Entities Violating Human Rights	Russia
	RPA Splav named after A.N. Ganichev JSC ▶ Involvement with Entities Violating Human Rights	Russia
	Russian Agricultural Bank OJSC ▶ Involvement with Entities Violating Human Rights	Russia
	Russian Railways OJSC ▶ Involvement with Entities Violating Human Rights	Russia
	Sberbank Russia PJSC ▶ Involvement with Entities Violating Human Rights	Russia
	State Space Corp. Roscosmos ▶ Involvement with Entities Violating Human Rights	Russia
	Tactical Missiles Corp. JSC ▶ Involvement with Entities Violating Human Rights	Russia
	Tatneft PJSC ▶ Involvement with Entities Violating Human Rights	Russia
	Transneft PJSC ▶ Involvement with Entities Violating Human Rights	Russia
	United Aircraft Corp. PJSC ▶ Involvement with Entities Violating Human Rights	Russia
	VTB Bank PJSC ▶ Involvement with Entities Violating Human Rights	Russia

LATIN AMERICA AND CARIBBEAN	**Petróleos de Venezuela SA** ▶ Involvement With Entities Violating Human Rights	Venezuela

Disengage due to other reasons

EUROPE	**MMC Norilsk Nickel PJSC** ▶ Leaks, Spills and Pollution - Environmental and Human Rights Impacts	Russia

Resolved

UNITED STATES AND CANADA

JOHNSON & JOHNSON (United States, 2018)

Over the years the company has improved its ESG disclosures on clinical trial data, quality management and product stewardship/ Effective quality control, evidenced through reduced FDA activity and product recalls, reduces risk of future litigation. While the company is still facing a number of lawsuits regarding its products, its improvements in product quality and safety management, lack of any new severe product quality and safety issues over the past few years, alongside the announcement to cease use of talc in infant based products (considered to represent a significant future litigation risk), allows us to consider the company to have taken appropriate measures to address the issue. Thus, Sustainalytics has decided to resolve the case.

ISSUE

▶ Quality and Safety – Human Rights

MILESTONES

5/5 Achieved

STRYKER CORP. (United States, 2019)

Throughout the four years of engagement the company has shown considerable improvements in the level of meaningful disclosure, culminating in a dedicated quality website Whilst the company responded to queries with strong technical responses, it also provided additional assurances that its quality system was effective through compliance and certification with international standards (ISO). The effectiveness of its refreshed approach to quality is seen through reduced numbers of the US Food and Drug Administration interventions. Considering improvements in product quality and safety management as well as lack of any new severe product quality and safety issues over the past few years, Sustainalytics decided to resolve the case.

ISSUE

▶ Quality and Safety – Human Rights

MILESTONES

5/5 Achieved

Archived

AFRICA / MIDDLE EAST

Elbit Systems Ltd. (Palestinian Authority, 2009)

Sustainalytics decided to archive the case due to the fact that in the past three years there has been no new evidence to confirm the company's recent involvement in the controversy.

ISSUE
- Society – Human Rights

ASIA / PACIFIC

Hanergy Mobile Energy Holding Group Co., Ltd. (Hong Kong, 2020)

Sustainalytics has decided to archive the case due to the fact that in the past years there has been no new evidence to confirm the company's recent involvement in the controversy.

ISSUE
- Accounting and Taxation

Kangde Xin Composite Material Group Co., Ltd. (China, 2020)

Sustainalytics has decided to archive the case due to the fact that in the past years there has been no new evidence to confirm the company's recent involvement in the controversy.

ISSUE
- Accounting and Taxation

Kangmei Pharmaceutical Co., Ltd. (China, 2019)

Sustainalytics has decided to archive the case due to the fact that the company had taken some measures to address the incident and that it has not been linked to any new allegations of business ethics violations.

ISSUE
- Accounting and Taxation

Punjab National Bank (India, 2019)

Sustainalytics has decided to archive the case due to the fact that in the past five years the bank has only faced minor cases of fraud limited to individuals in certain branches, what is not exceptional in India's banking industry. Since the incident, It also implemented improvements to its policies and training for employees.

ISSUE
- Fraud

Global Standards Engagement Overview

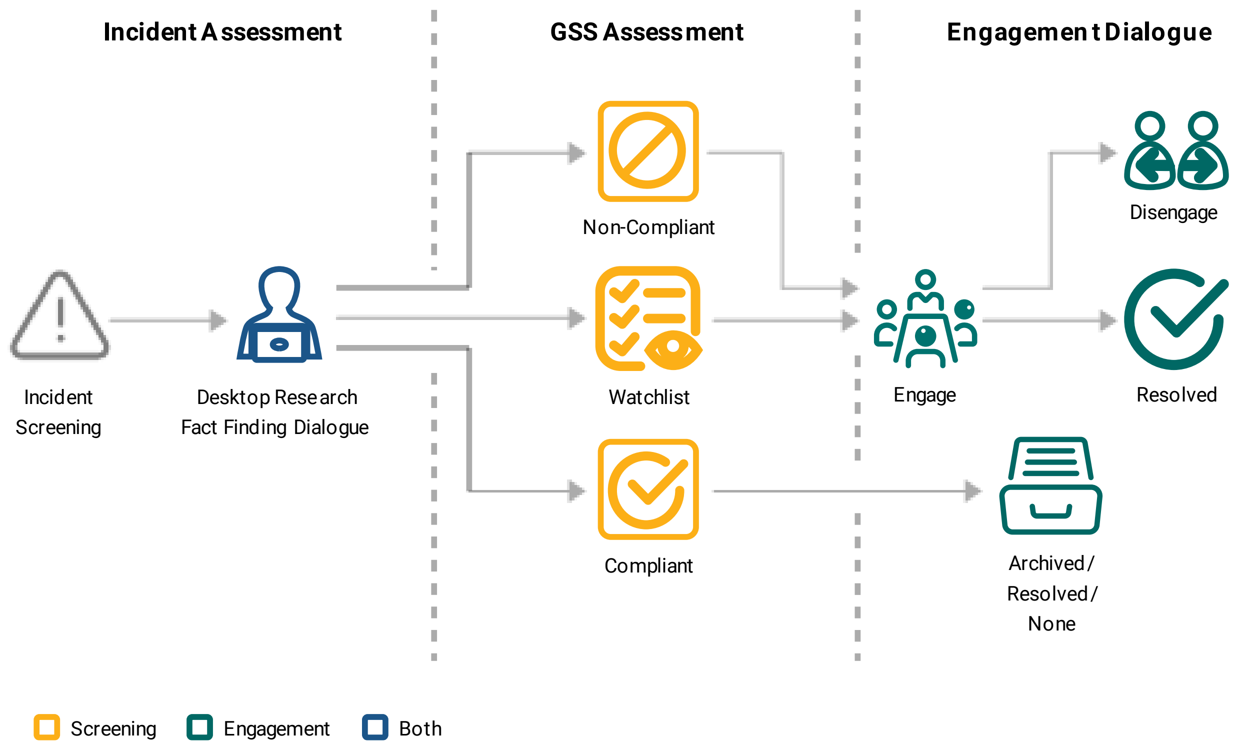
Global Standards Engagement is an incident-driven engagement with focus on companies that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals. The engagement is based on a thorough and continuous assessment of the incident as well as the company's role in mitigating the related repercussions and recurrence. The aim of Global Standards Engagement is not only to verify how a company addresses the incident, but also to effectuate change in the company's policies and/or processes, in order to ensure that it has proper policies and programmes in place to avoid future reoccurrences as well as improve its ESG disclosure.

The Global Standards Engagement is based on our Global Standards Screening analysis of more than 20,000 companies. The engagement scope is global and spread across all sectors. Company size ranges from small to large cap.

Global Standards Screening provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes to or is linked to violations of international norms and standards. The basis of the Global Standards Screening's assessments is the United Nations (UN) Global Compact Principles. Global Standards Screening company assessments reflect several dimensions, including:

- Severity of Impacts on Stakeholders and/or Environment – scale, scope and irremediability.
- Company Responsibility – accountability, exceptionality and systematic nature.
- Company Management – response, management systems and implementation.

We start engaging with the companies that are assessed as **Watchlist** or **Non-Compliant** in the Global Standards Screening.



Global Standards Engagement Status

Evaluate

- Cases with potential systematic incidents or an isolated incident that has severe consequences in relation to the environment or humans.
- Verification of the severity and company's responsibility takes between three-six months.
- The fact-finding dialogue and desktop research aims to assess companies' responses to the incident and preparedness to address the problem.

Engage

- Issue identified by Global Standards Screening (assessed as Watchlist or Non-Compliant) such as cases with systematic incidents or an isolated incident that has severe consequences in relation to the environment or society.
- Companies with clear gaps in their policies and management systems.
- Using a variety of engagement activities, the dialogue aims to effect change at the company, to be evidenced by it making a commitment and developing a strategy to address the identified shortcomings.

Associated

- This status flags to clients when the company or case is related to another company or case (for instance a non-autonomous subsidiary), where engagement will take place at the parent company and/or the company involved in the issue. We might engage with other companies in the corporate group if the engagement dialogue with the company closest to the incident is not willing to engage. This also means that some of the companies that are Watchlist/Non-Compliant will receive the engagement status 'Associated'.

Disengage

- Poor or no progress and/or poor or no response from the company within a period of two years after the start of engagement.
- Companies classified as non-engageable due to no or limited publicly traded securities or under significant distress.
- Companies whose business models rely on activities where engagement would likely be not fruitful (such as involvement in controversial weapons or State-Owned Enterprises complicit in human rights abuses).
- Regular engagement case on Russian or Belarusian company, where we pause our engagement due to the situation in Ukraine.

Resolved

- The change objective has successfully been met, and the engagement has been concluded.

Archived

- Engagement is currently not warranted, and the case will be continuously assessed for any future changes.

Material Risk Engagement

EXECUTIVE SUMMARY

We are delighted to report on the activities and results of the Material Risk Engagement (MRE) programme for Q3 2023. At the end of the quarter, we had 356 active engagements and successfully resolved four cases whose ESG Risk Rating scores have decreased to below 28, indicating a medium level of risks. Four other engagements were archived as these companies no longer meet the criteria of MRE and their engagement objectives have not been fulfilled. Eight new engagements were opened, covering companies in Austria, Canada, and Saudi Arabia. In terms of our engagement activities, we conducted 53 meetings with companies, including an in-person one. As we continuously reached out to companies, 394 emails and phone calls were made. Such numbers are largely comparable to the previous quarter, despite that interactions with companies can sometimes slow down during the summer months. Besides the resolved engagements, we tracked 61 Positive Developments in relation to the engagement objectives and suggested actions and 31 Milestones were achieved during the quarter.

Mandatory Sustainability Disclosures

This quarterly report also includes an article by Marta Mancheva, our engagement manager based in Stockholm, Sweden, discussing the evolving mandatory corporate sustainability reporting in Europe and the ramifications for companies globally. In particular, we looked at how such regulations are situated within the global reporting standards ecosystem, companies' compliance readiness and the potential benefits for investors.

Looking Ahead

We anticipate our engagement activities will remain high as we enter into the last quarter of the year, as companies usually have greater availability. During Q4, we also plan to communicate with clients about the launch of the Client Consultation Panel and how you can participate.

As always, clients are welcome and encouraged to participate in Sustainalytics' engagement activities. You can follow our scheduled meetings in the calendar found in Global Access, or via the weekly engagement brief. For general questions or feedback regarding Material Risk Engagement, please email mre@sustainalytics.com or your client team.

Final Countdown to CSRD: Mandatory ESG Disclosure Builds Momentum in Europe and Beyond

In the ever-evolving landscape of mandatory corporate sustainability reporting, the implementation of the European Union (EU) Corporate Sustainability Reporting Directive (CSRD) promises to be a watershed moment with implications for companies both in Europe and beyond. The CSRD is set to take effect on January 1, 2024, and will impact approximately 50,000 companies within the EU, representing 75% of EU companies' turnover, along with an estimated 10,000 or more companies worldwide. This article focuses on the role of the CSRD within the global reporting standards ecosystem, offers insights into companies' compliance readiness, and discusses potential benefits for investors.

