MORNINGSTAR® SUSTAINALYTICS

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Engagement 360

2025 Annual Report

Stewardship is where insights become action. Engagement 360 supports a holistic approach to mitigating ESG risks and capitalizing opportunities.

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Stewardship Approach

Engagement 360 is a holistic stewardship offering that promotes and protects the world's leading asset owners' and managers' long-term shareholder values through consistent engagement outcomes. Engagement 360 addresses ESG risks and strives to create positive social and environmental outcomes.

STRATEGY AND RISK promotes and protects long-term value by flagging high- and severe- risk companies to proactively engage unmanaged and financially material ESG issues. The focus is on companies with unmanaged ESG risk greater than 30 as identified by Morningstar Sustainalytics' ESG Risk Ratings.

INCIDENT engagements address companies that severely or systematically violate international standards, such as the UN Global Compact and OECD Guidelines for Multinationals to ensure that investors are managing associated reputation risk. This engagement aims to not only to verify how a company addresses the incident but also to effectuate change in the company's policies and/or processes to ensure proper policies and programmes are in place to avoid future reoccurrences and improve its ESG disclosure. Companies flagged as Watchlist or Non-Compliant as identified by Morningstar Sustainalytics' Global Standards Screening research are targeted for this engagement.

THEMES are SDG-aligned proactive engagements that enable investors to align their interests in addressing specific systemic issues across the ESG spectrum. Thematic engagement's philosophy centers around systematic change, collaboration, root causes and best practice sharing at its core. The purpose of this engagement is to influence companies to proactively manage specific ESG risks and capitalize on opportunities.

Morningstar Sustainalytics' ESG VOTING provides vote recommendations that align to widely accepted ESG principles, sustainability objectives, ongoing corporate engagements and ESG issues most important to investors.

Year in Review

Henry Pallister-Dixon
Director, Stewardship
Morningstar Sustainalytics

We are delighted to present the Morningstar Sustainalytics Engagement 360 Annual Report for 2025. This year, our engagement services navigated an increasingly complex landscape shaped by converging global trends. Several cross-cutting themes stood out across our interactions with companies and stakeholders: regulatory uncertainty, uneven transition readiness, geopolitical volatility, and the foundational role of corporate culture and governance in driving long-term resilience. These themes surfaced consistently across stewardship and underscore the importance of coherent, forward looking engagement strategies.

Regulatory uncertainty remained one of the most significant challenges for companies across all regions. In Europe and North America, shifting or inconsistent rules complicated transition planning, particularly where industrial scale decarbonization efforts faced infrastructure constraints and cost pressures.[1,2] Engagement with US issuers highlighted persistent gaps between emergency preparedness and long-term physical climate risk management, reflecting the wide divergence between short-term operational planning and long-term adaptation strategies.[3] Delays to the EU Deforestation Regulation (EUDR) and adjustments to the CSRD Omnibus Directive created confusion for companies undertaking biodiversity and nature related risk assessments, often slowing the implementation of nature positive commitments. Furthermore, US political developments continued to influence corporate behaviour, requiring issuers to adjust diversity related approaches and commitments in ways to align with shifting administrative positions.

In standards, the EU continued to advance toward harmonized sustainability reporting – ESRS and alignment with International Sustainability Standards Board (ISSB) S1 and S2 – while the United States reversed several sustainability related rules, including the withdrawal of Nasdaq's Board Diversity Rule. This fragmentation contributed to a growing strategic uncertainty for global issuers, particularly those operating across multiple regulatory jurisdictions. Many large US companies are also likely to fall within the remit of the EU's Corporate Sustainability Reporting Directive and therefore be required to produce ESRS-compliant sustainability reports for reporting periods beginning in January 2028. Preparations for complying with these requirements are likely to already be shaping companies' internal sustainability tracking. In Japan, we analyzed corporate governance developments and concluded that Japanese issuers showed progress in board independence, remuneration and disclosure practices under the new Corporate Governance Code. However, when compared to Western standards, there remained room for improvement in areas such as the structure of remuneration and the transparency of remuneration amounts.[4]

Transition readiness gaps were evident across sectors and geographies. Within our Strategy and Risk service, companies noted significant uncertainty in planning for fast changing energy demand, especially in the United States where utilities appeared underprepared for AI driven surges in electricity consumption due to grid constraints, slow permitting processes, and limited local siting capacity.[5] In the Net Zero Transition programme, companies continued setting ambitious climate targets, but progress has seemingly slowed. Many issuers became more cautious in communicating climate achievements even as the global temperature trajectory shifted from 3.6°C a decade ago to 2.6°C today. This suggests a widening gap between ambition and operational delivery.

Canada's oil and gas sector struggled to reconcile rising production with national decarbonization goals, despite incentives for carbon capture, utilization, and storage (CCUS).[6] Meanwhile, our circularity engagements revealed both innovation and stagnation. Industry leaders advanced material efficiency, repairability, and component remanufacturing, while other companies lagging continued to miss plastics and waste reduction targets. A site visit to a major consumer electronics retailer's repair facility highlighted how design for repairability can create tangible environmental and commercial value – yet these practices remain unevenly adopted across the sector.

In our newly launched Human Rights and Transition programme, companies highlighted limited supply chain visibility in high-risk geographies – particularly in the extraction and processing of transition minerals. This gap not only hindered upstream due diligence but also increased vulnerability to human rights risks in regions with geopolitical instability or limited regulatory oversight. Strengthening human rights due diligence (HRDD) practices therefore became a central focus of engagement as companies look to build socially responsible and resilient green transition pathways.

Geopolitical volatility reshaped risk profiles and heightened the need for anticipatory governance. Energy security debates intensified, most notably illustrated by Norway's Arctic petroleum licensing expansion, which raised concerns regarding Indigenous rights, biodiversity safeguards, and operational risk in one of the world's most sensitive ecosystems.[7] This will likely form a key area for engagement once the Awards in Predefined Areas 2025 licensing outcomes are announced. Political shifts across multiple markets also drove rapid changes in corporate reporting practices, HRDD expectations, and labour rights exposure, reinforcing the need for ongoing monitoring. Incidents-driven engagements continued to show that local controversies – such as corruption allegations, environmental violations, or labour rights abuses – quickly generate global reputational and financial consequences due to growing investor scrutiny and cross border regulatory cooperation.

Culture and governance emerged as a strong focus – and a structural determinant – of company resilience. Multi-jurisdictional companies were encouraged to align ESG compliance strategies with the most rigorous regulatory standards rather than relying solely on local minimum requirements. Across Incidents-based engagements, cultural weaknesses such as poor communication channels, limited "speak up" environments, and misaligned performance incentives were repeatedly linked to governance failures. Strengthening grievance mechanisms aligned with the UN Guiding Principles remains essential for both risk management and rights holder protection, and this theme featured prominently in our webinar on practical implementation of grievance mechanisms earlier in the year. Governance maturity was equally important in circularity engagements, where board level competence and aligned financial incentives determined whether circular business models were successfully scaled. These governance enablers also played a crucial role in delivering progress against climate targets, especially in sectors undergoing structural transition.

Looking Ahead

Ambition must now translate into execution. Companies will be expected to deliver robust nature-related risk and impact assessments, accelerate adoption of the Taskforce on Nature related Financial Disclosures, and set credible biodiversity targets ahead of COP17 in Yerevan. Climate transition scrutiny will intensify as investors evaluate 2025 annual and sustainability disclosures, many of which represent mid-decade checkpoints for companies with 2030 targets. Human Capital engagements will increasingly focus on the implementation of worker-centric practices and greater transparency around AI deployment – issues that surfaced repeatedly in 2025 and now present material risks for unprepared companies. In Human Rights and Transition, we will prioritize target setting, upstream HRDD effectiveness, and sector specific due diligence challenges. Circularity strategies will centre on scaling financially viable models aligned with ESRS E5 and preparing for the 2027 Battery Regulation. Governance engagements will utilize updated assessment frameworks and escalation pathways where dialogue stalls, while Incidents-based engagements will continue emphasizing HRDD implementation, supply chain accountability, and environmental and social risk prevention. Across all thematic areas, credibility, transparency, and organizational resilience will shape investor expectations as companies navigate a year likely to be defined by accelerating regulatory developments, geopolitical uncertainty, and rapid technological change.

Stewardship Overview - Provisum portfolio

360
engagements as of 31 December 2025

55
new engagements

740
vote recommendations delivered to clients

Utilities
is the most engaged industry

Highest number of engagements in a single market
is United States of America and Canada

Disclosure and Climate Change - Transition Risk
are the most engaged topics

SDG 13 Climate Change
(44%) linked to engagement objective

Engagement Status

When we open an engagement, the status is Engage. We will then pursue engagement until we change status to:

Resolved	The company has achieved the engagement objective.
Archived	Engagement is concluded, the engagement objective has not been achieved.
Unresponsive	Unresponsive is the final step in the escalation for companies not responding to our engagement. At this final step, we have exhausted all other engagement tools.
Disengage	Engagement is deemed unlikely to succeed.

343 engagements as of 01 January 2025

55 new Engage

15 Resolved

22 Archived

0 Unresponsive

0 Disengage

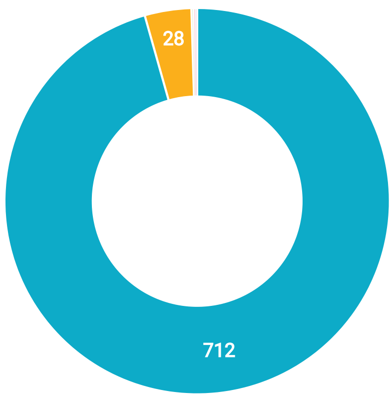
360 engagements as of 31 December 2025

398 engagements during 2025

On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

Voting Insights and Recommendations

- Sustainability (712)
- Climate Governance (28)
- Engagement Escalation (0)
- Research Triggered (0)
- Controversy Signal (0)



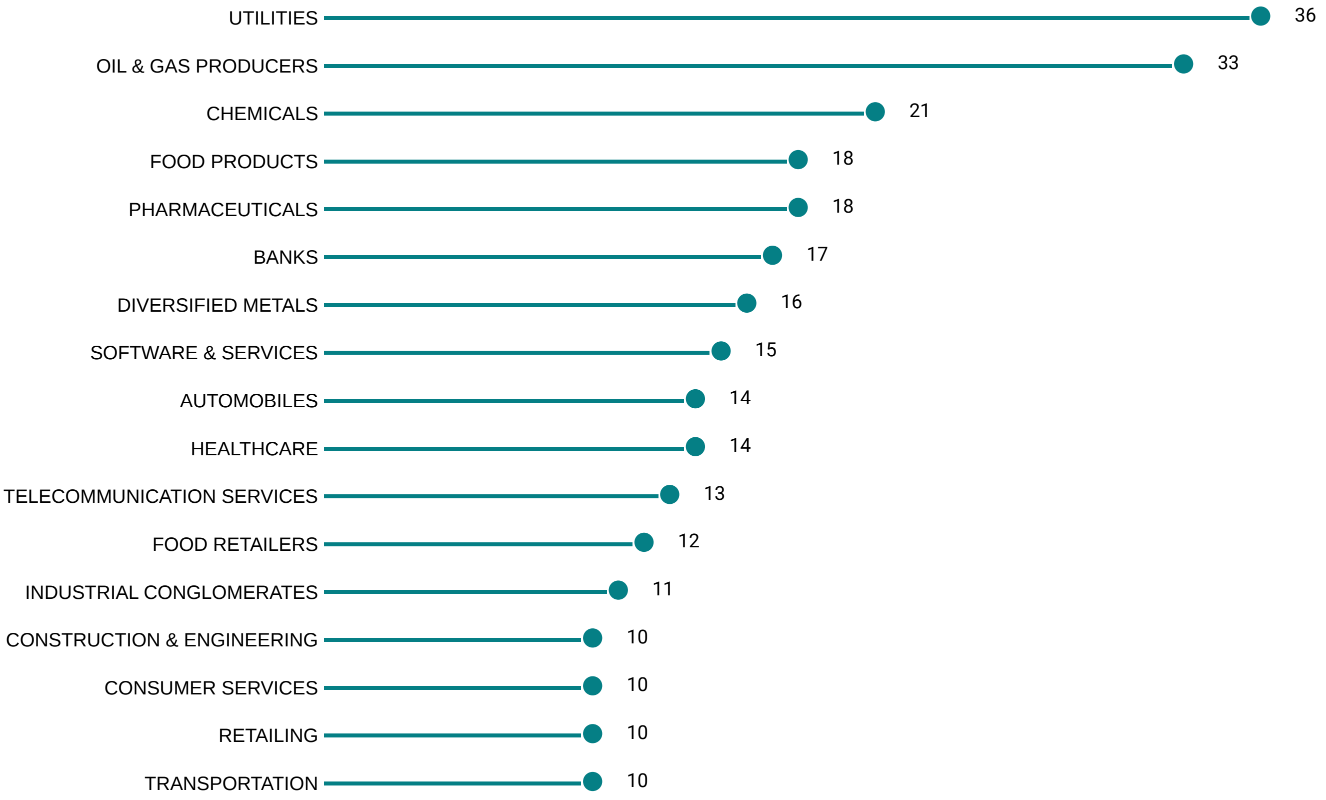
Triggers for Vote Recommendations

Vote recommendations can be triggered by five categories of signals.

