

UK STEWARDSHIP CODE 2020

Morningstar Sustainalytics Report of Compliance
with the Principles for Service Providers

Reporting Period: January 1 - December 31, 2022

UK STEWARDSHIP CODE 2020

Introduction

Morningstar Sustainalytics is a leading global provider of ESG research, ratings and data and stewardship services. We serve hundreds of the world's largest asset owners and asset managers with the development and implementation of responsible investment strategies. In serving the institutional market for more than 30 years, we have gained a reputation for providing high-quality, innovative ESG solutions and excellent client service.

Morningstar Sustainalytics has developed a comprehensive understanding of trends and best practices in responsible investment and a solid process to assist institutional investors in integrating ESG considerations into their investment policies and strategies. Our range of services, from ESG risk to impact to compliance-related services, speak to our clients' varying needs and objectives.

Morningstar Sustainalytics provides the insights required for investors and companies to make better informed decisions that lead to a more just and sustainable global economy. We therefore wholeheartedly believe in the values underpinning the UK Stewardship Code and recognize the significant positive influence the Code has had on improving stewardship since its introduction in 2010. As such, Morningstar Sustainalytics is committed to adhering to the UK Stewardship Code and is pleased to submit its 2022 Stewardship Code report.



Bob Mann
President, Morningstar Sustainalytics
2023-04-28

Principle 1. Signatories' purpose, strategy and culture enable them to promote effective stewardship.

1.1 Morningstar Sustainalytics: purpose, culture, values, business model, service offering and strategy

Mission/Purpose

Morningstar Sustainalytics' mission is to provide the insights required for investors and companies to make more informed decisions that lead to a more just and sustainable global economy.

Values

- We have a positive impact on our world.
- We embrace diverse perspectives.
- We foster excellence through continuous collaboration.
- We are adaptable and entrepreneurial.
- We treat others as we like to be treated.

Culture

Morningstar Sustainalytics actively works to foster a mission-based culture, a sense of community, and an entrepreneurial spirit within the company. We foster our mission-based culture by “walking the talk” through the work we do as well as through our operations.

Morningstar Sustainalytics is a global company, and wherever we operate, and across every part of our business, we strive to create an inclusive environment which embraces diversity and fosters inclusion. We embrace and support our employees' differences in age, ethnicity, gender, gender identity or expression, language differences, nationality or national origin, family or marital status, physical, mental and development abilities, race, religion or belief, sexual orientations, skin colour, social or economic class, education, work and behavioural styles, political affiliation, military service, caste, and other characteristics that make our employees unique.

Business model, service offerings and strategy

Morningstar Sustainalytics has developed a comprehensive understanding of trends and best practices in responsible investment and a solid process to assist investors in integrating ESG considerations into their investment policies and strategies, across the investment value chain. With the acquisition of GES International in January 2019, Morningstar Sustainalytics was able to offer ESG stewardship services to support our investor clients in promoting and protecting long-term shareholder value. Our Stewardship team works with the world's leading asset owners and managers to engage with issuers who have high levels of unmanaged material ESG risk. Through a separate team, called Morningstar Sustainalytics

Corporate Solutions (SCS), Morningstar Sustainalytics offers ESG-related products and services to banks, underwriting firms, public and private companies and other related organizations.

1.2 How Morningstar Sustainalytics' strategy and culture enable the promotion of effective stewardship

Sustainability issues remain central to our thinking across all aspects of our business, including product development, delivery, support, and service and are well aligned with our mission.

In doing our part, Morningstar Sustainalytics also recognizes its own responsibility as an ESG and corporate governance research provider that evaluates the sustainability performance of others. Morningstar Sustainalytics follows the UN Global Compact's 10 principles, which includes the precautionary principle, based on which we have integrated sustainability risk assessments in fundamental business processes to minimize the negative impact on the environment.

Accordingly, sustainability is at the core of how Morningstar Sustainalytics' global offices operate, from our human capital policies that stimulate diversity and personal development, to our continuous efforts in offsetting our GHG emissions, preventing conflicts of interests, corruption practices and other forms of white-collar activities, ensuring the integrity and quality of our research, enabling adequate protection of data, including personal information that we handle, and providing an adequate communication channel for whistle-blowers.

Morningstar Sustainalytics' efforts to achieve sustainable and sound business practices are detailed in our [Code of Ethics](#), our [Key Business Principles](#) and the [Morningstar Sustainalytics' ESG Principles](#), available on our website, and in our internal policies and work processes, applicable across all our different entities. These efforts are complemented by regular information sharing and training for all employees, and by an annual public disclosure on our progress, via the [Morningstar Corporate Sustainability Report](#), available on www.morningstar.com.

As a mission-driven organization, our aim is to promote fair and sustainable economies. In 2022, to set a framework to measure our pathway and progress toward achieving this objective we partnered with an external consultancy called [Junxion](#), leaders in impact measurement and evaluation. Junxion will help us understand our impact and how we can maximize it. We started working together to uncover:

- How our organization is accelerating sustainability;
- How we can make the best decisions for our company and clients while driving meaningful change through our services and products; and
- How our impact can be measured and optimized.

This project started in 2022 with scoping and internal workshops. In 2023, recommendations and guidance will be put forward on how we can measure our impact on an ongoing basis, ensure our mission is at the forefront of how we make decisions and, ultimately, support all of us in bringing our mission to life.

1.3 An assessment of Morningstar Sustainalytics’ effectiveness in serving the best interest of clients

We always work to serve our clients’ stewardship interests and assess our effectiveness in the following ways:

Client satisfaction and retention

Morningstar Sustainalytics issues an annual client satisfaction survey to assess how well we are delivering on our client promises. The high scores we have received for many years indicate that our products meet client needs and we effectively serve clients’ best interests.

Further, our client retention rate is one of the highest in the industry, thereby underscoring the close collaboration we have with clients.

Client consultation

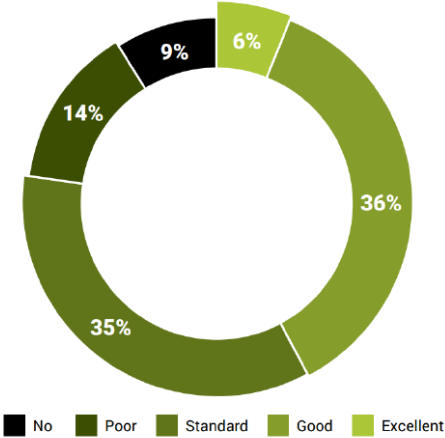
Clients are regularly invited to contribute with input and ideas during formal client consultations and/or informally via day-to-day interactions with our client advisory team. This provides frequent opportunities for clients to share feedback on our services and whether we are meeting expectations. Clients are also invited to respond to our thematic engagement consultations, and the feedback from clients is used to determine priorities. As an example, we launched the ‘Biodiversity and Natural Capital’ engagement programme in 2022 as clients clearly indicated a need for stewardship focus in this area.

Engagement progress

We diligently measure engagement progress through a range of parameters such as Response, Progress and Milestones.

When Morningstar Sustainalytics engages with corporates, we assess Response and Progress against a five-point scale ranging from no to excellent. The Response assessment shows to what extent the issuer is willing to engage and show interest in the dialogue. In this way, clients can interpret the Response assessment as an early indicator for change, as the willingness to engage with Morningstar Sustainalytics and investors is often the first step for a successful engagement dialogue. The assessment of Progress shows the speed and scope in which the issuer implements initiatives and improves performance against the engagement objective. Response is in general more positive than progress, which reflects that a verbal commitment comes before action and implementation can be difficult and takes time. Morningstar Sustainalytics Stewardship Services has low-performance and escalation strategies in place to address the no/ poor Response and Progress that we encounter.

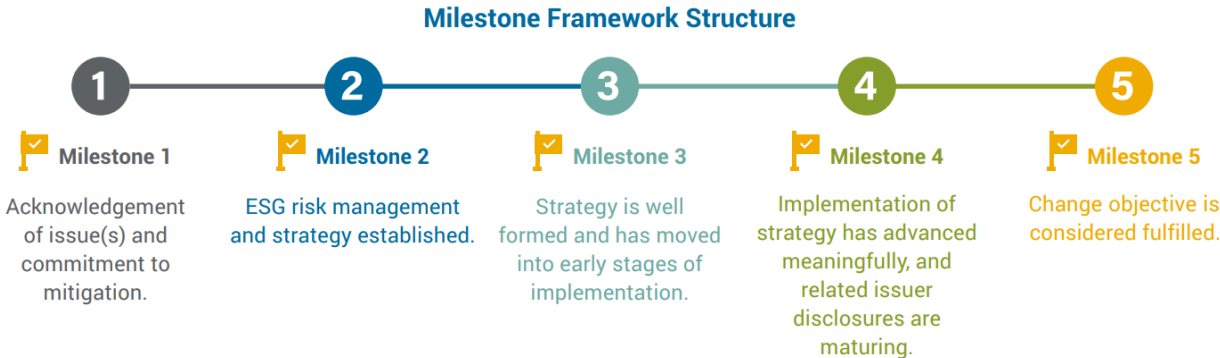
Figure 1: Response to Engagement



Engagement Milestones

Throughout 2022, we introduced a number of enhancements to improve our Stewardship Services and their delivery. The most significant enhancement to reporting progress was the enhancement of our five-stage milestone tracking. This enhancement shifted focus to outputs and outcomes of engagement as opposed to activities, providing a more meaningful assessment of case progression. All dialogue-driven engagement is now mapped against this five-milestone framework that shows how far we are in achieving the engagement objective.

Figure 2: Milestone Framework



In 2022, we reached 747 Milestones (in 2021, we reached 676) and successfully resolved 17 cases (in 2021, we resolved 72). Further, we concluded 19 engagement cases demonstrating a positive trend of companies constructively engaging with their investors. The difference in resolved cases has to do with us concluding more three-year term themes in 2021 than 2022.

We provide full transparency of our Stewardship activities and investor clients are kept informed about issuer meetings, responses and initiatives via our investor client platform, Global Access. Investor clients can follow the progress of our engagements through continuously updated reporting and case profiles, and when cases are resolved, our reporting outlines the impact and outcomes of the engagement process.

As an example, after engaging with Walmart Inc, a US retailer, for many years, the case was resolved in 2022. Throughout the process, we measured tangible outcomes, including the issuer issuing a human rights statement, taking concrete measures to tackle legacy labour issues, and improving its proactive risk assessment to mitigate further labour rights violations through internal buy-in and integration.

Please see the appendix for further details on the Walmart case study.

Figure 3: Case Study - Walmart



Principle 2. Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

2.1 How Morningstar Sustainalytics' governance structures and processes enable oversight and accountability for promoting effective stewardship

Morningstar Sustainalytics' values, ethics, unique company culture, over 30 years' experience in the market, our long-term vision, and the importance of our staff enable accountability and oversight for sustainability. Specifically, we take a similar long-term view when it comes to developing talent because of these factors and we place great emphasis on the retention of key personnel and succession planning, which we believe is essential for fulfilling our mission.

The result is a long track record of promoting from within, ensuring that the institutional knowledge and passion for our company manifests itself at all levels, up to our Executive Team.

Whenever possible, members of our leadership and Executive Team have resulted from internal promotion. Subsequently, a large proportion of our senior management has been with the company for over a decade, having filled a variety of roles prior to management. Due to exceptional company growth, some management have shorter tenure, but staff tend to join Morningstar Sustainalytics with that long-term vision in mind.

Morningstar Sustainalytics' governance structures and processes are enabled to provide appropriate oversight (both management oversight and oversight of control processes) of the services that Morningstar Sustainalytics provides to its clients. One of the Morningstar Sustainalytics' priorities on our 2023 roadmap is to assess and adjust our oversight committee framework to align it with IOSCO's recommendations.

Morningstar Sustainalytics has implemented processes, controls, resources, as well as training personnel to ensure continuous service delivery and standard of quality to our clients. Such efforts are complemented by the robust governance and oversight practices that we have tailored to guarantee the quality and reliability of our services.

For example, Morningstar Sustainalytics had previously developed a Global Standards Oversight Committee (GSOC), which in 2022 acted as the oversight and decision-making body relating to issuer assessment changes and guidance within our Global Standards Screening (GSS) and Global Standards Engagement (GSE) products with an aim to support clients' needs for a consistent approach between the two products. The GSOC was a joint committee for both GSS and GSE and was composed of research and engagement leadership and Product Managers. The committee was responsible for, among other things, approving consistent but separate issuer assessment changes for both GSS and GSE; ensuring that the assessments were robust, defensible, and aligned across the entire research universe; reviewing and discussing the proposals for issuer assessment changes including the facts, judgements, sources, and other aspects.

However, in 2022 we started a review on how to enhance the way in which the two underlying teams for GSS and GSE co-operate to ensure the continued independence of the two products and to avoid potential or perceived conflicts of interest. As such, we elected to change our existing procedural and structural controls between stewardship services and research assessments. Specifically, we wanted to change the information flow between the teams and restrict insight into the others' decision-making processes.

This means that in 2023, the currently joint Global Standards Oversight Committee will be replaced with two separate Oversight Committees, deciding independently on research assessments and engagement decisions. We will expand further on this development in next year's report.

Morningstar Sustainalytics maintains transparent remuneration frameworks designed to fit local context and conditions and provide personnel with fair and competitive rates of pay. Compensation and benefits strategies are regularly reviewed to maintain alignment with what we believe to be competitive industry pay practices. The global remuneration framework is linked to the Talent Framework and is one of the key tools used to retain and reward employees. Another tool in the company's reward strategy are the bonus and commission schemes that depend on the function and tailored to local labour market best practices. The purpose of these schemes is to incentivize and reward exceptional performance while taking into consideration the company's overall financial standing. However, it is worth noting that research personnel compensation is not directly tied to specific commercial outcomes. As part of the Shared Ownership Programme, employees may elect a portion of their cash bonus (or commission) payout in stock with an additional Morningstar match. For colleagues who go above and beyond to deliver exceptional outcomes, Morningstar has an Impact Awards process which grants Restricted Stock Units. Impact Awards are awarded in three categories to align with **the company's commitments**.

2.2 How the quality and accuracy of Morningstar Sustainalytics services promote effective stewardship

Quality assurance is imperative to Morningstar Sustainalytics' success and allows us to ensure that our clients rely on accurate information for their responsible investment and stewardship activities. This culture of quality permeates our operational processes, our teams, and is institutionalized throughout the delivery value chain.

Our commitment to data quality control encompasses clear quality control guidelines. It defines data quality dimensions (such as accuracy, internal consistency, external consistency, historical consistency, concurrency, business relevance, reproducibility/verifiability, completeness, timeliness and client distribution/response), product quality measurement, quality assurance and incidents management.

Morningstar Sustainalytics maintains a series of substantive quality assurance and quality control points within our infrastructure, both fully automated and semi-automated functions. From upstream data collection via a variety of research platforms, to middleware data storage within a multitude of research, product, and aggregation databases as well as end-of-gate checks before data reaches its destination in client facing applications. Through rigorous and ongoing efforts, our teams seek to ensure that our data

is aligned to a quality framework adhering to principles of Accuracy, Completeness, Consistency, Timeliness and Uniqueness. Details of how we assure quality in our research are outlined below.