CSRD to Replace the EU Non-Financial Reporting Directive (NFRD)

Adopted by the European Commission (EC) in November 2022, the CSRD replaces the preceding Non-Financial Reporting Directive (NFRD), which required over 11,000 large EU companies to disclose Environmental, Social, and Governance (ESG) information. The CSRD significantly broadens the scope of companies subject to mandatory sustainability reporting with estimates indicating that approximately 50,000 companies in the EU, equivalent to 75% of EU companies' turnover, will be impacted. As the CSRD incorporates a value chain perspective, its effects are likely to extend to suppliers not directly covered by the directive. Such companies, while not in the immediate scope of the regulation, will still be required to provide CSRD-aligned information to EU business partners.

Key Objectives of CSRD

- Expands and standardizes the existing rules on non-financial reporting and seeks to increase the comparability of data.
- Introduces a mandatory audit and assurance requirement to ensure the reliability of data and to mitigate risks of greenwashing and/or double accounting.
- Requires information to be reported in XHTML format and digitally tagged to feed into the European single access point.

Scope of Application

- EU companies (including EU subsidiaries of non-EU parent companies) that exceed at least two of the following thresholds:
  - more than 250 employees
  - a turnover of more than €40 million
  - total assets of €20 million
- Businesses listed on an EU-regulated market, irrespective of whether the issuer is established in the EU or a non-EU country. This includes listed small and medium-size enterprises (SMEs).
- Non-EU entities with annual EU-generated revenues above €150 million and which also have either a large or a listed EU subsidiary or a significant EU branch (generating €40 million in revenues).

In July 2023, the EC adopted the first set of European Sustainability Reporting Standards (ESRS). CSRD and ESRS are closely interlinked, but they serve different purposes. While CSRD sets the legal framework of the reporting directive, the ESRS establish common guidelines for the disclosure of ESG information and serve as the foundation for auditors to provide credible assurance. The standards are designed to offer clarity and assist businesses in effectively communicating and managing their sustainability performance, with the ultimate goal of improving access to sustainable finance. Additionally, the common standards aim to reduce reporting costs in the medium to long term and alleviate the reporting burden on companies.

ESRS Factsheet

ESRS 1 ("General Requirements")

These are general disclosure principles, but they do not, in themselves, set specific disclosure requirements. Serving as the basis for sustainability disclosure, the concept of double materiality necessitates the identification and management of all ESG issues that pose a business risk or have an external impact on people and the environment, whether positive or negative. Companies must conduct a thorough, externally assured double materiality assessment to ensure they have diligently identified all ESG topics relevant to their business model and activities.

ESRS 2 ("General Disclosures")

The standard specifies mandatory reporting rules to be applied irrespective of the sustainability topic disclosed. Disclosure is subject to a double materiality assessment. This means that the company must report material information and may omit the information that is not relevant ("material").

Phased approach

Financial years starting 1 January 2024: Companies that are already subject to NFRD are mandated to publish first CSRD-aligned reports in 2025. Financial years starting 1 January 2025: In-scope large companies that have not been subject to NFRD are mandated to publish first CSRD-aligned reports in 2026. Financial years starting 1 January 2026: CSRD will be rolled out to listed SMEs with the option to defer until financial year 2028. Financial years starting 1 January 2028: In-scope non-EU entities are required to comply with CSRD in 2029.

Interaction with Other EU Regulations

Sustainable finance stands as the cornerstone of the EC's strategy for achieving the European Green Deal and fulfilling the EU's commitments to climate and sustainability. The Sustainable Finance Action Plan (EU Action Plan) represents a major policy objective that promotes and facilitates sustainable investment flows across the EU. Two of the pillars of the EU Action Plan consist of the EU Taxonomy classification system, which identifies economic activities that contribute to the EU's climate and environmental objectives, and disclosure rules for investors (Sustainable Finance Disclosure Regulation or SFDR) and companies (CSRD). One of the objectives of CSRD is to provide standardized, reliable, comparable, and granular data to various capital market participants, enabling them to fulfill their own reporting obligations under SFDR. Furthermore, under Article 8 of the EU Taxonomy Regulation, NFRD in-scope entities were required to report on their Taxonomy alignment. With CSRD expanding the scope to include more companies, this will result in an increased number of businesses seeking Taxonomy alignment in the future. In addition, as both the CSRD and the Corporate Sustainability Due Diligence Directive (CSDDD) are aligned with the objectives of the EU Green Deal, these two pieces of legislation are complementary and closely linked. The CSDDD mandates that large companies (1) conduct due diligence to identify and address adverse human rights and environmental impacts within their value chains and (2) present climate plans aligned with the Paris Agreement. The CSRD will complement the forthcoming CSDDD by addressing the public disclosure aspect of due diligence obligations for companies subject to both regulations.

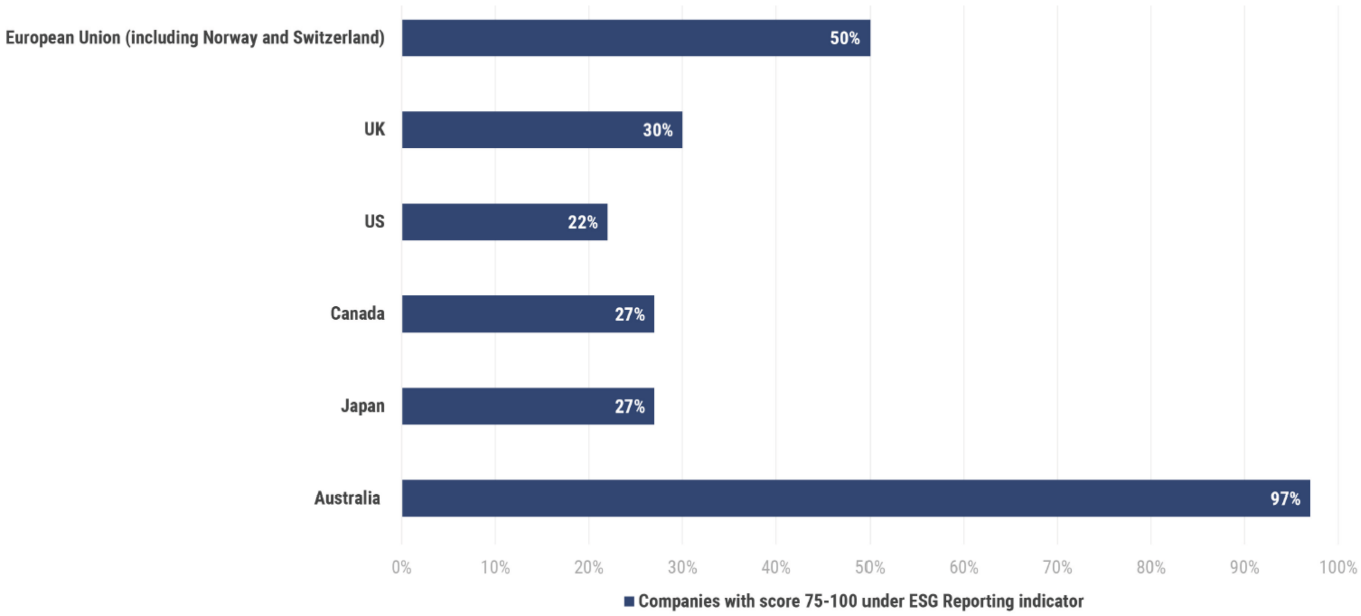
Interoperability with Global Reporting Standards

The EC has successfully aligned the ESRS with global standard-setting bodies such as the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB). The GRI serves as a significant reference point, and many of the ESRS reporting requirements draw inspiration from the GRI Standards. In September 2023, the European Financial Reporting Advisory Group (EFRAG) and GRI issued a joint statement viii confirming the high level of interoperability achieved between the ESRS and the GRI Standards, assuring that existing GRI reporters will be well prepared to comply with the ESRS. The ESRS and the first two ISSB standards, released in June 2023, have been developed in parallel. Despite ISSB's focus on financial materiality, companies obligated to report under ESRS for climate change will largely provide the same information as those using the ISSB standard for climate-related disclosures. Additionally, the widely acknowledged standard for climate change-related disclosures developed by the Task Force on Climate-Related Financial Disclosures (TCFD) is fully integrated in ESRS.

Company Preparedness

Given the high level of interoperability between ESRS and GRI, evaluating company reporting practices can provide insights into corporate preparedness for the ESRS. In particular, current GRI reporters are expected to be better positioned to comply with the ESRS. The ESG100 Report 2023 , which evaluates the largest 100 listed Nordic companies, reveals significant gaps in company readiness for the ESRS. On average, companies within the ESG100 reported only 54% of the ESRS disclosures that were tested.

Sustainalytics data indicates a similar trend with companies from the EU and other regions potentially affected by the CSRD, showing a wide range of readiness levels. Half of EU-domiciled companies included in Sustainalytics' Ratings universe are assessed as strong performers in ESG reporting aligned with international sustainability reporting standards, such as the GRI Standards. For comparison, in jurisdictions outside the EU, Australian issuers signal very high reporting readiness, whereas US companies exhibit the least preparedness (see Figure 1 below). The data underscores a notable variation in the ESRS readiness levels of companies. The EU exhibits a mix of strong and potentially less prepared reporters, while Australia stands out for its robust reporting practices aligned with established standards. In contrast, businesses domiciled in the US, UK, Canada, and Japan appear to have significant disclosure gaps, which will require considerable efforts to achieve compliance readiness in the coming years, if they are impacted by the CSRD.



The ESG Reporting indicator is assessed based on how companies report their ESG information. Best practice method include annual reporting of material ESG information in the form of an integrated report or a standalone ESG report written in accordance with international sustainability reporting standards, such as the GRI Standards. Lower weighting is given to companies that report on philanthropic and sponsorship activities, or that provide only a general overview of ESG issues.
Source: Morningstar Sustainalytics. The data for this analysis was retrieved on October 1, 2023, from Sustainalytics Ratings Universe. For informational purposes only.

With the ESRS set to take effect on January 1, 2024, companies are compelled to act swiftly and address reporting gaps. Conducting a comprehensive double materiality assessment aligned with ESRS and obtaining buy-in from senior executives are critical initial steps. Furthermore, achieving disclosure readiness will require investments in credible ESG data management systems to meet the assurance requirement.

CSRD Uptake: The Investor Perspective

Access to reliable, comparable data has long challenged investors within sustainable finance. A 2020 white paper by Danske Bank, for instance, revealed that less than one-third of ESG data reported by investee companies was both useful and financially material. Welcomed by investors, ESRS aligns data points with the reporting needs of financial market participants, benchmark administrators, and financial institutions under the SFDR, the Benchmark Regulation (BMR), and specific disclosure requirements within the Capital Requirements Regulation (CRR). While CSRD addresses data access, high quality ESG information may not be immediately available. The ESRS digital taxonomy is being developed for easier data extraction and comparability, but it will take time. Investors not only seek useful and material data on social and environmental impacts and due diligence plans to meet disclosure requirements, but to also enhance credibility in sustainable investments, and direct sufficient capital toward sustainable activities. The EC's decision to make climate change subject to company materiality assessments, rather than a topic for mandatory disclosure, has drawn criticism as investors depend on such data for SFDR, BMR, and CRR compliance. Material Risk Engagement Q3 2023 Report 20 of 24 The CSRD is expected to have a substantial impact on the reporting of standardized sustainability information that extends beyond the EU. There are indications signaling significant reporting gaps among corporations in the EU and other jurisdictions affected by the CSRD. Businesses will benefit from taking swift action to achieve readiness for ESRS-compliant reporting, viewing it not merely as a compliance burden but as an opportunity to develop more sustainable business models. From an investor's perspective, CSRD reporting will enable financial market participants to better prepare for meeting disclosure obligations under the EU Action Plan on Sustainable Finance. Despite concerns regarding the mandatory disclosure scope and the usability of ESRS-compliant data, the implementation of CSRD represents a major milestone in EU and global harmonization efforts. Greater access to quality ESG data, could potentially accelerate the transition to a sustainable economy.