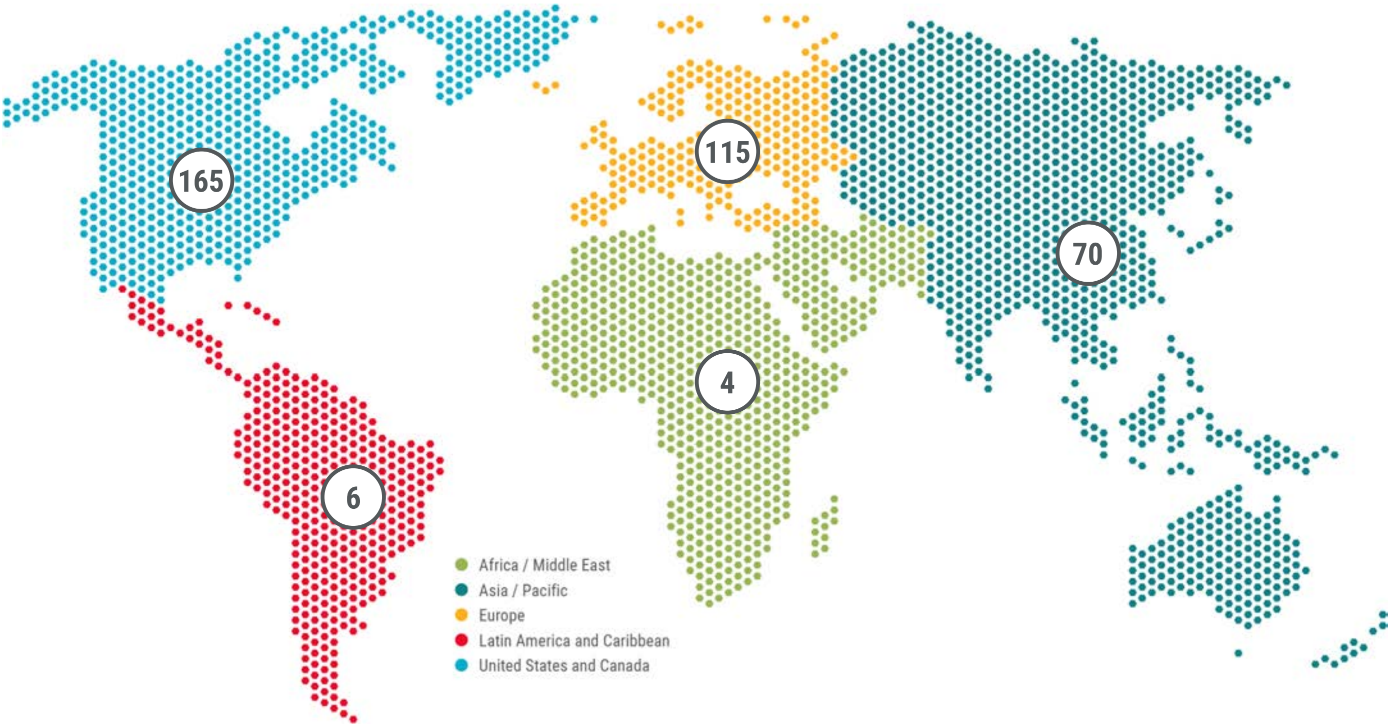
Sustainability	ESG-related resolutions
Engagement Escalation	Poor performance in engagements
Climate Governance	Misalignment between executive performance metrics and decarbonization targets
Research	Poor performance in climate, human rights, diversity, biodiversity, and circular economy
Controversy Signal	Recent incidents leading to a controversy rating of 3 or higher, with significant governance underpinning

Industry Distribution

(Industries with a minimum of 10 engagements)



Engagements by Headquarter Location

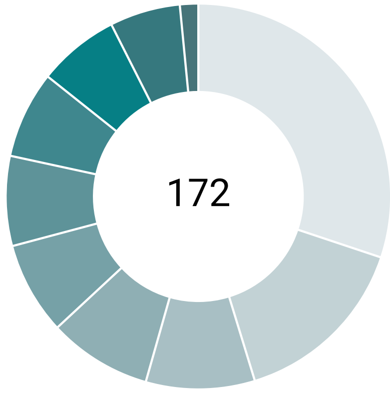


Engagement Topics

At the end of the reporting period, our engagements addressed a number of topics across the environmental, social and governance pillars.

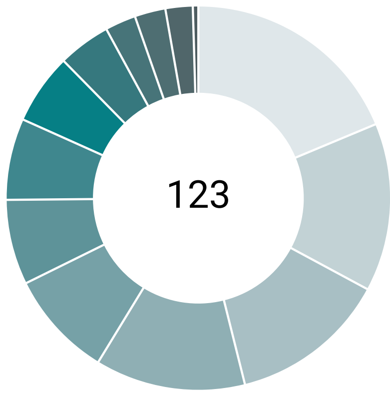
Environmental

- CLIMATE CHANGE - TRANSITION RISK (130)
- LAND POLLUTION AND SPILLS (39)
- DEFORESTATION (33)
- WASTE MANAGEMENT (31)
- CIRCULAR ECONOMY (25)
- WATER SECURITY (65)
- WATER QUALITY (37)
- BIODIVERSITY (32)
- NATURAL RESOURCE USE (29)
- AIR POLLUTANT EMISSIONS (6)



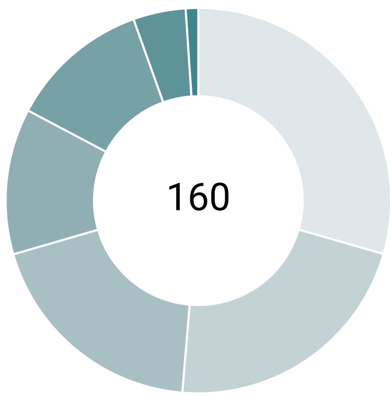
Social

- JUST TRANSITION (61)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (43)
- INDIGENOUS PEOPLE (29)
- CHILD LABOUR (22)
- PRODUCT QUALITY AND SAFETY (14)
- OCCUPATIONAL HEALTH AND SAFETY (8)
- MARKETING PRACTICES (1)
- HUMAN CAPITAL (46)
- HUMAN RIGHTS (41)
- FORCED LABOUR (23)
- COMMUNITY RELATIONS (19)
- LABOUR RIGHTS (8)
- DATA PRIVACY AND SECURITY (7)



Governance

- DISCLOSURE (131)
- ESG GOVERNANCE (85)
- SHAREHOLDERS RIGHTS (52)
- COMPETITION (4)
- BOARD COMPOSITION (97)
- ACCOUNTING AND TAXATION (54)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (19)



Note: Each engagement case may address multiple ESG topics. The numbers in parentheses indicate how many engagements include that specific topic. The total in the chart reflects the count of engagements with an Environmental, Social, or Governance focus. While a single engagement may span multiple ESG pillars, it is counted only once in the total. However, there is no limit to the number of topics an engagement can cover, so the topic counts will not sum to the total per pillar.

Sustainable Development Goals — Mapping Engagements

All engagements are mapped to the 17 UN Sustainable Development Goals (SDGs). The mapping is done by Morningstar Sustainalytics and refers to the focus and objective(s) of the engagement.

SDG		SDG	
1 No Poverty	7%	**10** Reduced Inequality	12%
2 Zero Hunger	15%	**11** Sustainable Cities and Communities	6%
3 Good Health and Well-Being	36%	**12** Responsible Consumption & Production	63%
4 Quality Education	11%	**13** Climate Action	44%
5 Gender Equality	11%	**14** Life Below Water	9%
6 Clean Water and Sanitation	9%	**15** Life on Land	11%
7 Affordable and Clean Energy	24%	**16** Peace & Justice, Strong Institutions	26%
8 Decent Work and Economic Growth	38%	**17** Partnerships to Achieve the Goal	3%
9 Industry, Innovation & Infrastructure	47%		

Case Study: AIA Group Ltd. (AIA)

Sustainability and Good Governance Stewardship Programme - Engagement Since: 15 February 2024

Industry: **Insurance**

Base Location: **Hong Kong**

AIA Group, a pan-Asian life insurance company, operating in 18 markets needs to reevaluate its strategies to better integrate Environmental, Social, and Governance considerations due to increasing risks from climate change-driven natural catastrophes.

Progress: **Good** | Response: **Excellent** | Latest Milestone: **3**

Engagement Update

AIA is very receptive to engagement. In April 2025, we conducted an engagement call with the company, during which we addressed topics related governance, risk and impact, strategy, targets and transparency. Following this discussion, we scheduled a follow-up call to further clarify some of the matters discussed in April.

Focus Area

During the engagement call, we identified several gaps in AIA's governance and sustainability practices, specifically, sustainability diligence practices, corporate policies, tax transparency, double materiality assessment, executive compensation practices, and sustainability data reporting verification.

Engagement Outcomes

AIA demonstrates robust governance and risk and impact assessment practices. The board structure and governance of sustainability align with best practices to a great extent. The company has an impact management framework that meets the minimum expectations and is not involved in any significant business controversy. Additionally, AIA has developed strategies, targets, and results practices that have exceeded minimum expectations over the past year.

Insights & Outlook

AIA is advancing its AI adoption with a robust governance framework to ensure responsible use. The AI council oversees governance and risk assessment, with 15 AI use cases identified for 2024. AI is also integrated into its healthcare strategy for claims processing. AIA emphasizes continuous improvement of AI capabilities and governance, collaborating with suppliers to drive AI adoption and innovation. Additionally, AIA is focusing on regional developments, particularly in employee diversity, governance, and human capital, with more markets adopting the International Financial Reporting Standards Foundation's Sustainability Disclosure Standards (IFRS S2). It aims to standardize reporting across the region, driving meaningful change and meeting SDG achievements by 2030.

Case Study: Crédit Agricole SA (Crédit Agricole)

Biodiversity and Natural Capital Stewardship Programme - Engagement Since: 18 July 2022

Industry: **Banks**

Base Location: **France**

Crédit Agricole is the world's largest cooperative financial institution, originally founded to support the French agricultural sector. Due to its strong ties to the agri-food sector, Crédit Agricole's financing and investment portfolios are highly exposed to biodiversity-related risks.

Progress: **Good** | Response: **Excellent** | Latest Milestone: **1**

Engagement Update

In 2025, we held three engagements with Crédit Agricole, the most recent being an in-person meeting in December during the Finance for Biodiversity Summit. Together, we joined a workshop on livestock investment due diligence. Later we met with Amundi, the group's asset management arm, to discuss its deforestation-free policy and biodiversity investment trends. Despite global underperformance, strong domestic demand in France drove Amundi to launch a biodiversity credit fund.

Focus Area

Engagement focused on its ESG governance and participation in TNFD piloting projects. Sustainalytics provided toolkits to help address commodity-driven deforestation and strengthen human rights in its sectoral policy. Moving forward, discussions will continue on how Crédit Agricole assesses its nature-related impacts and financial risks, as well as the metrics and methods used for monitoring. The company is encouraged to transparently disclose its risk assessment results and establish a nature transition plan with clear targets to align with best practices.