Company Research

- **Rating Integrity:** Each rating is subject to an internal peer review process prior to publication.
- **Oversight Committees:** Consisting of senior executives and research directors to review and sign off on all significant downgrades/upgrades and beta overlays.
- **Company Contact:** Companies are given the opportunity to correct factual errors.
- **Automated Quality Checks:** Flags for unusual rating changes and checks for quantitative indicators for outliers, logic relationship and unusual patterns.
- **Testing & Validation:** Diligent testing and bottom-ups and top-downs methodology and impact validation.
- **Complaints Tracking Mechanism:** External complaints are actively tracked, and mechanisms are in place to ensure that they are addressed in a timely manner.

Data Quality

- **Operational Management:** Business processes and tools are in place for universe maintenance, research planning, monitoring of timely publication and tracking of production targets.
- **Productivity Tools:** Our internal research platforms and databases are continuously enhanced to ensure research data integrity as well as efficient data collection and processing.
- **Data Management:** Systems are in place for the periodic collection and verification of non-research data (e.g. company identifiers) and ensuring the integrity of all data points from back-end to front-end.
- **Automated end-of-gate quality checks:** Daily automated quality control systems are in place to ensure the accuracy and integrity of ESG Ratings pre-publication, flagging outliers, and unusual patterns to avoid unwarranted rating volatility.
- **Data Delivery Systems:** Our online client portal and data services are maintained daily and continuously improved to give a comprehensive and accurate representation of our products.
- **Data Deliverables:** Automated and manual quality assurance checks are run on all periodic and one-off custom client deliverables.

Product/Service Quality

- **Research Product Innovation:** As we continuously expand and improve our offering, the client impact of any structural product changes is assessed prior to implementation.
- **Service Innovation:** As we continuously expand and improve our digital services to clients, any new features are tested before being released to clients.
- **New Product Launches:** A well-defined Stage-Gate process has been put in place to manage product launches and ensure quality, at the launch and beyond.

Update cycle

- We aim for annual updates of management indicators for the covered companies.
- Continuous updates are made as incidents occur and fed into updates of event indicators, which is not disclosure-driven.
- Continuous updates are made to all cases we are engaging on, based on desktop research as well as our engagement dialogues with issuers.
- Annual updates to the rating framework (selection of material ESG issues, weighting of indicators).

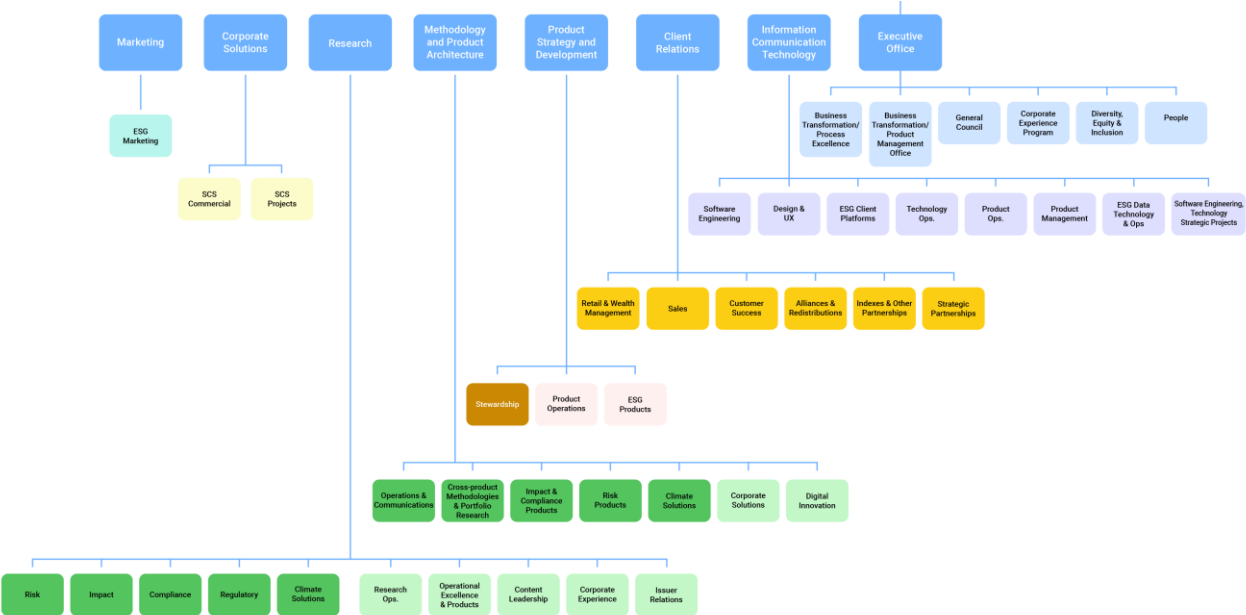
Engagement & Voting

- Monthly quality-check procedures of the quality of the data in the client interface, covering selected key data points.
- Review process in place for all vote recommendations and for all periodic client reports.
- Global Standards Oversight Committee oversees all issuer and case assessments within our Global Standards Screening and Global Standards Engagement products (to change in 2023).
- Weekly team meetings to discuss cases and solutions to challenging issues, and to share knowledge and experience.
- Robust toolkit, including product manuals, templates, process guidelines, etc. and comprehensive onboarding programme for new joiners.
- Refresher training sessions held for Engagement Managers on need-basis to ensure full understanding of process requirements and alignment in their application.
- Automatic quality rules embedded in the research platform.

2.3 How Morningstar Sustainalytics appropriately resources stewardship

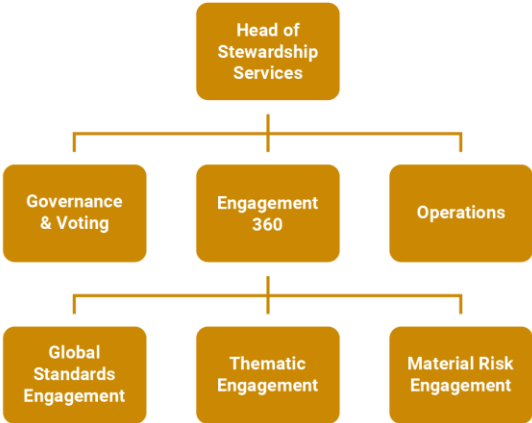
Chosen organizational workforce structure

Figure 4: Overview of Morningstar Sustainalytics Organizational Workforce Structure



Morningstar Sustainalytics’ Stewardship Services team structure is provided in Figure 5 below. Note that Morningstar Sustainalytics’ Stewardship Services team is part of our Product Strategy and Development team.

Figure 5: Morningstar Sustainalytics’ Stewardship Services Team Structure Organizational Workforce Structure



Stewardship Services Team Overview

As of 31 December 2022, Morningstar Sustainalytics Stewardship Services team was made up of 43 people, and we had one open position to be filled in January 2023.

2022 was a stable year for the Stewardship Services team, with steady growth.

Figure 6: Stewardship Services Selected KPIs (as of 31 Dec 2022)



In the course of 2022, we created and filled seven new positions, growing our team by 15%. New positions built the Stewardship Operations Team that provides administrative assistance to Engagement Managers and Product Managers. Within that unit we have also created several dedicated support functions, such

as project management and client reporting coordination. This development allows our content experts as well as Product Managers to focus on the core of their roles.

Mid-2022, we also created a new strategic role: Stewardship Impact Director. As part of the department leadership team, the purpose of this role is to lead the qualitative part of engagement, strategizing and supporting Engagement Managers in making our engagements with issuers and collaborations with key stakeholders effective and impactful, and aligned with client expectations.

While the engagement is carried out by the Stewardship team of 43 people, the support of the service delivery is carried out by our global Commercialization team (consisting of 12 colleagues of which three are dedicated to Stewardship Services) and Client Advisory team (65 persons). In addition, the Stewardship team collaborates with relevant teams internally that include ICT (229 persons), Data Services, Research and Operational teams (866 persons).

Industry Experience, Seniority, Experience, Qualifications

Stewardship Services team members have an average 13 years of relevant work experience (in responsible investment, consulting, finance, or sustainability) and average tenure with our company is just over five years.

Morningstar Sustainalytics’ primary expansion policy has been to reinvest for the continued growth and success of the group. As of December 2022, the Stewardship team has over 550 years of combined experience in Responsible Investment, ESG, consulting, finance and project management. The team also has over 320 years of combined experience in Responsible Investment. The expertise of Stewardship covers the 11 Global Industry Classification Standards sectors. The seniority of the team is evidenced in the distribution of business titles.

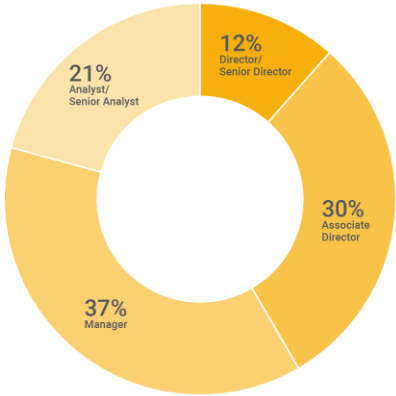
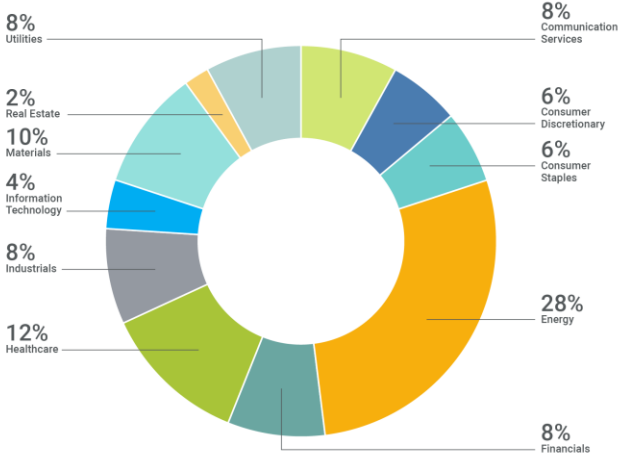
Full biographies of our Stewardship Services Team are available upon request.

Figure 7: Stewardship Services Experience & Expertise



Figure 8: Stewardship Services Expertise by GICs Sectors

Figure 9: Stewardship Services Seniority by Business Title



Diversity

The work in the Stewardship team spans 49 countries. Our engagement work hinges on the rapport we create within our engagements. Engaging in different markets requires particular attention to socio-cultural and political factors, as well as knowledge of the local language and customs. We have a wide spectrum of different nationalities and language skills in our team, which play an important role when dealing with different cultures and approaches that we come across in our stewardship activities. Patience and polite persistence are core Morningstar Sustainalytics strengths – to not give up when the dialogue is uphill, but always meeting the issuer from a polite perspective, taking many things into account such as cultural differences. It makes sense that diversity is top of mind because of the diversity of issues we work with, we complement that with a constantly growing team of diverse talents.

Diversity is hard to measure but there are some data points we can highlight here. The figures below cover the Stewardship Services team. To understand Morningstar-level diversity data, please visit our [2022 Corporate Sustainability Report](#).

- **Gender Status:**
 - In a primarily male-dominated industry, we are proud to count more female than male colleagues.
 - 58% Women
 - 42% Men

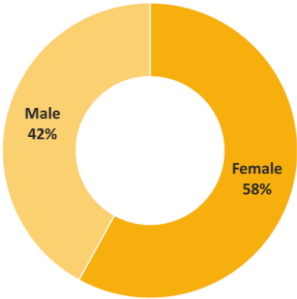


Figure 10: Gender Distribution

- **Language Skills:**
 - Morningstar Sustainalytics employees speak English as the general business language and within the Stewardship team, we can hold business meetings in over 22 languages, including Spanish, German, French, Mandarin, Cantonese and Japanese.
 - 75% are fluent in two or more languages.
 - 25% are fluent only in English but many are keen to learn additional languages to enhance their capacity to communicate in the workplace.

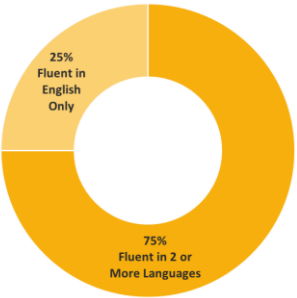


Figure 11: Language Distribution

- **Geographic Diversity:**
 - Morningstar Sustainalytics has 17 offices around the globe.
 - The Stewardship team members are based in 13 cities and approximately 16% of our team are remote.

Overview of the ESG Research team at large

Our ESG Research analysts have an average of five years of relevant ESG research experience, and the most senior team members (topic leads) have 15-20 years of ESG research experience. With multidisciplinary expertise across more than 40 sectors, our ESG analysts feature a variety of sustainability and finance related backgrounds. Around 75% of the research team have a master's degree and 40% completed the PRI Academy. Our analysts combine more than 20 nationalities covering more than 30 languages. ESG research analysis informs our stewardship processes.

Morningstar Sustainalytics' investment in systems, processes, research and analysis

- **Strategic level:**
 - Sustainalytics was acquired by Morningstar in July 2020. This has led to long-term synergies and increased innovation and investment into Morningstar Sustainalytics to help it maintain its historical year-on-year growth. Supported by our past performance and the continued growth of

the market, the aim going forward is to achieve a growth rate in range with or above historical numbers. We will continue to invest in research and client relations staff, regional expansion, product innovation and digital marketing to continue to support our clients with a high-quality product portfolio. Over the last few years, we have introduced several new products' including our Regulatory EU Action Plan Solutions, Impact Solutions including Impact Metrics, and Climate Solutions including Physical Climate Risk Metrics, Low Carbon Transition Rating, and Engagement 360, the Biodiversity and Natural Capital Impact Engagement Programme and the ESG Voting Policy Overlay from our Stewardship Solutions.

- **Product Level:**

Morningstar Sustainalytics works closely with clients throughout the engagement process and is always open to their suggestions and requests. Following such discussions, we have recently developed and launched three areas for our Stewardship Services:

- **Engagement 360** is a full-service stewardship solution and the most holistic service offering — packaging together all Morningstar Sustainalytics stewardship services into a comprehensive service bundle. It was designed based on client feedback - to satisfy their need for an integrated approach to engagement that combines research overlay, thematic engagements and an ESG lens to proxy voting. As a comprehensive stewardship solution, it is designed to help investors generate positive and meaningful environmental, social and governance change. Supporting a robust and integrated approach to engagement provides holistic issuer insights and outcomes rather than on an independent topic by topic basis.
- Morningstar Sustainalytics' **ESG Voting Policy Overlay** complements a traditional corporate governance policy by supplementing it with ESG-aligned voting guidance to round-out an intentional ESG investment strategy. Our theory of change is grounded in the view that some of the biggest risks and opportunities facing investors today derive from social and environmental factors that drive market-wide performance. We therefore take a systems approach, connecting granular issuer-level ESG risk indicators to factors that drive long-term investment value. By enhancing corporate accountability, proxy voting is an indispensable tool supporting portfolio and market resilience. Leveraging Morningstar Sustainalytics' ESG data and research, in-depth engagement insights, and Morningstar's market intelligence, we identify key ballot initiatives from the universe of issues our clients are entitled to vote on. Our holistic proxy voting and engagement strategy helps our clients to connect their stewardship actions with real world impacts. We have developed a structured engagement escalation strategy that includes vote recommendations to our clients. During 2022, we developed a Governance for Net Zero Voting Strategy. This voting strategy offers voting recommendations that advance climate competent governance practices at the heaviest emitters in the global economy. Where companies have failed to set meaningful decarbonization targets linked to senior executive performance metrics, or where companies fail to disclose climate targets, we will recommend that investors vote down certain compensation-linked management resolutions.
- **Thematic engagement:** The Thematic Engagement programme offers investors a proactive stewardship approach to systemic issues such as climate transition, biodiversity or human rights and provides an opportunity for clients to select specific themes that they wish to engage on.