Quarterly Statistics July – September 2023

Key Results

356
Active Engagements as of 30 September 2023

518
Companies engaged since March 2020

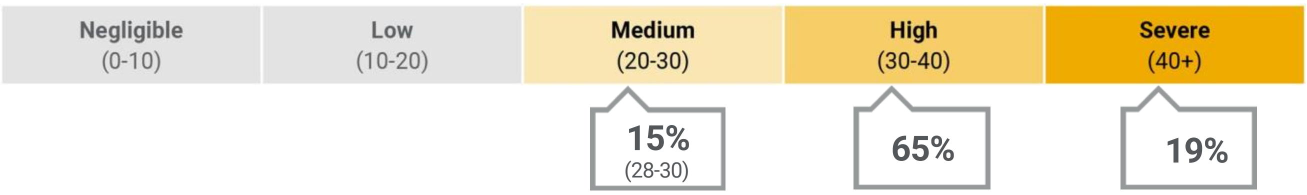
394
Emails and Phone Calls

53
Meetings

61
Positive Developments

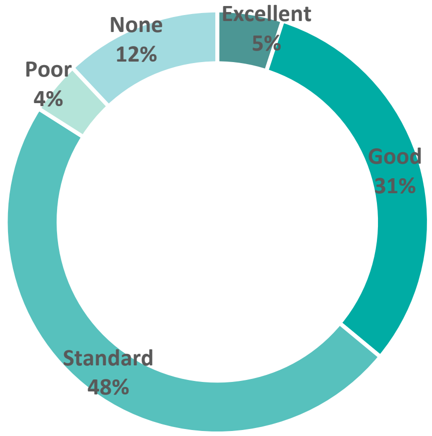
4
Case Resolved

Active Engagements by ESG Risk Ratings Categories

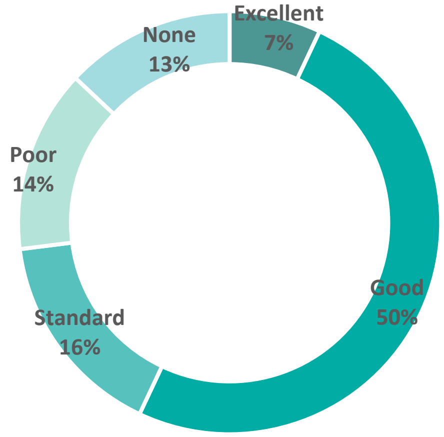


Regional Distribution

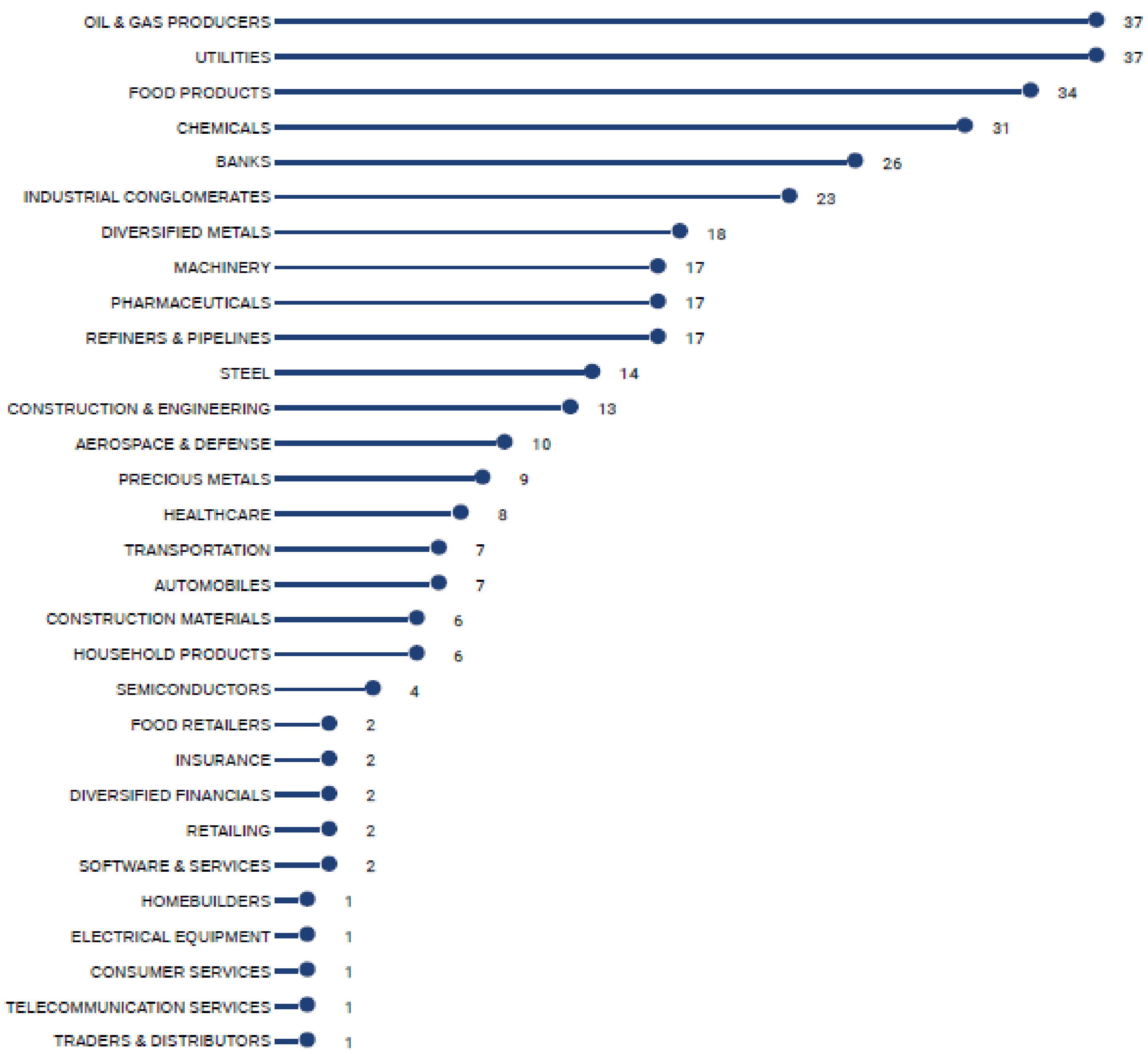
Engagement Progress Overview



Engagement Response Overview



Industry Distribution



Material ESG Engagement Topics

Engagement with companies in the programme focuses on the 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.

ENGAGEMENT TOPICS	ENGAGEMENTS
Disclosure	159
Net Zero Decarbonization	109
ESG Governance	105
Product Quality and Safety	69
Water and Marine Ecosystems	64
Business Ethics, Bribery, and Corruption	58
Community Relations	58
Human Capital	51
Climate Change	45
Occupational Health and Safety	41
Board Composition	35
Human Rights	34
Diversity, Equity and Inclusion (DEI)	27
Waste Management	25
Biodiversity	22
Labour Rights	17
Deforestation	16
Indigenous People	16

	ENGAGEMENT TOPICS	ENGAGEMENTS
	Natural Resource Use	15
	Data Privacy and Security	13
	Land Pollution and Spills	12
	Child Labour	9
	Marketing Practices	9
	Forced Labour	3
	Weapons	3
	Circular Economy	2
	High-Risk Territories	2
	Shareholders Rights	2
	Air Pollutant Emissions	1
	Just Transition	1

Thematic Stewardship Programmes
Biodiversity and Natural Capital

EXECUTIVE SUMMARY

Engagement Approach

In May 2022, Morningstar Sustainalytics launched the Biodiversity and Natural Capital Stewardship Programme with the intention of partnering with global investors to address the critical issue of biodiversity loss. The programme evolves upon Morningstar Sustainalytics' thematic engagement approach, targeting approximately 50 national and multinational companies while leveraging new ways to amplify investors' impact.

Stewardship remains key for institutional investors to manage risks, but also to explore and seek opportunities for alignment between capital flows and nature-positive outcomes. Given the complexity of biodiversity loss, honest and constructive dialogue between investors and issuers is of utmost importance. Issuers benefit from having a trusted partner providing input on capital market expectations, as well as a sounding board for management to enhance current practices. For investors, successful engagements may reduce risk or improve financial performance while providing an essential opportunity to learn about specific issues and challenges industries are facing. Our engagement process is designed to lead to successful engagement and achievement of our objectives, make the company's response to engagement efforts transparent and account for different cultural considerations in the relevant markets. All our engagements are based on principles, such as, respect, trust professionalism and clear communication.

Engagement Summary

This report covers the engagement period between 1 July 2023 and 30 September 2023, during which we sent 159 emails and received 106 responses. Furthermore, we hosted 11 conference calls.

As of Q3 2023, a total of 24 companies have achieved Milestone 1, while 9 companies have achieved Milestone 2. *Governance,* and *Strategy and Integration* were significant focus areas throughout Q3, and we expect this trend to continue, due to the immaturity of the biodiversity and natural capital topic and the need to raise awareness on both the topic and investor expectations in many of the engagements. Overall, one consistent gap seen across the programme is a prior focus on different topics of risk i.e., deforestation or water but with an absence of an overall materiality approach to biodiversity, focusing on impact and dependency assessments as a driver. With this being a key beginning step to any strategy it is essential to address this to ensure companies have a comprehensive understanding.

As the dialogue with companies continues, we continue to see positive reception towards dialogue on biodiversity, due to a lack of knowledge and a recognition from issuers that investors are shifting to prioritize this, with stewardship playing a key role in setting this future direction.

For more information about how we track engagement progress, please see the programme's **Strategy Document** and **2023 Launch Report**.

THE ROAD TO ZERO DEFORESTATION: THE EU DEFORESTATION REGULATION

What financial institutions should know about deforestation

Forests provide extensive resources and essential services. Forests are home to over 80% of terrestrial biodiversity and more than 25% of the global population's livelihoods depend on forests.[1] However, research has shown that two-thirds of original rainforests are either gone or degraded, and agricultural expansion has always been the key driver of land conversion.[2] Although the focus on preventing deforestation started decades ago, forest loss continues today. Despite the global visions from the **UN Strategic Plan for Forests** in 2017 and the **Glasgow Leaders' Declaration on Forests and Land Use** at COP 26, the world is still far from achieving zero deforestation.

Financial institutions are uniquely placed to influence commodity-driven deforestation and land conversion through their financing activities. As an example, a recent report estimates that a Dutch bank's financing activities to Brazilian high-forest-risk sectors (e.g., beef, soy, pulp and paper) in the period of 2000-2022, had cost society EUR 66 billion (up to EUR 458.8 billion), despite merely EUR 0.7 billion in profits for the bank.[3] Although, actual costs are not calculated in balance sheets but rather externalized to society. Portfolio construction with strong risk assessments and robust deforestation and land conversion strategies could not only preserve forests and associated ecosystem services but ultimately protect global economic wealth.

The EU deforestation regulation and the role of engagement

The new European Union regulation on deforestation-free products (EUDR) adopted on June 29, 2023, is seen as a groundbreaking deal to halt deforestation. Companies will be required to conduct extensive due diligence on the value chain to ensure products sourced from the seven target

[1] "WHY FORESTS ARE SO IMPORTANT" WWF, Accessed August 31, 2023. https://wwf.panda.org/discover/our_focus/forests_practice/importance_forests/.

[2] Krogh, Anders. "Only a third of the tropical rainforest remains intact" Rainforest Foundation Norway. Accessed August 30, 2023. https://www.regnskog.no/en/news/only-half-of-the-worlds-rainforests-remains-intact.