Engagement Outcomes

Crédit Agricole recognized our efforts to bring investors' voices forward and embed biodiversity more deeply in its internal agenda. It has made progress throughout our engagement dialogue. In 2023, it published a statement on natural capital and biodiversity, outlining its commitment and strategic plan. Crédit Agricole actively participates in industry initiatives, joining two TNFD pilot projects and contributing to nature target-setting guidance for UNEP FI's Principles for Responsible Banking (PRB). Its latest development in its Group CSR Sector Policy is a robust policy that aligns with global standards and covers all high-risk commodities across its business lines.

Insights & Outlook

Crédit Agricole has shown transparency and leadership in integrating nature and biodiversity into governance, strategy, and disclosure. Key milestones include its Group CSR Sector Policy on Deforestation and Ecosystem Conversion, setting a strong precedent for addressing deforestation risks across portfolios. In June 2025, it committed to excluding financing for deep-sea mining projects, reinforcing its role in protecting ecosystems and supporting a responsible blue economy – a precaution few financial institutions have taken. Moving forward, robust implementation will be critical to halting biodiversity loss and supporting client transitions. We expect a call in Q1 2026.

Case Study: Equinor ASA (Equinor)

Material Risk/Strategy & Risk Engagement - Engagement Since: 24 August 2021

Industry: **Integrated Oil & Gas**

Country: **Norway**

ESG Risk Rating: **27.4**

Equinor is a Norway-based integrated energy company focused on oil, gas, and renewables. Operating mainly on the Norwegian Continental Shelf, it produced 2.1 million barrels of oil equivalent per day in 2024 and holds 6.1 billion barrels of proven reserves. Equinor targets net-zero emissions by 2050.

Progress: **Good** | Response: **Excellent** | Latest Milestone: **4**

Engagement Update

Morningstar Sustainalytics initiated engagement with Equinor in August 2021 and has maintained regular dialogue since. The company has consistently shown a willingness to engage and remains responsive to investor feedback.

In our latest call in October 2025, Equinor highlighted adjustments to its energy transition plan. It outlined changes in its investment approach toward renewable projects and offshore electrification, emphasizing that current priorities focus on value creation. The company noted that further expansion of low-carbon initiatives will depend on economic viability.

Focus Area

Our engagement will continue to prioritize Equinor's transition strategy, with particular attention to the pace and scope of low-carbon investments. Additional focus areas include strengthening risk management practices related to effluent control, occupational health and safety, and community relations.

Engagement Outcomes

Equinor advanced its climate strategy by detailing contributions of decarbonization levers to net-zero goals and joining the 2023 CDP Supply Chain Program, requiring suppliers to set emissions targets. It also released its first human rights report, outlining risk-based due diligence, community engagement, and grievance mechanisms, showing progress in sustainability governance and transparency.

Insights & Outlook

Equinor's sustainability strategy remains tied to its core business, balancing energy security with transition goals. Oil and gas anchor near-term value, while renewables and low-carbon solutions advance selectively where returns are strong. We will also touch on recent developments in Norway's Arctic region where relevant, given their emerging implications for long-term operational risks.

Case Study: LVMH Moët Hennessy Louis Vuitton SE (LVMH)

Global Standards/Incidents Engagement | Engagement Since: 29 August 2024

Industry: **Luxury Apparel**

Country: **France**

Incident Location: **Italy**

Global Standards Screening: **Watchlist**

LVMH Moët Hennessy Louis Vuitton SE (LVMH) is a global luxury group, operating across six segments, including fashion leather goods, watches, and jewelry. The company's subsidiary, Christian Dior SE, faced allegations of labor exploitation, and health and safety violations in its Italian supply chain in 2024.

Progress: **Standard** | Response: **Good** | Latest Milestone: **2**

Engagement Update

Engagement with LVMH began in September 2024, focusing on labour rights in the supply chain. The company has shown commitment by providing detailed responses to investor queries and consulting stakeholders like Morningstar Sustainalytics. During two conference calls in 2025, LVMH outlined governance reforms under its Duty of Vigilance programme, including enhanced oversight of supplier compliance. It also presented updated auditing systems, revised supplier requirements, and a strengthened policy framework aimed at improving labour conditions and accountability across its global operations.

Focus Area

This engagement focuses on LVMH's systems for screening and monitoring suppliers, improving purchasing practices, and establishing effective grievance mechanisms. It challenges the company to assess and mitigate the impacts of purchasing practices on working conditions and enhance disclosure.

Engagement Outcomes

The ultimate goal of the engagement is for LVMH to implement a comprehensive human rights due diligence framework that ensures effective oversight of all suppliers and enables prompt remediation in cases of non-compliance. At this stage, the company is committed to conducting detailed incident reviews to uncover root causes, identify systemic gaps, and develop targeted preventive strategies.

Insights & Outlook

Labour rights violations remain systemic across global supply chains, and the luxury sector is not exempt. While fast fashion brands are frequently scrutinized for purchasing practices that contribute to labour abuses, similar risks are increasingly evident in the luxury apparel industry. LVMH is well positioned to drive meaningful change: its relatively smaller, more stable supplier base enables stronger oversight and long-term engagement. To leverage this advantage, LVMH should review its procurement strategies and implement robust mechanisms to capture worker perspectives and supplier feedback, thereby promoting higher labour standards.

Vote Recommendation: Meta Platforms — Online Child Exploitation

ESG Voting Policy Overlay — Annual General Meeting, 2025

Resolution Topic:
Human Rights Policies & Due Diligence

Signal:
Sustainability Signal - Shareholder Resolution

Resolution Title:
Report on Child Safety Impacts and Actual Harm Reduction to Children

Timeline and Our Recommendations

- 2020-2025: Similar resolutions have appeared on Meta's proxy ballot each year for the past six years, averaging 51% non-affiliated shareholder support. Each year since 2021, we have consistently recommended a vote 'For'.
- In 2025, the resolution received 43% non-affiliated shareholder support.
- In 2025, a narrower resolution requesting further information on the risks of deepfakes in online child exploitation, which we also recommended in support of, received 21% support.

Company's Response

- The company highlights significant investments and platform changes aimed at enhancing child safety, though it does not specify new or future targets in this response.
- The Board argues that Meta already provides robust public disclosures, including quantitative metrics on enforcement actions, through its Community Standards Enforcement Reports and other transparency tools.
- Meta points to its collaboration with global child protection organizations and industry partners, suggesting a broader ecosystem approach to addressing child safety risks.

Significance

- The resolution requests that Meta publishes targets and quantitative metrics appropriate to assessing whether and how Meta has improved its performance globally regarding child safety impacts and actual harm reduction to children on its platforms.
- Meta faces growing legal scrutiny under laws like the EU Digital Services Act and the UK Online Safety Bill, highlighting the material financial and reputational risks tied to child safety failures.
- Meta's platforms were linked to the majority of global reports of child sexual abuse material (CSAM) in 2023, according to annual CyberTipline reporting by the National Center for Missing and Exploited Children (NCMEC), underscoring the scale of the problem and the company's central role in the global child safety ecosystem.[8]
- The proponent argued that, while Meta discloses some enforcement statistics, it lacks clear targets and consistent metrics for evaluating progress on child safety, especially in light of its shift to encrypted messaging, which may reduce visibility into harmful content.

Engagement Results - Provisum portfolio

430
meetings, including 7 in-person meetings

5,896
emails and phone calls exchanged

15
engagements resolved

290
Milestones achieved

203
Positive Developments

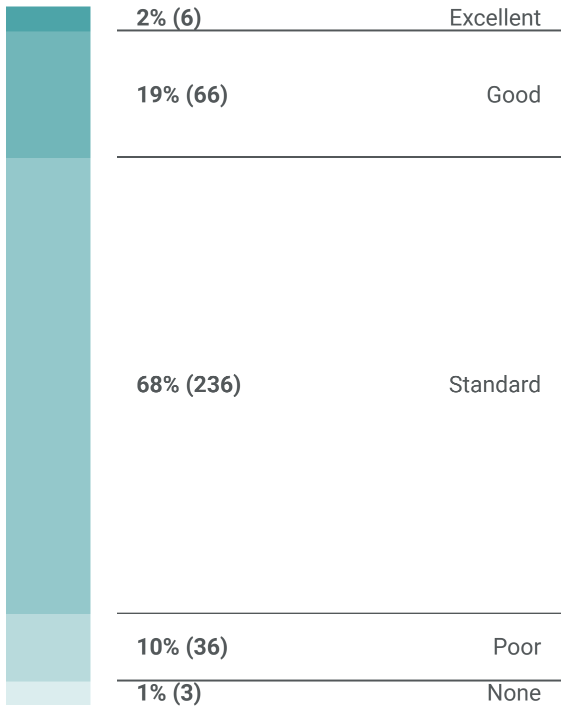
33%
of engagements with Excellent or Good Response

21%
of engagements with Excellent or Good Progress

Engagement Progress

Progress reflects the pace and scope of changes towards the engagement objective that the company is making, assessed on a five-point scale.

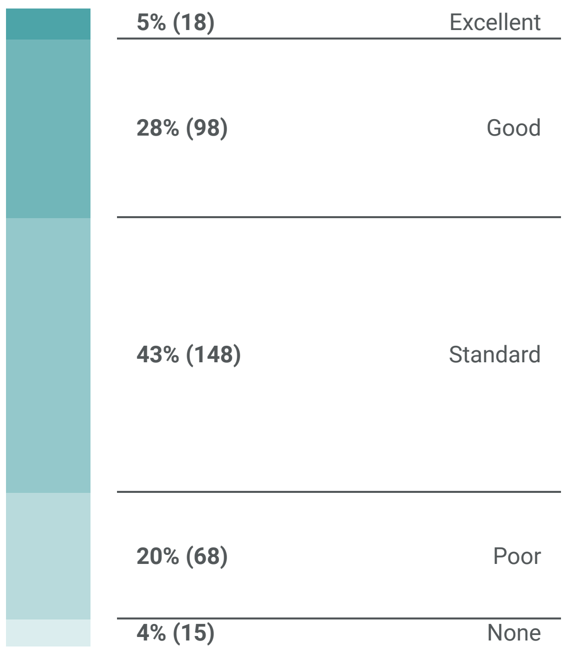
Excellent	The company has adopted a proactive approach and addressed the issues related to the change objective.
Good	The company has taken sufficient measures to address the issues related to the change objective.
Standard	The company has undertaken a number of measures to address the issues related to the change objective.
Poor	The company has indicated willingness to addressing the issues related to the change objective, but no measures have been taken yet.
None	The company has not made any progress against the engagement objective.



Engagement Response

Response reflects the company's willingness to engagement dialogue with investors, assessed on a five-point scale.

Excellent	The company is proactive in communicating around the issues related to the change objective.
Good	The company addresses all the issues related to the change objective.
Standard	The company provides responses to some of the issues related to the change objective.
Poor	The company has initially responded but not properly addressed the issues related to the change objective and is unwilling to engage further with us.
None	The company has not responded to the inquiries.



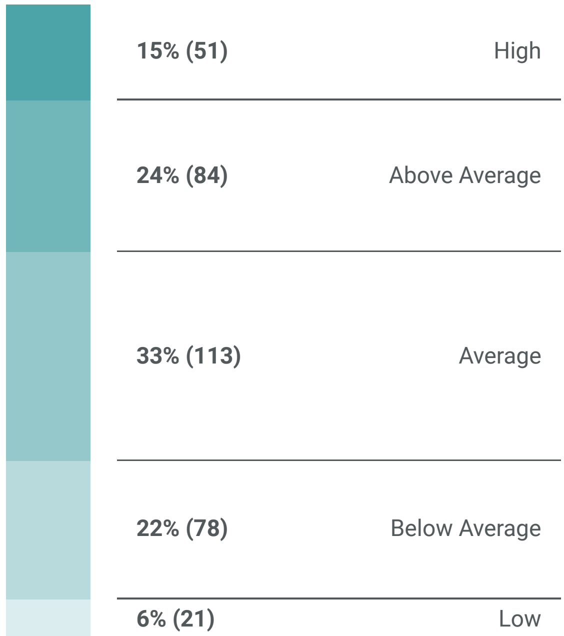
Engagement Performance

Performance describes the combined company Progress and Response.

