Quarterly Engagement Report Q3 2023

Global & Thematic Engagement

Our Engagement Activities

As global investor with a strong Swiss heritage and pioneering role in sustainable investing, the asset management of Zürcher Kantonalbank with its Swisscanto brand recognizes that environmental, social, and corporate governance (ESG) factors can present material risks to portfolio investments and opportunities for better risk-adjusted returns.

Responsible and sustainability investing is our conviction and forms an integral element of our overall asset management strategy. We are convinced that integrating ESG factors result in better-informed investment decisions and generates value for investors and as a result for the society at large. Capital is allocated responsibly, sustainably and in a climate-friendly way with a focus on generating returns. Our investment stewardship activities complement our ESG-integrated investment focus and sustainability strategy. Through our investment stewardship, we seek to promote sustainable business practices advocating for the compliance within renowned international principles and widely accepted ESG best-practice standards. This includes promoting compliant practices, check-and-balance principles, adequate pay-for-performances, stewardship of environmental protection and climate change, supporting biodiversity, fair labor practices, non-discriminatory work and the protection of human rights and other best-practice ESG topics. Our investment stewardship comprises the following active ownership elements:

- With **proxy voting**, we cast actively and responsibly our votes along our sustainable oriented mindset and strategy.
- By **engaging** actively with issuers, we promote best-practice ESG standards and convey our climate change message and strategy.

Engagement is primarily driven and led by our active, fundamental capabilities, mostly equity related but comprising also fixed income, as engagements drive both perspectives and benefits issuers overall irrespective of their listed securities. Our engagement activities are based on three major pillars as set out hereafter:

- **Direct dialogue with Swiss issuers:** Our focus is to create visibility among companies as an active and sustainable investor by promoting best-practice ESG in the interest of our investors by leveraging on our home base expertise.
- **Collaborative engagements:** The focus is to promote best-practice ESG on entire industries as well as to achieve environmental and/or social goals (i.e.17 UN SDGs). These collaborative engagements are mostly driven by the UN PRI platform, but opportunistic direct interactions with companies by us alone or selectively with other investors also take place. In addition, we support various ESG initiatives such as ClimateAction100+, TCFD, TNFD, Climate Bond Initiative et al.
- **Global & Thematic engagements:** The focus is to promote best-practice ESG standards and our climate strategy on a global scale in our investors' interest. In addition, we focus within the thematic engagements on climate change, cleantech and biodiversity et al. We mandated Sustainalytics to leverage existing resources and to convey our key sustainability messages globally. Depending on relevance and materiality, we do also participate in these corporate dialogues.

We believe that the best way to promote improved market practices and ESG best-practice standards is through direct dialogues (engagements).
An important element is to convey our climate change strategy to issuers globally. We actively ask issuers to:

- Formulate ambitious and transparent climate strategy to reduce greenhouse gas emissions.
- Clearly define responsibilities and accountability for the definition, control and implementation of the climate strategy.
- Establish incentive systems for implementing the climate strategy (e.g. ESG KPIs in compensation shemes).

Besides our climate-related engagement, we do prioritize our engagements in general according to breaches against the UN Global Compact Principles and focus on promoting the UN SDGs. We believe that investors are well positioned to influence ESG best-practices among their investments, especially in material holdings. This document provides an overview of our global and thematic engagements.

Your contacts

Enquiries should be emailed to:

– Engagement@swisscanto.ch
  For all matters relating to engagement, foremost issuers/companies who want to engage with us.
– Voting@swisscanto.ch
  For all matters relating to proxy voting.

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Quarterly Engagement Report Q3 2023

Content

This report summarizes the shareholder engagement activities that Sustainalytics performed on behalf of Zürcher Kantonalbank. Use of and access to this information is limited to clients of Sustainalytics and is subject to Sustainalytics' legal terms and conditions.

For this Global Standards Engagement Quarterly Engagement Report, the engagement status updates and statistics cover a period of three months, i.e. from July to September 2023. Our Quarterly Engagement Report delivery schedule has been moved to the third Monday in the month following every quarter (i.e., the third Monday in April, July, October and January). The next Quarterly Engagement Report delivery is scheduled for the third Monday of January and will follow regular three-month interval.

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Global Standards Engagement

Executive Summary

Key Highlights

During Q3 2023, the Global Standards Engagement team worked on 64 engagements, including one new engagement. More than 190 emails and phone calls have been exchanged, and 25 meetings have been conducted. The engagement effort has resulted in 8 Milestones achieved and three engagements resolved successfully.

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

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

Plans for Q4

October is going to be a busy month for our team. Apart from a number of conference calls, we are also going to have in-person meeting with a company within Global Standards Engagement service. In a mid-October meeting with Vale SA we will focus on the tailings dam failures that impacted the downstream communities and environment of Brumadinho and Mariana in the State of Minas Gerais, Brazil.

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

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

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

Navigating Quality Challenges in the Production of Medical Equipment

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

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

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

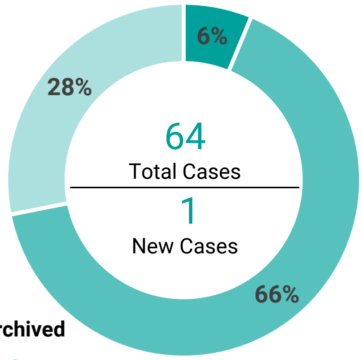
Ethical marketing ensures that medical equipment is promoted and sold with transparency and accuracy. When healthcare providers and institutions make purchasing decisions based on accurate information, patient care is enhanced, and potential harm is minimized. This trust in the marketing process is vital,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

Quarterly Statistics July 2023 – September 2023

During July 2023 – September 2023, Morningstar Sustainalytics has continued our dialogue to track specified engagement goals and to seek measurable results of business conduct changes in relation to 64 Engagements.[1]

Cases by Theme

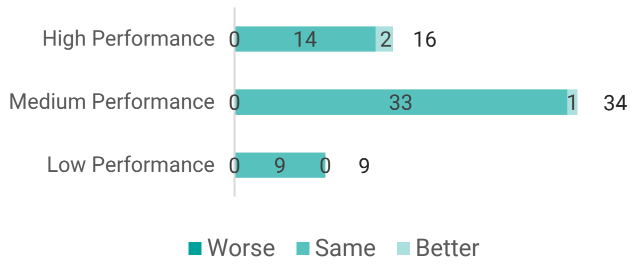
Environmental	4
Social	42
Governance	18



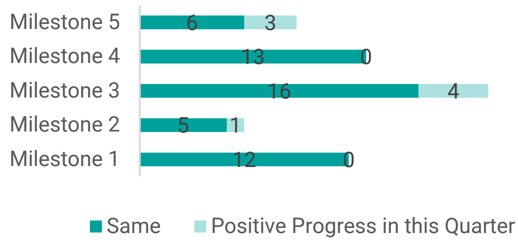
Case Status Overview

	Engage	Associated	Disengage	Resolved	Archived
New Status in this Quarter	1	1	0	3	0
Total	61	10	0		