Through client feedback, we launched the 'Biodiversity and Natural Capital' impact engagement programme in 2022 as a key thematic focus area for engagement activity.

- **Employee level:**
 - New Morningstar Sustainalytics' employees receive an introduction to financial markets and responsible investing. All employees have access to, and are strongly encouraged to utilize an annual education credit, which may be used for various educational events such as external trainings, workshops, conference fees, etc. There are also various internal training and knowledge-sharing initiatives across the organization. In addition, we collaborate with external training providers, such as the PRI Academy and offer access to LinkedIn Learning to all our staff members. Finally, we financially support colleagues who are in pursuit of obtaining a Chartered Financial Analyst (CFA) designation or CFA ESG Investing Certificate.
- **Tools:**
 - We continuously invest in internal tools that support our work as well as our client-facing platforms and systems. We have developed a process whereby developments and enhancements to client-facing systems are bundled into two releases per year. This enables us to keep clients informed about the upcoming changes and allows them time to adjust their processes, if needed. This also makes us think about potential system improvements on a continuous basis. Each system development is always enhanced with a set of automatic quality rules that help us prevent errors.

2.4 How Morningstar Sustainalytics ensures fees are appropriate for services provided

Morningstar Sustainalytics' extensive experience and strong market position, serving more than 1,000 investor clients across several client segments globally, provides us with valuable market insight. This insight enables us to provide the most suitable services for our clients' needs, for an appropriate fee.

Morningstar Sustainalytics takes a consultative approach in the provision of its services, ensuring a deep understanding of the current and evolving requirements that each client may have. In our commercial proposals we use objective criteria (Assets under Management, defined use cases, defined cross-product discounts, and investor-type) to consider clients' needs and ensure our services are aligned to their requirements.

Morningstar Sustainalytics has a transparent contracting structure and pricing, to ensure that clients are notified upfront of any fee increases. Inflation is the main contributor to fee increases year-on-year.

2.5 Assessment of the effectiveness of Morningstar Sustainalytics' chosen governance structures and processes in supporting our clients' stewardship

Morningstar Sustainalytics is a global company, operating in multiple jurisdictions and committed to equity and fairness. To support the quality and integrity of our products and services, we strive to be

transparent regarding the way our research and engagement results are presented and shared with clients. We are committed to providing clients and prospects with information about our research and rating methodologies, as well as information sources used. Morningstar Sustainalytics' research process involves the collection and analysis of information made available by third parties, including civil society, corporate, government, industry association, investor, media and regulatory sources.

To ensure the production of high-quality objective analysis, employees are required to act with prudence and to use authoritative evidence to support analysis, keeping appropriate documentation on sources and citing them in accordance with guidelines compiled for each product and service. Plagiarism is strictly prohibited within our research. Morningstar Sustainalytics has rigorous review processes to ensure that research assessments are reasonable, adequate and appropriately sourced.

Morningstar Sustainalytics takes technical and organizational measures designed to structurally separate and independently manage our various departments and sales teams. Each team operates separately and is managed by a different executive with a separate and distinct senior management layer. This separation aims to preserve the objectivity of Morningstar Sustainalytics' products and services.

Specific rules regarding the structural separation and communication across the different teams at Morningstar Sustainalytics are detailed in our [Policy on Managing Potential Institutional Conflicts of Interest](#) and in a variety of other operating policies. To ensure a clear separation between the research and the commercial sides of the business, other policies and guidelines are implemented, such as the office separation policy based on neighbourhood concept, separate reporting lines, and access rights management that adopts a need-to-know approach. In line with IOSCO recommendation that ESG ratings providers establish separate teams for their ESG ratings and research functions to ensure objectivity and transparency in their ESG ratings process, we enforce this teams' separation to avoid conflicts of interest and to maintain the independence of our research and ratings.

Morningstar Sustainalytics' Stewardship Services are strategically aligned to in-house research. Our stewardship efforts are informed by in-house research performed by a dedicated team of more than 800 analysts.

To safeguard research independence and maintain its objectivity in the rating process, Morningstar Sustainalytics further separates the relationship between Research and Stewardship as follows:

- The Stewardship team cannot access the ESG Risk Ratings Research working files. The ESG Risk Rating Research Team cannot access Stewardship working files or any of the assessments or dialogues conducted by the Stewardship team.
- The Stewardship and ESG Risk Rating Research Teams cannot join each other's meetings with issuers or discuss these issuers formally or informally.
- Data systems are structurally separated in order to ensure information separation.
- The Stewardship Team is only permitted to respond to simple methodological questions from issuers regarding the ESG Risk Rating process and never specifically related to the rating of the company. All process-related questions, *e.g.*, timing of the rating, must be managed through an intermediate like the Issuer Relations function at Morningstar Sustainalytics.

Morningstar Sustainalytics empowers analysts with the required range of academic background, professional expertise, market insight and diverse perspectives within the governance and responsible investment environment, with experience in various fields such as corporate governance, economics analysis, mergers and acquisitions, compensation, law, sustainability, climate change, global standards and norms, and data analysis. Our personnel conduct is governed by the **Morningstar Code of Ethics** as well as specific policies tailored to Morningstar Sustainalytics' business model. Our main governance documents are on our website, at **Governance Documents (sustainalytics.com)**.

We believe effective engagement is a constructive process aimed at creating long-term enterprise value. To achieve this aim, our engagement management oversight proceeds to uphold and ensure that:

- Clear engagement objectives that both resolve relevant issues and improve issuers' overall ESG performance are implemented and achieved.
- Clear timeframes are implemented to track engagement results.
- Effective communication is implemented by making use of all available engagement tools including written communication, calls and meetings with issuers' management, conference calls, (multi)-stakeholder initiatives, site visits and escalation through proxy voting.
- Work takes place continuously on a collaborative and open basis in order to leverage the power of ownership influence.

Further, Morningstar Sustainalytics has implemented rigorous quality controls, aimed at ensuring high levels of quality, accuracy and timeliness of its Stewardship Services. Morningstar Sustainalytics empowers dedicated internal personnel to provide continuous review and evaluation on the procedures and processes implemented across its different teams, including its Stewardship business line.

One of key developments in 2022 in the area of quality assurance was to start building our Stewardship Service's Operations Team whose mandate is, among other things, managing quality-related processes and procedures. Throughout the year, the team has undertaken a number of initiatives to assure the quality of data shared with clients:

- We have fully developed and implemented a two-eyes monthly quality check routine that focuses on the quality of data and timeliness of case updates.
- We have built a robust SharePoint-based toolkit for Engagement Managers, that includes product manuals, templates, process guidelines, etc.
- We have revised and significantly strengthened the onboarding programme for new colleagues.
- We have organized or co-hosted refresher training sessions for Engagement Managers to ensure full understanding of process requirements and alignment in the application of those.
- We have worked with ICT teams to further develop automatic quality rules embedded in the research platform.

A dedicated team focusing on quality assurance guarantees that we have adequate resources to regularly maintain and enhance quality procedures, but it also establishes clear accountability for the process.

Weekly Product Team meetings take place to discuss individual engage cases. The meetings are hosted by a Product Manager and/or Content Lead and aim to ensure consistent assessments across the case portfolio. Engagement Managers are expected to bring their cases for discussion when there are significant updates.

For each engagement case, a change objective is defined, and an engagement plan is developed. All interactions with issuers are focused on achieving the change objective. Via engagement, we seek to influence corporate behaviour. We build long-term relationships with issuers. Engagement is conducted in-person (whenever possible), on-line or via email exchanges.

We are transparent towards both the issuers and the clients. Agendas are shared with issuers beforehand. Meetings are always documented via minutes that are approved by the issuer. Clients can access all information, including notes from our engagement calls, via a password-protected online platform. Updates are performed on continuous basis.

Our investor clients face increasing external requirements regarding publicly reporting demonstrated activities and outcomes, which means that we also need to improve our processes around regular reporting on engagement outcomes. During the year, we have gradually increased the information types that clients can report externally, and we have initiated a project to structurally change our client reporting for the shifting needs of our clients. This project is scoped in 2022 and we will commence implementation in 2023.

The development of Engagement 360 was in part triggered by the needs of investor clients for a comprehensive, effective stewardship solution with full access to all information on issuers regardless of underlying focus areas.

In 2022, we have further extended our **Morningstar Sustainalytics' Engagement Guidance**. The guidance is available on our website and aims to inform issuers about, among other things, the purpose and nature of engagement, the benefits that it brings to them, what information we collect and how we share it.

Principle 3. Signatories identify and manage conflicts of interest and put the best interests of clients first.

3.1 Morningstar Sustainalytics' Policy on Managing Conflicts of Interest

Potential conflicts of interest are common, particularly in financial services. This is no different for Morningstar Sustainalytics, which operates multiple lines of business that serve a variety of client types. The way in which we manage and protect against potential conflicts of interest from becoming real is germane to our research objectivity and critical to the good reputation we have built over the last 30 years.

Objective research is a cornerstone of our business, and we work to put in place relevant policies to structurally separate and independently manage our various research, engagement and sales teams. This structural separation is implemented through a three-pronged strategic framework. This framework encompasses the adoption of a neighbourhood concept in our offices, thus ensuring the physical separation of our research and commercial teams, management of access to sensitive information through the enforcement of need-to-know access privileges, and distinct reporting lines.

Morningstar Sustainalytics uses a combination of conflict management policies, procedures, organizational and technical measures to ensure that potential conflicts of interest do not become real conflicts. Our [Policy for Managing Institutional Conflicts of Interest](#) and our [Policy on Managing Potential Personal Conflicts of Interest](#) are part of a broader policy architecture, including our [Morningstar Code of Ethics](#) and [Morningstar Sustainalytics Key Business Principles and Practices](#).

The overarching objective of our framework for managing conflicts of interest is to give precedence to the interests of our clients, while simultaneously reducing or eliminating instances of conflicts of interest. Our framework encompasses several essential components, which involve the disclosure of possible conflicts of interest to clients in an unambiguous, succinct, and comprehensible manner, implementation of procedures for identifying and managing conflicts of interest, evaluation and monitoring of the effectiveness of our policies and procedures, including regular assessments, and the provision of regular training sessions to our staff, to underline the significance of recognizing and managing conflicts of interest. Ultimately, our goal is to protect the interests of clients and key stakeholders. Our conflict management framework specifically addresses the need for analyst independence, consistency of process, data protection and systems separation. You can find our main governance documents on our website, at <https://www.sustainalytics.com/governance-documents>.

Morningstar Sustainalytics' [Policy on Managing Potential Institutional Conflicts of Interest](#) is built around the following pillars, to enable us to manage potential conflicts of interest within our business:

- a) Internal organization of teams
- b) Office facilities and IT infrastructure
- c) Data usage, storage and separation
- d) Managing private interests
- e) Research process and methodology
- f) Communication with clients and subject companies.

Morningstar Sustainalytics is committed to fair competition and to preventing commercial engagements with competitors, clients or other stakeholders that limit or restrict competition, including but not limited to those who participate in the creation of cartels, collusions, vertical agreements or monopolies, or those who abuse a dominant market position.

3.2 How Morningstar Sustainalytics identifies and manages any instances where conflicts have arisen because of client interests

In the ordinary course of Morningstar Sustainalytics' business spanning numerous relationships with clients, business partners, vendors, shareholders and the like, the potential exists for business conflicts to arise. These situations are subject to Morningstar Sustainalytics' policies and business practices, which include specific conflict management procedures. Morningstar Sustainalytics' management and directors are responsible for setting those policies, amending them from time to time and further communicating them to personnel.

Morningstar Sustainalytics avoids entering commercial relationships that might jeopardize the company's integrity and research independence. If an employee believes a specific client relationship (or prospect relationship) presents a potential conflict of interest, the employee must bring the issue to the attention of the Chief Compliance Officer. In addition, an employee may opt out of a specific client, prospect or subject company relationship without consequence if it presents a potential conflict of interest.

Communication with companies (whether clients, prospective clients or subject companies) is functionally separated within Morningstar Sustainalytics: research-related communication with subject companies is independently managed by our various research and engagement teams, while commercial-related communication is managed by our Sales team.

Commercial staff are prohibited from attempting to influence research outcomes in any way. If commercial staff have concerns with an aspect of our research, ratings or assessments (e.g., timeliness, factual basis, logic of rating, etc.) they will contact the appropriate product manager or secondarily, the research manager. They do not to communicate with the research staff directly.

In case of an overriding business interest, senior representatives of research and commercial personnel may discuss client relationship details to satisfy that interest.

Morningstar Sustainalytics includes relevant disclosure of potential conflicts of interest in its client deliverables, where appropriate. Upon request, the Compliance function at Morningstar Sustainalytics may provide clients with relevant details about the situation that is susceptible to generating a potential conflict of interest, to the extent this is material to assessing the objectivity of the delivered research, if such details are needed for their own compliance purposes.

Given clients' ability to join engagement discussions and actively contribute to meeting agendas, Morningstar Sustainalytics' has a process in place to ensure Engagement Managers identify potential conflicts of interest ahead of calls and limit the engagement conversation to agreed set objectives. By

encouraging participants to share questions ahead of conversations, Morningstar Sustainalytics is able manage potential conflicts and enable collaborative discussions.

3.3 Examples of how Morningstar Sustainalytics has addressed actual or potential conflicts

Managing Institutional Conflict of interest

At Morningstar Sustainalytics we structurally separate and independently manage our various Research, Engagement and Sales teams, as per the above organizational chart (Figures 4 and 5 in section 2.3). Each of these teams operates separately and is managed by a different executive with a separate and distinct senior management layer.

Commercial personnel are prohibited from discussing client or prospect relationship details with research analysts. Furthermore, our commercial data systems are completely separated from the systems used by our various Research and Engagement teams to perform their company assessments and produce client deliverables. Specific rules regarding the structural separation and communication across the different teams at Morningstar Sustainalytics are detailed in our different operating policies.

In addition to the above, our **Code of Ethics** sets out certain standards of conduct that all employees are expected to abide by, including standards of conduct in the workplace, professional business practices, avoidance of potential conflicts of interest, consistency and integrity of research, internal and communication restrictions, insider trading, accepting gifts, fair dealing and handling of confidential data. Employees are required to review and sign the **Code of Ethics** upon hiring and annually thereafter.

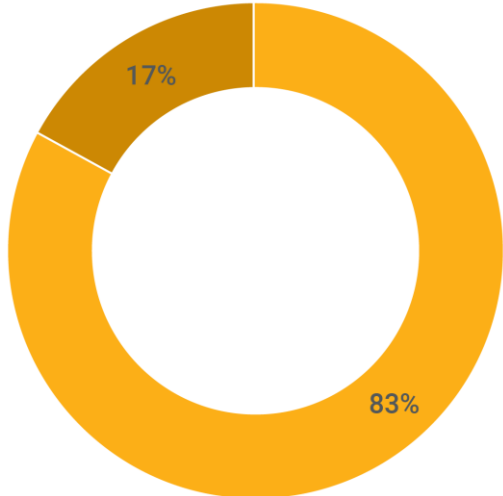
Morningstar Sustainalytics understands the importance of disclosure of potential conflicts of interest and effective conflict management and upon request, the Compliance function at Morningstar Sustainalytics may provide institutional investor clients with a list of our clients that are also subject companies, if such list is needed for their own compliance purposes.