Engagement Performance Assessment Update

We have five tiers to offer a nuanced understanding, the tiers are: Low, Below Average, Average, Above Average, and High.

The Progress and Response matrix below is used to determine performance.



Progress and Response Matrix

RESPONSE

PROGRESS	EXCELLENT	GOOD	STANDARD	POOR	NONE
	High	High	Above Average	Average	Average
	High	High	Above Average	Average	Average
	Above Average	Above Average	Average	Below Average	Below Average
	Average	Average	Below Average	Low	Low
	Average	Average	Below Average	Low	Low

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Engagement Milestones

Milestones are our five-stage tracking of progress in achieving the engagement objective.

290 Milestones achieved in 2025

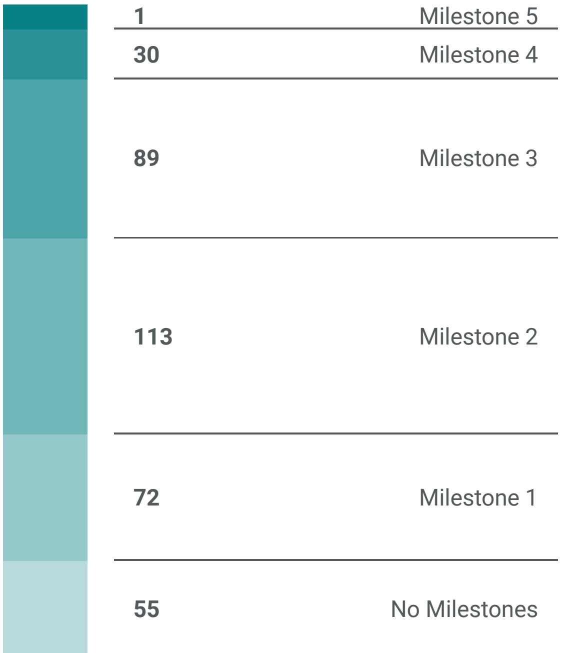
Milestones Framework

Resolved	Case successfully closed.
Milestone 5	Change objective is considered fulfilled.
Milestone 4	Implementation of strategy has advanced meaningfully, and related issuer disclosure maturing.
Milestone 3	Strategy is well formed and has moved into early stages of implementation.
Milestone 2	Issuer establishes a strategy to address the issue.
Milestone 1	Acknowledge of issue(s) and commitment to mitigation.

YTD Highest Milestone Achieved (Resolved)

Note: Cumulative year to date resolved cases.

Highest Milestone Achieved (Engage)



Note: Milestone distribution of ongoing Engage cases at the end of the reporting period.

Engagements Resolved

COMPANY	COUNTRY	INDUSTRY	ISSUE	FOCUS AREA	RELATED COMPANY	QUARTER
Barrick Mining Corp.	Canada	Precious Metals	Focus on Community Relations	Strategy & Risk	None	Q4
Caterpillar, Inc.	United States of America	Machinery	Focus on Product Governance	Strategy & Risk	None	Q4
McKesson Corp.	United States of America	Healthcare	Consumer Interests - Human Rights	Incidents	None	Q4
Medtronic Plc	Ireland	Healthcare	Quality and Safety - Human Rights	Incidents	None	Q4
NIPPON STEEL CORP.	Japan	Steel	Focus on Carbon Own Operations	Strategy & Risk	None	Q4
Panasonic Holdings Corp.	Japan	Industrial Conglomerates	Focus on Product Governance	Strategy & Risk	None	Q4
Rio Tinto Ltd.	Australia	Diversified Metals	Focus on Carbon and Resource Use	Strategy & Risk	None	Q4
Southwest Airlines Co.	United States of America	Transportation	Focus on Product Governance	Strategy & Risk	None	Q4
Westlake Corp.	United States of America	Chemicals	Focus on Emissions, Effluents and Waste	Strategy & Risk	None	Q4
SBI Holdings, Inc.	Japan	Diversified Financials	Focus on ESG Disclosure	Strategy & Risk	None	Q3
Sekisui Chemical Co., Ltd.	Japan	Industrial Conglomerates	Focus on Human Capital	Strategy & Risk	None	Q3

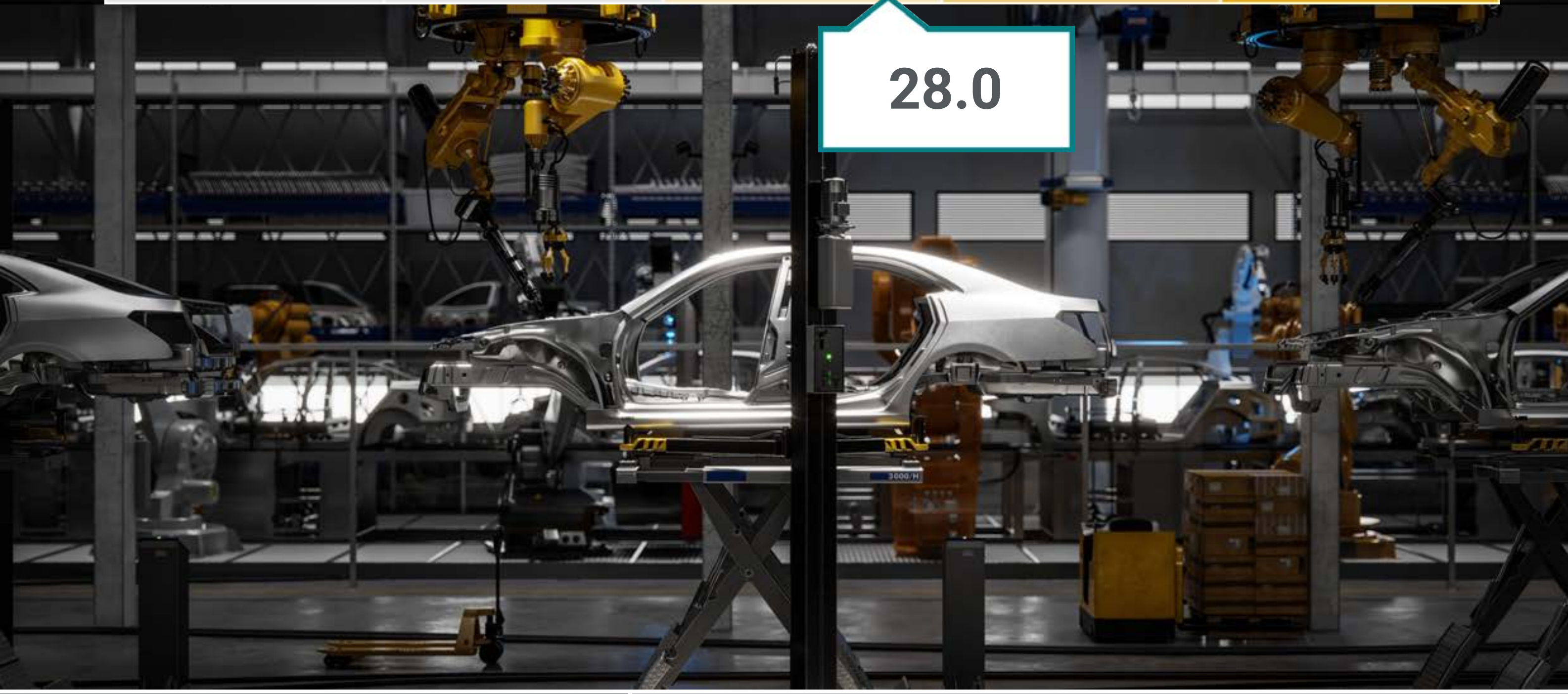
COMPANY	COUNTRY	INDUSTRY	ISSUE	FOCUS AREA	RELATED COMPANY	QUARTER
Freeport-McMoRan, Inc.	United States of America	Diversified Metals	Focus on Emissions, Effluents and Waste and Community Relations	Strategy & Risk	None	Q2
Universal Health Services, Inc.	United States of America	Healthcare	Focus on Risk Assessment and ESG Disclosure	Strategy & Risk	None	Q2
ANA HOLDINGS INC.	Japan	Transportation	Focus on Human Capital	Strategy & Risk	None	Q1
Toyota Motor Corp.	Japan	Automobiles	Focus on Carbon and E&S Impact of Products and Services	Strategy & Risk	None	Q1

Resolved - Toyota Motor Corp.

ESG Risk Ratings Score

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

28.0



INDUSTRY:
Automobiles

COUNTRY:
Japan

ENGAGEMENT FOCUS:
Corporate Governance

RATIONALE FOR RESOLVED STATUS:
In Q1 2025, Toyota Motor Corp. improved its ESG Risk Rating score to 28.

Positive Development Highlights:

- Toyota Motor Corp. has disclosed the member of Sustainability Meeting where it consists of the Board of Directors.
- The company has conducted materiality assessment using a double materiality approach.
- It has increased the proportion of independent directors from 0.33% to 0.4%.
- Toyota Motor Corp. has incorporated ESG (sustainability) metrics into the Board's remuneration.

Toyota Motor Corp.'s management score improved by 8.1 points, bringing the company into the medium risk category.

Resolved - Barrick Mining Corp. (Barrick Mining)

ESG Risk Ratings Score

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

20.8

INDUSTRY:
Gold

COUNTRY:
Canada

ENGAGEMENT FOCUS:

- **Water Use – Own Operations**
- **Carbon – Own Operations**
- **Emissions, Effluents and Waste**
- **Human Capital**

RATIONALE FOR RESOLVED STATUS:
In Q4, 2025 Barrick Mining improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- Barrick Mining established Community Development Committees with more than USD 26.5M invested in 2021.
- The company disclosed initiatives to promote economic development following closure of its Buzwagi mine, including transformation plans, creating a Special Economic Zone with potential for 3,000 jobs annually, USD150,000 each year from service levies, and more than USD4.5 million in employment taxes.
- Scope 3 category-level reduction targets set in 2023 are both quantitative and qualitative, addressing Category 1 (goods & suppliers), Category 3 (fuels & energy), and Category 10 (downstream copper processing).
- Barrick Mining continued to enhance reporting on physical climate change risk by identifying physical climate risks (extreme heat, cold/snow, flooding, droughts, and storms) at the asset level, details of potential for increased operational and maintenance costs, as well as its management approach to mitigating these risks.

Barrick Mining's management score improved by 12.9 points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement.

Low Performance Engagements

When a case is added to the Low Performance list, a 24-month process of specific engagement using a wide range of engagement tools e.g. collaborative investors letters or letters to the company's board, will take place. After two years, the case will be reviewed and a Disengage status can be selected to reflect all other engagement options have been ineffective.

For each Low Performance case, there is a **Low Performance Time Tracker** which illustrates the time elapsed.