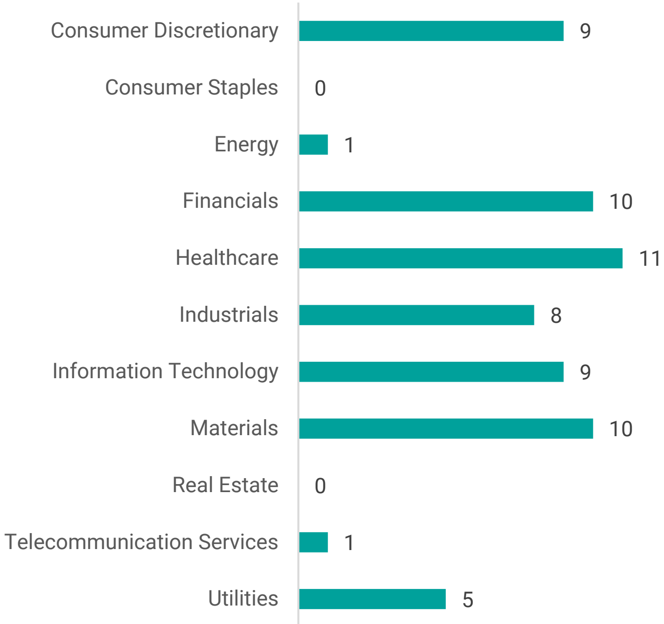
Engagement Performance Overview[2]



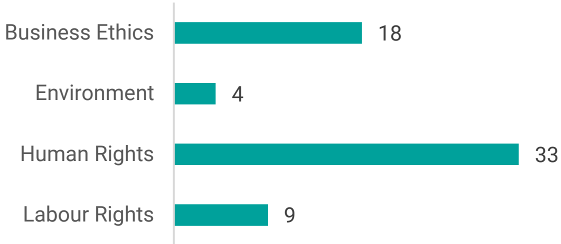
Milestone Overview



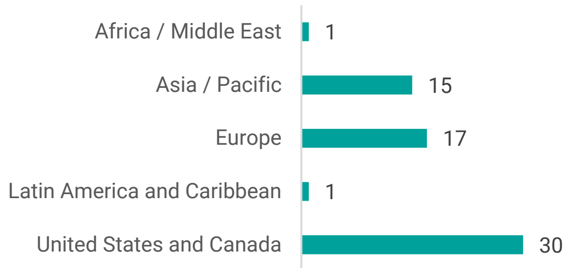
Cases by Sector



Cases by Norm



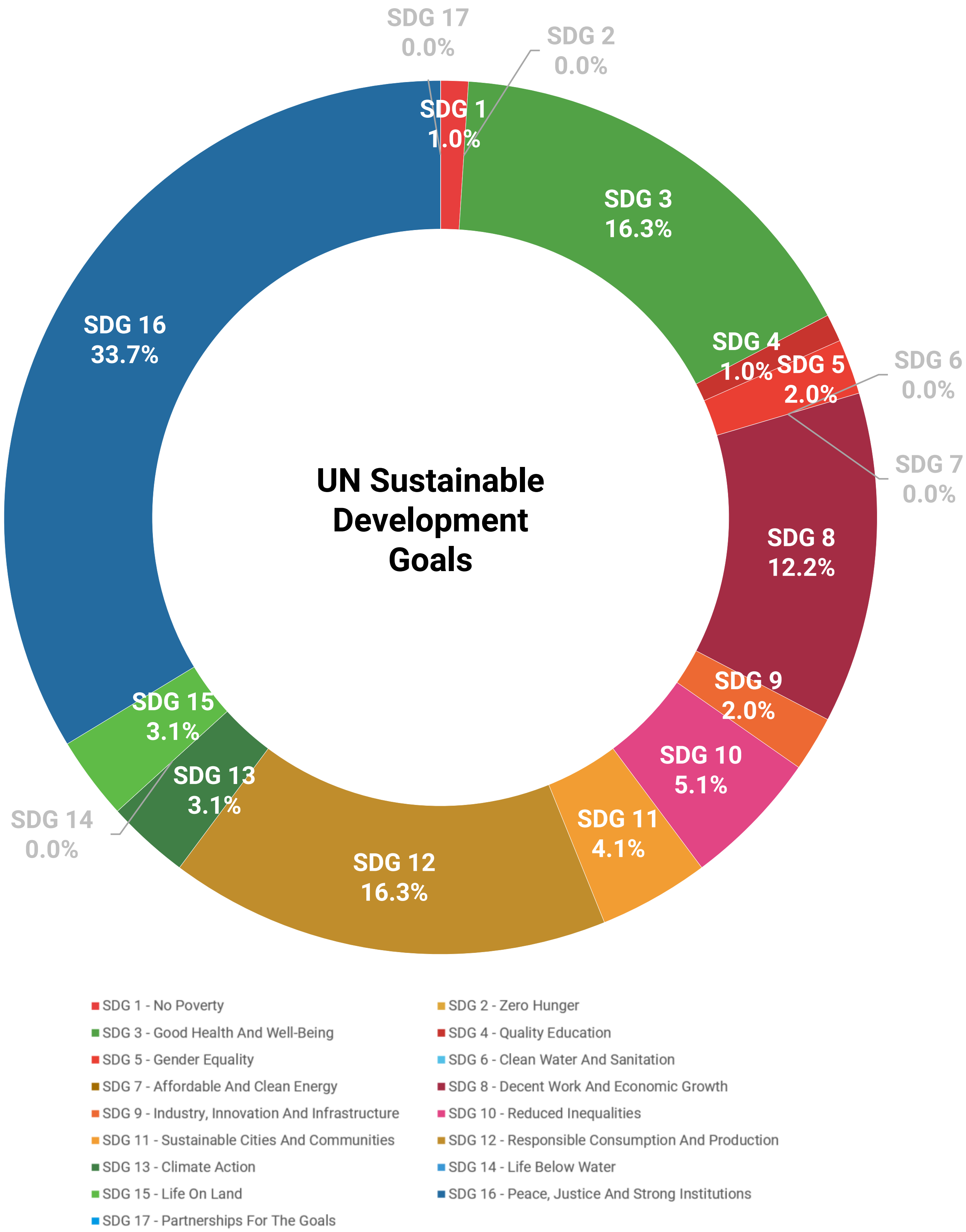
Cases by Headquarter



[1] The quarterly statistics is mapped according to Swisscanto's portfolio focus list which is updated on quarterly basis. Therefore, the statistics is refreshed every quarter.
[2] One new case was opened in the Q3 2023. Within the next quarter, the performance and milestone assessment will be available and included in the statistics.