[3] Rijk, Gerard; Warmerdam, Ward; Kuepper, Barbara. "€ 0.7 billion in profits, € 66 billion in damages - Rabobank's destructive financing of deforestation in Brazil" Profundo Research & Advice. July 5, 2023. https://www.greenpeace.org/static/planet4-netherlands-stateless/2023/07/e70522eb-profundo_rabobank-brazil-final-july2023.pdf.

commodities, including soy, beef, palm oil, wood, cocoa, coffee and rubber are not sourced from areas of recent (post 31 December 2020) deforestation.[4] Companies failing to comply with EUDR may result in fines of up to 4% of the company's EU turnover, temporary exclusion from public procurement processes, and prohibition from trading in the EU.[5] According to the Sustainalytics ESG Risk Ratings assessment, 21% of high-impact companies have an adequate deforestation policy and only 11% have strong policies in place (see Figure 1). To comply with the EUDR, that applies from 30 December 2024, most high-impact commodity companies must strengthen their forestry-related commitments in order to eliminate the potential for financial loss. From our engagements with producers of high-impact commodities, there are two key triggers for pursuing deforestation-free products: 1) demands from downstream companies and 2) regulatory enforcement. For the former, engaging with the full agricultural value chain becomes an important tool for investors to address deforestation in their portfolios. For the latter, the EUDR undoubtedly will shape the supply chain practices. It does not just impact smaller-scale companies with fewer resources to diversify their commodity sourcing and ensure their supply chain due diligence, but also bigger players in the value chain with complicated supply chains to sort out. Consequently, it becomes important to provide engaged companies with best practices and accelerate their transition processes to mitigate such transition risk within investors' portfolios.

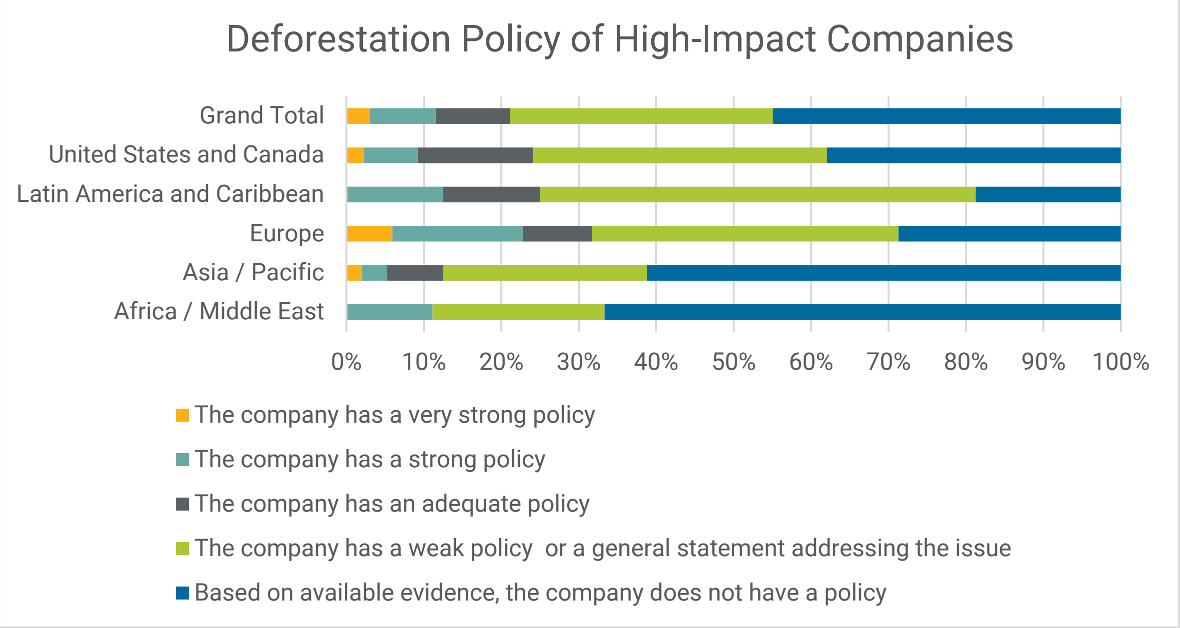


FIGURE 1 – MORNINGSTAR SUSTAINALYTICS ASSESSMENT OF HIGH – IMPACT COMPANIES AND THEIR DEFORESTATION POLICY
(Source: Morningstar Sustainalytics. The data for this analysis was retrieved on 30 August 2023 from Sustainalytics' Ratings+ Universe and includes 365 companies from the following industries: Food Products, Food Retailers, Consumer Services, Consumer Durables, Household Products and Retailing. For informational purposes only.)

What investors can do to tackle deforestation?

To systematically tackle deforestation across investors' portfolios, there are four key steps for investors to consider:

1. **Assessing** socio-environmental risks to gain an understanding of exposure to deforestation and conversion through financing activities.
2. **Committing** to halt deforestation by setting a strong and effective policy. Some aspects to consider while forming a policy: what are the key challenges and opportunities for each commodity and how to form commodity-specific policy, how to monitor clients'/holdings' operations, the financing activities covered in the policy, metrics to measure the policy's effectiveness and how to report on the progress.
3. **Engaging** with clients and holdings is also necessary to reinforce the message of the importance of zero deforestation and ensure portfolios are compliant with requirements and expectations.
4. **Monitoring** the progress and disclosing the results accordingly. It is important to showcase investor ambition and commitment to this topic and hold clients and holdings to account for their deforestation risk.

In the Biodiversity and Natural Capital programme, Morningstar Sustainalytics engages with issuers to identify their nature-related impact and dependency hot spots and encourages the implementation of robust policies and management practices to halt deforestation and land conversion.

[4] "The EU Deforestation Regulation (EUDR): What You Need to Know" Resilinc, August 1, 2023. https://www.resilinc.com/blog/eu-deforestation-regulation-eudr/.
[5] Forwood, Genevra; Connellan, Clare; Killick, James; Nordin, Sara. "10 key things to know about the new EU Deforestation Regulation" White & Case. July 21, 2023. https://www.whitecase.com/insight-alert/10-key-things-know-about-new-eu-deforestation-regulation.

Through continuous dialogue with companies, we support investors in monitoring progress and ultimately the aim to reduce deforestation and related biodiversity and nature risks across investors' portfolios.

Looking Ahead

The next report will cover the period from 1 October 2023 to 31 December 2023, as well as the full year 2023 and will be released on 15 January 2023.

During Q4, Morningstar Sustainalytics will continue to focus on the capacity building that has been central to this year's engagement. We will build on our established momentum with issuers to better understand their willingness to address comprehensive risk management and establish roadmaps addressing biodiversity and natural capital topics.

To support this, we will also continue our dialogue with those organizations we can refer issuers to once they are ready to take that step. With the **final launch of the TNFD recommendations** taking place in September 2023, we expect to see some initial support from early adopters and uptake from engagement targets. While, as part of the Science-Based Targets Network (SBTN) working group on corporate engagement programme alongside several stakeholders, we will seek to play a role in raising awareness and having a broad reach.

Furthermore, we will continue our dialogue with Nature Action 100 to pursue synergies between the initiative and the Biodiversity and Natural Capital Stewardship Programme.

Thematic Engagement

Climate Change - Sustainable Forests and Finance

EXECUTIVE SUMMARY

The Climate Change—Sustainable Forests and Finance Thematic Engagement aims to address climate-related risks and advocate for emissions reduction across the global food systems. The theme targets companies across the agriculture value chain, from commodities to retailers, restaurants and the financial sector. The engagement objective focuses on companies' management of decarbonization which should be in line with international disclosure standards and science-based targets aligning with a 1.5-degree pathway or beyond. In addition, companies should integrate their nature-related risks and forestry commitments into risk management, strategic planning, and disclosure.

This summary presents the third biannual update for the Thematic Engagement Climate Change—Sustainable Forests and Finance. This report summarizes the progress made between 1 April 2023 and 30 September 2023 with an update on engagement efforts, high-level insights and outcomes and looking ahead.

Update on Engagement Efforts

Since the publication of the April 2023 biannual report, Sustainalytics exchanged 348 emails with 202 outgoing emails and 146 incoming emails, held 16 meetings including one in-person meeting in the Netherlands. There are 22 companies in this engagement theme and most of them participate actively in the dialogue.

In addition, Sustainalytics joined four Annual General Meetings (AGM) this AGM season and observed the trends of shareholder resolutions related to climate topics this year. In terms of shareholder resolutions across the globe, there are more resolutions asking for transparency regarding the company's lobbying activities and positions, which supports our engagement with the banking sector especially. Lobbying is one of the most powerful tools for the banking sector to push for Paris agreement-aligned commitment across trade unions and other associations; however, most banks are not leveraging the tool and might accidentally support opposite ideas financially. Therefore, our engagement will continue focusing on the company's lobbying activities and disclosure in the next six months. In Japan, we saw an unprecedented number of climate resolutions for big corporate groups as shareholders requested companies to have a clear pathway to achieving net zero by 2050, in line with Japan's commitment to be a carbon-neutral country. As a result of the trend in this Japanese AGM season, the companies we engage with are committed to continuing to enhance their climate-related disclosure to ensure strong strategies, targets, and monitoring mechanisms are in place.

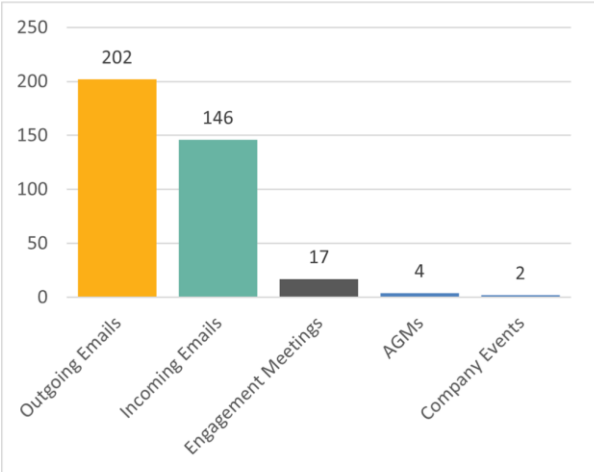


FIGURE 1 – ENGAGEMENT DIALOGUE BETWEEN 1 APRIL AND 30 SEPTEMBER 2023

There are two positive outcomes related to the company's public disclosure that we observed in the past six months. One company confirmed in August that its CDP climate change response is publicly available on its own website after Sustainalytics' recommendation in March 2023. The other company also disclosed its CDP disclosures regarding climate, forest and water online after Sustainalytics' recommendation in May 2023. These developments are important for investors and other stakeholders to gain better insights into companies' performance and progress on the topics. These actions show that our engagement with companies is strong and the potential for further outcomes is high.

High-level Insights and Outcomes

Aggregately, companies continue to score the highest for KPI 1 focusing on disclosure and governance across the three targeted sectors, as seen in figure 2. This is mostly driven by stricter regulations across jurisdictions on climate disclosure, as many countries are mandating climate-related financial disclosures, such as the UK, Japan, Hong Kong and Singapore. The US Securities and Exchange Commission (SEC) is also finalizing a climate-related disclosure ruling and the momentum has pushed many American companies for better disclosure and climate governance structure. A challenging KPI for companies is KPI 5 regarding natural resource management. This is especially true for end value chain companies and financials due to complex value chains and portfolios. Nevertheless, with the finalization of the TNFD framework and the development of SBTN guidelines, companies will have a better understanding and instruction on their risk assessment and management of nature topics, such as water, biodiversity, and land.

For KPI 2, on strategy and targets, most of the banks we engage with have already joined net zero initiatives, so we continue seeing improvement in their sector coverage. After one year of the release of the SBTi Forest, Land and Agriculture (FLAG) guidance, most of the companies in the engagement have started assessing how to adapt or renew their science-based targets, and our engagement dialogue will continue to monitor the progress. For KPI 3 on practical mitigation and forests, the commodity companies perform the strongest as they usually have better forestry management mechanisms in place. For KPI 4 focusing on physical risk, financiers have better scores as most of them have analyzed its physical risk exposure across sectors and locations and the potential financial impacts.