The launch of the Corporate Solutions business line in 2018, which offers services to issuers, presented a potential conflict of interest for the organization. As the demand for these services increases and more issuers become our clients, Morningstar Sustainalytics is investing significant effort in effectively managing any potential conflicts of interest. Within the Stewardship Services suite, the Material Risk Engagement service, leveraging the ESG Risk Ratings, presents a probability for a potential conflict of interest. Therefore, in the course of 2022, we prepared comprehensive guidelines aimed at both Engagement Managers and Corporate Solutions analysts. We developed a resource package and conducted training sessions. We focused on clearly defining the mandate and scope of work of each of the teams, identifying the overlap and the differences, and providing practical guidance to analysts on how to avoid any conflict of interest in their daily work. These resources have also been embedded in the onboarding programme for any new hires.

Furthermore, the ESG Voting Policy Overlay, a voting product that is highly regulated, is equipped with a robust conflicts of interest analysis and disclosure. Before issuing a vote recommendation, each issuer we analyze is scrutinized for any potential conflicts of interest. Together with the Morningstar Sustainalytics

Compliance team, we assess the relationship with Morningstar Sustainalytics, specifying whether it is significant or not, and detailing if the issuer for which we issue a vote recommendation is our corporate client, investor client or a vendor. This information is displayed as part of the Meeting Profile and thus shared with both the issuer and the clients.

Figure 12: ESG Voting: Breakdown of Relationship Disclosure for Perceived Conflict of Interest in 2022



- Has no relationship with Sustainalytics
- Has a non-significant relationship with Sustainalytics

Specific rules to safeguard the independence of our research personnel:

- Commercial personnel are prohibited from discussing client or prospect commercial details with research analysts. Research analysts are prohibited from being included in any client or prospect meetings or calls where commercial details are discussed.
- Research analysts can be leveraged as content experts in client calls, but they cannot be present if commercial details are discussed.
- Compensation for Research personnel is not directly tied to specific commercial outcomes.

Managing Personal Conflict of interest

We maintain specific policies and procedures intended to prevent and manage those situations where a personal interest may be inconsistent with the general interests of Morningstar Sustainalytics or of its stakeholders and could lead to their conduct on behalf of Morningstar Sustainalytics being influenced or compromised.

Specific rules on managing conflicts of interest are detailed in our **Code of Ethics** and other dedicated internal policies. Such rules include, but are not limited to:

- Personnel are required to take all necessary measures to avoid any possible conflicts of interest and to avoid engaging in activities that might jeopardize – or appear to jeopardize – the integrity of their conduct or the reputation of Morningstar Sustainalytics. If there is room for suspicion that an action or commitment might create a conflict, or might reasonably appear to do so, personnel must not pursue it.
- Seeking prior approval where a member of the personnel performs duties outside of Morningstar Sustainalytics, that may reasonably appear to create a conflict of interest.
- Express prohibition of inside trading.

Situations that may give rise to of conflicts of interest, and prohibited behaviour

While it is not possible to detail every potential source of conflict and assessing the potential for personal conflicts is a matter of using good judgement, below are some examples of situations that can give rise to a conflict of interest and some examples of prohibited behaviour for Morningstar Sustainalytics personnel. The following list is neither exhaustive nor limitative.

- A potential conflict of interest may arise when Morningstar Sustainalytics personnel perform work for or interact with an entity in which they have a personal interest, including former employment or contract over the past 12 months, or a significant financial interest, on behalf of Morningstar Sustainalytics. Morningstar Sustainalytics requires disclosure of any such situation to the personnel's manager and to the Compliance team, and depending on the nature of their role, the personnel are reassigned to a different entity to ensure research objectivity. We encountered such a scenario in our Stewardship team, where one Engagement Manager reached out to the Compliance team to inquire whether there is any potential conflict of interest with one of the companies they planned to engage with, given said company was a former employer. After reviewing the Manager's disclosure, the Compliance team determined this engagement was not violating our rule on former employment given that that employment relationship had ended five years prior.
- A potential conflict of interest may arise when Morningstar Sustainalytics personnel perform work for or interact with an entity, on behalf of Morningstar Sustainalytics when they have an immediate family member employed by that entity. Morningstar Sustainalytics requires disclosure of any such situation to the personnel's manager and to the Compliance team, and the Personnel are most likely reassigned to a different entity.
- Morningstar Sustainalytics personnel are prohibited from providing recommendations about a subject company, client or prospect outside of their work responsibilities at Morningstar Sustainalytics, based on information they became aware during their work for Morningstar Sustainalytics. One example where Morningstar Sustainalytics addressed a potential conflict of interest related to outside activities was when one of our Stewardship Managers was invited to participate as a keynote speaker to a conference covering building relationship with investors through the SDG lens. Said conference was organized by a large organization, in which one of our clients had shares in, and for which said manager provided voting recommendations as part of their work activities at Morningstar Sustainalytics. Given the potential conflict of interest, or more specifically, the possibly perceived bias in future recommendations from Morningstar

Sustainalytics, the Stewardship Manager declined participation to said conference, upon the recommendation of our Compliance team.

Policy examples on how Morningstar Sustainalytics avoids potential personal conflicts of interest.

- Once identified, Morningstar Sustainalytics personnel are required to promptly and pro-actively notify their manager and the Compliance team of any personal interest, consideration, or business activity, that could create or give rise to the appearance of a potential conflict of interest or could be expected to negatively impact Morningstar Sustainalytics' reputation.
- If Morningstar Sustainalytics personnel have personal interests or a significant financial interest in a company, they shall not perform research or engagement for/regarding said company. Morningstar Sustainalytics personnel are also expected to refrain from engaging in any commercial or other interaction with said company, on behalf of Morningstar Sustainalytics.
- If Morningstar Sustainalytics personnel are part of the research personnel, that directly performs research or engagement for a specific subject company, them and their family members, may not undertake personal transactions of financial instruments issued by that subject company.

Conflicts of interest disclosure

Morningstar Sustainalytics provides clarifying guidelines for most of our policies, to further instruct our employees on how to avoid/address and disclose any conflicts of interest situation they may encounter and is implementing multiple training programs specifically tailored to how we manage conflicts of interest in the workplace. Under the framework umbrella of managing potential conflicts of interest, personnel are required to disclose anything from previous employment to outside activities they might want to pursue to any trading they might consider. To automate this process, we signed a contract with a specialized provider, a compliance technology platform that streamlines the disclosure process, which we are in the process of implementing in 2023.

If the initial disclosure indicates a prohibited behaviour, for example, owning securities (or any significant financial interest) in a company they are researching, Morningstar Sustainalytics personnel are required to immediately disclose such situation to their manager and the Compliance team, who assesses the gravity of the incident and provides mitigation steps (such as sell securities or divest interest in said entity within a reasonable timeframe, reassignment to a different team/research project, etc.).

If a specific disclosure indicates an actual/potential conflict of interest, Morningstar Sustainalytics personnel are required to disclose such situation to their manager and to the Compliance team, who then offers recommendations and provides continuous assistance on how to eliminate or address said conflict of interest, on a case-by-case basis. In the specific scenario when there is no conflict of interest, Morningstar Sustainalytics informs its relevant personnel of the Compliance function's assessment.

In addition to the existing architecture on managing conflicts of interest, the Morningstar Sustainalytics Compliance team provides and continuously seeks to improve personnel trainings specifically tailored for the identification, disclosure, and resolution of specific scenarios that can amount to a conflict of interest, so as to be better equipped to cultivate a proactive and preventive approach, rather than a reactionary corporate mindset.

Principle 4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

4.1 How Morningstar Sustainalytics has identified and responded to market-wide and systemic risks

Addressing systemic risks through our ESG Risk Ratings

Built on a transparent methodology, Morningstar Sustainalytics' ESG Risk Ratings provides a coherent and consistent approach for investors to assess financially material environmental, social and governance issues that affect the long-term performance of their investments at both the security and portfolio level. Morningstar Sustainalytics launched its flagship product, Morningstar Sustainalytics' ESG Risk Ratings, in September 2018 after three years of development in line with our commitment to product innovation. Our transparent methodology analyses factors contributing to the level of ESG risk a company faces, such as business model, financial strength, geography, and incident history.

Morningstar Sustainalytics also worked on developing two new products to its Climate Solutions: (1) Low Carbon Transition Ratings which is a product that gauges the climate performance of issuers against the global effort to transition the global economy to 'Net-Zero' by 2050 and (2) Physical Climate Risk Metrics, a data point that lets investors determine the potential risks companies face due to physical hazards brought about by climate change. These products were developed in response to clients' needs for a greater focus on of climate risks, as acknowledged and encouraged by the likes of the Financial Stability Board's Task Force on Climate Related Financial Disclosures, the European Systemic Risk Board and Network for Greening the Financial System.

Addressing systemic risks through our regulatory data products

Morningstar Sustainalytics has also updated a dedicated regulatory-oriented product offering to support key data points (e.g. EU Taxonomy, Principal Adverse Impacts, Sustainable investments, EU Paris-Aligned and Climate Benchmarks) underpinning the EU action plan which aims (1) to reorient capital flows towards a more sustainable economy; (2) to mainstream sustainability in risk management and (3) to foster transparency and long-termism. Our product suites also support other sustainability regulatory initiatives across the globe such as the climate-related disclosures required by the FCA ([Climate-related reporting requirements | FCA](#)). We track regulatory developments on an ongoing basis to see if any dedicated products or updates to our products are needed to support regulators objectives and help our clients meet their new obligations.

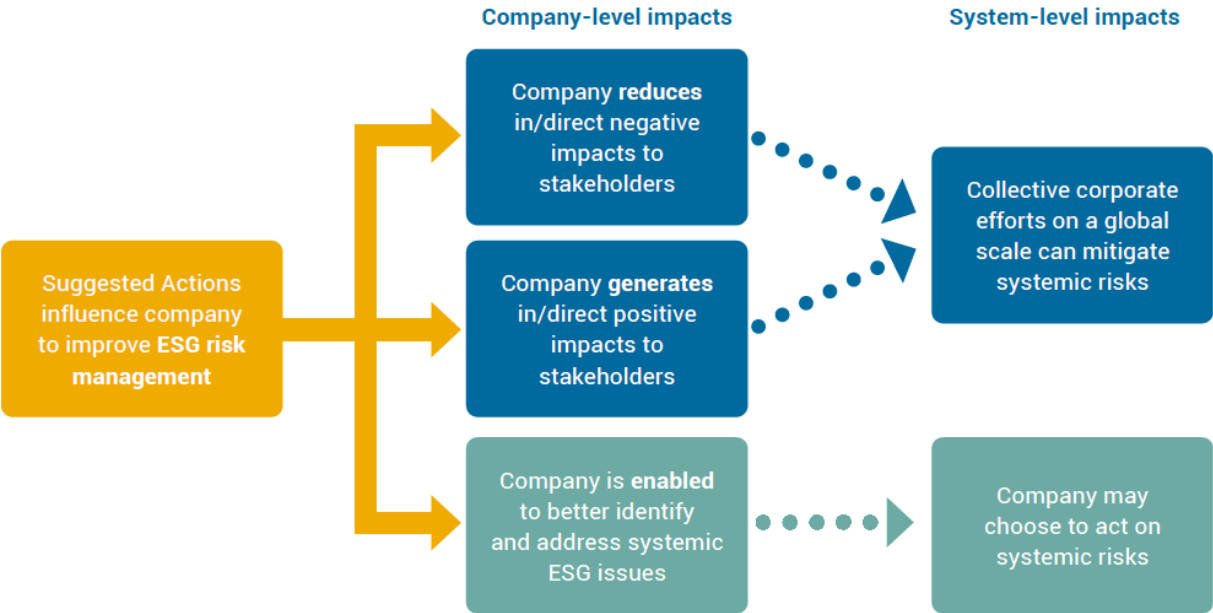
Addressing systemic risks through Stewardship

Through our Stewardship Services, we identify and address systemic ESG risks and issues in our engagements. This is done by targeting issuers' overall ESG risk management and specific ESG risks. Examples include:

Overall ESG risk management

Our Material Risk Engagement is focused on supporting issuers via customized suggested actions to improve their ESG risk management over time. To the extent that issuers follow these suggested actions, they will lead to issuer-level impacts that will collectively lead to system-level impacts, as illustrated in the below conceptual diagram:

Figure 13: How Material Risk Engagement Supports Issuers to Reach for Real-world Impacts



Climate change

Climate change is a key consideration in the continuous development of our Stewardship Services. As issuers display increased exposure to climate change risks and their financial materiality, we engage on issuers’ transition to a more sustainable economy as well as their potential violation of international standards, such as the Paris Agreement.

We currently address climate change in over 350 individual engagement dialogues. In addition, climate change is truly global and demands a more collaborative approach. We therefore leverage our experience and resources, including via global coalitions such as Climate Action 100+ and the PRI, either in our own capacity or by representing clients.

Climate change is also the focus in our Climate Change – Sustainable Forests and Finance engagement theme. This engagement addresses climate risk and advocates for reductions in direct and indirect emissions in the context of global forest systems. This thematic engagement focuses on three key groups of actors: issuers directly driving forest-related emissions, their customers, and their financiers. Building on insights gained from Morningstar Sustainalytics' Climate Transition engagement (2018 to 2021), this theme targets issuers throughout forestry-linked value chains to promote science-based emissions reduction strategies, transparent climate-related disclosure and sustainable practices to mitigate impacts from climate change.

Morningstar Sustainalytics addresses climate change across the spectrum leveraging similar systems approach in thematic engagements Feeding the Future, Localized Water Management, Tomorrow's Board and Responsible Cleantech.

Through Morningstar Sustainalytics' ESG Voting Policy Overlay, we aim to advance climate competent governance practices at the heaviest emitting issuers in the global economy. Following a "Governance for Net Zero" voting strategy, we may recommend that our clients vote on certain compensation-linked management resolutions where issuers have failed to embed meaningful decarbonization targets into senior executive performance metrics, or where issuers fail to disclose meaningful climate targets.

During the latter part of 2022, we initiated the development of the Net Zero Transition Engagement Programme, for launch in 2023. Based on client feedback, we identified the need to collaborate with international investors to support corporations in their climate transition to achieve net zero emissions goals until 2050 (or earlier). The programme will evolve upon Morningstar Sustainalytics' thematic engagement approach, targeting 100 national and multinational companies at launch while leveraging new ways to amplify investors' impact. It aims to support businesses to enhance climate change governance, reduce emissions, and improve financial disclosures connected to climate change. The programme will adopt a double-materiality approach by not restricting the objectives to only focusing on risk. To do this, we will broaden the range of engagements to involve various stakeholders, including policymakers, NGOs, and intergovernmental organizations. Multistakeholder collaboration, which will be a key feature of the programme, allows the programme to be integrated with other industry initiatives and takes advantage of synergies with their goals. To collaborate for the broadest coverage and advancement of this initiative we have engaged various ongoing initiatives such as Climate Action 100+ to ensure we are complimenting their work both in our approach and assessment but also in our issuer selection where we will seek to include issuers that are under-engaged to limit overlap.