COMPANY	COUNTRY	ISSUE	FOCUS AREA	PROGRESS	RESPONSE	TIME TRACKER
						One piece equals three months.
Alphabet, Inc.	United States of America	TSP - Net Zero Transition	Themes	Poor	Poor	0-3
Amazon.com, Inc.	United States of America	Freedom of Association	Incidents	Poor	Poor	0-3
Berkshire Hathaway, Inc.	United States of America	TSP - Net Zero Transition	Themes	Poor	None	0-3
Boliden AB	Sweden	TSP - Net Zero Transition	Themes	Poor	Poor	0-3
Brookfield Corp.	Canada	TSP - Sustainability and Good Governance	Themes	Poor	Poor	0-3
Canon, Inc.	Japan	TSP - Sustainability and Good Governance	Themes	Poor	Poor	0-3
Occidental Petroleum Corp.	United States of America	Focus on Carbon and Emissions, Effluents and Waste	Strategy & Risk	Poor	None	0-3
Steel Dynamics, Inc.	United States of America	TSP - Net Zero Transition	Themes	Poor	None	0-3
Marathon Petroleum Corp.	United States of America	TSP - Net Zero Transition	Themes	Poor	Poor	3-6

COMPANY	COUNTRY	ISSUE	FOCUS AREA	PROGRESS	RESPONSE	TIME TRACKER
						One piece equals three months.
ARC Resources Ltd.	Canada	Focus on Emissions, Effluents and Waste	Strategy & Risk	Poor	None	6-9
Exxon Mobil Corp.	United States of America	TSP - Net Zero Transition	Themes	Poor	Poor	6-9
Occidental Petroleum Corp.	United States of America	TSP - Net Zero Transition	Themes	Poor	Poor	6-9
The Walt Disney Co.	United States of America	TSP - Human Capital Management	Themes	Poor	Poor	6-9
Amazon.com, Inc.	United States of America	TSP - Net Zero Transition	Themes	Poor	None	9-12
Daiichi Sankyo Co., Ltd.	Japan	TSP - Sustainability and Good Governance	Themes	Poor	Poor	9-12
EOG Resources, Inc.	United States of America	Focus on Emissions, Effluents and Waste	Strategy & Risk	Poor	None	12-15
Whitecap Resources, Inc.	Canada	Focus on ESG Disclosure	Strategy & Risk	Poor	Poor	12-15
James Hardie Industries Plc	Ireland	TSP - Net Zero Transition	Themes	Poor	Poor	15-18
Targa Resources Corp.	United States of America	Focus on Emissions, Effluents and Waste and Community Relations	Strategy & Risk	Poor	Poor	15-18

COMPANY	COUNTRY	ISSUE	FOCUS AREA	PROGRESS	RESPONSE	TIME TRACKER
				One piece equals three months.		
Exxon Mobil Corp.	United States of America	Focus on Carbon and Emissions, Effluents and Waste	Strategy & Risk	Poor	Poor	+ Above 24
Starbucks Corp.	United States of America	TSP - Biodiversity and Natural Capital	Themes	Poor	Poor	+ Above 24

Engagement Status Updates - Provisum portfolio

The following is an overview of all engagement status updates from 1 January to 31 December 2025.

New Engage

COMPANY	COUNTRY	ISSUE	FOCUS AREA	RELATED COMPANY	QUARTER
Comfort Systems USA, Inc.	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q4
CVS Health Corp.	United States of America	Anti-Competitive Practices	Incidents	None	Q4
Entergy Corp.	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q4
Expand Energy Corp.	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q4
Singapore Technologies Engineering Ltd.	Singapore	New Case - Focus to be Determined	Strategy & Risk	None	Q4
Snap-On, Inc.	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q4
The Cigna Group	United States of America	Anti-Competitive Practices	Incidents	None	Q4
Trelleborg AB	Sweden	New Case - Focus to be Determined	Strategy & Risk	None	Q4
UnitedHealth Group, Inc.	United States of America	Anti-Competitive Practices	Incidents	None	Q4
Allianz SE	Germany	TSP - Sustainability and Good Governance	Themes	None	Q3
EMCOR Group, Inc.	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q3
EQT Corp.	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q3

COMPANY	COUNTRY	ISSUE	FOCUS AREA	RELATED COMPANY	QUARTER
Kellanova	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q3
PACCAR, Inc.	United States of America	New Case - Focus to be Determined	Strategy & Risk	None	Q3
The Sherwin-Williams Co.	United States of America	Focus on E&S Impact of Products and Services	Strategy & Risk	None	Q3
Alphabet, Inc.	United States of America	Anti-Competitive Practices	Incidents	Apigee, Corp.	Q2
Dominion Energy, Inc.	United States of America	Focus on Occupational Health and Safety and Emissions, Effluents and Waste	Strategy & Risk	None	Q2
Mitsui & Co., Ltd.	Japan	Focus on Product Governance	Strategy & Risk	None	Q2
TAISEI Corp.	Japan	Focus on Corporate Governance	Strategy & Risk	None	Q2
Tourmaline Oil Corp.	Canada	Focus on Carbon and Emissions, Effluents and Waste	Strategy & Risk	None	Q2
ABB Ltd.	Switzerland	TSP - Human Rights and Transition	Themes	None	Q1
Albemarle Corp.	United States of America	TSP - Human Rights and Transition	Themes	None	Q1
Anglo American Plc	United Kingdom	TSP - Human Rights and Transition	Themes	None	Q1
Antofagasta Plc	United Kingdom	TSP - Human Rights and Transition	Themes	None	Q1
Best Buy Co., Inc.	United States of America	TSP - Scaling Circular Economies	Themes	None	Q1
BHP Group Ltd.	Australia	TSP - Human Rights and Transition	Themes	None	Q1
Bloom Energy Corp.	United States of America	TSP - Human Rights and Transition	Themes	None	Q1

COMPANY	COUNTRY	ISSUE	FOCUS AREA	RELATED COMPANY	QUARTER
Centrica Plc	United Kingdom	TSP - Human Rights and Transition	Themes	None	Q1
CVS Health Corp.	United States of America	Consumer Interests - Human Rights	Incidents	Oak Street Health, Inc.; Signify Health, Inc.	Q1
Dell Technologies, Inc.	United States of America	TSP - Scaling Circular Economies	Themes	None	Q1
E.ON SE	Germany	TSP - Human Rights and Transition	Themes	None	Q1
Eastman Chemical Co.	United States of America	Focus on Carbon and Emissions, Effluents and Waste	Strategy & Risk	None	Q1
Edison International	United States of America	TSP - Human Rights and Transition	Themes	None	Q1
ENGIE SA	France	TSP - Human Rights and Transition	Themes	None	Q1
Exelon Corp.	United States of America	TSP - Human Rights and Transition	Themes	None	Q1
First Quantum Minerals Ltd.	Canada	TSP - Human Rights and Transition	Themes	None	Q1
First Solar, Inc.	United States of America	TSP - Human Rights and Transition	Themes	None	Q1
Freeport-McMoRan, Inc.	United States of America	TSP - Human Rights and Transition	Themes	None	Q1
HP, Inc.	United States of America	TSP - Scaling Circular Economies	Themes	None	Q1
Iberdrola SA	Spain	TSP - Human Rights and Transition	Themes	None	Q1
ITOCHU Corp.	Japan	Focus on Product Governance	Strategy & Risk	None	Q1

COMPANY	COUNTRY	ISSUE	FOCUS AREA	RELATED COMPANY	QUARTER
Lynas Rare Earths Ltd.	Australia	TSP - Human Rights and Transition	Themes	None	Q1
Newmont Corp.	United States of America	TSP - Human Rights and Transition	Themes	None	Q1
Norsk Hydro ASA	Norway	TSP - Human Rights and Transition	Themes	None	Q1
Panasonic Holdings Corp.	Japan	TSP - Scaling Circular Economies	Themes	None	Q1
Rio Tinto Ltd.	Australia	TSP - Human Rights and Transition	Themes	None	Q1
Royal KPN NV	Netherlands	TSP - Scaling Circular Economies	Themes	None	Q1
Sony Group Corp.	Japan	TSP - Scaling Circular Economies	Themes	None	Q1
Suzuki Motor Corp.	Japan	TSP - Scaling Circular Economies	Themes	None	Q1
Swisscom AG	Switzerland	TSP - Scaling Circular Economies	Themes	None	Q1
Telenor ASA	Norway	TSP - Scaling Circular Economies	Themes	None	Q1
Vestas Wind Systems A/S	Denmark	TSP - Human Rights and Transition	Themes	None	Q1
Walgreens Boots Alliance, Inc.	United States of America	Consumer Interests - Human Rights	Incidents	None	Q1
Wheaton Precious Metals Corp.	Canada	TSP - Human Rights and Transition	Themes	None	Q1
Ørsted A/S	Denmark	TSP - Human Rights and Transition	Themes	None	Q1

New Associated

COMPANY	COUNTRY	ISSUE	FOCUS AREA	RELATED COMPANY	QUARTER
Blackstone, Inc.	United States of America	Child Labour	Incidents	Fortrex, Inc.	Q2

New Archived

COMPANY	COUNTRY	ISSUE	FOCUS AREA	PREVIOUS STATUS	RELATED COMPANY	QUARTER
Hess Corp.	United States of America	Focus on Carbon Products and Services	Strategy & Risk	Engage	None	Q4
Meta Platforms, Inc.	United States of America	Focus on Data Privacy and Security	Strategy & Risk	Engage	None	Q4
PACCAR, Inc.	United States of America	New Case - Focus to be Determined	Strategy & Risk	Engage	None	Q4
Walgreens Boots Alliance, Inc.	United States of America	TSP - Human Capital Management	Themes	Engage	None	Q4
Walgreens Boots Alliance, Inc.	United States of America	Consumer Interests - Human Rights	Incidents	Engage	None	Q4
Rivian Automotive, Inc.	United States of America	Focus on Product Governance	Strategy & Risk	Engage	None	Q3
Teledyne Technologies, Inc.	United States of America	Focus on Risk Assessment	Strategy & Risk	Engage	None	Q3
The Kraft Heinz Co.	United States of America	Focus on Product Governance	Strategy & Risk	Engage	None	Q3
Barry Callebaut AG	Switzerland	TE - Human Rights Accelerator	Themes	Engage	None	Q2
BHP Group Ltd.	Australia	TE - Human Rights Accelerator	Themes	Engage	None	Q2
First Quantum Minerals Ltd.	Canada	TE - Human Rights Accelerator	Themes	Engage	None	Q2

COMPANY	COUNTRY	ISSUE	FOCUS AREA	PREVIOUS STATUS	RELATED COMPANY	QUARTER
Freeport-McMoRan, Inc.	United States of America	TE - Human Rights Accelerator	Themes	Engage	None	Q2
Microchip Technology, Inc.	United States of America	Focus on Product Governance	Strategy & Risk	Engage	None	Q2
Mondelez International, Inc.	United States of America	TE - Human Rights Accelerator	Themes	Engage	None	Q2
Nestlé SA	Switzerland	TE - Human Rights Accelerator	Themes	Engage	None	Q2
Newmont Corp.	United States of America	TE - Human Rights Accelerator	Themes	Engage	None	Q2
Panasonic Holdings Corp.	Japan	TE - Human Rights Accelerator	Themes	Engage	None	Q2
Sony Group Corp.	Japan	TE - Human Rights Accelerator	Themes	Engage	None	Q2
Sumitomo Metal Mining Co. Ltd.	Japan	TE - Human Rights Accelerator	Themes	Engage	None	Q2
The Hershey Co.	United States of America	TE - Human Rights Accelerator	Themes	Engage	None	Q2
Amazon.com, Inc.	United States of America	Focus on Risk Assessment and ESG Disclosure	Strategy & Risk	Engage	None	Q1
Caterpillar, Inc.	United States of America	Involvement With Entities Violating Human Rights	Incidents	Engage	None	Q1

Universe Change Impact

COMPANY	COUNTRY	INDUSTRY	ISSUE	FOCUS AREA	NOTES	QUARTER
Apigee Corp.	United States of America	Software & Services	Anti-Competitive Practices	Incidents	Entity no longer eligible for Morningstar Sustainalyitcs' research. Previous status: Associated	Q3
Aptiv Irish Holdings Ltd.	Ireland	Auto Components	Scaling Circular Economies	Themes	Entity mapped to Aptiv Plc	Q3
Bunge Ltd.	United States	Food Products	Land Use and Biodiversity	Incidents	Entity mapped to Bunge Global SA. Previous status: Associated	Q1
DSM BV	Switzerland	Pharmaceuticals	Biodiversity and Natural Capital	Biodiversity and Natural Capital	Entity mapped to DSM-Firmenich AG	Q1
Medtronic, Inc.	United States	Healthcare	Quality and Safety - Human Rights	Incidents	Entity mapped to Medtronic Plc. Previous status: Associated	Q1

Stewardship in Action: Investor Voices at Financing for Development and in the Compromiso de Sevilla

Henry Pallister-Dixon
Director, Stewardship
Morningstar Sustainalytics

From Pledges to Pipelines: Aligning Private Capital with the SDGs

At the Fourth International Conference on Financing for Development (FFD4) in Seville, Spain, Morningstar Sustainalytics helped lead a critical conversation on mobilizing private sector capital for sustainable development. This historic event – culminating in the Compromiso de Sevilla[9] – addressed the USD 4 trillion annual financing gap needed to achieve the Sustainable Development Goals (SDGs) and recognized investors as essential partners in global policy frameworks.