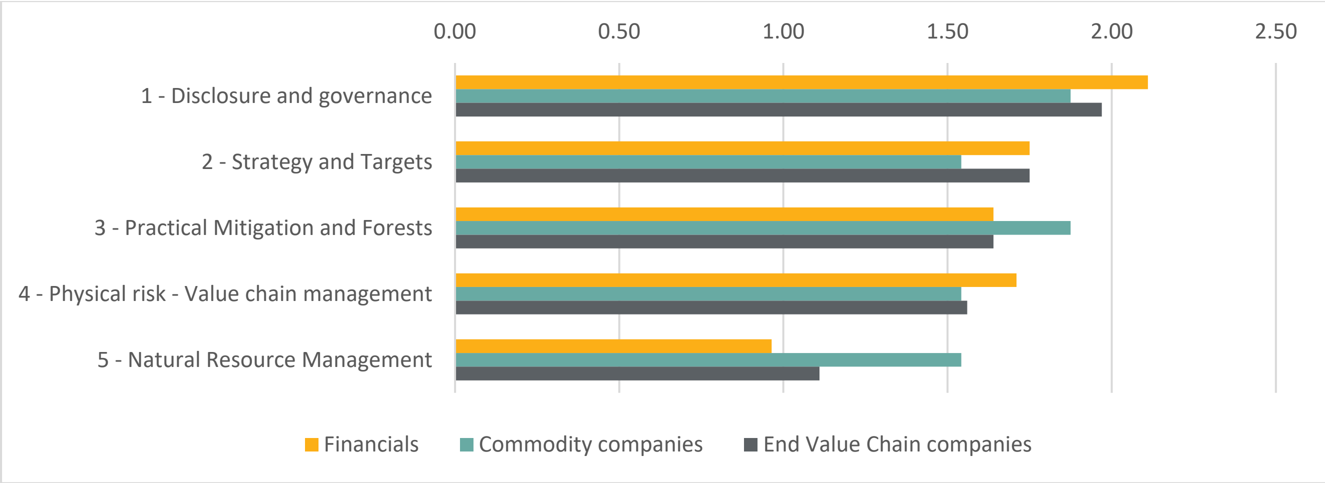


FIGURE 2 – AVERAGE SCORES PER SECTOR IN VALUE CHAIN

Looking Ahead

For the next six months, we will continue to monitor the global development on climate topics. One crucial event—COP 28—will take place from 30 November until 12 December 2023 at the Expo City, Dubai, which focuses on accelerating decarbonization, just transition and climate finance. The first-ever Global Stocktake under the Paris Agreement will conclude at COP 28. The Global Stocktake is an inventory of assessments which show where we are at on climate action on a global scale. Parties in the Paris Agreement agreed that the Global Stocktake should inform countries' climate plans. It has the potential to inform and guide nation-states as well as non-state actors' actions including investment actions. We will be monitoring this development and its impact on this engagement.[6] In addition, we are expecting in October 2023 the finalization of the much-delayed yet anticipated SEC climate disclosure ruling. The outcomes of these global developments have the possibility to shape policy-making and worldwide attitudes, subsequently affecting the rate at which our companies undergo transformative change.

Regarding the codification of TNFD, we aim to organize a series of roundtable events with companies we engage with. We are currently in conversations with TNFD, and we hope to provide a platform for industry peers to share some good practices and concerns regarding nature-related risk assessment and management. The individual engagement meeting will also focus on the company's TNFD preparedness and provide support if possible. Besides TNFD, the engagement will continue focusing on the impacts of EUDR and how will companies prepare for the regulations. In addition, we will continue to explore the possibility of collaboration with IIGCC and follow up with interested investors on how we can support their participation in NA100. Last but not least, we will continue to encourage companies to set more ambitious science-based targets to accelerate climate transition, disclose their climate risk assessments, financial impacts, mitigation strategies and progress toward climate targets.

Finally, the engagement progress of the upcoming six months will be provided in the next biannual report that will be published in April 2024.

[6] Srouji, Jama and Deirdre Cogan. "What is the "Global Stocktake" and How Can It Accelerate Climate Action?" World Resources Institute, September 8, 2023. https://www.wri.org/insights/explaining-global-stocktake-paris-agreement?utm_medium=email&utm_source=publication&utm_campaign=GSTCOP28

Thematic Engagement Feeding the Future

EXECUTIVE SUMMARY

The Issue at Hand

Ensuring a sustainable supply of food for the world's fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population will reach 9.1 billion (34% higher than today), putting more pressure on already constrained resources. Food production will need to increase by 56% over a 2010 baseline to feed the larger population[7], meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

Sustainalytics' Feeding the Future Thematic Engagement aims to contribute to a more sustainable food system by focusing on contingency planning, science-based scenario analysis, land stewardship, eliminating food waste and shifting consumer trends. It targets the entire value chain including companies from the agriculture, agricultural chemicals, packaged foods, and food retailer sectors. This engagement was initiated in Q2 2021 and has now marked two years of engagement. Through this engagement, we expect to contribute to a sector-wide transition to more sustainable agriculture practices.

Update on Engagement Efforts

Since the publication of the December 2022 biannual report, Sustainalytics has exchanged 203 emails, made 9 follow-up telephone calls and held 10 content-based and 2 introductory calls with engagement companies.
We have replaced two packaged food companies as engagement candidates given their complete lack of response to communication. We have selected two companies in the same sector to replace them, taking into account geographical diversity, client holdings and the prospects for constructive engagement.

High-level Insights and Outcomes

- Most of the engagement companies have published sustainability reports in the first half of 2023, giving us a rich seam of fresh information to tap into, augmented by direct dialogue with eleven companies.
- Climate change has once again emerged as a key area of focus for companies, not only on its own merits, but also because of its connection with other issues, such as soil health, water stewardship, forestry management and biodiversity.
- This is reflected in the way that companies are responding to the Taskforce on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) frameworks. Some are participating in TNFD working groups to influence the development of this framework, but we are also hearing from companies that they are devoting more resources to TCFD, in part because they see it as a good rehearsal for TNFD disclosure.
- Many engagement companies have published emissions reduction targets (as well as measures to achieve them) and some have had their targets approved by the Science-Based Targets Initiative (SBTi).
- A key lever that companies are using to manage carbon emissions is to avoid deforestation linked to their own operations and/or supply chains. Indeed, companies are making the avoidance of deforestation a feature of their product branding.
- Companies at different stages of the food value chain are developing and applying digital systems to strengthen their environmental stewardship. For example, an agricultural chemical company has created a geospatial mapping system to help farmers detect and limit runoff of agricultural chemicals into watercourses.
- We have been encouraged by the progress that other companies are publicly disclosing on water stewardship. An agriculture business discloses processing water usage and plantations water usage, divided by segment, and highlights strategic initiatives and the impacts they have had on water usage and water pollution.

Looking Ahead

In the final year of the engagement programme, in established company dialogues, we will seek to achieve tangible progress towards the change objective of contributing to more sustainable food system, where possible with leverage of existing multi-stakeholder initiatives.

Over the next six months we will:

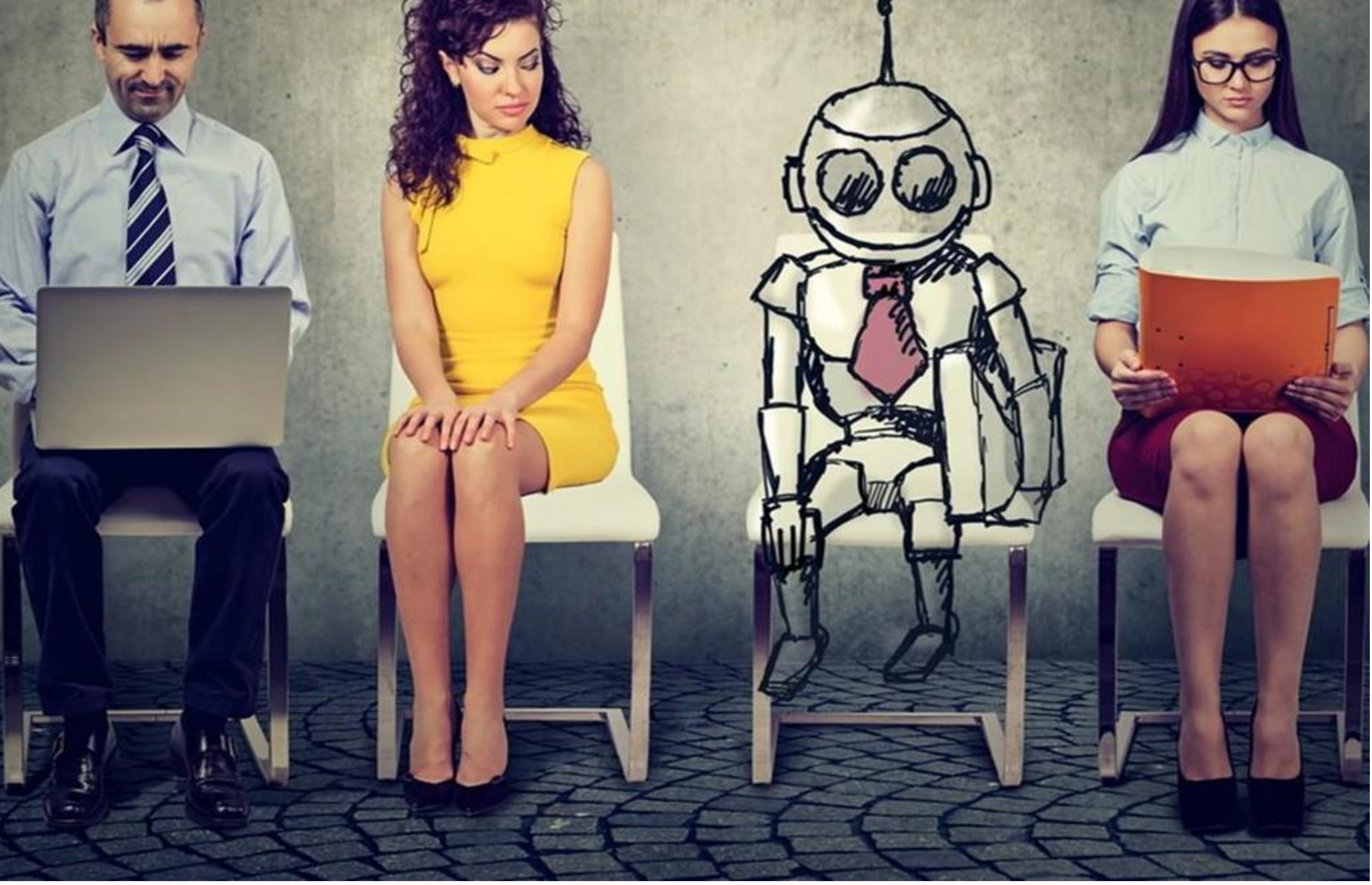
- Explore ways for leading companies to catalyze progress on the food system or sector level through stakeholder collaboration
- Continue other ongoing dialogues, prioritizing companies where the last call occurred before December 2022
- Set up first substantive calls where needed and feasible
- Evaluate options for peer – to – peer collaborations within the framework of the engagement in H2 2023, such as a virtual roundtable

[7] https://www.wri.org/insights/how-sustainably-feed-10-billion-people-2050-21-charts

- Incorporate suitable good practice examples meeting engagement KPIs into a 'repository' of good practice to leverage during dialogues with peer companies
- Prepare the next biannual report for release in January 2024

2023 Q3 Update

Sustainalytics' Thematic Engagement follow a biannual reporting scheme. The following themes will be issuing final reports in January 2024: Responsible Cleantech, Tomorrow's Board, The Governance of SDGs, Human Capital and the Future of Work and Modern Slavery. Meanwhile, engagement dialogues continue to take place. The Thematic Engagement Feeding the Future will have their next biannual report in January 2024. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.