Biodiversity

Biodiversity is one of the latest in a growing number of systemic risks we seek to address in collaboration with investors. In 2022, we launched our Biodiversity and Natural Capital Impact Engagement Programme to partner with global investors to address risks and opportunities arising from the complexity and interlinkages of biodiversity loss, natural capital, and climate change. The programme engages 50 issuers throughout the agricultural value chain to promote best practices in managing nature-related risks and opportunities. During our dialogues, we provide issuers with insights and capital market expectations on impacts and dependencies and targets to disclosure per TNFD recommendations. In addition to individual

dialogues, we actively engage with NGOs and industry initiatives, such as the Science-Based Targets Network (SBTN) and TNFD, to identify synergies and collaboration opportunities. We also participated in industry-focused activities and negotiations during the Kuming-Montreal UN Biodiversity Conference, COP15.

Example – Biodiversity and Natural Capital Engagement. Please see the appendix for further details on the case study.

Figure 14: Case Study - Biodiversity and Natural Capital Engagement



Human Rights and Labour Rights

Most of our norms-based engagements, focusing on human and labour rights, environment, and business conduct/ethics, are guided by the international norms, conventions and standards that issuers are expected to operate within.

Morningstar Sustainalytics has a long history of researching and engaging with issuers on these topics, both in terms of international collaborations and our own programmes. For example, we currently have over 195 engagements covering human and labour rights through, amongst others, our Global Standards Engagement, Material Risk Engagement, Child Labour in Cocoa (concluded in Q3, 2022), Human Capital and the Future of Work, Human Rights Accelerator and Modern Slavery engagement themes.

Recent developments related to human rights in global supply chains demand issuers accelerate addressing these increased material risks, expectations, and global challenges. Issuers have the responsibility to mitigate adverse effects in their operations and at the same time have the potential to make a positive impact on the people and the communities directly linked to their supply chains. Not adequately managing these impacts constitutes a material risk to issuers and by extension to investors. Numerous projects and operations have been disrupted by protests, legal proceedings and other actions that resulted from human rights concerns. Human rights issues are central to an issuer’s “social license to operate”, or simply “social license”. Social license refers to society’s ongoing acceptance of an issuer’s activities and the trust it builds with the communities where it operates. This includes the issuer’s own workforce as well as its supply chain. When this trust is broken, issuers run the risk of becoming less resilient with costly strikes, delays and short- and long-term supply shortages which impact growth and productivity. The Human Rights Accelerator engages to mitigate reputational risks and to support businesses to become future proof, creating a space for learning, triggering collective action with a view to create positive impact.

Example – Child Labor in Cocoa Thematic Engagement. Please see the appendix for further details on the case study.

Figure 15: Case Study – Child Labor in Cocoa



Public Health

Public health is a concern in today’s environment as well as our ESG risk-centered dialogues in which healthcare and pharmaceuticals are among the top industries engaged in.

- Stakeholder concerns around access to, and the rising cost of healthcare is a key challenge in particular to the pharmaceuticals and healthcare sectors. In our Tomorrow’s Board thematic

engagement, partly directed at pharmaceutical companies, we have increased the focus on their response to the pandemic.

- Access to controlled medicines without discrimination is a key element of the right to health, however, there can also be negative impacts associated with drug use. Additionally, stakeholder impact resulting from the fraudulent marketing, or the over-prescription of medicines (particularly opioids) is a serious issue worldwide. Issuers allegedly involved in unlawful drug or opioid malpractice in a widespread and systematic manner (causing medicine/opioid addiction) are within the scope of Morningstar Sustainalytics' research and will lead to engagement dialogues where applicable.
- Ensuring availability and sustainable management of water and sanitation for all is the UN's Sustainable Development Goal (SDG) 6. Morningstar Sustainalytics' Localized Water Management Thematic Engagement is aligned with SDG 6 and its associated links to public health outcomes. Safe drinking water, and adequate sanitation and hygiene, are fundamental to protecting environmental health, and directly contribute to achieving good human health and well-being. Water-related diseases are closely linked to poverty, and disproportionately affect vulnerable communities that lack basic WASH (water, sanitation, and hygiene) services. Universal access to WASH is essential for improving nutrition, health service delivery, social well-being, and economic productivity. Moreover, water stress (scarcity) is linked to hunger, food insecurity, and economic development, and can increase competition and potential conflict among users. SDG 6 illustrates that sustainable development, public health, and responsible corporate water management are closely linked. Issuers are expected to play a role in objectives relating to water quality, freshwater supply, sanitation and hygiene, and capacity-building. They must be aware of the impact that their activities can have on access to water, health, and socioeconomic development. To measure progress and ultimately the engagement impact, a set of Key Performance Indicators (KPIs) is applied to our issuer dialogues. The assessment framework of water governance, risk and opportunity management, water quantity, water quality, integrated water resources management, and public water management is aligned with SDG6 and draws from Morningstar Sustainalytics' previous experiences of engaging on water. There is a strong emphasis on contextual and site-level aspects across the KPIs, and we also promote science-based targets where appropriate. Without an appropriate supply of water and sanitation, human health is at risk, fundamental societal functions cannot be fulfilled, and development is likely to stall.

4.2 How Morningstar Sustainalytics has worked with other stakeholders to promote continued improvement of the functioning of financial markets

In the context of ESG Risk Rating

As previously mentioned, our ESG Risk Ratings methodology has been developed in response to the changing needs of the market and in recognition of the increased market focus on stakeholder capitalism¹.

Morningstar Sustainalytics' ESG Risk Ratings fundamentally consider the financial materiality of sustainability-related risks that issuers face. This enables issuers and investors to consider the most important environmental, societal and governance risks to enterprise value. With such knowledge, issuers and investors are empowered to take actions to mitigate such risks, ultimately benefiting the environment and broader society, as well as shareholders. Our ESG Risk Ratings therefore enable actions which benefit a broader variety of stakeholders over the long term, thus improving the functioning of financial markets.

Additionally, Morningstar Sustainalytics consciously promotes transparency, as exemplified by our publication of the ESG Risk Ratings methodology. Such transparency is essential for the credibility of the wider ESG Research sector and to enable maturation of responsible investment within the mainstream financial markets.

In the context of Stewardship Services

Morningstar Sustainalytics' Engagement is truly collaborative as it brings together likeminded investors across markets, investor types, and asset classes. We conduct our engagement on behalf of more than 130 clients globally totaling more than EUR 4.2 trillion in Assets under Engagement (AuE). Throughout our engagement work, we identify suitable opportunities to collaborate with investors and wider initiatives to place important ESG topics onto corporate agendas and to further responsible investment best practices. Many of our investor clients participate in direct dialogues with issuers, led by the Stewardship Services team.

In the larger context of Morningstar Sustainalytics

In 2022 we contributed to several regulatory initiatives in major markets.

Canada:

Prepared written comments for the Canadian Securities Administrators' (CSA) Consultation on Climate-related Disclosure Update and CSA Notice and Request for Comment Proposed National Instrument 51-107 Disclosure of Climate-related Matters. January 2022.

¹ <https://www.weforum.org/agenda/2020/01/stakeholder-capitalism-principle-practice-better-business/>

US:

Prepared written comments for the SEC's Consultation on Proposed Rule: Substantial Implementation, Duplication, and Resubmission of Shareholder Proposals Under Exchange Act Rule 14a-8. September 2022.

UK:

Prepared responses to survey questions for the Financial Reporting Council's (FRC) research project on 'The impact of proxy voting advisors and ESG rating agencies on actions and reporting by FTSE 350 companies.' October 2022.

Europe:

Prepared responses to survey questions posed by ESMA in a Call for Evidence on the implementation of SRD2 provisions on proxy advisors and the investment chain. November 2022.

4.3 Morningstar Sustainalytics' role in relevant industry initiatives

In context of public policy and advocacy

We have seen an increasing need for public policy engagement and have a dedicated team focusing on public policy and formulating official responses. Morningstar Sustainalytics has set up a Public Policy Committee to support Morningstar's Public Policy team on public consultations and advocacy position papers that have an important ESG dimension. Morningstar Sustainalytics is also engaging via dedicated advisory bodies with regulators in policy areas that impact Sustainalytics and our clients. This includes among others:

- the European Commission (EC)'s Platform on Sustainable Finance
- the EC's High-level expert group – Scaling up sustainable finance in low and middle-income countries
- ESMA's Consultative Working Group (CWG) of the Coordination Network on Sustainability (CNS)

Investor networks and collaborations:

Morningstar Sustainalytics is a member of numerous local and global networks and is a founding member of various national SIFs (Social Investment Forum). This allows us to broaden our network, keep abreast of trends and developments, as well as set and influence global investor dialogues.

Amongst others, we actively participate in:

- UN Principles for Responsible Investment (PRI)
- PRI Advance
- Climate Action 100+
- International Corporate Governance Network (ICGN)
- Investors for a Just Transition
- UN Global Compact Principles

- Responsible Investment Association (RIA)
- Council of Institutional Investors (CII)
- Ceres Local sustainable finance forums
- Swiss Sustainable Finance Forum (SSF)
- Eurosif (Europe)
- Forum Nachhaltige Geldanlage (FNG)
- UKSIF
- USSIF

4.4. Extent of Morningstar Sustainalytics’ contribution and assessment of effectiveness in identifying and responding to systemic risks and promoting well-functioning financial markets

Figure 16: Examples of Morningstar Sustainalytics-Led Collaborative Initiatives

Initiative	Motivation	Brief description	Outcome
Investor statement in support of corporate-Living Income and Living Wages roadmaps	To advance or escalate engagements.	Morningstar Sustainalytics has collaborated with IDH, The Sustainable Trade Initiative - a foundation working with businesses, financiers, governments, and civil society to realize sustainable trade in global value chains - coordination and endorsement of the organizations’ living income and living wage roadmaps. Coordinated by Morningstar Sustainalytics, we brought together 45 global investors representing more than EUR 6.3 trillion in AUM to publicly disclose their support of the IDH living income and living wages roadmaps. The roadmaps demonstrate concrete actions issuers can take to address the issues in their supply chains.	Bi-lateral dialogues with, and investor letters to issuers, to further advance on living income and living wages. A continued momentum on the topic in the private sector, with more concrete actions and initiatives implemented and others emerging. IDH’s roadmaps are key in contributing to this momentum and in driving further corporate uptake of living income and living wage strategies.
Stakeholder roundtables – Corporate Culture, Modern Slavery, Responsible Taxation, Human Rights and Mining	Issues-focused discussions bringing different stakeholders to the table.	Morningstar Sustainalytics has organized several roundtables on, among other things advancing work on corporate culture, effective work against Modern Slavery in the construction sector, responsible corporate taxation practices, human rights impact from mining. Morningstar Sustainalytics also participates in roundtables organized by investor clients.	Lots of interest from issuers and investors in roundtables, providing opportunities to deepen dialogues on systemic issues and create networks for peer and expert collaboration and learning.

Living Income and IDH – The Sustainable Trade Initiative

Living Income is a crucial consideration for leading issuers across various sectors that span the agricultural and food supply chain are increasingly committed to Living Income standards for workers. Since 2021, Morningstar Sustainalytics has collaborated with IDH, The Sustainable Trade Initiative – a foundation working with businesses, financiers, governments and civil society to realize sustainable trade in global value chains – to coordinate an endorsement of the organizations’ living income and living wage roadmaps. In spring 2022, Morningstar Sustainalytics brought together 45 global investors representing more than EUR 6.3 trillion in Assets under Management to publicly disclose their support of the IDH living income and living wages roadmaps. The roadmaps demonstrate concrete actions issuers can take to address the issues in their supply chains.

We also continued bilateral dialogues with several issuers across sectors on living income and living wages. As part of that, we sent an investor letter to CEOs and Chairmen of cocoa and chocolate issuers in summer 2022 to point to concrete next steps in advancing strategies and outcomes on living income for cocoa-growing farmers in their supply chains. Moreover, we participated in an informal expert group convened by the OECD with the objective of developing corporate guidance on living income and living wages.

Recent work outlined above follows a previous investor statement – also led by Morningstar Sustainalytics – sent in 2020 by 37 investors to food & beverage and food retailing issuers. This investor statement called on issuers to develop a roadmap on living income and living wages. Over the past two years, Morningstar Sustainalytics has worked closely with leading stakeholders in the area of living income and living wages to actively promote the importance of the topics and has raised investor awareness of labour rights issues through our initiatives. Find more information in the Morningstar Sustainalytics’ [blog](#) on corporate developments in the living income space and how investor may collaborate to drive further progress in the area.

Stakeholder Roundtables – 2022

- **2022 Roundtable on Corporate Culture in the Banking Sector**

The roundtable brought together over 20 participants including representatives from four global banks and ten institutional investor clients. The purpose was to discuss why corporate culture matters, to share best practices on how culture supports the execution of growth strategies and improves engagement with stakeholders and share lessons on how culture is at the foundation of decision-making and risk management. We have seen an increase in the number of banks who are investing in their corporate cultures with an aim to shape and define their values and identities in the past five years more purposefully. Overall, it is encouraging that corporate culture is increasingly not just a “nice to have” among global banks but is an important instrument in effecting change, defining values, and ultimately shaping corporate identities towards being a force for good. We are working on an article that will summarize the learnings from this event, but in the meantime we can share

what we posted following a 2021 similar roundtable: [Correlation of Business Ethics and Corporate Culture – 5 Lessons from the Banking Industry \(sustainalytics.com\)](#).

- **Roundtable on Vale’s Human Rights Journey**

This roundtable focused on Vale’s Human Rights Management System and Road Map to highlight good practice. There were nine participants present from the issuer and 11 investor clients with a total of over 25 attendees. We learned that in the last years, Vale has reviewed the human rights governance and management, including the human rights lens in policies and in the decision-making processes as well as added the human rights violation risk in Vale’s Global Integrated Risk Map. Vale shared it is also performing human rights due diligence in all operations and critical projects. The Roundtable concluded that learning across different sectors is possible on the topic of integrating human rights into business operations. Hearing investor expectations was a beneficial impetus for the engagement process. Investors are interested in transparent and systematic disclosures of human rights risks and impacts. In addition, investors are expecting issuers to co-create value through better issuer and community engagement.

- **Roundtable Discussion: Modern Slavery in the Construction Sector**

This event brought together over 40 participants and six external speakers including Heidi Hautala, Member of the European Parliament, who spoke on upcoming EU regulation on human rights and its likely impact on issuers. The panelists shared their expertise on modern slavery and labour abuses from the US, Europe and Qatar. The report from this event can be accessed on our website at [Thematic Engagement: Modern Slavery Roundtable Report, March 2023 \(sustainalytics.com\)](#).

- **Panel on Tax Transparency and Sustainability**

This event featured guest speakers from two leading US multinationals and a large advisory firm. The attendees included US and European multinationals currently engaged in the Taxation 2.0 thematic engagement. With over 25 participants, the discussion explored emerging regulation, growing investor pressure and reporting best practices for advancing issuer country by country tax reporting. A summary of the event was made available to subscribed clients in January 2023.