UN Sustainable Development Goals Attribution

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



Companies Mentioned in this Engagement Brief

Engage Associated Disengage Resolved Archived

Engage Cases

UBS Group AG

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

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

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

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

STATUS

Engage

ISSUE(S)

- Business Ethics

ENGAGEMENT MANAGER

Angela Flaemrich
Associate Director
Toronto

CONTRIBUTION TO SDGs

16 PEACE, JUSTICE & STRONG INSTITUTIONS

Resolved Cases

AMP Ltd.

Background
In April 2018, the Australian Royal Commission of inquiry recommended that AMP face criminal prosecution for misleading the Australian Securities and Investments Commission (ASIC) in regard to charging fees for non-existent services between 2008 and 2015. During the commission's hearings, AMP reportedly admitted that it charged fees for services that it had not provided to approximately 16,000 customers and made false or misleading statements to ASIC. In October 2019, ASIC announced that it had started an investigation into AMP, over potential breaches of financial services regulations. In February 2020, Australia's Federal Court ordered AMP to pay an AUD 5.2 million (USD 3.5 million) fine for failing to prevent its financial planners from giving incorrect insurance advice to clients. In May 2021, ASIC started a new lawsuit against AMP for allegedly charging life insurance premiums and advice fees to deceased customers between 2015 and 2019, despite being notified of their deaths. In September 2022, the federal court issued AUD 14.5 million (USD 10 million) in penalties against AMP for the fees-for-no-service issue between 2015 and 2018.

Engagement Objective
AMP should ensure that robust policies and internal controls addressing product governance and business ethics are implemented, universally applied, and, where appropriate, disclosed.

Engagement Outcomes
Effective improvements to responsible business conduct are evidenced by the bank sustainably embedding its compliance and cultural transformation programmes. AMP has implemented the Remediation Programme required by the Australian Royal Commission by fully compensating clients affected by the services misconduct. The company has embraced the need for change and has taken significant action to develop a new risk governance and compliance system to ensure sustained improvements to risk culture within the organization. AMP has also improved its financial regulatory reporting and disclosures on its risk management, ethics and compliance.

Conclusion
Over the last three years, AMP has not been complicit in any financial misconduct and business ethics incidents, while making significant improvements to risk controls, accountability and culture.

STATUS

Resolved

ISSUE(S)

- Consumer Interests - Business Ethics

ENGAGEMENT MANAGER

Nigel Rossouw
Associate Director
Amsterdam

CONTRIBUTION TO SDGs

16 PEACE, JUSTICE & STRONG INSTITUTIONS

DIALOGUE STATISTICS

107	Number of Contacts
11	Conference Calls
58	Correspondence
0	Meetings in Person

CASE TIMELINE

Engagement Since	Apr 2019
Milestone 1	Aug 2020
Milestone 2	Nov 2020
Milestone 3	Nov 2021
Milestone 4	Mar 2022
Milestone 5	Apr 2023
Case Resolved	Aug 2023

Johnson & Johnson

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

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

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

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

STATUS

Resolved

ISSUE(S)

- Quality and Safety - Human Rights

ENGAGEMENT MANAGER

Joe Atwood
Associate Director
London

CONTRIBUTION TO SDGs

3 Good Health & Well-being

12 Responsible Consumption & Production

DIALOGUE STATISTICS

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

CASE TIMELINE

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

Stryker Corp.

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

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

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

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

STATUS

Resolved

ISSUE(S)

- Quality and Safety - Human Rights

ENGAGEMENT MANAGER

Joe Atwood
Associate Director
London

CONTRIBUTION TO SDGs

3 Good Health & Well-being

12 Responsible Consumption & Production

DIALOGUE STATISTICS

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

CASE TIMELINE

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

Company Dialogue & Progress Summary

Legend

Country

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

Year

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

Response

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

None	Poor	Standard	Good	Excellent

Progress

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

None	Poor	Standard	Good	Excellent

Performance

The indicator describes the combined company progress and response performance.

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

Medium Performance - standard level of Response and Progress.

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

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

Low Performance Tracker (Tracker)

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

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

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

Milestones

The indicator describes the milestone achieved from 1 to 5.

3/5 Achieve

Engage

AFRICA / MIDDLE EAST

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

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

Milestones
Response
Progress
Performance Same

ASIA / PACIFIC

Baidu, Inc. (China, 2021)
▶ Involvement With Entities Violating Human Rights

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

Milestones
Response
Progress
Performance Same

China Gas Holdings Ltd. (China, 2021)
▶ Quality and Safety - Human Rights

Change Objective: China Gas should provide clarification of the remediation, and provide support in a timely manner for victims, besides the compensation promised. China Gas need to implement industry standard safety practices and quality controls across their infrastructure network, including regular inspections of the gas pipe system, and real-time monitoring of gas line pressure.

Milestones
Response
Progress
Performance Better

Hino Motors, Ltd. (Japan, 2022)
▶ Consumer Interests - Business Ethics

Change Objective: Hino Motors should improve its compliance and operations integrity management system for emissions testing and engine performance. The company should have adequate internal controls, training and communication focused on compliance, ethics, integrity and culture. Furthermore, the company should transform its risk and integrity culture.

Milestones
Response
Progress
Performance Same

Oil & Natural Gas Corp. Ltd. (India, 2019)
▶ Involvement With Entities Violating Human Rights

Change Objective: Oil and Natural Gas Corporation Limited should follow international best practice for respecting human rights. While operating in conflict-affected countries, it should undertake due diligence adapted to the specific situation of the region and act adequately on the findings. The company should also engage with governments and other relevant stakeholders to encourage open and accountable management of the revenues it provides and contribute to local peace efforts.

Milestones
Response
Progress
Performance Same

Rio Tinto Ltd. (Australia, 2020)
▶ Community Relations - Indigenous Peoples

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

Milestones
Response
Progress
Performance Same

Samsung Electronics Co., Ltd. (South Korea, 2017)
▶ Bribery and Corruption

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

Milestones
Response
Progress
Performance Same

Tencent Holdings Ltd. (China, 2021)
▶ Involvement With Entities Violating Human Rights

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

Milestones
Response
Progress
Performance Same

Tokyo Electric Power Co. Holdings, Inc. (Japan, 2011)
▶ Incident(s) Resulting in Negative Environmental and Human Rights Impacts

Change Objective: TEPCO should ensure it operates its nuclear power plants safely, that any contamination is contained to the affected area and monitoring is in place to measures both environmental and health effects and that a compensation programme is in place as and when the effects of accidents are identified. In addition, TEPCO should report on the security measures taken at all of its facilities following reports of inadequate security at its Kashiwazaki-Kariwa nuclear plant.

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Vedanta Ltd. (India, 2019)
▶ Community Relations

Change Objective: Vedanta should analyze the root causes of the protests in Tuticorin and address the identified issues in cooperation with the local communities. It should develop a framework for improving its communication with stakeholders with the aim of applying it across operations. The company should also launch the process of becoming a signatory of The Voluntary Principles on Security and Human Rights.