Thematic Engagement Human Capital and the Future of Work

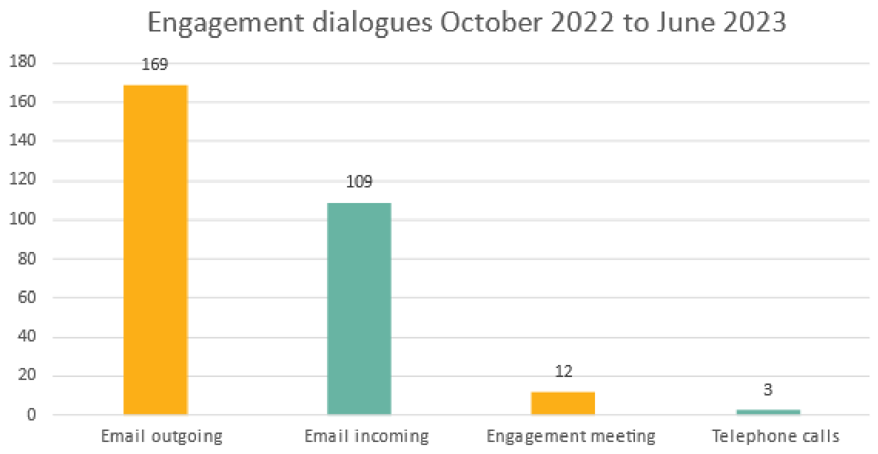
EXECUTIVE SUMMARY

Since the initial reporting period in 2020, we have been engaging in the evolving landscape of human capital management. The importance of human capital management (HCM) is still increasing as companies are facing a workplace and workforce transformation due to emerging trends such as technological progress, demographic changes, the emergence of new ways of working, and the green transition. Since these transformations can impact companies' performance, profitability, and ability to attract and retain talent, it is therefore critical to understand companies' strategic workforce planning to prepare the workforce and the organization for the future in line with evolving trends.
The World Economic Forum's Future of Jobs Report 2023 highlights that the skills gap and inability to attract talent remain the top barriers to transforming the business and staying competitive in the long run. The emergence of skills-based organizations is an important trend to follow and to address in our engagement with companies moving forward to better understand how companies are identifying skills gaps and deploying reskilling and upskilling programmes.

Furthermore, a lack of updated standards to support companies' disclosure of data and information on human capital management aligned with evolving trends exists, making it difficult for organizations to know what to disclose and for investors to know what to ask from organizations. The WEF seized the challenge and created the Good Work Alliance to support and encourage companies to manage, measure, and disclose information about the transition to a new world of work post-pandemic. We will also consider this framework in our engagement as one of the tools companies can use to advance talent management strategies and help investors understand the complexity of the topic with updated disclosures.

Developments and engagement efforts from October 2022 to June 2023

Since the publication of the October 2022 biannual report, Sustainalytics has exchanged 278 emails, held 3 telephone calls and hosted 12 engagement meetings. During this period (October 2022 to June 2023), we attended two company virtual events: one company's annual shareholder meeting and another company shareholder call about its FY2022 results. We consider these events as part of the meetings statistics. Our dialogue with companies reinforces our hypothesis that the level of corporate reporting on HCM and Diversity, Equity and Inclusion (DEI) may not reflect the full scale of action being undertaken on the ground. A lack of disclosure and data makes it difficult for investors and other stakeholders to assess the quality of programs and initiatives and relative performance of companies on HCM and DEI. Hence, we believe that investors have a key role to play in supporting and encouraging companies to strengthen their approach to HCM and DEI.



During this period, we have focused the engagement with companies on HCM and how they address strategic workforce planning and deploy learning programmes to prepare the workforce for the future in line with evolving trends. We learned about four key highlights that we believe are crucial in understanding the complexities of the workplace and workforce transformation. First, understanding strategic workforce planning; second, creating a learning organization with reskilling and upskilling programmes; third, managing new ways of working to ensure a healthy, engaged, and productive workforce; and last, showcasing DEI progress against targets and goals. The following paragraphs describes each highlight.
Understanding strategic workforce planning. As industries undergo rapid technological advancements and evolving market dynamics, strategic workforce planning becomes indispensable for organizations. It involves analysing the current and future talent needs, identifying skill gaps, and formulating strategies to acquire, develop, and retain the necessary workforce to achieve organizational goals. During this period, we have learned from our dialogue with companies how they are carrying out skills gap assessments to identify available skills and capabilities and what might be needed tomorrow.

Creating a learning organization with reskilling and upskilling programs. Reskilling and upskilling programmes are essential components of strategic workforce planning. They help address skill gaps, prepare the workforce for the future, retain top talent, promote internal mobility, foster innovation and agility, and enhance organizational competitiveness and performance. By investing in the continuous development of their employees, organizations can build a resilient and skilled workforce that is ready to tackle the challenges and opportunities of the future.
These programmes are also essential to close the sustainability skills gap to support a green transition. During this period, we have learned from our dialogue with companies how they are deploying different initiatives to prepare the workforce for the future. However, scalability and enabling employees to learn remains a common challenge across industries.

Managing new ways of working. Companies are adapting to new ways of working by implementing various strategies. They are embracing remote work and flexible work arrangements, leveraging digital collaboration tools and technologies, and rethinking physical office spaces. During this period, we have learned how some companies are prioritizing employee wellbeing and work-life balance, while other companies are prioritizing the return to the office with hybrid work models. Since there is no one-size-fits-all solution, evaluating the impact of new working models on employee engagement, productivity, and wellbeing is crucial to ensure a sustainable approach in the long run. Time will tell how effective the approaches are.

Progressing towards DEI targets. Companies make progress on DEI by committing to it from top leadership, collecting and analysing demographic data, implementing inclusive recruitment and hiring practices, providing DEI training, updating policies and practices, establishing Employee Resource Groups (ERGs), promoting supplier diversity, and continuously measuring and being accountable for progress. During this period, we have learned from our dialogue with companies how they have progressed against their diversity goals such as gender and ethnic representation in senior management.

Looking Ahead

Investors play a key role in addressing workplace transformation and how companies create a learning culture that aligns with investors' interests in sustainable and responsible investing. Companies that prioritize these aspects demonstrate a commitment to long-term growth, risk mitigation, and strong corporate governance. By engaging with investee companies on these topics, investors can contribute to building resilient, inclusive, and high- performing organizations, ultimately enhancing value for shareholders. Following the publication of this report:

- We will continue our dialogue with companies on HCM and DEI. We want to learn more about companies' strategic workforce planning and approach to learning and development and new ways of working.
- We will continue the dialogue and coordination with external stakeholders to share knowledge and experience and, possibly, to develop initiatives that can benefit both our companies and investors throughout the programme.

Q3 2023 Update

Sustainalytics' Thematic Engagement follow a biannual reporting scheme. The following themes will be issuing final reports in January 2024: Responsible Cleantech, Tomorrow's Board, The Governance of SDGs, Human Capital and the Future of Work, and Modern Slavery. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.

Thematic Engagement
Human Rights Accelerator

EXECUTIVE SUMMARY

The goal of the Human Rights Accelerator (HRA) thematic engagement is to encourage companies to set and implement effective human rights due diligence (HRDD) as per the United Nations Guiding Principles on Business and Human Rights (UNGP). Ultimately, the impact to be sought is to improve in the livelihood of workers, farmers and local communities directly involved in the focus sectors -- electronics, mining, and cocoa. To this end, companies will need to implement robust HRDD that considers the operating context and root causes of their salient human rights risks.
This biannual Human Rights Accelerator report covers the months from May 2023 to September 2023. This report provides an update on progress made to date with an overview of insights on KPIs. Input is also provided with regard to sector-specific developments as well as challenges faced by companies. The UNPRI Advance Initiative was launched on 1 December 2022 and Morningstar Sustainalytics was selected to lead or collaborate on the following five engagements:
AngloGold Ashanti Limited (Lead Investor with Perpetua Investment Managers)
First Quantum Minerals (Collaborating Investor)
BHP Group Limited (Collaborating Investor)
Newmont Corporation (Collaborating Investor)
Freeport-McMoRan Inc. (Collaborating Investor)

Joining Advance is an opportunity to have more scale and impact through collaboration with other investors. The complexity and scale of the human rights issues we engage companies on require multi- stakeholder collaboration. By coming together, investors get the opportunity to learn from each other and increase their leverage with the common goal of triggering greater alignment with the UNGPs – ultimately to prevent adverse impacts on people.

Update on Engagement Efforts

The Human Rights Accelerator thematic engagement has been running for about a year. Over the biannual period which took place between May 2023 and September 2023. There are now 19 active companies in the Human Rights Accelerator. Since the April 2023 biannual report, Sustainalytics exchanged 119 emails and held 13 meetings.
During our engagements, we have observed that those in the early stages of their HRDD journey often hesitate to share information. Many of them fear leaving a negative impression on investors or lack confidence when discussing human rights matters. Mature companies are generally more willing to share, but they often have many priorities and need to decide if engaging can add value to their work. Several companies continue to delay meaningful engagement as they prioritize other activities over human rights. All participants expressed interest in learning about the EU legislation on HRDD, exploring best practices, and knowing more about our assessment of their performance in comparison to other participating companies. All these insights help us better understand the needs of our participants. In the next phase of the engagement, our goal is to provide meaningful support to these companies to facilitate the engagement effectively.

Engagement Insights

Alignment with Human Rights Due Diligence

Every participant in the HRA has a publicly accessible human rights policy. The majority of these companies have established structures at either the board or executive level to deal with human rights issues. Additionally, most of these companies have clear requirements regarding human rights in their supplier code of conduct (CoC).
However, there are still some remaining gaps. While the majority explicitly pledge to uphold universally recognized human rights or make reference to the International Bill of Human Rights, some companies mention only the Universal Declaration of Human Rights or national laws in their policies. Many companies have an ESG or Sustainability Committee at the board level, and only a few companies reported that they integrate human rights performance in their executive compensation.
Many companies conduct risk assessments within their supply chains, but there is often an over- reliance on third-party audits. Only a few companies carry out thorough risk-scoping exercises that involve relevant stakeholders. This raises concerns about the effectiveness of the risk assessments. Traditional risk assessment activities like supplier surveys and social audits often fail to identify certain risks, such as forced labour, child labour, and sexual harassment.

Livelihood and Living Income

Supply chain mapping serves as the foundation for human rights due diligence. While all companies seem to improve transparency in their supply chain, they still face unique challenges when it comes to mapping their respective supply chains.
In the electronics and mining sectors, many companies proudly highlight in their annual reports that a majority of their workforce is unionized. They view labour unions as their negotiation partners when it comes to wages, although limited data is disclosed regarding living wages. In the cocoa sector, companies prioritize achieving a living income, recognizing it as an integral factor in addressing child labour and deforestation issues. The cocoa companies extensively report on their efforts to boost farmers' incomes and their contributions toward this goal. However, overall, there remains a lack of transparency among all companies regarding the specific wage or income improvements resulting from their activities.

Joint Collaboration and Policy Dialogue

While many companies acknowledge investors, employees, customers, suppliers, and industrial initiatives as their stakeholders, only a few share substantial information on their engagement activities and results. The UNGPs emphasize the importance of maintaining stakeholder relationships and conducting open consultation processes to ensure that companies are aware of any concealed human rights risks. We will prioritize aligning with this recommendation in the upcoming phase of our engagement efforts.

Looking Ahead

In the coming six months, our focus will be on addressing identified gaps in engagement. We aim to encourage companies to take specific actions, tailored to their respective industries:
For companies in various sectors, including cocoa, electronics, and mining, we will emphasize the importance of robust risk assessment, the establishment of grievance mechanisms, and meaningful engagement with stakeholders to provide remedies for affected workers and communities. Specifically, in the cocoa sector, we will work with companies to assess and address the risk of forced labour. In the electronics sector, our discussions will revolve around ensuring living wages at supplier facilities, prevention of forced labour and increasing transparency regarding supply chain and remuneration. In the mining sector, we will emphasize the significance of the human rights impact assessment (HRIA) and provide guidance on how to conduct them.
To illustrate best practices and demonstrate the potential for positive impact, we will develop examples of successful approaches. Additionally, we will share valuable guidance documents from international organizations like the Organisation for Economic Co-operation and Development (OECD).