Figure 17: Examples of Morningstar Sustainalytics' Current Collaborations

Initiative / Coalition	Brief Description	Sustainalytics' Role	Area of Involvement / Work Stream
CERES	Morningstar Sustainalytics collaborates with CERES on key engagement issues and topics, sharing ideas and thought leadership	Supportive partner, active membership role	Support research data; consultation on Localized Water Management Thematic Engagement and the Biodiversity and Natural Capital Programme
Climate Action 100+	Morningstar Sustainalytics takes a consultative role with an investor client leading an engagement with one of the target issuers in CA100+ providing engagement dialogue support, including administration, planning, coordination, and implementation, in consultation with the client	Active role representing/consulting role for clients	Support lead investor on issuer engagement and initiative role
Investor Alliance for Human Rights	Morningstar Sustainalytics engagement managers take an active role in the work streams through the alliance. Leveraging the work to identify opportunities for investor statements/letters of support for clients	Active membership role	Financial, tech and cross-sectoral workstreams
PRI Advance	Morningstar Sustainalytics is actively participating in PRI's collaborative engagement initiative on human rights in the mining sector-Advance	Active membership role	Lead investor on engagement of one mining issuer and collaborating investor in four additional engagements with mining issuers
Danish Delegation at COP15	In December 2022 Morningstar Sustainalytics accompanied an investor group in the Danish Delegation to follow the policy negotiations at COP15	Advisory capacity	Research and consultation on the biodiversity frontier in responsible investing
OECD	Morningstar Sustainalytics participates in an informal expert group convened by the OECD with the objective of developing corporate guidance on living income and living wages	Active participant	Participates in periodical expert review meetings and provides written feedback on the development of the guide

Supporting the global initiative for a just transition

In 2022, Morningstar Sustainalytics' Stewardship Services team supported the organization Finance for Tomorrow (now named Institut de la Finance Durable) to start up collaborative engagements by the Investors for a Just Transition coalition. Several calls were held with Finance for Tomorrow and the participating investors. We shared engagement expertise and experience to inform the coalition's coordination, scoping and engagement strategy.

The Coalition for a Just Transition came together to lead a global, socially-conscious transition to a low-carbon economy, bringing together European and international players. The Coalition is focused on making sure stakeholders across four sectors – energy, transport, building & construction, and agriculture & food – are included in this critical transition process. It believes that the financial sector has a role in this process by fully integrating social considerations into its funding policies.

Towards the end of 2022, Finance for Tomorrow and Morningstar Sustainalytics concluded their collaboration because there was no need for additional support in building their engagement efforts with issuers. Operating as a secretariat of the coalition, Finance of Tomorrow valued our assistance in coordinating a collaborative engagement approach between the different investors leading the working groups.

We continue to address systemic ESG risks, such as human rights and labour standards, leveraging a strong track record working with industry associations and government agencies. These include: the International Cocoa Organisation and the World Cocoa Foundation on the eradication of child labour; The International Council on Mining and Metals on addressing human rights and environmental issues in the mining sector; the Living Income Community in Practice on addressing root causes to labour rights risks and impacts in food and agricultural supply chains; and continuous knowledge sharing with Shift, a leading centre of expertise on the UN Guiding Principles on Business and Human Rights.

Morningstar Sustainalytics monitors regulatory market changes and developments, including relevant government white papers that may change the parameters of pension fund investments. For example, at the EU level, we monitor further developments following the European Commissioner for Justice's announcement that the Commission commits to introducing rules for mandatory corporate environmental and human rights due diligence.

As discussed in section 1.3, Morningstar Sustainalytics assures the effectiveness of our client-focused activities through various channels of client feedback.

Principle 5. Signatories support clients’ integration of stewardship and investment, considering, material environmental, social and governance issues, and communicating what activities they have undertaken.

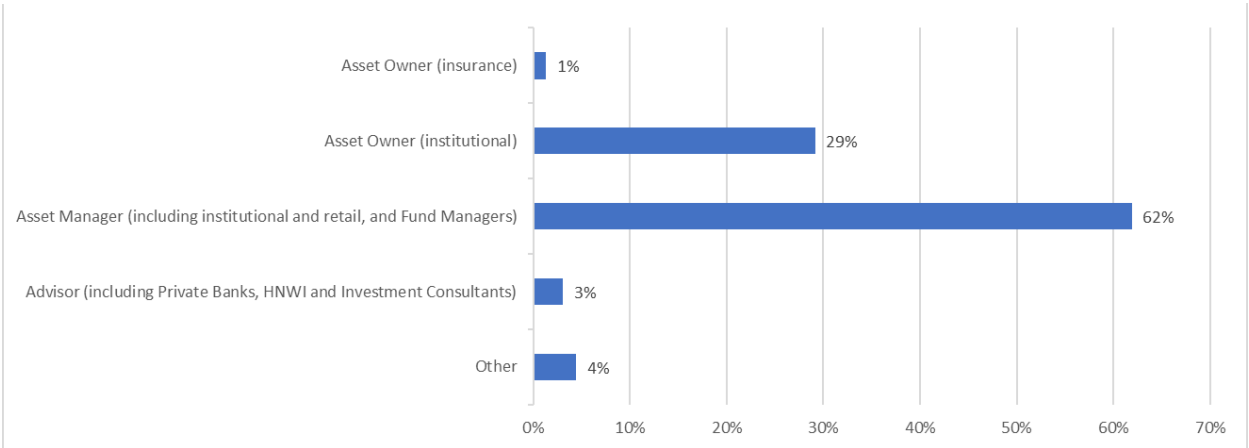
5.1 Client Base Breakdown

Morningstar Sustainalytics supports hundreds of the world’s foremost investors who incorporate ESG and corporate governance insights into their investment processes. We work with asset managers and asset owners, large and small, as well as banks, foundations, family offices, wealth managers and other types of market participants.

On behalf of more than 130 stewardship clients, Morningstar Sustainalytics represents more than EUR 4.2 trillion in Assets under Engagement. Through these assets, Morningstar Sustainalytics offers a significant global investor footprint resulting in meaningful action. As such, we have a very significant shareholder group supporting and endorsing our engagements.

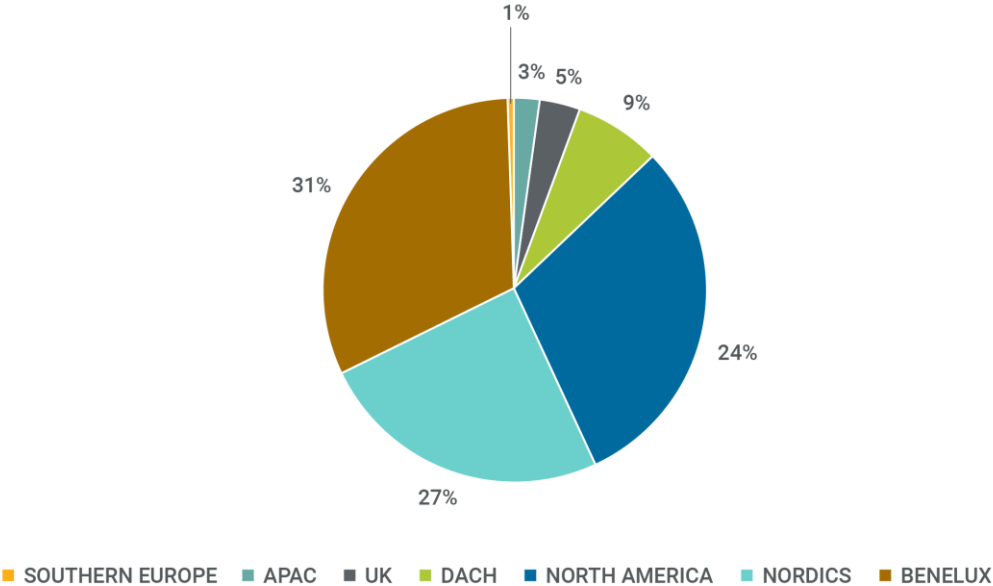
All our stewardship clients are institutional investors and currently divided evenly between asset owners and asset managers. Represented in this group breaks down to 62% Asset Managers, 1% Insurance, 29% Asset Owners and 3% Advisors, including Investment Consultants.

Figure 18: Stewardship Clients Broken Down by Type



The size and geographical footprint of our clients in terms of their Assets under Management differ, meaning that our Stewardship Services act as an overlay across, for example, large, global portfolios of thousands of holdings, as well as to high conviction strategies with specific regional exposures. Most of our client are based in Europe, along with clients based in APAC and North America.

Figure 19: Geographic Representation of Morningstar Sustainalytics’ Stewardship Clients



For reasons of confidentiality, we can only share information on our clients’ asset size at an aggregate level:

- Over 1,000 Morningstar Sustainalytics investor clients.
- 130+ pure Stewardship clients balanced between asset owners and asset managers.
- More than EUR 4.2 trillion in Assets under Engagement.
- Assets under Engagement include equity and fixed income holdings, more than half is attributed to equity securities.

5.2 How Morningstar Sustainalytics’ Services Support Clients’ Stewardship

Morningstar Sustainalytics has developed a comprehensive understanding of trends and best practices in responsible investment. In addition, we have a solid process to assist investors in integrating ESG considerations into their investment policies and strategies across the investment value chain. With the acquisition of GES International in January 2019, Morningstar Sustainalytics is a one stop shop provider of responsible investment services, assisting investors across the entire responsible investing spectrum. This is from both a pre- and post-investment perspective and with regards to norms-based and exclusionary screenings, ESG integration, positive screening, thematic approaches, and issuer engagement.

Morningstar Sustainalytics helps investors manage reputational risk and increase corporate accountability through proactive, professional, and constructive engagement. We offer a suite of Stewardship Services which can be used independently, or in combination to best support our clients' stewardship responsibility:

1. Global Standards Engagement
2. Thematic Engagement
3. Material Risk Engagement
4. ESG Voting Policy Overlay
5. Engagement 360

Each of these are outlined below in more detail.

1. Global Standards Engagement

Global Standards Engagement targets issuers that violate international standards, such as the United Nation's Global Compact Principles and the OECD Guidelines for Multinationals. It is based on Global Standards Screening research.

- Global Standards Engagement helps investors to comply with regulation and/or industry standards by addressing ESG issues that arise in portfolio issuers.
- In collaboration with our investor clients, we engage with issuers that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals.
- The aim is not only to resolve the incident, but also to improve the issuer's future ESG performance and risk management to ensure incidents do not occur again.
- The engagement enables investors to manage corporate reputational risks and demonstrate investor action on issues with severe environmental or social consequences.

2. Thematic Engagement

Thematic Engagement proactively addresses systemic ESG risks and opportunities which enables investors to align their interests in addressing specific issues ranging from climate and child labour to biodiversity and human capital management.

- Thematic engagements are driven by client demand and focus on material issues and themes.
- Investors can create positive outcomes aligned to key values while also creating long-term investment value for their clients.
- The engagement enables investors to tell positive impact stories and increase their corporate accountability through proactive engagement.

- Themes are closely aligned with the Sustainable Development Goals and aim to address root causes and influence systemic change to mitigate ESG risk and capitalize on opportunities.

3. Material Risk Engagement

Material Risk Engagement promotes and protects long-term value by engaging with high-risk issuers on financially-material ESG issues. It is based on the ESG Risk Ratings research.

- It helps investors promote and protect their long-term value by engaging with high-risk issuers on financially material ESG issues.
- It provides an engagement overlay to Morningstar Sustainalytics' flagship ESG Risk Ratings, engaging with issuers that have a high or severe ESG Risk Ratings score.
- The aim is to create awareness of material ESG issues and address the issuer's management gaps so it improves its ESG performance and risk management.
- The engagement process focuses on driving change with constructive and consistent interactions, setting out clearly defined change objectives and evaluating progress.

4. ESG Voting Policy Overlay Service

Morningstar Sustainalytics' ESG Voting Policy Overlay complements a traditional corporate governance policy by supplementing it with ESG-aligned voting guidance. Our holistic proxy voting and engagement strategy helps our clients to connect their stewardship actions with real world impacts.

- The ESG Voting Policy Overlay Service monitors AGM agendas to identify strategically significant votes with high ESG leverage for investors.
- It offers well-researched recommendations that can be combined with investors' own policies or with those of a third-party policy and provider to round-out an intentional ESG investment strategy.
- Voting recommendations are grouped into two broad strategies: ESG-themed and escalation vote recommendations.
- ESG-themed recommendations are triggered by ballot measures that directly reference environmental and social risks and opportunities covered by our ESG Principles and may be proposed by either shareholders or the issuer itself.
- Escalation vote recommendations are triggered by issuer-specific risk considerations identified via:
 - Engagement signals based on Morningstar Sustainalytics' ongoing and historical engagements with issuers,
 - Research signals based on Morningstar Sustainalytics' ESG Risk Rating indicators mapping to priority investor themes (such as climate and diversity), and

- Net zero climate governance signals based on an examination of climate targets, climate-linked performance metrics and incentive pay practices at the heaviest emitting issuers in the global economy.

5. Engagement 360

Engagement 360 is a holistic offering that brings together all of Morningstar Sustainalytics' Stewardship Services to address ESG risks as well as to create positive social and environmental outcomes.

- It aims to help investors promote and protect long-term shareholder value through consistent engagement outcomes ensuring investors have access to any ongoing engagement with their investee companies.

Additionally, we support clients in communicating their stewardship and investment activities through our reporting services. More information relating to our reporting is provided in response to Principle 6 (How Morningstar Sustainalytics ensures reporting is fair and balanced), including the methods and frequency of communication with clients.

5.3 How Morningstar Sustainalytics' services integrate consideration of ESG within stewardship and investment

Investors can access our services either individually (e.g., Thematic Engagement; Material Risk Engagement) or a holistic bundle via Engagement 360. Regardless of how investors choose to partner with us, our services are designed to support ESG integration and strategy at every stage of the investment value chain. As a proxy for Stewardship Services, in totality Engagement 360 covers 32% Environmental engagements, 40% Social and 28% Governance-related, with approximately 16% of engagements addressing overlapping areas. Each of Morningstar Sustainalytics' Stewardship Services incorporates and approaches environmental, social and governance factors in different ways.

As our most comprehensive stewardship solution, Engagement 360 is designed to help our clients generate positive and meaningful change toward a more just and sustainable economy by addressing topics across the environmental, social, and governance pillars.

Figure 20: Topic Areas in the 779 Engagements*



*Engagements can overlap in E, S, and G showing a number higher than the 779 total engagements, of which 270 engagements are overlapping E, S and G.

During 2022, we introduced a further breakdown of the engagements according to 31 ESG topics. This allows investors to apply these topics in the search filters on the Global Access platform, offering a deeper insight into what topics Sustainalytics is engaging on in their portfolios. All engagements are mapped against these ESG topics.

Improving the ESG disclosure on issuer websites and in quarterly and annual reports to investors is often a focal point in the engagement, and a widely used recommendation to issuers. ESG disclosure is not the end goal of the engagement, but an important driver for building commitment to and consistency in ESG practices. The ESG disclosure is also vital for the verification of implementation of management systems as well as the effect of the management systems – the performance on ESG.

The second most prevalent ESG topic is Net Zero/Decarbonization, which is a natural consequence of the risk (and opportunity) that climate change represent to investors. The new Net Zero Transition Engagement programme will further drive this focus in 2023 and increase the number of engagements on this topic.