Why Seville Matters

The Compromiso de Sevilla outcome document is a turning point. It calls for:

- Blended finance and risk sharing mechanisms to unlock private capital.
- Debt architecture reforms and innovative instruments such as debt for climate swaps.
- Transparency and sustainability reporting, with Paragraph 34(e) encouraging adoption of ISSB and GRI standards to ensure decision useful, comparable data.
- Investor inclusion, explicitly acknowledging the role of institutional investors in financing sustainable development.

Our Role at FFD4

Morningstar Sustainalytics co-hosted the side session *Private Sector Capital – A Dialogue with Global Investors*, alongside the Government of Zambia, JP Morgan, and GRI. Moderated by Ruthann Bartello, CFA, Senior Director and Global Lead for Stewardship Solutions, the session convened global investors and market leaders to explore how private capital can be effectively mobilized in support of sustainable development.

Highlights from the session included:

- **JP Morgan** shared how its Development Finance Institution has mobilized USD 20 billion through innovative methodologies that measure anticipated development impact, helping establish development finance as an investable asset class.
- **GRI** emphasized that the financing gap is not simply a capital shortage, but an information failure – underscoring the importance of robust, interoperable sustainability reporting standards.
- **Investor participants** discussed practical challenges, including fragmented SDG data, the absence of globally consistent impact frameworks, and the need for effective blended finance structures that support scalability.

Answering the Key Questions

1. **Why is it important for investors to have a voice in forums like the UN Summit of the Future?**
   Investor participation helps shape system level frameworks that align capital flows with SDG priorities. Engagement ensures that emerging global norms, disclosure requirements, and financial reforms support – rather than constrain – sustainable investment and real world impact.

2. **What value do investors see in engaging with the UN or multilateral development banks (MDBs)?**
    a. Engagement enables alignment between policy ambition and investment reality.
    b. MDBs play a critical role in de-risking investments, supporting blended finance, and enabling private capital to flow into emerging and frontier markets at scale.
    c. Collaboration with UN bodies helps investors better understand country level priorities and development needs.
3. **What material insights do investors take back from FFD4?**
    a. Greater awareness of the breadth of UN and country level development data available to inform investment strategies.
    b. Opportunities for engagement around microfinance, SME financing, and climate adaptation solutions.
    c. Direct dialogue with standard setters and financial institutions on improving data infrastructure and interoperability.
4. **Are investors more or less optimistic about the future of sustainable finance?**
While participants acknowledged the limitations of earlier ESG approaches, there was strong consensus that impact-oriented investing, supported by clearer data, better frameworks, and aligned incentives, represents a credible and scalable path forward.

Key Takeaways

- **Investors are no longer on the sidelines.** The FFD4 process marks a shift from high-level commitments to structured, implementation focused engagement.
- **Transparency is critical.** Paragraph 34(e) of the Compromiso de Sevilla elevates sustainability reporting as a public good and a foundational enabler of capital allocation.
- **Blended finance must prioritize additionality.** Public capital should de-risk investments without crowding out private participation.
- **Global impact frameworks are imperative.** A credible, UN aligned framework for impact investing would accelerate mainstream adoption and comparability.

Looking Ahead

The road from Seville leads to action. For investors, this means:

- **Building data pipelines** that integrate SDG metrics into ESG platforms and risk tools.
- **Supporting disclosure infrastructure** that connects corporate data with UN country teams and development priorities.
- **Driving capital pipelines** that translate policy commitments into investable, scalable opportunities.

Morningstar Sustainalytics remains committed to amplifying investor voices and delivering decision useful analytics that turn sustainability goals into real world outcomes. As Ruthann Bartello, CFA concluded:

"The SDGs are not just a moral imperative – they're a strategic opportunity. To unlock their potential, we need better data, stronger frameworks, and deeper collaboration."

Why Culture is a Key Driver for Building a Resilient Company

Joe Attwood
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Global Standards/Incidents Engagement
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Today's business environment seems to be continuously disrupted, whether through increased political interference, rapid technological advancements, or seemingly never-ending changes in consumer behavior, coupled with a changing climate bringing increased environmental risks. To successfully respond, businesses must be agile and adaptable, they must show resilience. A resilient company is one that can exhibit five key traits and characteristics: **preparedness, adaptability, collaboration, trust, and responsibility.**[10]

However, over-arching above all of these traits is one controlling factor and that is 'culture'. This refers to the set of shared values, beliefs, attitudes, and practices that characterizes the business. Most significantly it can be considered as the collective way employees and management interact, perform tasks, and handle business operations.

In all our engagements, we review organizational culture as a primary focus for building the engagement content. We recognize that a poor or weak culture can lead to violations of international norms or be rated as poor performer from ESG perspective. In our view, a strong culture is essential to prevent re-occurrence of violations, whilst also building resilience. This is particularly evident in our cases focusing on health and safety and business ethics.

Identifying Weak Points in Corporate Culture

As we begin our engagement process, reviewing the issues that potentially created the violation, our approach is to ask ourselves a series of probing questions. Each question is designed in part to be open ended, 'what internal controls were in place that could have prevented the violation?', or 'why was management and oversight not focused?', with a view to diving deeper and moving to more closed ended questions (yes/no) as the engagement progresses.

Case Study – Part 1: Example of a Car Manufacturer

When the Culture is not Strong

We have been engaging with a car manufacturer accused of fraud related to issuing false data to secure certification from the regulator and thereby allowing mass production to commence. The incident highlighted significant issues within the company, not only the falsification of data but also procedural irregularities. Once the regulators became aware of the situation the company was prosecuted resulting in substantial financial penalties, revocation of approvals, and extensive recalls.

Uncovering the Root Causes

From our engagement perspective two scenarios were developed – either it was a breakdown of ethical behaviour (company-wide systemic failure) or it was a small part of the workforce acting independently (localized employee misconduct) or some form of combination of both.

In support of our open-ended questions examining governance, processes, and auditing controls, we also assessed whether those speaking to us were confident in narrating the culture of ethics that should exist, as we expected there to be. Alongside this, we wanted to examine in more detail how various business units communicated with one another, and whether there was a common language.

Our conversations around corporate culture focus on the following key areas:

- **Compliance with Ethical Standards:** A poor corporate culture often lacks strong ethical guidelines and values. Without a clear commitment to ethical behavior, employees may feel less obligated to adhere to the expected 'rules'.
- **Strength of Leadership:** Ineffective leadership can fail to set a good example or enforce compliance. Leaders who do not prioritize ethical behavior and compliance can create an environment where violations are more likely to occur.
- **Employee Engagement:** In a poor culture, employees are often disengaged and less motivated to follow rules. Disengaged employees may not see the value in adhering to required standards and may be more likely to cut corners.
- **Training:** Companies with poor cultures may not invest in proper training for their employees. Training can be an effective form of motivation and also empowerment.
- **Pressure to Perform:** In a dysfunctional culture, there may be excessive pressure to achieve results at any cost. This pressure can lead employees to bypass rules and regulations to meet targets.
- **Lack of Consequence:** Poor cultures often lack mechanisms for consequence or accountability. When violations occur, they may go unpunished, leading to a cycle of non-compliance. Conversely where there are positive attributes or behaviors incentives may not be given.

Case Study – Part 2: Engagement in Action

Engagement Outcomes – Understanding the Problem

Two years of engagement with the car manufacturer revealed that the culture was indeed weak; there was an absence of a 'speak up' culture, employees felt disempowered, management was unaware of issues and was target-driven; consequence management was absent, as was focused and targeted quality control. Additionally, the target-driven approach forced staff to fraudulently alter data to avoid bottlenecks in the production line, as they did not want to be singled out for 'letting the team' down. The issue was further compounded by weak communication between teams, known as the 'silo' effect. All the aspects listed above were identified as being present and all contributed to the violation the company committed.

Taking Steps and Moving Forward

Importantly, the company has recognized these weaknesses and has been rapidly reorganizing its approach from the top down. One of the most significant changes is creating a 'speak up' environment to ensure workers feel empowered to be part of the solution. Additionally, the Board is undergoing effectiveness assessements to ensure they remain fit for purpose as changes occur across the manufacturing plants.

Conclusion

Building a resilient company requires more than just strategic planning and risk management. It requires a strong and positive corporate culture that supports and empowers employees. By fostering shared values, engagement, adaptability, strong leadership, collaboration, well-being, and trust, companies can create a resilient culture that not only withstands challenges but also thrives in the face of adversity, providing sustained returns for shareholders.

From Policy to Practice: Crafting Grievance Mechanisms that Drive Impact

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Key Insights:

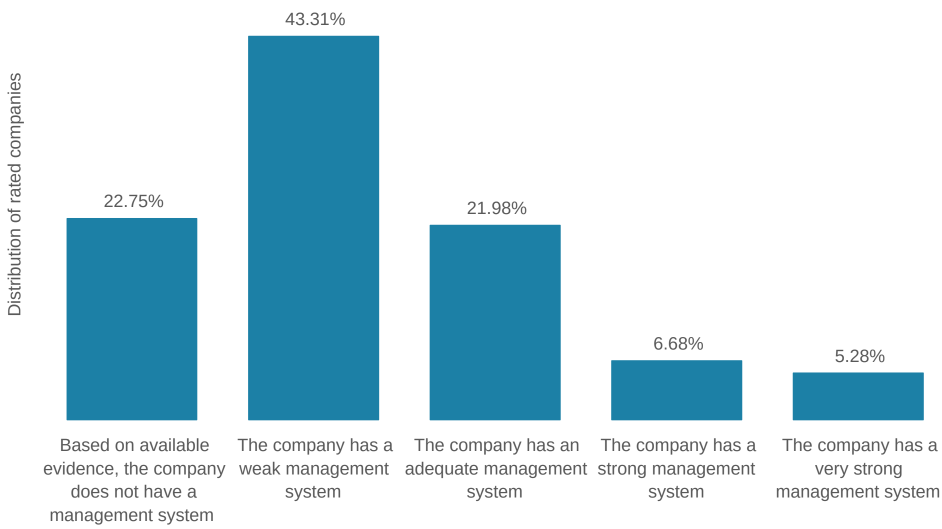
- There are identified gaps in corporate practices regarding grievance mechanisms.
- Effective grievance mechanisms help mitigate company risks and enhance corporate resilience.
- Investor-led engagement can drive meaningful improvements in how companies manage their grievance mechanisms.
- Anticipating challenges and planning responses at the outset is a key step for success.
- Communication with stakeholders during the design phase to understand the accessibility challenges and retaliation risks of rights holders is a fundamental early-stage requirement.

Identifying the Problem

Data from Morningstar Sustainalytics ESG risk ratings indicates that the majority of listed companies more than likely lack effective grievance mechanisms, particularly within their supply chains. An operational-level grievance mechanism is a process operated by a company through which grievances concerning business-related human rights issues can be raised and an effective remedy can be sought.[11,12]

One key metric in the ESG risk ratings, the indicator of Supply Chain Management on Human Rights, assesses several subcomponents. Among others, it evaluates whether companies provide formal channels for supply chain workers to voice concerns. The findings reveal that two-thirds of the more than 4,000 companies analyzed either have no systems in place or operate weak management systems for addressing human rights issues in their supply chains (Figure 1). This is reinforced through company dialogues of Global Standards/Incidents Engagement and has become a key area of focus.

Figure 1 Distribution of Company Performance on Supply Chain Human Rights Management.



Source: Morningstar Sustainalytics. For informational purposes only.
Note: Companies for which research data is unavailable or inapplicable are excluded from the chart.

Why are Effective Grievance Mechanisms Important?

Although few companies disclose that they have operational-level grievance mechanisms, we are cognizant of the fact that such systems help companies mitigate operational, reputational, and regulatory risks, a strong motivator for change. A growing body of research demonstrates a positive correlation between effective grievance mechanisms and improved economic performance and workforce productivity.[13,14,15,16] Additionally, grievance mechanisms play a crucial role in managing reputational risks, helping to address minor concerns before they escalate. Those designed for local communities foster mutual communication, strengthen corporate reputation, and even generate positive publicity for the company.[17,18]

Moreover, grievance mechanisms have increasingly become a legal obligation. The EU Whistleblowing Directive (Directive (EU) 2019/1937) and the Corporate Sustainability Due Diligence Directive (Directive (EU) 2024/1760) require companies to establish internal reporting channels, ensuring access to remedy for the aggrieved parties.