Milestones
Response
Progress
Performance Same

Weibo Corp. (China, 2021)
▶ Involvement With Entities Violating Human Rights

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance ▲ Same

Xinjiang Zhongtai Chemical Co., Ltd. (China, 2022)
▶ Forced Labour

Change Objective: Zhongtai should adopt international human rights practice within its labour force, particularly the right to freedom from forced labour. The company should carry out appropriate due diligence and implement effective policies and practices.

Milestones
Response
Progress
Performance ▼ Same
Tracker

EUROPE

Barclays PLC (United Kingdom, 2019)
▶ Business Ethics

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

Milestones
Response
Progress
Performance ▲ Same

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

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

Milestones
Response
Progress
Performance ▶ Same

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

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

Milestones
Response
Progress
Performance ▼ Same
Tracker

boohoo group Plc (United Kingdom, 2020)
▶ Labour Rights - Supply Chain

Change Objective: Boohoo should ensure that it no longer sources from suppliers that violate workers' rights. It should also put in place a human rights due-diligence programme that includes robust audits and addresses the root-causes of illegal practices in its supply chain (e.g. purchasing practices and unauthorized sub-contractors). In addition, the company should adopt an effective grievance mechanism accessible to supply chain workers.

Milestones
Response
Progress
Performance ▶ Same

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

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

Milestones
Response
Progress
Performance ▲ Same

Deutsche Bank AG (Russia, 2019)
▶ Money Laundering

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

Milestones
Response
Progress
Performance Better

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

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

Associated company: **EDP Renováveis SA*

Milestones
Response
Progress
Performance Same

Glencore Plc (Switzerland, 2022)
▶ Bribery and Corruption

Change Objective: Glencore should implement on-going systematic controls related to business ethics, corruption and bribery and disclose these controls whenever appropriate.

Milestones
Response
Progress
Performance Better

Glencore Plc (Bolivia, 2021)
▶ Child Labour

Change Objective: Glencore and its subsidiaries should cease purchasing ore from cooperatives which practice child labour. It should work with the authorities to assist in fulfilling the government's pledge to eradicate child labour by 2025; and should have programmes to improve health and safety in the mines that extend to co-operatives.

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Orpea SA (France, 2022)
▶ Quality and Safety - Human Rights

Change Objective: Orpea should cooperate with authorities to aid investigations, resolve outstanding proceedings if necessary, and make meaningful public disclosures. Orpéa should take steps to align its policies, governance, risk management framework and grievance mechanisms to international quality and safety standards. The company should measure effectiveness of its efforts via robust monitoring, reporting and communicating, and take steps to transform its corporate culture to avoid similar issues in the future.

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Siemens Gamesa Renewable Energy SA (Western Sahara, 2018)
▶ Involvement With Entities Violating Human Rights

Change Objective: Siemens Gamesa Renewable Energy should demonstrate how its activities in Western Sahara are in line with the interests and wishes of Saharawis, in accordance with the right to self-determination stipulated in the International Covenant on Civil and Political Rights and International Covenant on Economic, Social and Cultural Rights. Should this not be possible, the company should withdraw from Western Sahara.

Associated company: **Siemens Energy AG*

Milestones
Response
Progress
Performance Worse

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

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

Milestones
Response
Progress
Performance Same

Teleperformance SA (France, 2021)
▶ Freedom of Association

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

Milestones
Response
Progress
Performance Same

UBS Group AG (Switzerland, 2023)
▶ Business Ethics

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

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

Milestones
Response
Progress
Performance New

LATIN AMERICA AND CARIBBEAN

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

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

Milestones
Response
Progress
Performance Same

UNITED STATES AND CANADA

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Worse

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

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

Milestones
Response
Progress
Performance New

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Indivior PLC (United States, 2019)
▶ Consumer Interests - Business Ethics

Change Objective: Indivior should develop and implement ethical practices within its marketing and sales programmes. The company should also demonstrate the preventative measures it has undertaken are to be in compliance with regulatory requirements.

Milestones
Response
Progress
Performance Same

Mattel, Inc. (United States, 2021)
▶ Quality and Safety - Human Rights

Change Objective: Mattel should undertake a complete review (and commission an independent validation of the appropriateness of any review) of all infant sleep / soothing products it has on the market, in production and in design process against the relevant safety standards for potential recall and compensate the affected families. To prevent reoccurrence, Mattel should have in place robust safety standards and processes, in line with the potential risks identified with the products it puts on the market.

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Better
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Better

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

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

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

Milestones
Response
Progress
Performance Same

Southern Copper Corp. (Mexico, 2020)
▶ Freedom of Association

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

Milestones
Response
Progress
Performance Same

Southern Copper Corp. (Mexico, 2020)
▶ Leaks, Spills and Pollution - Environmental and Human Rights Impacts

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

The Chemours Co. (United States, 2018)
▶ Activities Resulting in Adverse Environmental and Human Rights Impacts

Change Objective: Chemours has stated that it wishes to eradicate the discharge of persistent chemicals from its operations; however, there are a number of legacy issues in relation to pollution from its operations, therefore, we wish to ensure that Chemours has a strategy in place for each legacy issue and to show that its current waste practices comply with international best practice, in order to prevent future liabilities arising from potential detrimental human health or environmental impacts. The company should also show that it is addressing PFAS contamination where it is applicable to its sites.

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Resolved

ASIA / PACIFIC

AMP LTD. (Australia, 2019)

In the past three years, AMP has not been complicit in any financial misconduct and business ethics incidents. The company has strengthened its risk management and risk conduct processed and implemented improvements in accordance with the prudential regulatory requirements. The company has implemented robust internal controls and risk management and there is sufficient and effective board oversight. Changes have been made to the board and executive management. Significant improvements have been also made to risk controls, accountability and culture. Based on that Sustainalytics decided to resolve the case.

ISSUE
▸ Consumer Interests – Business Ethics

MILESTONES
5/5 Achieved

UNITED STATES AND CANADA

JOHNSON & JOHNSON (United States, 2018)

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

ISSUE
▸ Quality and Safety – Human Rights

MILESTONES
5/5 Achieved

STRYKER CORP. (United States, 2019)