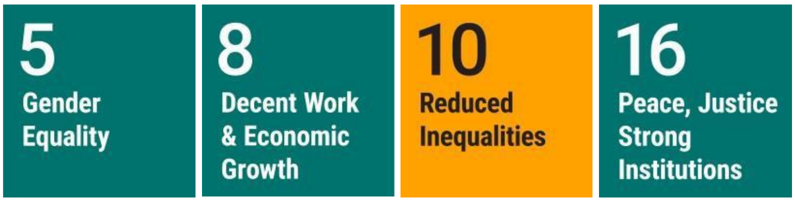
Thematic Engagement Modern Slavery

EXECUTIVE SUMMARY

The Issue At Hand

The global number of people in modern slavery is now estimated to be 49.6 million by the International Labour Organisation, as published in its latest study in September 2022. This is a rise of almost 10 million since the previous results were released in 2017. Of those in modern slavery, around 27.6 million are in forced labour. Most work in the private economy, with many potentially connected to major companies through their global supply chains. Manufacturing and construction both rank within the top three sectors with the highest share of adults in forced labour exploitation (18.7% and 16.3% respectively).[8]

In 2021, Sustainalytics commenced a multi-year engagement focused on companies in the construction sector and apparel and footwear industry, a sub-sector of manufacturing. The aim of the engagement has been to encourage companies to adopt fit-for-purpose strategies that are effective in addressing the nature of modern slavery—a systemic problem that is often hidden and one that sits at the extreme end of a continuum of labour abuse. Specifically, the engagement looks at six key performance areas—governance and reporting; purchasing practices; living wages and income; stakeholder collaboration; worker empowerment; and robust auditing and grievance mechanism. The theme aligns with the United ation’s Sustainable Development Goal (SDG) 8 on Decent Work and Economic Growth and target 8.7 on the Eradication of Modern Slavery in particular. The engagement also relates to SDG 5, 10 and 16 on Gender Equality; Reduced Inequalities; and Peace, Justice and Strong Institutions, respectively.



[8] “Global Estimates of Modern Slavery: Forced Labour and Forced Marriage.” International Labour Organisation (ILO), Walk Free Foundation and International Organisation for Migration (IOM). September 12 2022. **https://www.ilo.org/global/topics/forced-labour/publications/index.htm**

Engagement Updates

Over the course of the penultimate engagement round, 10 of the 16 participating companies have measurably improved. The average company score is now 16, representing approximately one-third of the maximum points. Whilst there has been progress, we recognize meeting the full engagement goal is not within realistic reach in the remaining months. That said, the points attained should not detract from the advances that have been made or are being made by companies. This is especially so where the scores have not always captured progress, as explained below. At the outset of the theme, Sustainalytics set an ambitious engagement goal, which is that companies should adopt fit for purpose strategies that are effective in addressing the nature of modern slavery. In the context of a rise in modern slavery since the theme commenced (forced labour increased to 27.6 million in 2021, which was up from 24.9 million in 2016), this is not a problem that is going away for the private sector. Sustainalytics therefore holds that it was the right call to establish a bold engagement goal.

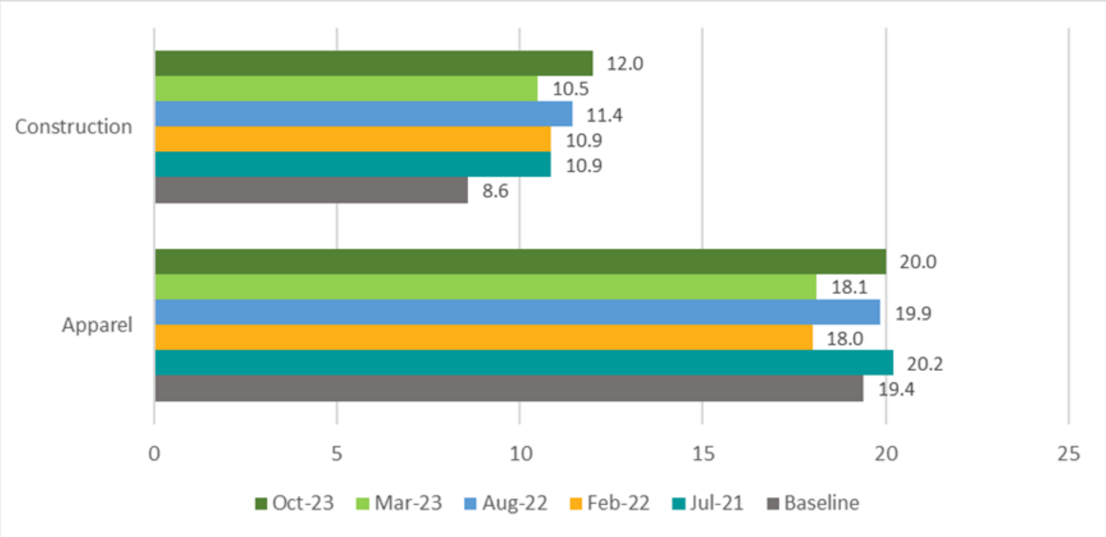


FIGURE 1 – AVERAGE SECTOR SCORES (MAXIMUM POSSIBLE SCORE IS 54)
(NB: Average scores are based on the total number of companies in the engagement over each period. This has changed since the baseline and therefore direct comparisons are not possible. In October and March 2023, this was 16 companies, in August and February 2022 14 companies, and in the baseline and July 2021 this was 12 companies.)

During the latest engagement period, Sustainalytics exchanged 235 emails and held meetings with 14 of the 16 participating companies (the other two company calls occurred in February 2023). In total, 17 engagements took place altogether, which included taking part in a company's stakeholder forum in April 2023.

High-level Insights & Outcomes

Sustainalytics recognizes that the engagement goal has been demanding. What has made this especially challenging is that many of the KPIs require companies to address the structural drivers that are often behind modern slavery, i.e., responsible purchasing practices, freedom of association and *actual* payment of living wages. Whilst we consider it was right to address these areas, it should be noted that structural factors do not lend themselves to quick-fixes or simply playbooks (although progress has never been impossible for companies to achieve, in our view). Sustainalytics considers the KPIs to be pertinent and forward-looking. This is because of the evolving regulatory environment, growing risk of litigation and anticipated increased scrutiny on companies' human rights records. These developments will likely mean companies will find it difficult to continually sidestep action to address the underlying causes of modern slavery and other related labour abuses. In our view, those that are seriously tackling these issues—and can demonstrate this—will be better placed to navigate the risks ahead and support long-term shareholder value.
It should be noted that many companies have taken measures to strengthen their approach to address modern slavery or related risks or have plans to do this, but the scores do not necessarily reflect this. There are four key reasons for this. First, some companies have achieved the maximum score under the relevant KPI. Second, actions adopted by companies sometimes fall outside the scoring framework (e.g., the appointment of a human rights manager). Third, many companies have plans to address the risks or undertake specific activities, but these have often not been progressed enough or information provided was insufficient. Fourth, there are intangible outcomes of the engagement that cannot be easily measured. Therefore, although many companies' points have improved, focusing too much on the scores alone risks overlooking progress that has been achieved or is taking place.

Since the start of the theme, the engagement has persistently probed companies' due diligence tools, raised awareness of the deficiencies of audits, and advocated for a broader range of approaches (e.g., to address the structural drivers of forced labour and related abuses). In our view, too many companies are placing undue faith in supply chain auditing to address serious human rights violations, despite repeated concerns raised by stakeholders about this approach, including that audits should not constitute human rights due diligence.[9][10] This faith has almost become an orthodoxy that is in need of reform. One of the more progressive companies in the engagement said 'Auditing was not going to solve the problems in the supply chain.' Whilst audits may uncover some non-compliances, there are still considerable concerns about their overall effectiveness and credibility. There are multiple reasons for audit limitations and therefore questions that companies—including their senior executive teams and boards—need to grapple with and indeed explain. Key shortcomings including the following:

- There is a fundamental question about the sheer size of companies' supply chains and whether the scale allows for effective monitoring and sustained improvements. Construction companies typically have tens of thousands of suppliers (or even more). One construction company said in the recent engagement that 'like most companies, it has little visibility beyond first or second tiers.' Further, these numbers comprise just the first-tier (i.e., the tip of the proverbial iceberg). Whilst apparel companies tend to have large auditing programs, there is still a question about whether a company can ever have sufficient capacity to effectively monitor the number of facilities typically involved, which is to say nothing about whether the costs are an efficient use of the resources (although in many cases the expense is born by suppliers).[11][12]
- Auditing is a top-down approach in which suppliers are often required to fix systemic challenges. If a supplier does not rectify a violation, the buyer can threaten termination of its business with the supplier. This creates the wrong incentives and is also grossly unfair on the suppliers. It is likely that this approach encourages cover up of problems, and in doing so, puts solutions further out of reach.[13][14]Companies need to explain more about how it is possible that their auditing programs are able to consistently and reliably find breaches of labour rights given the mounting evidence of systematic shortcomings.[15][16] Indeed, in October 2023, an investigation into working conditions focused on Saudi Arabia linked major companies, including Amazon, McDonald's and the InterContinental Hotels Group, to allegations of forced labour. Human rights experts have again pointed to the problems of audits (e.g., potentially falsified information and concerns about both lack of auditor independence and transparency).[17]
- Audit cycles usually take place annually or less frequently. The findings are therefore only a 'snapshot' in time and therefore quickly become out of date (assuming that the audits are credible in the first place). The audit duration is also often too short to allow for deeper engagement with workers. Since the engagement, Sustainalytics has heard from a number of companies about the challenges of getting workers to speak up about abuses. But as supply chains can often mean employment is precarious (e.g., short-term work and informal)[18] this raises questions about whether it is realistic to expect workers to reveal experiences that could result in serious repercussions (including being sacked).

The EU's draft Corporate Sustainability Due Diligence Directive (CSDDD), published in February 2022, points to potential costs that companies could face where there are adverse human rights impacts. Article 22 sets out a civil liability provision. This means companies may be held accountable for damages where they fail to comply with their due diligence duties under the Directive and where an adverse impact has led to damages. Companies will not be held liable 'unless it was unreasonable, in the circumstances of the case, to expect that the action actually taken, including as regards verifying compliance, would be adequate…[19] Notwithstanding that the draft has many parts that are limited, the term 'verification' is defined in a way that means audits may not be deemed adequate and therefore meet the requirements . With the potential for litigation, this raises a serious question about whether it still makes business sense to pursue an approach to due diligence that could end up resulting in corporate liabilities, especially where risks are systemic, as is the case with supply chains in general. Therefore, it is important that companies, their boards and governance committees, understand the limitations of current approaches to due diligence and ensure processes are effective.
Companies need to pursue better approaches to human rights due diligence. This does not necessarily mean dispensing with auditing altogether but at the very least, good due diligence has to mean that potential and actual adverse impacts are identified through a process where workers consider

[9] "From Policing to Partnership: Designing an EU Due Diligence Duty That Delivers Better Outcomes." Shift. May 2023. **https://shiftproject.org/wp-content/uploads/2023/05/Policing-to-Partnership-May-2023.pdf**.
[10] The report states 'Many organizations have highlighted the limitations of the current social audit model – which is often mistakenly seen as equating with human rights due diligence.'

[11] Stauffer, Brian. "Obsessed with Audit Tools, Missing the Goal." Human ights Watch. ovember 15, 2022. **https://www.hrw.org/report/2022/11/15/obsessed-audit-tools-missing-goal/why-social-audits-cant-fix-labor-rights-abuses**.