For many investors, the widespread exposure of their investees to these risks makes them material considerations. ESG stewardship and engagement offer institutional investors a unique opportunity to drive meaningful change. Through engagement dialogue and shareholder resolutions, investors can convey their concerns and offer supportive recommendations, guiding companies toward more effective practices, building their resilience and reducing future risk.

What Makes a Grievance Mechanism Effective

It is necessary for companies to implement credible and effective grievance mechanisms in order to deliver on their human rights commitments. A grievance system that exists only on paper can never deliver resilience building value, and indeed can have the opposite effect, undermining company performance. The UN Guiding Principles for Business and Human Rights (UNGPs) have identified eight essential criteria for effective grievance mechanisms: legitimacy, accessibility, predictability, equitability, transparency, rights-compatible, a process for continuously learning, and based on engagement and dialogue.[19] While these criteria appear straightforward, operationalizing them can be complex.

To make mechanisms effective, companies need to apply all eight criteria throughout the design, establishment, evaluation, and reporting stages of delivery. Since many companies are still in the early stages of establishing grievance mechanisms, our engagement has a strong focus on the design phase and, through our engagements, we outline key priorities to motivate the company to ensure effectiveness from the start.

Learning from Engagement: Common Pitfalls and Better Practices

We have identified, largely through our engagement activities, that companies invest significant resources in building grievance mechanisms before they actually communicate and promote them to the rights holders they are intended to serve. However, we recommend reversing this approach—communication should begin before the design phase, to ensure the mechanism is tailored to rights holders' needs. For instance, office employees, shop cashiers, and young factory workers may find a mobile phone-based channel convenient and easy to use, while farmers and Indigenous communities, who have limited internet access, may struggle with this platform. Importantly, consultation and engagement with rights holders also enhances the perceived legitimacy of the mechanism.

Case Study 1. Top Glove: Choosing the Most Suitable Channel for Rights Holders[20]

> To engage young migrant workers, the company uses social media as one of the platforms for raising grievances. It also turns out to be a good place to promote the grievance mechanism itself. As workers share positive outcomes on social media, their peers gain the confidence to use the mechanism, fostering a cycle of trust and participation.

As part of the development process, companies should anticipate potential grievances to ensure a fair investigation process can be created. Certain cases require external oversight or independent investigators to avoid conflicts of interest, further ensuring credibility. For example, if a local community files a grievance against a company, an internal investigation might lack impartiality, making an independent review more appropriate. Similarly, if a complaint is filed against a human resources (HR) manager, having an HR staff member investigate may raise concerns about bias and trust.

Case Study 2. Golden Agri: Ensuring Equality in Grievance Handling[21]

> Acknowledging that individuals often lack the resources and power to navigate the daunting and lengthy complaint procedures, the company collaborates with local civil society organizations to support individuals throughout the grievance process. Individual farmers and farm workers can report their concerns to trusted local organizations with legal expertise. These organizations then escalate the issues to the company, monitor progress, and help negotiate solutions.

Thorough investigation requires comprehensive information, but it must simultaneously ensure confidentiality and prevent retaliation. This is especially critical in workplace sexual harassment cases, where privacy is essential for protecting all involved parties. Companies must design the investigation process considering factors such as culture, power relations, and other contextual influences.

Case Study 3. Lenovo Group Limited: Leveraging Technology to Ensure Privacy and Prevent Retaliation[22,23]

> Lenovo Group Limited recognizes that grievance reporters are often vulnerable to and fear retaliation. In some cases, investigations had to be paused or ended because reporters withdrew due to fear or actual retaliation. To address this, the company developed a digital platform that enables supply chain workers to report concerns anonymously while maintaining two-way communication. This allows the company to follow up and gather information for investigations while protecting the reporter's identity.

A viable solution is to implement a 'decision tree' to structure a company's approach to investigations. A decision tree considers factors such as severity of the grievance, type of issue, stakeholders involved, confidentiality needs, and legal requirements. A balanced investigation process must be both consistent – adhering to clear principles and procedures – and case-dependent, adapting to the specifics of each grievance.

In Summary

Anticipating risks and challenges at the outset is essential to building a strong, trustworthy grievance mechanism. One key tool to achieving that is proactive stakeholder consultation. Consulting stakeholders and leveraging their insights to assess the design of the grievance mechanism is highly beneficial for companies. This approach can help reduce costs and mitigate risks by identifying potential issues early and fostering collaborative problem-solving. Global Standards/Incidents Engagement collaborates closely with companies, providing feedback and support throughout their journey. While there is still much to accomplish, laying a strong foundation is already a significant step toward success.

To Spend or Not to Spend: how Companies are Investing in Decarbonization

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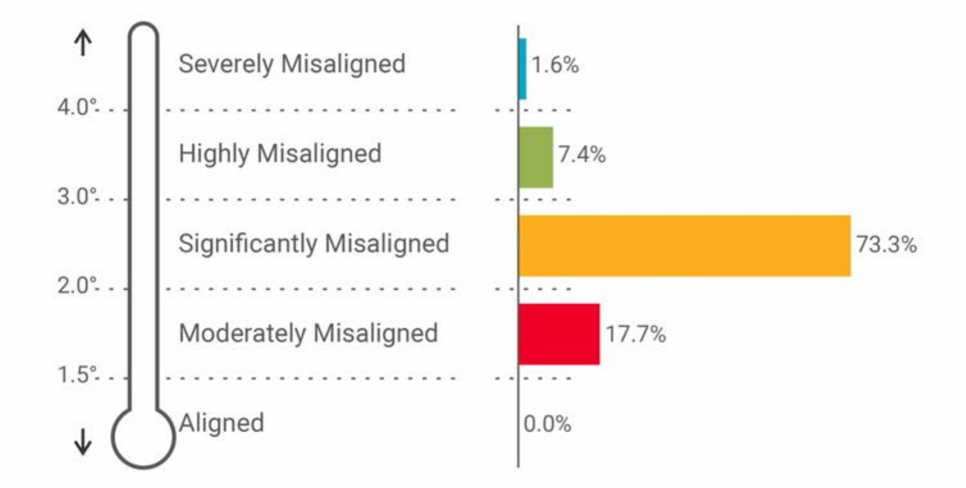
In the long transition to a low-carbon economy, two key milestones were reached in the last quarter. First, according to Bloomberg NEF, "Clean energy additions appear finally to have caught up with energy-demand growth" indicating that the peak of energy-related CO2 emissions has been reached.[24] What comes next seems likely to be the long and uneven process of structural emission decline.

Secondly, for the first time since its launch several years ago, Morningstar Sustainalytics' Low Carbon Transition Rating has rated two companies – both banks – as aligned with a 1.5°C future, out of more than 15,000 assessed.[25] While this offers limited choice when building a net zero aligned portfolio, the growing number of companies aligned with a 2.0°C pathway or better is an encouraging sign of progress.

Figure 2 Distribution of companies' low-carbon transition rating alignment – most companies are between 2°C and 3°C.



Source: "Low Carbon Transition Rating." Morningstar Sustainalytics. Data as of September 2025.

Key Questions

With evidence of the immediacy of the low carbon transition growing, companies face two critical questions: How much to invest in transitioning their business to a low carbon future, and how to create value from the transition?

Nearly all companies engaged through the Net Zero Transition Stewardship Programme have earmarked budget for decarbonization, although not all disclose how much they are spending. Among those that do, investments range from USD 150 million to several billion annually depending on the industry and the company's position in it. These investments generally go towards building and improving a green product offering to meet current or future customer demand. Notably, 25% of global revenue now comes from companies with Science Based Targets.[26] Investments also go towards reducing variable expenses or aligning with regulatory requirements.

Examples from Net Zero Transition Stewardship Programme dialogue regarding of spend allocation:

- Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC) – In line with larger trends, TSMC has stated that its goal is to have its emissions peak in 2025 and then decline. While it was initially held back by the availability of renewable electricity in its home market, it has come up with an interesting approach to boosting supply by aggregating demand within its supply chain and contracting out with energy producers for 20 years. This step has allowed the company to finally commit to setting a Science Based Target earlier this year. Overall, TSMC's green transition has been supported by hundreds of millions of USDs worth of green bonds.[27]
- Lyondell Bassell – The company earmarked 400 million USD towards climate capex last year, a sizeable amount. However, the company's circular and low-carbon product offering makes up a growing portion of revenue, with demand outpacing that of traditional product lines. The company's aim is to create 1 billion USD in annual earnings from the segment by 2030.[28]
- CF Industries Holdings, Inc. – Regenerative agriculture and shifting agricultural trends have expedited CF Industries low-carbon transition. While it was previously spending around USD 100 million per year on decarbonization – in the form of carbon capture and storage – this year it announced over USD 2 billion in investment in low-carbon ammonia production, positioning it as a player, not just in fertilizer, but in low-carbon fuels like hydrogen.[29] Yara International ASA – The carbon intensity of Yara's ammonia lags behind CF Industries, but it is investing heavily in decarbonization, though it has not disclosed a total figure. The centerpiece is an estimated USD 150 million investment in building a renewable hydrogen plant in Norway, along with other carbon capture projects.[30]
- United Parcel Service Inc. – Has taken an extremely pragmatic approach to spending on decarbonization and is the only one of the big three air logistics companies (which include Deutsche Post AG and FedEx Corp.) not to commit to setting a Science Based Target. That said, it isn't always straight-forward what counts as low-carbon capex. For example, in Kentucky where UPS is headquartered, the grid is 80% coal powered, making electric vehicles not the obvious decarbonization technology they are in other locations.[31] Nonetheless, the company is still planning on spending roughly USD 500 million on its low carbon transition, with a focus on complying with regulation.[32]

Prioritzing Share Buybacks

Taking a step back, despite significant investment in the low-carbon transition, many companies continue to spend more on corporate share buyback programmes. This indicates that buybacks are still seen as the most effective way of creating value for shareholders, as opposed to investing in low-carbon transition capital projects which often have longer time horizons.

This is hardly surprising. In the US, 2025 has brought softening market conditions and a weakening dollar, making now a good time to shore up stock prices. Globally, economic uncertainty – driven in part by the new US administration's approach to tariffs – has made now a moment to wait for more clarity before committing to long-term transition investments.

Balancing Short-Term Gains with Long-Term Transition Goals

In conclusion, while not all companies are currently taking the initiative on the green transition, some certainly are – highlighting the uneven pace of emission reduction amongst large public equities. Investors may currently benefit from share buyback programmes, but those with a long-term view should be mindful of how companies are currently investing in decarbonization today and how those investments are translating into future revenues streams.

Oil That Defined Norway and the ESG Questions Shaping its Arctic Future

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As global gas exploration gathers pace again, frontier exploration is expanding from the Arctic to East Africa. The shift marks an industry pivot: after several years of restraint, exploration spending is rising as governments prioritize energy security and short-term supply stability.

The oil that defined Norway has transformed a small fishing nation into one of the world's most stable welfare economies. Now, as the country once again looks northward, the same resource that built its prosperity is now raising questions about how the country aligns continued development with sustainability. Decades after oil secured Norway's global reputation for stability and fiscal discipline, the government shows little sign of retreating from exploration. Instead, it seeks to reconcile continued development in the country's far north. In May 2025, the government expanded its Norwegian Continental Shelf with Awards in Predefined Areas (APA) 2025 licensing round to include 76 additional blocks (68 in the Barents Sea and 8 in the Norwegian Sea), reinforcing the region's role in Norway's long-term energy strategy.[33]

While petroleum licensing is expanding, other Arctic activities are moving in a different direction. In late 2025, the Norwegian government paused deep-sea mineral exploration until at least 2029, signaling a more precautionary approach to emerging seabed industries.[34]

This expansion follows years of political and legal scrutiny. In 2024, a climate lawsuit brought by Norwegian activists reached the European Court of Human Rights, arguing that continued Arctic oil licensing violated their right to a healthy environment. The court ultimately ruled in favor of the government, effectively eliminating a key legal challenge to new exploration.[35] With that decision, Norway continues to pursue Arctic development even as most other Arctic nations have paused or scaled back activity, and the European Union has called for an end to new oil, coal, and gas exploration in the region, pledging to work toward a multilateral ban on Arctic fossil-fuel extraction.[36]

From an ESG stewardship perspective, these developments highlight the tension between energy security and climate commitments, raising important considerations for investors engaging on long-term sustainability risks.