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

ISSUE
▸ Quality and Safety – Human Rights

MILESTONES
5/5 Achieved

Global Standards Engagement Overview

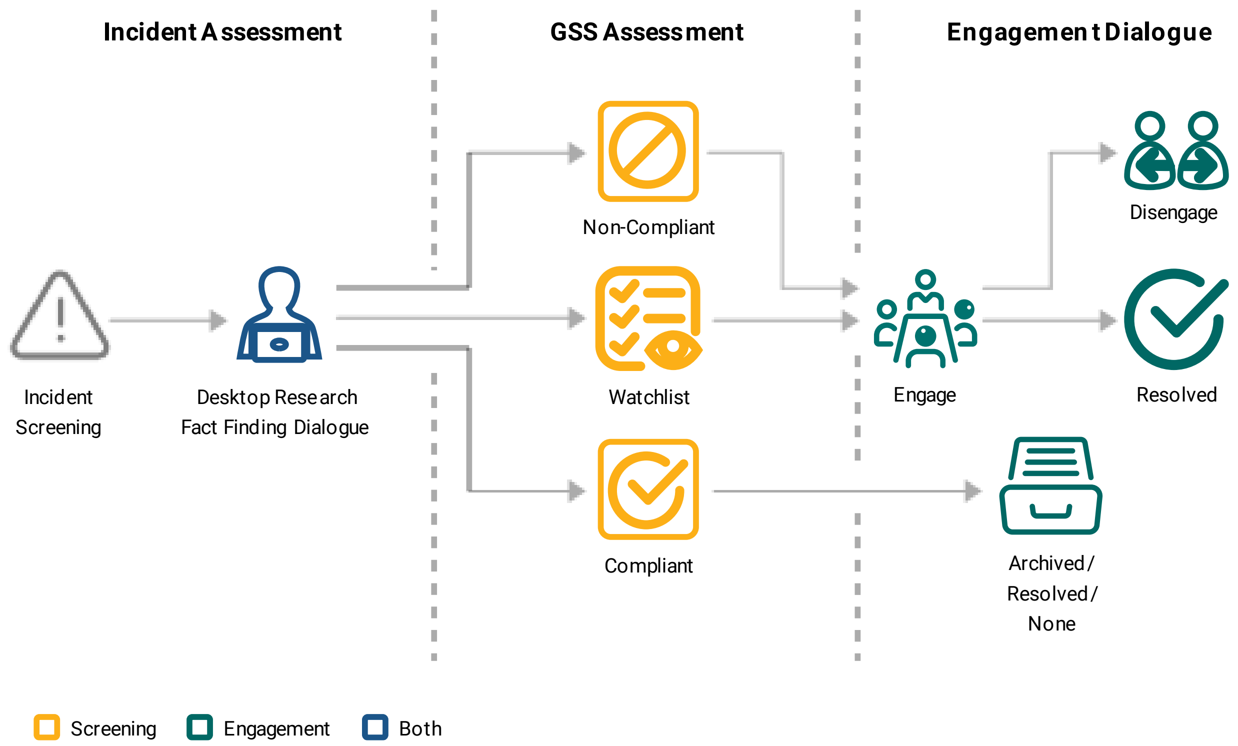
Global Standards Engagement is an incident-driven engagement with focus on companies that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals. The engagement is based on a thorough and continuous assessment of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

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

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

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

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



Global Standards Engagement Status

Evaluate

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

Engage

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

Associated

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

Disengage

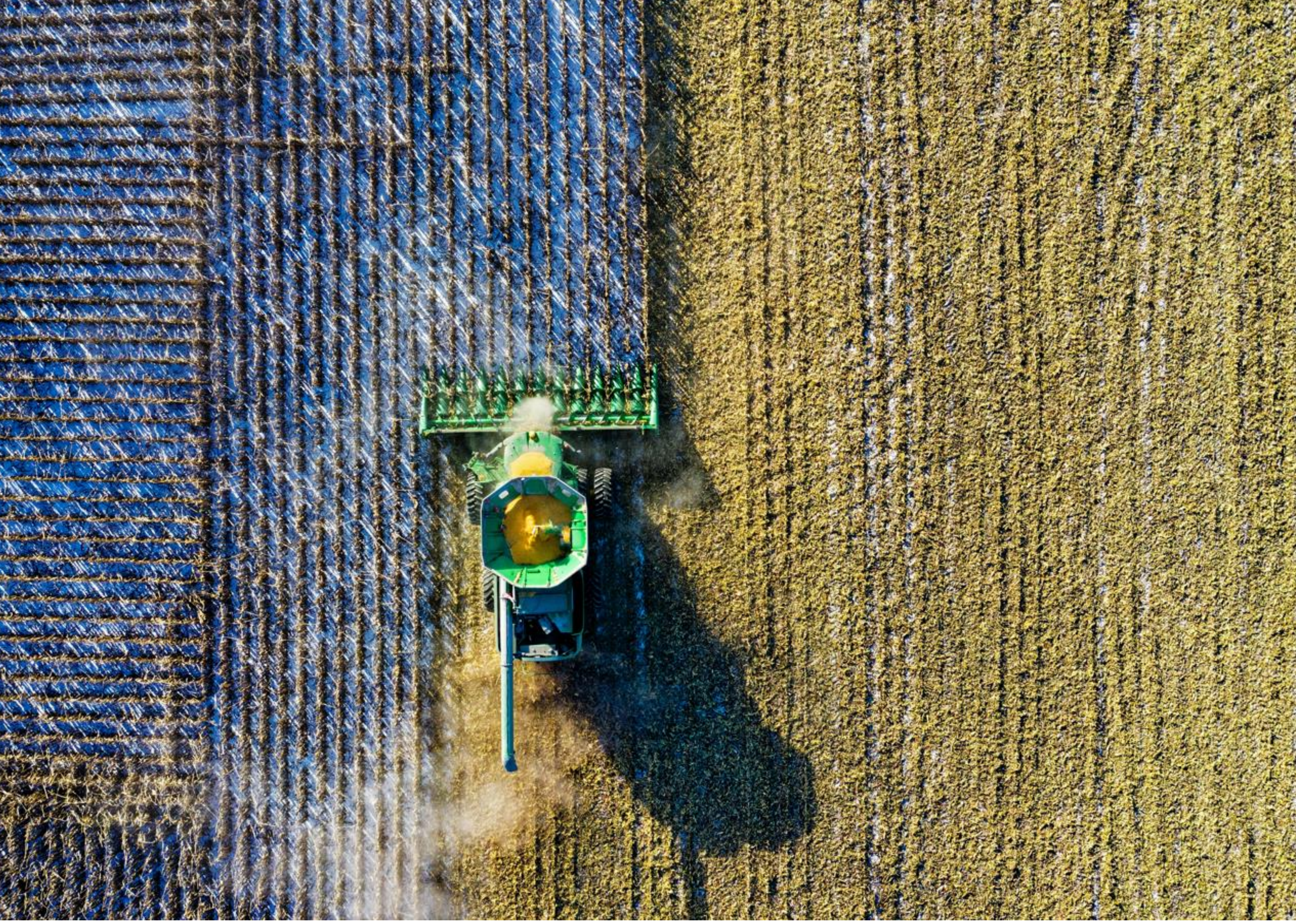
- Poor or no progress and/or poor or no response from the company within a period of two years after the start of engagement.
- Companies classified as non-engageable due to no or limited publicly traded securities or under significant distress.
- Companies whose business models rely on activities where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

Resolved

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

Archived

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



Thematic Stewardship Programmes
Biodiversity and Natural Capital

EXECUTIVE SUMMARY

Engagement Approach

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

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

Engagement Summary

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

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

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

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

THE ROAD TO ZERO DEFORESTATION: THE EU DEFORESTATION REGULATION

What financial institutions should know about deforestation

Forests provide extensive resources and essential services. Forests are home to over 80% of terrestrial biodiversity and more than 25% of the global population's livelihoods depend on forests.[3] However, research has shown that two-thirds of original rainforests are either gone or degraded, and agricultural expansion has always been the key driver of land conversion.[4] Although the focus on preventing deforestation started decades ago, forest loss continues today. Despite the global visions from the **UN Strategic Plan for Forests** in 2017 and the **Glasgow Leaders' Declaration on Forests and Land Use** at COP 26, the world is still far from achieving zero deforestation.