Figure 21: All Engaged Topics

ENGAGEMENT TOPICS	ENGAGEMENTS	ENGAGEMENT TOPICS	ENGAGEMENTS
 Disclosure	265	 Child Labour	50
 Net Zero Decarbonization	182	 Diversity, Equity and Inclusion (DEI)	47
 ESG Governance	175	 Shareholders Rights	41
 Water and Marine Ecosystems	163	 Indigenous People	39
 Human Rights	128	 Forced Labour	36
 Community Relations	111	 Accounting and Taxation	33
 Deforestation	109	 Waste Management	33
 Climate Change	101	 Natural Resource Use	30
 Business Ethics, Bribery and Corruption	100	 Data Privacy and Security	21
 Labour Rights	98	 Circular Economy	20
 Biodiversity	96	 Just Transition	18
 Product Quality and Safety	93	 Market Practice	13
 Land Pollution and Spills	81	 Weapons	6
 Human Capital	80	 High-Risk Territories	4
 Board Compensation	72	 Sanctions	3
 Occupational Health and Safety	69	 Competitions	1

Risk-focused, Material Risk Engagement serves as an overlay to Morningstar Sustainalytics' ESG Risk Ratings. This engagement focuses on the most relevant Material ESG Indicators (MEI) for each issuer. The MEIs are divided equally into E, S and G categories.

Impact-driven, Thematic Engagement helps investors to proactively address specific ESG themes within their portfolio issuers, ranging from biodiversity to modern slavery and the board. The themes are driven by client demand and focus on material and/or impact related issues and themes. In the selection, we strive for a balance between the E, S and G topics by addressing more or less the same number in each category.

Norms-focused compliance, Global Standards Engagement serves as an overlay to Morningstar Sustainalytics' Global Standards Screening and has a strong ESG link to engage issuers involved in severe or systematic violations of international standards. The engagement cases focus on E, S and G and the distribution varies according to the identified breaches.

Aligning Engagement and Voting, the ESG Voting Policy Overlay provides investors with recommendations to supplement a traditional corporate governance policy with voting guidance that considers Environmental, Social and Governance factors. In 2022, 87% of recommendations applied to sustainability-linked ballot items. The remaining 13% were triggered by Engagement, Research or Net Zero Governance voting signals. The sustainability-linked voting recommendations were approximately equally distributed between E, S and G topics.

Our services are designed in consideration of market conditions and informed by our extensive experience engaging issuers on ESG topics. We take a partnership approach to engagement to ensure our engagements are impactful—we work closely with our clients to leverage our combined influence.

5.4 How Morningstar Sustainalytics includes clients' views, feedback and rationale for their chosen approach for engagement

Morningstar Sustainalytics' clients can have a strong influence on our innovation agenda, both in terms of the breadth and depth of the services that we provide.

Specifically, as it relates to Stewardship Services, clients are regularly invited to contribute with input and ideas during client consultations. For example, when GES International joined Morningstar Sustainalytics, we invited clients to discuss the transitioning of our two norm-based methodologies into one new research and engagement service. Also, clients are invited to give feedback in relation to thematic engagement, allowing us to determine priorities. For example, clients indicated a very clear prioritization of Biodiversity and Net Zero, resulting in us developing new programmes to support these topics. Through the selection of themes, clients can also influence or choose which issuers to engage with by weighing in on our issuer prioritizations. Morningstar Sustainalytics' Engagement is collaborative and transparent in that we offer client participation in meetings, conference calls and trips. As such, clients can join engagement activities to influence discussions by actively contributing to the dialogue and meeting agenda. Our tracking of 2022 client activity shows that throughout the year at least 44 unique Stewardship Services' investor clients joined at least 270 online engagement calls. Clients also have direct access to the Engagement Managers and can set up calls to discuss cases and stay fully informed about progress. Clients can access all Morningstar Sustainalytics meeting notes and communications with issuers transparently through the client platform, Global Access.

We welcome client feedback and schedule regular client meetings to cover client-specific questions and developments, product updates, new engagement initiatives and other product-related topics. At the outset of a client assignment, our client servicing team will discuss with the client their preferred structure of providing feedback and will set out the client meeting schedule for the coming year.

Furthermore, we acknowledge clients' increasing reporting needs, including access to engagement dialogues and statistics. As we continue to expand our engagement offering, so too will we expand on matters relating to ease of access to timely reporting that is aligned to client needs.

Our collaborative approach means that we work closely with clients throughout the engagement process, encourage client suggestions and consider specific requests.

Methods & Frequency of Communications with Clients

In addition to the ongoing interaction between clients and the Client Service Team, clients receive regular updates on all our Stewardship work. The Weekly Engagement Briefing contains a calendar with upcoming engagement meetings, invitations to join collaborations and initiatives, and relevant product updates. In addition, we issue Alerts with important developments such as significant turn of events in high-profile cases and commentary on newly resolved cases.

Figure 22: Example of the Weekly Engagement Briefing

Online platform: Global Access

Through our online research and engagement platform, Global Access (GA), clients have access to all ongoing engagement work and can follow progress, response, case developments, upcoming meeting schedules and much more. Clients can also follow their portfolio companies by activating Alert notifications from GA that are sent directly to their email as soon as updates are made. Furthermore, clients can download an Excel screening report from GA that meets their individual search criteria.

Figure 23: Snippet from Online Client Platform Global Access

Engagement reporting

Clients receive extensive engagement reporting in the form of quarterly, biannual, and annual reports that provide an overview of all engagement activities, Milestone progress, and developments. A repository of all published reports is maintained in Global Access. Furthermore, through our Data Services, clients can choose to receive Excel-based reports and data feeds/APIs. Significant enhancements have been introduced to these reports over the past year to offer a better client experience.

Annual engagement reporting includes an overview of the number of engagement cases worked on during the year and their regional and topical distribution.

To provide further transparency into our engagement activities, clients receive a breakdown of engagement progress including the number of resolved, archived and disengaged engagements.

Figure 24: Home Country – Countries Included with a Minimum of 10 Engagements

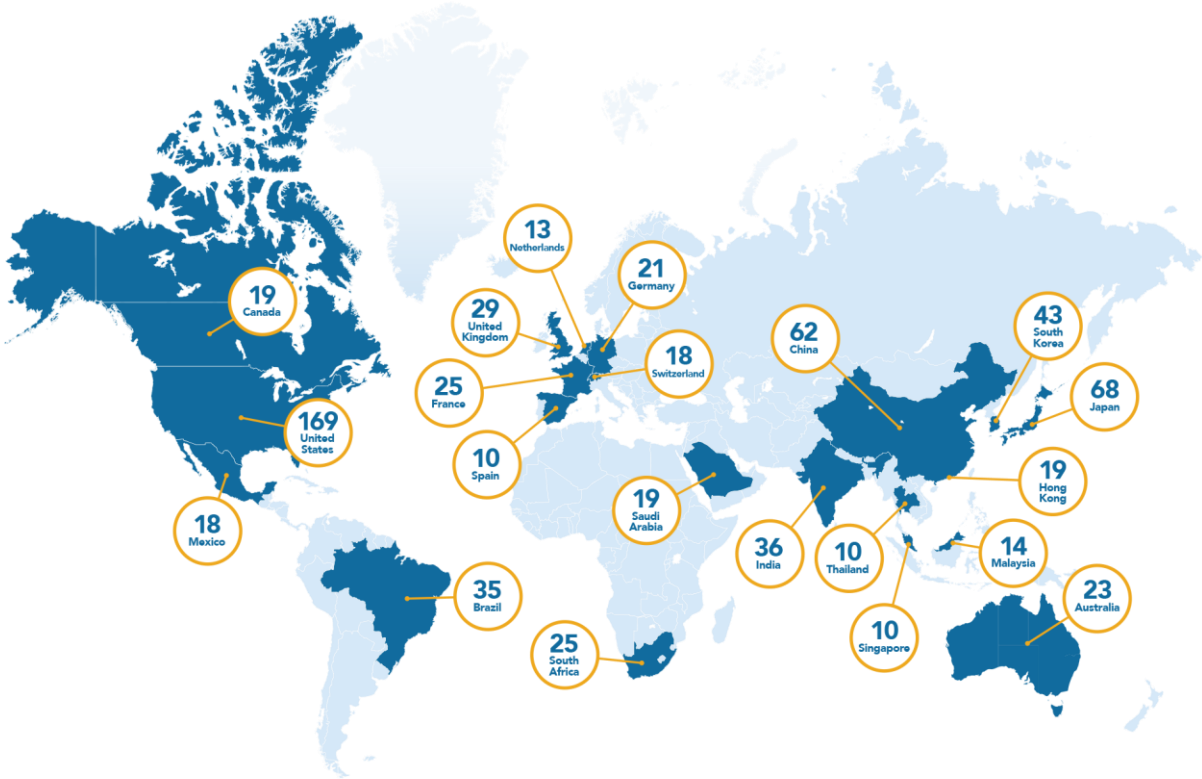


Figure 25: Engagement 360 in 2022

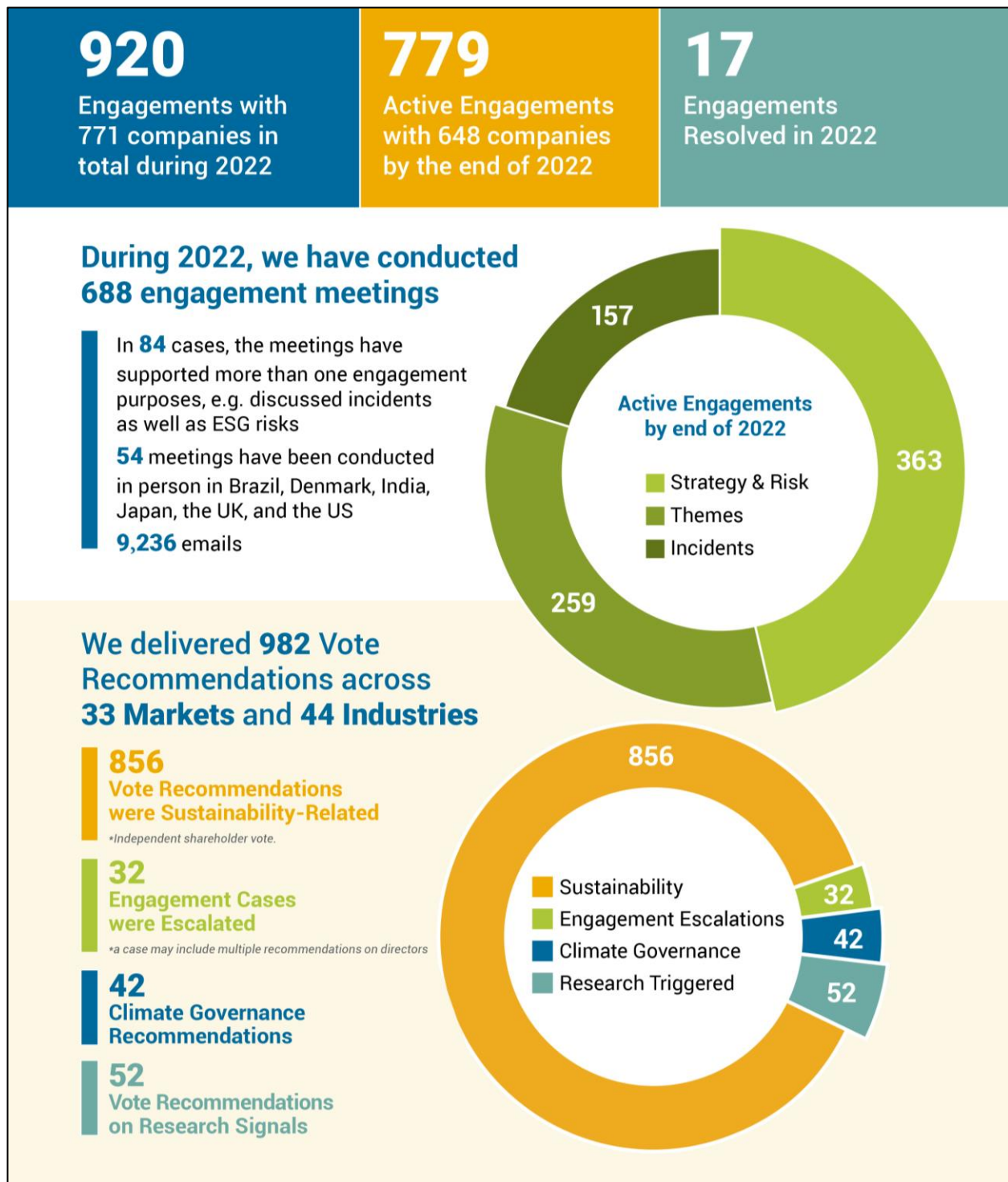


Figure 26: Stewardship Mapped to Sustainable Development Goals

Sustainable Development Goals - Mapping Engagement

All engagements are mapped to the 17 UN Sustainable Development Goals (SDGs). The mapping is done by Sustainalytics and refers to the focus and objective(s) of the engagement. For each engagement, Sustainalytics highlights the three SDGs most relevant to the specific engagement objective(s). In 2022, engagements in the programme mapped proportionately higher to SDGs 12, 13, and 16, indicating a strong focus on corporate governance, climate action, and product governance.¹



1. The overview of Sustainable Development Goals is created 16/2/2023.

Thought leadership

We regularly organize client events such as webinars and panel discussions and we regularly publish thought leadership pieces which provide ESG insights and sector expertise.

In 2022, Stewardship Services team members participated in multiple activities, as shown on the chart below.

Figure 27: Stewardship Services Thought Leadership Activity



Among other contributions made we:

- Guest lecture at UBC Sauder School of Business (Responsible Investor Speaker Series "Say on Pay: An underutilized proxy vote in advancing stakeholder governance").
- Guest lecture at University of Western Ontario, Masters of Environment and Sustainability class on the topic of Sustainable Investing.
- Guest lecture at Amsterdam University of Applied Sciences for finance students on sustainable investing.
- Presented at a FINSIF event on investor approaches to sustainable food production.
- Spoke at Sustainability & ESG in Taxation Summit in London.
- Spoke at online event by IAST-APAC and UN University about investor engagement against forced labour and child labour.
- Spoke at IDH summits on living income and living wages.

5.5 How Morningstar Sustainalytics ensures effectiveness of chosen methods for communicating with clients and understanding their needs, and how we evaluate their effectiveness.

We communicate extensively with clients and involve them throughout the engagement process. To ensure communication effectiveness, we often involve clients in consultation and ask them to provide input to our communications format, content, and frequency, and based on that feedback we amend our communications regularly.

Principle 6. Signatories review their policies and assure their processes.

6.1 Morningstar Sustainalytics reviews policies and activities to ensure they support clients' effective stewardship

Policies are reviewed on a regular basis, typically annually and will be reviewed and updated when required by law or generated by a business need.

Morningstar Sustainalytics has a dedicated Compliance function monitoring compliance-related developments and leads compliance-related policy development or updates. Compliance policies are reviewed at the senior management level and progress on their implementation is monitored by the Compliance function. Over 2022, we have grown our Compliance team to ensure that we are adequately resourced to manage all compliance-related issues. Once policies are approved at senior-level, dedicated training sessions and information campaigns are rolled out to all or relevant employees, and further enforcement process is ensured via operational procedures at the team level.