Operating in the Arctic

Most Arctic petroleum activity in Norway occurs offshore, in the Barents Sea, where Equinor's Johan Castberg and Vår Energi's Goliat remain the only producing oil fields.[37,38,39] While infrastructure and personnel are based in northern hubs, the operational footprint extends far beyond offshore installations serving the Goliat, Johan Castberg, and Snøhvit (Equinor's gas field) fields.[40] Shipping routes, seismic surveys, and potential spill pathways intersect with some of the most biodiverse and climate-sensitive marine zones on the Norwegian shelf.

Every operational decision has consequences in the Arctic environment. Low temperatures, slow biodegradation, and extended response times increase persistence of discharges or leaks of produced water, drilling fluids, or hydrocarbon residues. For companies operating offshore in Norway's Barents Sea, environmental risk management is not only about avoiding major oil spills, but preventing and accounting for continuous, small-scale releases that accumulate over time.

Equinor and Vår Energi disclose operational releases within regulatory thresholds but do not report achieving zero-discharge performance. Releases described as 'low' or 'within limits' may still include hydrocarbons, heavy metals, and treatment chemicals that slowly degrade in Arctic waters.[41,42,43,44]

To make matters more complicated, both Equinor and Vår Energi operate within or adjacent to Particularly Valuable and Vulnerable Areas (SVOs) – marine zones designated by the Norwegian government as ecologically important but not legally protected.[45] These areas include spawning grounds, seabird colonies, and ice-edge ecosystems across the Barents and Norwegian Seas. The Goliat field, operated by Vår Energi, lies in the south-western Barents Sea near the Tromsøflaket and Eggakanten SVOs, areas critical for seabirds, animals living on, in, or near the aquatic bottom, and cod spawning. Its pipelines and support shipping routes intersect SVO-designated corridors. Equinor's Johan Castberg field, expected to reach full production in 2025, is situated roughly 60 kilometers south of the Marginal Ice Zone SVO (Iskanten). The project's export pipeline and logistics route traverse mapped SVO regions. The Snøhvit gas field and Melkøya LNG terminal are located close to the Sørøya SVO, an important habitat for seabirds and marine mammals.

Operationally, this means Arctic petroleum activity interacts with SVOs even if installations themselves sit just outside their core polygons. SVOs are designated in Norway's Integrated Marine Management Plans as areas that require "special caution", meaning operators must demonstrate enhanced environmental assessment and mitigation when planning activities that may affect them.[46] However, SVO status does not constitute legal protection and does not impose quantitative performance limits on black-carbon emissions, underwater noise, or spill probability.[47] While the Norwegian Environment Agency incorporates SVO considerations into environmental-impact assessments and monitoring requirements, the available regulatory framework remains largely process-oriented.[48] It focuses on demonstrating due care and risk mitigation rather than prescribing location-specific thresholds or operational restrictions in SVO zones.

Both companies incorporate SVO mapping into their environmental systems:

- Equinor overlays its portfolio with SVO, WDPA, and KBA datasets and voluntarily excludes UNESCO and IUCN Ia/Ib sites.[49]
- Vår Energi reports its footprint within or near SVOs using ERA Acute risk modelling, NOFO oil-spill preparedness, and ISO 14001/NORSOK S-003 standards.[50]

However, current disclosures do not indicate integration of independent ecological expertise into SVO oversight or reporting of basin-level cumulative-impact indicators. Strengthening these areas would enhance transparency, particularly as cross-boundary monitoring in the Barents Sea remains limited following the suspension of cooperation with Russia.[51]

Against this backdrop, the APA 2025 licensing round represents a continued geographic push northward, potentially bringing new exploration closer to high-value SVO zones. This introduces a set of new exploration risks, including potential entry of new operators, changes to environmental baselines, and increased activity within SVO-adjacent areas.

Together, these developments underscore the importance of robust environmental risk management, transparent disclosure of cumulative impacts, and meaningful biodiversity safeguards in sensitive Arctic zones.

Indigenous Rights and Social Fragility

In Norway's Arctic, social risks primarily relate to legitimacy, participation, and safety rather than poverty or labour standards.[52] Oil and gas operations in the Barents Sea occur amid long-standing Sámi territories (Sápmi) and traditional coastal fishing zones. Norway formally recognizes Sámi rights through the Sámi Act (1987) and is among the few nations to have ratified ILO Convention 169, which guarantees Indigenous participation in decisions affecting their lands.[53]

In practice, implementation has been uneven. The 2021 Supreme Court ruling on the Fosen wind farms established that inadequate consultation could violate Sámi cultural rights, reinforcing the importance of consent-based governance in the energy sector.[54] This underscores the need for companies to demonstrate measurable indicators aligned with Free, Prior and Informed Consent (FPIC) and to provide third-party verified social-impact assessments, areas we actively seek in our engagement with operators in the region. Although key Arctic projects such as Goliat, Johan Castberg, and Snøhvit are offshore, their onshore terminals, logistics bases, and supply routes are located in northern Norway, where Sámi reindeer herding and coastal fishing are active.

The procedural nature of participation is evident in the government's own licensing process. In the APA 2024 round, the Ministry of Energy received 29 consultation responses, including from the Sámi Parliament, NGOs, and public agencies, but stated that objections concerning climate impact and petroleum activity fell outside the consultation's mandate.[55] As a result, stakeholder input was noted but did not influence the final decision criteria.

These dynamics underscore the complexity of balancing Indigenous rights, stakeholder participation, and energy development objectives in Norway's Arctic.

Investor Outlook: What to Watch in 2026

When Norway names the APA 2025 winners in early 2026, Morningstar Sustainalytics' engagement team will evaluate how new entrants approach Arctic governance. With Equinor and Vår Energi already established, scrutiny will likely extend to other participants such as Aker BP, which currently holds non-operated Barents interests but no producing Arctic assets. If Aker BP or other newcomers secure new acreage, one of our objectives will not only focus on their environmental readiness but the depth of their overall risk governance. Key areas to consider when engaging with companies with Arctic assets:

- **Environmental Governance:** Disclosure of quantitative SVO mapping, biodiversity baselines, and ideally third party-verified monitoring.
- **Social Accountability:** Presence of FPIC-aligned consultation frameworks, transparent grievance mechanisms, and evidence of inclusive stakeholder engagement.
- **Safety and Emergency Preparedness:** Arctic-specific HSE systems, coordination with local authorities and civil defense, and capability to protect both offshore workers and nearby residents in crisis conditions.

One additional consideration is how the broader security context in the High North is shifting. Russia's increased military activity and its strengthened presence along the Northern Sea Route have elevated attention not only to physical security but also to cybersecurity, with offshore infrastructure, liquid natural gas terminals, subsea control systems, and satellite-based navigation becoming potentially more exposed to hybrid threats.[56] For our engagements this makes cyber-resilience an important part of governance dialogues alongside environmental and social considerations.

For the world's northernmost oil province, these factors will determine not only financial outcomes but the credibility of Norway's claim to lead in responsible Arctic development. Whether it continues to do so will depend on how the country manages the fragile balance between energy needs, economic interests, and environmental limits. For companies already active in the region, and for those that may enter through future licensing rounds, this means demonstrating stronger protections across environmental stewardship, Indigenous engagement, safety management, and cyber-resilience to ensure operations align with the heightened sensitivities of the High North.

Investor Pressure Mounts on Big Tech: Data Center Emissions Put Climate Targets to the Test

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The 2025 proxy season reinforced a continuing shift in climate-related priorities, as investors moved beyond ambitious commitments to scrutinize the credibility of targets and the robustness of underlying strategies. This is reflected in the shareholder proposals filed at Amazon, Meta, and Alphabet, seeking clarity on how these companies intend to reconcile their climate commitments with the rising electricity demand from artificial intelligence (AI) and cloud computing.

These proposals ranked among the most supported climate resolutions of the year and reflected a broader evolution in investor expectations: transparency alone is no longer sufficient; credibility has become the benchmark. While none achieved majority support, their relatively high backing from non-affiliated shareholders underscores growing concern that data center-driven emissions represent one of the sector's most pressing climate challenges.

Data centers are the backbone of the digital economy. They power AI training, cloud computing, search, video streaming, and social media. However, they are also among the fastest-growing sources of electricity demand, and increasingly, a driver of rising corporate emissions. The International Energy Agency (IEA) projects that global data center electricity consumption could more than double by 2030, rising from around 460 terawatt-hours (TWh) in 2022 to over 1,000 TWh by the end of the decade.

This surge in energy use has profound implications for corporate climate strategies and climate targets, which were often set before the explosion of AI workloads. Companies like Microsoft, Alphabet, Meta, and Amazon are now using far more power than when their net zero targets were announced. In many cases, emissions have increased rather than fallen, despite large renewable energy purchases.

As a result, in spring 2025, investors submitted proposals to Amazon, Meta, and Alphabet, questioning whether the companies' ambitious climate commitments remain achievable given the rising energy demands of data centers.

At Amazon, a shareholder proposal asked the company to explain how it intends to meet its climate targets in light of its USD 150 billion planned investment in new data centers over the next 15 years. While Amazon has committed to achieving net-zero carbon by 2040 and 100% renewable energy by 2030, investors question whether those goals can withstand the pressure of surging electricity demand. Amazon Web Services' heavy presence in Virginia, where utilities are planning new gas-fired plants and extending fossil capacity, raises particular concern, as the proponent noted in the Notice of Exempt Solicitation.

At Meta, investors highlighted that the company's greenhouse gas emissions have more than doubled since 2019, largely due to its rapidly expanding data center footprint. To support its 'carbon neutrality' claims, Meta relies heavily on Renewable Energy Certificates (RECs), a practice the proponent criticizes, arguing that RECs typically do not contribute to adding new renewable generation to the grid. The proponent is concerned that this could expose the company to risks of greenwashing, regulatory scrutiny, and potential restrictions on operations. Shareholders also noted that in Louisiana, where Meta is building a record-breaking data center, local utilities are turning to new gas plants to meet demand, while in Nebraska, Meta's growth has delayed the retirement of a coal facility.

At Alphabet, the proposal focused less on whether its climate targets remain realistic. Emissions rose 13% in 2023 alone, driven by AI workloads outpacing renewable energy additions. Investors asked for scenario analyses, stress testing, and disclosure of expected emissions trajectories, tools that would clarify whether Alphabet's climate plan remains on track.

For investors, these resolutions underscore that the risk is not abstract. Without clear plans for how they will ensure continued net zero alignment as their energy use grows, tech companies may face scrutiny from investors, customers, and policymakers, exposing the company to reputational, regulatory, and financial risks.

Figure 3 Resolutions on climate commitments and AI data center energy use.

COMPANY	PROPONENT	PROPONENT'S REQUEST	COMPANY RESPONSE	REPORTED SUPPORT	ADJUSTED SUPPORT
Alphabet, Inc.	Trillium ESG Global Equity Fund	Alphabet to disclose additional information illustrating if and how it will meet its 2030 climate goals, given the increase in GHG emissions driven by data centers hosting energy-intensive AI functions.	Alphabet opposes the proposal, citing transpanrency around its 2030 net-zero and 24/7 carbon-free energy goals, and ongoing efforts to align disclosures with best practices and regulations.	8.2	20.7%
Amazon.com, Inc.	Emily Cunningham	Amazon to publish a report detailing how it plans to meet its climate commitments on greenhouse gas emissions, considering the rapidly increasing energy demand from AI and new data centers	Amazon opposes the resolution, citing progress toward its climate goals, AWS improved data center efficiency and matched all electricity use with renewables. The company is investing in nuclear energy, renewable diesel, and circular economy practices to further reduce emissions and waste.	20.1%	23.2%
Meta Platforms, Inc.	As You Sow on behalf of Myra K. Young and James McRitchie	Meta to disclose a transition plan that results in new renewable energy capacity, or other actions that achieve actual emissions reductions at least equivalent to the energy demand associated with its expanded data center operations.	Meta highlights its use of 100% renewable energy since 2020, its energy-efficient data centers, and ongoing efforts to expand clean energy projects.	3.3%	10.4%

Source: ESG Voting Policy Overlay, Morningstar Proxy Voting Database. Data as of October, 2025.

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