[12] One estimates puts the annual cost of auditing at US$300, see: **https://www.hrw.org/report/2022/11/15/obsessed-audit-tools-missing-goal/why-social-audits-cant-fix-labor-rights-abuses#:~:text=According%20to%20Human%20Rights%20Watch,suppliers%20to%20provide%20deceptive%20information**.

[13] "From Policing to Partnership: Designing an EU Due Diligence Duty That Delivers Better Outcomes." Shift. May 2023. **https://shiftproject.org/wp-content/uploads/2023/05/Policing-to-Partnership-May-2023.pdf**.
[14] Shift has described many of the problems with the audit model, stating '*Buyers…have little visibility into key issues, especially root causes, as they are often overlooked by auditors or hidden by business partners to avoid commercial penalties.*'

[15] "Codes of Conduct for Supply Chains Challenged." Cornell University IL School. May 24, 2021. **https://www.ilr.cornell.edu/news/research/codes-conduct-supply-chains-challenged Cornell University study on 40,000 audits demonstrated lack of sufficient progress**.
[16] To achieve improved working conditions for workers, see Kuruvilla, Sarosh. Private Regulation of Labor Standards in Global Supply Chains: Problems, Progress, and Prospects. Cornell University Press. 2021. **http://www.jstor.org/stable/10.7591/j.ctv16kkx12**.
[17] "Corporations are paying for worker abuse audits that are 'designed to fail', say insiders", the Guardian, 10 October 2023. **https://www.theguardian.com/global-development/2023/oct/10/corporate-auditing-foreign-workers-abuse-claims**

[18] Employment, wages and productivity trends in the Asian garment sector Data and policy insights for the future of work, International Labour Organisation, 2022: **https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_848624.pdf**

[19] Directorate General for Justice and Consumers. "Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019 1937." European Commission. February 2022. **https://commission.europa.eu/publications/proposal-directive-corporate-sustainability-due-diligence-and-annex_en**

that they *can* speak up and *are not* fearful of the consequences (robust auditing will be a key recommendation in the final engagement). Investor engagements help to shine a spotlight on these concerns, challenge practices and encourage the adoption of effective measures.

Looking Ahead

The theme is in its final months. The immediate next steps are to secure meetings with all companies in order to conclude the dialogues. During the last few months, Sustainalytics had informed companies that the engagement would be finishing and requested that the last meeting is held with a board member or senior executive. The plan for the final meetings is to prepare an agenda for each company which will primarily give feedback to companies based on their strengths and gaps. Recommendations to address modern slavery risks will also be made, especially given the changing regulatory and legal landscape. Sustainalytics will aim to schedule the calls in the final months of 2023 or early 2024. The final report will be issued thereafter.

Thematic Engagement

Responsible Cleantech

EXECUTIVE SUMMARY

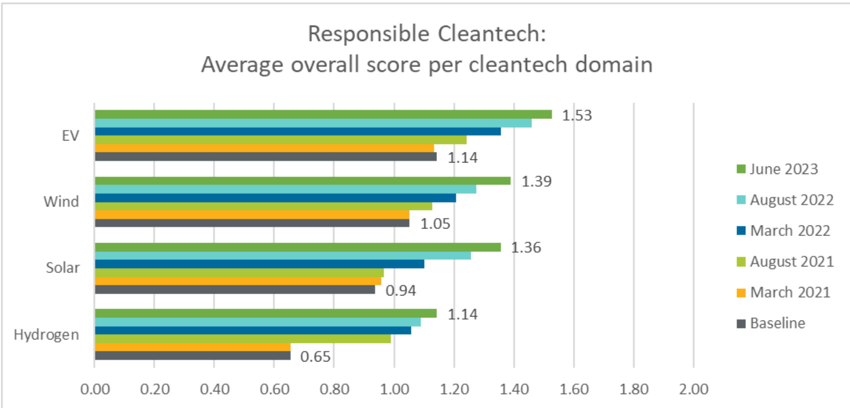
The issue at Hand

Just like the products it aims to replace or make more efficient, cleantech requires space and natural resources. Companies have a responsibility to respect local communities' human rights and consider the environmental impacts in and around sites where raw materials are sourced, where products are made, and/or where renewable energy is generated. Similarly, the cleantech supply chain relies on human resources. The labour rights of workers in mines and factories need to be respected, including healthy and safe working conditions, freedom of association and collective bargaining, and either avoidance or mitigation of child and forced labour. Furthermore, the recycling of products such as solar photovoltaic (PV) systems, wind turbines and vehicle batteries has received less attention than the benefits of these technologies. It is advantageous to promote circular business models for recovering materials when products reach the end of their life cycle. These products are truly sustainable only if all stages in the value chain are environmentally and socially sustainable. Sustainalytics' Responsible Cleantech engagement addresses both the environmental and social implications of the growth of selected cleantech domains—photovoltaic solar panels, wind turbines, battery electric vehicles and hydrogen—and aligns with multiple Sustainable Development Goals, namely: SDG 7 Affordable and clean energy, SDG 8 'Decent work and economic growth', SDG 9 'Industry, innovation and infrastructure', SDG 12 'Responsible consumption and production', and SDG 13 'Climate action'.

Engagement Updates

The Responsible Cleantech thematic engagement program started with a baseline report in September 2020. This fifth biannual report accounts for the progress made between August 2022 and June 2023.

Throughout the engagement, Sustainalytics assesses the engaged companies on five key performance indicators (KPIs) that cover governance, operational management, supply chain management, circularity, and stakeholder engagement. A scoring scale from 0.00 up to 2.00 is used for this purpose. The chart below shows the average overall score per cleantech domain. The EV domain continues to lead and the hydrogen domain continues to lag, relatively. The solar domain has been catching up with the wind domain.



The 19 companies that are presently engaged are Daqo New Energy, First Solar, Ford Motor, Gurit, Hanwha Solutions, Honda Motor, Hyundai Mobis, Johnson Matthey, LG Energy Solution, LONGi Green Energy Technology, Nordex, Plug Power, Schneider Electric, SunPower, Tesla, TPI Composites, Vestas Wind Systems, Volkswagen, and Xinjiang GoldWind Science & Technology. The latest reporting period, running from September 2022 to June 2023, featured new engagement calls with all engaged companies. Five companies even hosted two calls.

High-level Insights and Outcomes

Sustainalytics aims for engagement that benefits both the companies and the investors. Tangible environmental and social impacts remain challenging to measure and claim but we know that stewardship engagement makes companies ready for mitigating ESG risk and this creates long-term value. Engagement also helps reinforce broader developments and complimentary efforts of other stakeholders. The Responsible Cleantech thematic engagement's outputs are plentiful, including conference calls that are open to investors and complementary information exchanges by email and phone. Here is a selection of high-level insights and outcomes:

Cleantech domain	Highlights – July 2023
EV	For the automobile industry, the transition from internal combustion engine to electric vehicles needs to be a top priority for years to come but the broader social agenda also needs attention. Car leasing and sharing solutions can help improve natural resource efficiency (relative to private car ownership) and improve access to mobility for more people with limited budgets. The engaged companies acknowledge this development as an emerging business opportunity as well as a social responsibility. Besides respecting fundamental labour rights, car makers need to transform their workforce to adapt to the electrification and digitization trends. Sustainalytics encouraged companies to help investors understand the impact and scalability of the just transition across the entire company. Up- and re-skilling programs are supposed to support the transition of engineers working with internal combustion engine technology to battery electric vehicles.
Wind	It may feel counterintuitive but Western wind turbine manufacturers have been struggling to earn any profit. Explanations include the supply chain disruption by the war in Ukraine and slow permitting procedures for wind farms. The industry is seeking greater economies of scale through modularization. With margins down, pricing is key. The current market conditions complicate the financing of environmental improvements such as recyclable blades and low-carbon steel. The companies are busy delivering already booked orders and there seems to be no room to price in any additional costs. It is actually somewhat helpful that conventional materials have become more expensive because that can bring the break-even point for innovative technologies and materials closer. The operational (scope 1 and 2) carbon footprint of manufacturers can constitute less than 1%. The bulk of the carbon emissions is emitted in the supply chain. By weight, steel is normally the main material in a wind turbine and the largest contributor to the carbon footprint. (Concrete or hybrid towers can have a lower carbon footprint but demand has been limited compared to steel. Laminated wood offers more significant emissions saving potential, but for this to be economical at utility scale, it still needs to go through multiple years of testing first.)
Solar	With fossil fuel prices rising and demand for green electricity increasing, demand for polysilicon continues to increase. The solar industry has been booming. While initial demand mainly came from Europe, it has become truly global and much of the supply side is now concentrared in China China's share in all the manufacturing stages of solar panels (polysilicon, ingots, wafers, cells and modules) exceeds 80% (Source: IEA). We have learned that polysilicon production capacity remains the main constraint for increasing solar panel output. The persistent international allegations of forced labour in Xinjiang have resulted in additional factories opening up elsewhere, such as south-east Asia and China's Inner Mongolia province. Xinjiang's original appeal was driven by the abundant availability of low-cost energy supply from coal-fired power plants. The new locations offer less labour risk and greater availability of renewable energy. While expectations for module recycling in Europe and the U.S. have started to build up, we have seen yet less traction in China and South Korea. Most delivered panels are still operational, and it might take another five to ten years before recycling is happening at scale. We have been urging companies to prepare for this to come but apart from First Solar, most companies seem occupied with trying to match supply with the growing demand for new panels. The Global Electronics Council has launched the 'Initiative to Advance Decarbonization of Solar Panel Production'. Investors can help by demanding that more manufacturers register their products in EPEAT, a globally recognized and independently validated ecolabel which addresses the entire life cycle of the product. The addition of low-carbon solar criteria in EPEAT will make it easier for purchasers to identify low-carbon solar products.
Hydrogen	Green hydrogen relies on the availability of renewable energy and water. In order for it to grow the economics of energy storage also needs to improve. That said, green hydrogen might be where solar used to be years ago in terms of its growth potential. Solar relied heavily on subsidies before it could be scaled up and become truly price competitive. In the Responsible Cleantech engagement programme, Sustainalytics has been engaging only two companies on hydrogen specifically. A few other engaged companies invest in hydrogen technology as well but only as a niche venture for now. Because it was hard to engage the industry on the relative inefficiency of hydrogen as an energy carrier and the competition with other local dependents of water and green electricity, much of our dialogue has focused on responsible sourcing and re-use of platinum group metals that contribute to the functioning of both electrolyzers and fuel cells. Precious metals are costly and there are still opportunities to reduce the loading while continuing to increase the energy density. Depending on the application conditions, hydrogen production technologies without precious metals are also used. For example, nickel-based technology is less efficient and less resistant to corrosion and the sustainability performance of nickel mining (often open pit) is not easily better than platinum group metals mining (underground and high tech). But the biggest challenge is that absolute global demand for metals continues to outpace the progress on efficiency and recycling.

Besides company representatives, two engagement calls involved representatives of a multi-stakeholder initiative, the Aluminum Stewardship Initiative and the Initiative for Responsible Mining Assurance respectively. Based on these conversations and follow-up research, it has become clear how equitable multi-stakeholder collaboration is essential for growing cleantech markets in a manner that is both environmentally and socially sustainable. Please refer to the appendix of this executive summary for the article which Sustainalytics published on this topic.

Looking Ahead

Sustainalytics will organize a round of concluding calls to consolidate the progress made in the course of the programme and specify further steps for the companies, and then also evaluate the added value of the dialogue and check company preparedness to keep hosting forward-looking engagement dialogue. The Responsible Cleantech thematic engagement programme was designed to last three years. We will write our concluding report in December 2023 and evaluate the collaborative experience with the investors.

2023 Q3 Update

Sustainalytics' Thematic Engagement follow a biannual reporting scheme. The following themes will be issuing final reports in January 2024: Responsible Cleantech, Tomorrow's Board, The Governance of SDGs, Human Capital and the Future of Work and Modern Slavery. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.

About Morningstar Sustainalytics

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. With 16 offices globally, Sustainalytics has more than 1,800 staff members, including more than 850 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com.