Financial institutions are uniquely placed to influence commodity-driven deforestation and land conversion through their financing activities. As an example, a recent report estimates that a Dutch bank's financing activities to Brazilian high-forest-risk sectors (e.g., beef, soy, pulp and paper) in the period of 2000-2022, had cost society EUR 66 billion (up to EUR 458.8 billion), despite merely EUR 0.7 billion in profits for the bank.[5] Although, actual costs are not calculated in balance sheets but rather externalized to society. Portfolio construction with strong risk assessments and robust deforestation and land conversion strategies could not only preserve forests and associated ecosystem services but ultimately protect global economic wealth.

The EU deforestation regulation and the role of engagement

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

[3] "WHY FORESTS ARE SO IMPORTANT" WWF, Accessed August 31, 2023. https://wwf.panda.org/discover/our_focus/forests_practice/importance_forests/.
[4] Krogh, Anders. "Only a third of the tropical rainforest remains intact" Rainforest Foundation Norway. Accessed August 30, 2023. https://www.regnskog.no/en/news/only-half-of-the-worlds-rainforests-remains-intact.
[5] Rijk, Gerard; Warmerdam, Ward; Kuepper, Barbara. "€ 0.7 billion in profits, € 66 billion in damages - Rabobank's destructive financing of deforestation in Brazil" Profundo Research & Advice. July 5, 2023. https://www.greenpeace.org/static/planet4-netherlands-stateless/2023/07/e70522eb-profundo_rabobank-brazil-final-july2023.pdf.

commodities, including soy, beef, palm oil, wood, cocoa, coffee and rubber are not sourced from areas of recent (post 31 December 2020) deforestation.[6] Companies failing to comply with EUDR may result in fines of up to 4% of the company's EU turnover, temporary exclusion from public procurement processes, and prohibition from trading in the EU.[7] According to the Sustainalytics ESG Risk Ratings assessment, 21% of high-impact companies have an adequate deforestation policy and only 11% have strong policies in place (see Figure 1). To comply with the EUDR, that applies from 30 December 2024, most high-impact commodity companies must strengthen their forestry-related commitments in order to eliminate the potential for financial loss. From our engagements with producers of high-impact commodities, there are two key triggers for pursuing deforestation-free products: 1) demands from downstream companies and 2) regulatory enforcement. For the former, engaging with the full agricultural value chain becomes an important tool for investors to address deforestation in their portfolios. For the latter, the EUDR undoubtedly will shape the supply chain practices. It does not just impact smaller-scale companies with fewer resources to diversify their commodity sourcing and ensure their supply chain due diligence, but also bigger players in the value chain with complicated supply chains to sort out. Consequently, it becomes important to provide engaged companies with best practices and accelerate their transition processes to mitigate such transition risk within investors' portfolios.

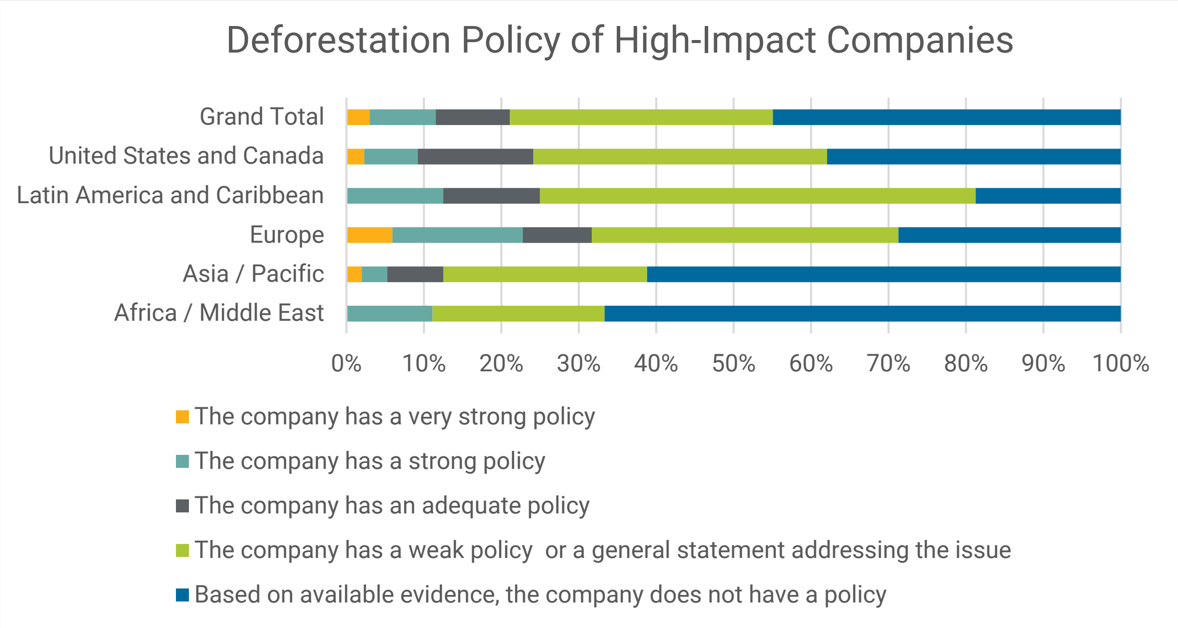


FIGURE 1 – MORNINGSTAR SUSTAINALYTICS ASSESSMENT OF HIGH – IMPACT COMPANIES AND THEIR DEFORESTATION POLICY
(Source: Morningstar Sustainalytics. The data for this analysis was retrieved on 30 August 2023 from Sustainalytics' Ratings+ Universe and includes 365 companies from the following industries: Food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

What investors can do to tackle deforestation?

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

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

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

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

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

Looking Ahead

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

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

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

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

More information on the programme, including progress on individual cases, can be found in **Global Access**.

Thematic Engagement

Climate Change - Sustainable Forests and Finance

EXECUTIVE SUMMARY

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

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

Update on Engagement Efforts

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

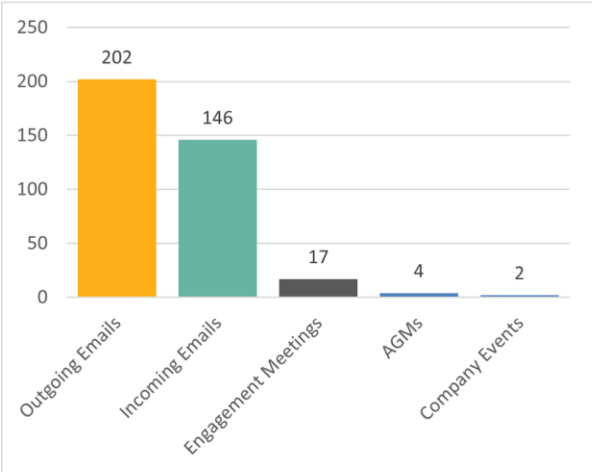


FIGURE 1 – ENGAGEMENT DIALOGUE BETWEEN 1 APRIL AND 30 SEPTEMBER 2023

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

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

High-level Insights and Outcomes

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

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

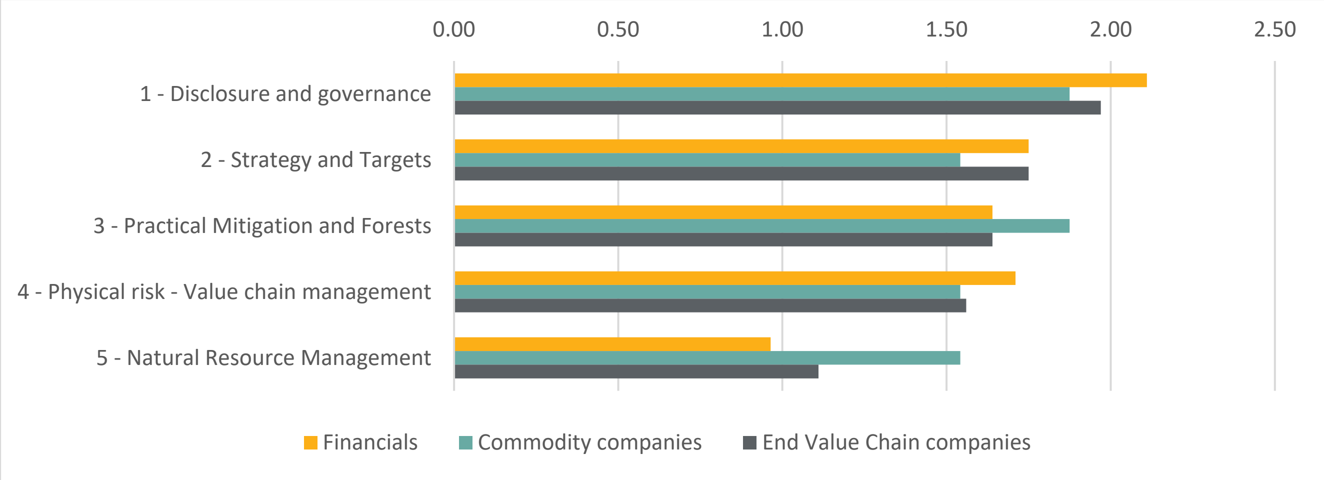


FIGURE 2 – AVERAGE SCORES PER SECTOR IN VALUE CHAIN

Looking Ahead

For the next six months, we will continue to monitor the global development on climate topics. One crucial event—COP 28—will take place from 30 November until 12 December 2023 at the Expo City, Dubai, which focuses on accelerating decarbonization, just transition and climate finance. The first-ever Global Stocktake under the Paris Agreement will conclude at COP 28. The Global Stocktake is an inventory of assessments which show where we are at on climate action on a global scale. Parties in the Paris Agreement agreed that the Global Stocktake should inform countries' climate plans. It has the potential to inform and guide nation-states as well as non-state actors' actions including investment actions. We will be monitoring this development and its impact on this engagement.[8] In addition, we are expecting in October 2023 the finalization of the much-delayed yet anticipated SEC climate disclosure ruling. The outcomes of these global developments have the possibility to shape policy-making and worldwide attitudes, subsequently affecting the rate at which our companies undergo transformative change.

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

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

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

Thematic Engagement Feeding the Future

EXECUTIVE SUMMARY

The Issue at Hand

Ensuring a sustainable supply of food for the world's fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population will reach 9.1 billion (34% higher than today), putting more pressure on already constrained resources. Food production will need to increase by 56% over a 2010 baseline to feed the larger population[9], meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

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

Update on Engagement Efforts

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

High-level Insights and Outcomes

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

Looking Ahead

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

Over the next six months we will:

- Explore ways for leading companies to catalyze progress on the food system or sector level through stakeholder collaboration
- Continue other ongoing dialogues, prioritizing companies where the last call occurred before December 2022
- Set up first substantive calls where needed and feasible

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

- Evaluate options for peer – to – peer collaborations within the framework of the engagement in H2 2023, such as a virtual roundtable
- Incorporate suitable good practice examples meeting engagement KPIs into a 'repository' of good practice to leverage during dialogues with peer companies
- Prepare the next biannual report for release in January 2024

2023 Q3 Update

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

Thematic Engagement

Responsible Cleantech

EXECUTIVE SUMMARY

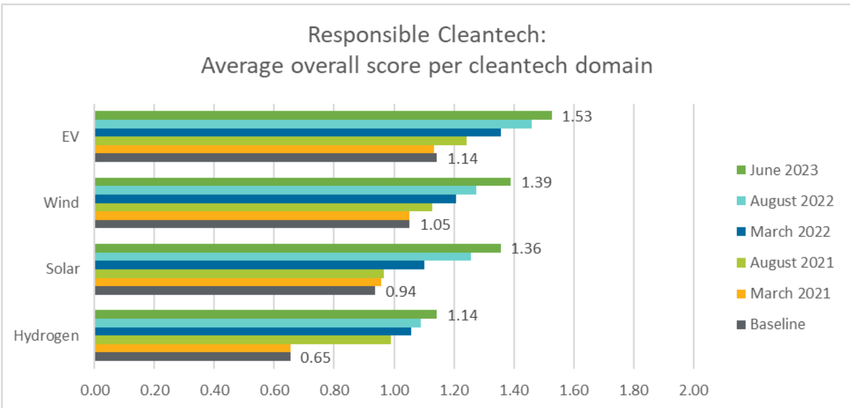
The issue at Hand

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

Engagement Updates

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

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



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

High-level Insights and Outcomes

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

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

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

Looking Ahead

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

2023 Q3 Update

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

Thematic Engagement
The Governance of SDGs

EXECUTIVE SUMMARY

The 2030 Agenda for Sustainable Development recognizes the private sector as a key agent in achieving a more sustainable future and provides companies and investors with tools to translate global development needs into business solutions, investment strategies, and products. Therefore, Sustainalytics launched the Governance of the SDGs Thematic Engagement to encourage companies in the Financial, Consumer Goods, and Information and Communications Technology (ICT) sectors to implement meaningful SDG strategies aligned with their business models and plans. At the midway point of the 2030 Agenda, advancement towards the SDGs needs more momentum. The progress on 30% of the SDGs has relapsed, and progress on another 50% is insufficient. The gap between developed and developing countries is widening. Agenda 2030 can be rescued but it requires a paradigm shift and massive investment. Sustainable finance is at the heart of the SDGs conversation right now. In May 2023, the UN Secretary-General called for a fully-fledged Rescue Plan for People and Planet, consisting of additional sustainable finance, scaling affordable long-term financing development and contingency financing, tackling the high cost of debt and tax evasion, and reforming the global financial architecture through which the world's public and private savings are channeled into investments.[10] The latest 2023 editions of the most important reports on sustainable development echo these calls.

To scale sustainable finance effectively, more scrutiny is needed from both financial institutions and companies to ensure that the growing sustainable investment wave is flowing in the right direction and that its positive impact is maximized. Credible, comparable data on companies' impact on the SDGs is needed, and also transparent handling of this data by financial institutions, to deliver the promised impact and avoid greenwashing and SDG-washing. Therefore, governance was raised to the top of the agenda, as it is a cornerstone of accountability.

Consequently, new sustainability regulations focus on improving the governance of sustainability and defining sustainable finance. The European Union is leading the way with the sustainable finance framework including the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR), as well as the Corporate Sustainability Reporting Directive (CSRD), and the Corporate Sustainability Due Diligence Directive (CSDDD) that bring the governance of sustainability to a new level. Because these directives apply to non-EU companies doing business in the EU, the EU's rulemaking agenda is likely to shape corporate governance and sustainability practices globally.

Under growing regulatory pressure, as well as interlinked crises, voluntary business and investor-led initiatives (in the area of governance of sustainability and sustainable finance) are emerging—drawing heavily on the SDG framework. They aim at accelerating private sector investments towards the SDGs and scaling impact. A few of these include the SDG Impact initiative, the SDG Investor Platform, the Impact Management Platform, and the CFO Coalition. Crucial work has been done in the area of standardizing sustainable reporting and bringing together different frameworks as well. The governance of sustainability has become a core board responsibility. Consequently, the companies' governance of the SDGs is improving.

To sum up, we are witnessing a growing number of positive developments, both from the public and business sectors, in the areas of governance of sustainability and sustainable finance. They are crucial for reaching the goals of the 2030 Agenda. However, seven years before the 2030 deadline set for the SDGs, we race with time. The direction of travel is right—the question remains whether the pace of this travel is adequate as well.

Update On Engagement Efforts

All companies in the Governance of the SDGs engagement program have been responsive. Since the publication of the October 2022 biannual report, we exchanged 225 emails (138 outgoing and 87 incoming), and 14% of these emails included substantial information on the theme's subject. Companies have been open to meetings and discussing their governance of the SDGs. We met with half (11) of the companies since October 2022. In two cases, a board chair or a corporate secretary took part, and in seven—a head of sustainability. This shows that the topic of our engagement is high on companies' agendas and reaches top executives and the board. Only one company has not met with us yet but after a long negotiation, a call is agreed on for Q4 2023.

Engagement Insights

As we are approaching the final months of the Governance of SDGs Thematic Engagement, we are glad to report that 90% of the companies in the programme demonstrate good or excellent progress, and all of them have achieved Milestones 3 or 4. Since 2020, we observe steady improvements across all five categories of KPIs, namely SDG strategy, risk and impact assessment, board oversight, reporting, and stakeholder engagement.

This shows, however, how the ESG landscape has changed over the last couple of years, and how the expectations and requirements regarding the governance of sustainability increased. Most of the sub-KPIs that we established in 2020 were proactive goals that have now become a market norm or regulatory requirement, for instance, detailed sustainability reporting or including ESG metrics in the executive remuneration package. We believe our engagements have had a positive impact as we see many of our engagement companies introducing good governance practices that we have highlighted and emphasized during our meetings.

There is still much room for improving the governance of SDGs though. The challenges that remain include collecting precise, credible data and reporting on the companies' SDG impacts, both positive and negative, as well as incorporating accountability for them into decision-making processes at all levels in order to scale the positive impact on the SDGs. We will thus concentrate on these topics in the final months of the engagement.

[10] "Progress towards the Sustainable Development Goals: Towards a Rescue Plan for People and Planet. Report of the Secretary-General, Advance Unedited Version". UN Secretary-General. Published May 2023. https://sdgs.un.org/sites/default/files/2023-04/SDG_Progress_Report_Special_Edition_2023_ADVANCE_UNEDITED_VERSION.pdf

While environmental impacts are easier to quantify, social impacts are considered more difficult to measure objectively which makes setting social goals a challenge. Companies in all sectors are only starting to develop social-impact measurements and improving their products. Additionally, managing the value chain, including Tier 3 suppliers and Scope 3 GHG emissions, goes beyond what companies are used to controlling. They often lack credible data. This should change as sustainability data improve across markets. We will monitor these topics going forward.

Looking Ahead

The next couple of months are the final ones for the Governance of the SDGs Thematic Engagement as it concludes at the end of 2023. Therefore, we will have the last meetings with the engagement companies. As they implemented the most important corporate governance practices that were recommended in our KPIs, our focus for the next few months will be on approaches to measure and scale up their positive impact on the SDGs. With the companies in the consumer goods sector, we will discuss managing their social risks and commitments, with those in the financial sector, we will look at how they assess the impact of projects on the SDGs while making business or investment decisions, and with the ones in the ICT sector we will look at the best ways to measure the progress on the SDGs, based on their learnings.

We will summarize lessons learned and identify best practices and areas for further development and present them during the closing roundtable and the final report. They will inform our new next Thematic Stewardship Programme—Sustainability and Good Governance starting in 2024. While our engagement draws to a close, there are still seven years to go before the 2030 Agenda deadline and a lot of work to be done to reach its goals.

2023 Q3 Update

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Thematic Stewardship Programmes Circularity and Resource Management

New Engagement Programme Update

Waste materials from the production, use and post-use phases of product lifecycles are impacting climate, nature and public health. These impacts represent significant reputational, regulatory and litigation risks to companies and their investors. Moreover, the accelerated depletion of natural resources threatens companies' business continuity. The transition towards a circular economy has been an important sustainability topic on the political and business agenda for some time and it may also play an effective role in the response of investors to these risks. In essence, a circular economy maximizes the useful lifespan of products and their constituent parts. However, the focus now needs to evolve from generating promising concepts to delivering solutions at scale. Policy frameworks need to be strengthened, producers' responsibilities need to be extended, and circularity improvements need to be more effectively marketed. Consumer empowerment is as essential to the transition towards a circular economy as technical solutions such as eco-design, operational efficiency improvements and recycling.

The new Circularity and Resource Management Stewardship Programme will target companies that supply products and services that help meet consumer needs. As a start, we will engage the automotive value chain. This encompasses not only automotive but also metals, renewable energy, materials processing (including metals and plastics), original equipment manufacturers (OEMs), and waste management. Throughout 2023 we are developing our strategy to expand engagement in this area, establish an outcome framework, and identify a target list of companies to be engaged.

About Morningstar Sustainalytics

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

For more information, visit www.sustainalytics.com.