Additionally, Morningstar Sustainalytics has a separate task force, the Regulatory Readiness Program, whose mandate together with the Compliance team, is to prepare our organization to meet existing, emerging and future regulatory compliance obligations, to create a robust governance structure and a sustainable framework to achieve an integrated, structured and formalized approach to how Morningstar Sustainalytics addresses current and upcoming regulation. Through a comprehensive Agile project management methodology, the two teams collaborate to develop policies that cover a complex range of topics, such as managing conflicts of interest, whistleblowing, complaints handling, and monitoring and testing. They also provide regular and effective trainings to Morningstar Sustainalytics personnel on relevant topics to ensure a proper alignment with the regulatory requirements in the different jurisdictions where Morningstar Sustainalytics operates.

Assurance of engagement effectiveness

Morningstar Sustainalytics has developed various ways for monitoring the activity of engagement cases and has implemented several measures and processes to ensure effectiveness as well as progress at all times. This includes:

- Strong human capital and good technical resources.
- Well-described engagement processes, as well as robust training programmes including periodic refresher sessions. Among other things, they provide clear guidelines on the individual steps in the engagement process and stipulate requirements for information update and review.
- A number of engagement tools are used by the Stewardship team, including meetings with issuers and investors, written follow-ups, engagement trips and ESG voting recommendations to investor clients. As an example, in 2022, we conducted five engagement trips to India, Brazil, the US, South

Africa and the UK. Altogether we conducted 55 in-person engagement meetings and undertook site visits (see figure below).

Figure 28: Using Engagement to Drive the Uptake of Positive Safety Indicators

Harmony Gold Mining Company Limited (Harmony) operates nine underground mines, one open pit mine and a number of tailings retreatment operations in South Africa. In Papua New Guinea, the issuer operates one open pit mine.

The bulk of the Harmony's production is currently derived from underground mines, spatially distributed along the Witwatersrand Basin across three South African provinces namely, Gauteng, North West and the Free State. The nature of the orebodies mined at most of the underground mines in South Africa is generally narrow and tabular. The mines have been operating for many years and as a result, mining depths have increased over time.

Due to the nature of the orebodies, the mining practice/method relies on manual labour, with limited mechanization. Excellent mine design parameters, strong technical skills and decades of experience ensure that it is possible to safely mine at these depths while managing the related risks associated with deep-level mining.

In October 2022, Associate Director Nigel Rossouw visited Harmony Gold's Doornkop mine, outside Johannesburg. Reviewing Harmony's safety record over the past decade, indicates that it falls short of global mining benchmarks. What Sustainalytics discovered, is that the issuer's loss of life record is not a reflection of its commitment to reaching zero harm in gold production. Safety performance and safety culture starts from the top with "visible felt leadership". At Harmony Gold, Morningstar Sustainalytics saw how "safety leadership" is being actively demonstrated by the CEO and executive management team's total actions that are leading Harmony Staff at all levels to understand and "feel" their leaders' commitment and high expectations. The safety "tone from the top" is experienced as being genuine, caring and respectful. An example of this is the regular underground mine visits by the corporate Executive Management Team and weekly underground visits by the mine general managers.

Morningstar Sustainalytics was fortunate to view active drilling of the gold-bearing South Reef at a depth of more than 2km and observed the practical implementation of Harmony's Critical Control Management System to ensure that critical controls are in place to prevent incidents. Sustainalytics was able to view a range of safety controls in practice that included technical controls such as steel support netting in all work areas (to control rock bursts and rock falls), system controls (digitization and modernization of miner's work notes) such as mine safety notes and checklists for all miners and behaviour-based controls (coaching and risk propensity measurement).

Foundational to Harmony's safety strategy is risk management, which was identified as the best-suited vehicle to drive a proactive safety organization with risk foresight that proactively identifies risks (leading indicators) to prevent them before they occur. To this effect, the issuer has a well-staffed central Harmony Risk Management department, which drives the systemic implementation of physical controls to manage risks. The four-layered (baseline, issue based, task based and continuous improvement) risk approach is well entrenched in the organization. All Harmony operations have risk managers employed to the mine management committees to support and drive the risk management strategy.

Integrated into Harmony's Risk Management System is a comprehensive culture transformation programme to change the safety mindset, improve employees' relationship to safety, and aligning personal values with a strong issuer safety culture.

Morningstar Sustainalytics key takeaway from the day spent underground with Harmony's miners is that there is a fundamental belief from the Board down to the rock drillers, that zero loss of life in deep-level gold mining is possible. Harmony Gold remains an ongoing engagement case and has been highly responsive to engagement requests.

In 2022, we formalized our Engagement Escalation strategy. When ongoing engagement efforts stall or fail, the engagement team may choose to escalate the engagement by recommending investors to consider voting on selected ballot measures. The objective of this voting strategy is to hold issuers accountable for achieving important engagement milestones within a meaningful timeframe. Throughout the year, we escalated 32 engagement cases in this way. This complements other activities that we undertake together with our investor clients to address low performing issuers.

Figure 29: The McDonald's Meeting Profile

ESG Voting Policy Overlay - 2022 May, AGM

McDonald's Corp.

Restaurants United States of America NYS:MCD

Corporate Website <http://corporate.mcdonalds.com/>

Industry Consumer Services

Meeting Date 26 May 2022

Sustainalytics' Analysis Date 12 May 2022

Version of Report Version 1

Sustainalytics' Engagement GSE, Labour Rights, TE, Biodiversity and Natural Capital, TE, Climate Change - Sustainable Forests and Finance

Engagement Contact If you have any questions in relation to this meeting profile, please contact esg.support@morningstar.com with your request.

Conflict of Interest as of Analysis Date The Subject Company covered in this deliverable has no relationship with Sustainalytics. For more information, see our policies: <https://www.sustainalytics.com/governance-documents>

Summary Voting Recommendation

Agenda Item	Signal	Company Vote Recommendation	Sustainalytics' Vote Recommendation
5 - Report on Reducing Plastics Use	Sustainability Signal - Shareholder Resolution	Against	For
6 - Report on Antibiotics and Public Health Costs	Sustainability Signal - Shareholder Resolution	Against	For
7 - Containment Staff Use in the Company's U.S. Pork Supply Chain	Sustainability Signal - Shareholder Resolution	Against	Against
8 - Third-Party Civil Rights Audit	Sustainability Signal - Shareholder Resolution	Against	For
9 - Report on Lobbying Activities and Expenditures	Sustainability Signal - Shareholder Resolution	Against	For
10 - Report on Global Public Policy and Political Influence	Sustainability Signal - Shareholder Resolution	Against	For
1.0102 - Election of Leslie Samuelrich & Maisie Lucia Ganzler as directors	Engagement Signal	Against	For

Issuer Public Disclosures

Research supporting ESG Voting Policy Overlay recommendations incorporates issuers' public reports and disclosures available at the time of the notice of the meeting.

ESG Voting Policy Overlay - 2022 May, AGM

McDonald's Corp.

Restaurants United States of America NYS:MCD

Agenda Item 1.0102 - Election of Leslie Samuelrich & Maisie Lucia Ganzler as directors

Signal Engagement Signal

Company Vote Recommendation Against

Sustainalytics' Vote Recommendation For

Resolution Topic Director Election - Other

Resolution Sponsor Shareholder

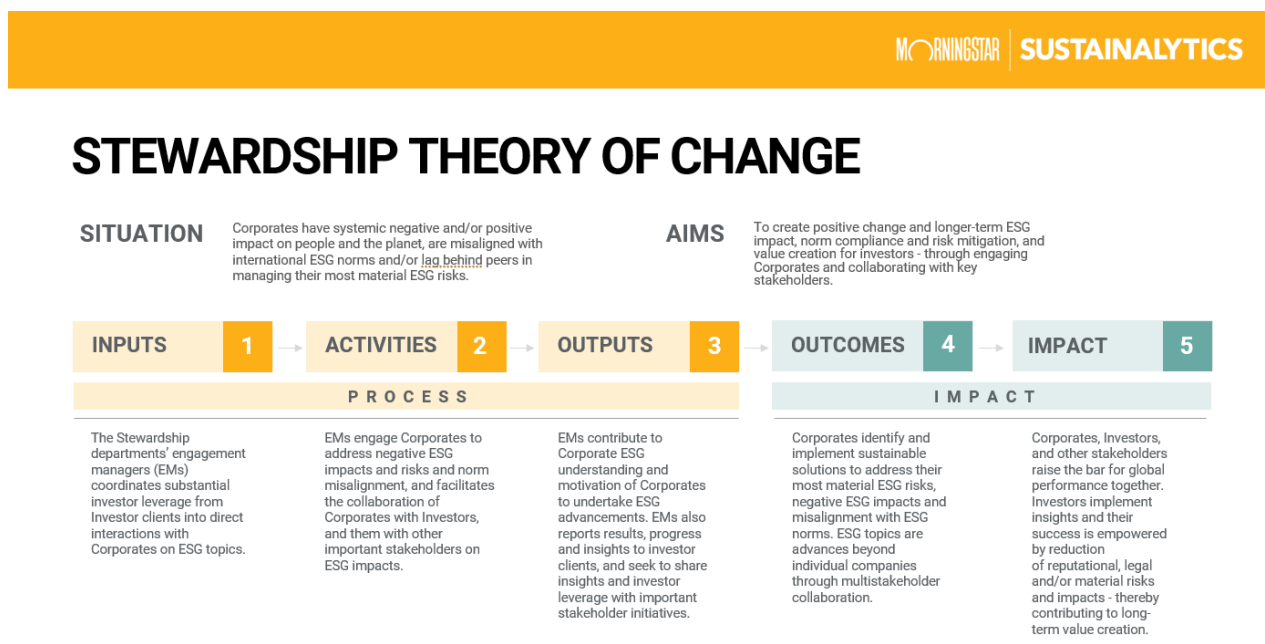
Alignment to Relevant SDGs

Sustainalytics' Rationale

McDonald's is a part of the Global Standards Engagement -Labour Rights programme at Sustainalytics, which aims to influence the company to address specific ESG risks and opportunities. However, the company has not shown willingness to engage on the topic. In view of the inadequate response and involvement, we recommend supporting the election of dissident candidates proposed by Barberty Corp.

In 2022, we refined our strategic approach to engagement through the development of Theory of Change models for our respective engagement services, and overall for Stewardship. Implementation is ongoing, but we can already see how this internal work has led to an enhancement of our services, with a better articulation around milestones, but also what is our contribution towards outcomes and impact in the ecosystem of investors, external stakeholders, the issuers and ourselves. Please see below our Stewardship Theory of Change model.

Figure 30: Stewardship Theory of Change



- Specific quality control measures:
 - As mentioned in section 2.5, a dedicated Stewardship Services Operations Team, in close collaboration with Product Managers, performs regular quality checks on all cases, allowing identification of any gaps, errors or other issues.
 - On a regular basis, individual Engagement Managers receive notifications of required actions and deadlines. These notifications help Engagement Managers to ensure that all cases are maintained in line with requirements. When needed, refresher training sessions are organized to ensure that requirements are clear and understood. A well-structured document library collects all guidance materials, templates and samples in one easily accessible location.
 - Cases are regularly updated based on the desktop research as well as engagement dialogue, in line with our commitment to the clients. Each Engagement Manager is responsible for monitoring any developments related to ongoing cases on continuous basis, which is mostly done by setting case monitoring alerts and following relevant sources. As an extra quality

measure, in-depth case reviews are performed ahead of the quarterly or biannual reporting cycles.

- As a priority, cases are assigned to Engagement Managers based on their area of expertise. We no longer organize team members into industry group, but we do facilitate close collaboration within specific industries, norm areas, or topics.
- Numerous elements of the quality assurance process foster cooperation and knowledge sharing (e.g. double- and cross-checks, peer group discussions, etc.).
- We maintain a set of KPIs that are assessed monthly and shared with the leadership team. This enables us to monitor key areas of importance and promptly implement corrective action, if needed.

6.2 How Morningstar Sustainalytics assures activities that support clients' stewardship and the rationale for selection of these activities

As outlined in section 5.4, Morningstar Sustainalytics' clients can have a strong influence on our innovation agenda, both in terms of the breadth and depth of the services that we provide. In new product launches, Morningstar Sustainalytics often runs beta versions that key clients are asked to provide feedback on.

- Overall, Morningstar Sustainalytics takes a collaborative and partnership approach to stewardship. We work closely with our clients and the issuers we engage to incorporate their feedback and perspectives into our strategies and processes.
- In May and November of each year, we hold a semi-annual release cycle which serves as a formal forum for us to integrate client and issuer feedback into to our engagement programmes and reporting.
- We leverage client and issuer feedback to inform our product development. Most recently, we incorporated our client feedback into the development of our Biodiversity and Natural Capital Impact Engagement and Net-Zero Transition Engagement programmes.
- Morningstar Sustainalytics' Stewardship Services actively monitors the regulatory and governance developments that arise across the geographies in which we operate. We integrate these developments into our product development cycle to ensure we are meeting the needs of our global client base.

Through the selection of themes, clients can also influence issuer selection by weighing in on our issuer prioritizations. Furthermore, we acknowledge clients' increasing reporting needs, including access to engagement dialogues and statistics.

6.3 How Morningstar Sustainalytics ensures reporting is understandable and appropriate to clients' needs

Clients use our engagement reporting in a variety of ways including in quarterly and annual ESG reports, investment committee meetings, and sales activities. Morningstar Sustainalytics offers clients full transparency and disclosure of all engagement communication and reporting. This involves extensive engagement reporting through various channels to allow investors to select the most appropriate format for their own understanding and reporting. These are:

1. Morningstar Sustainalytics online platform: Global Access
2. Standardized reports
3. Automated, custom and on-demand reporting
4. Through externally-facing communications and collaborations.

More information regarding how we ensure this reporting is fair, balanced and understandable is provided for each format below.

1. Global Access Online Platform

Clients can log onto Global Access, our online platform which provides access to all underlying engagement information and research, including news flow. Access is enabled via personal logins and the contents are updated continuously, as case developments take place. The platform provides access to a variety of reports and research, including detailed engagement case profiles outlining, for example, the dialogue, statistics, progress, and email exchanges with issuers and other sources.

Global Access also provides direct access to subject matter experts (Morningstar Sustainalytics' Engagement Managers) and relevant engagement information, including meeting minutes and transcripts enabling client's full transparency to issuer dialogue.

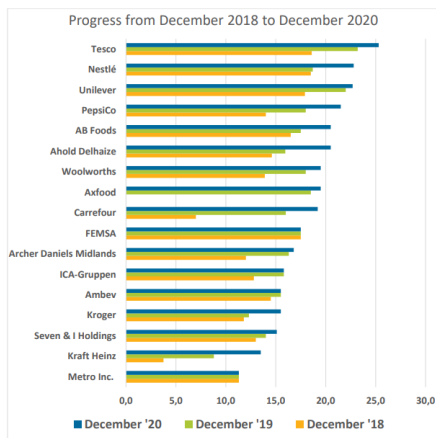
2. Standardized Reports

Standardized reports are tailored to each of Morningstar Sustainalytics' Stewardship Services:

- Global Standards Engagement
 - Quarterly Engagement Reports highlighting major engagement developments and case summaries.
 - Annual Engagement Reports summarizing annual activities and developments, including statistics, performance summary and milestone achievement.

- Thematic Engagement:
 - Baseline reports describing the relevant problematics, engagement objectives and engagement plan, and an assessment of all target issuers against the KPIs prior to the commencement of the engagement.
 - Biannual update reports outlining the developments in the previous six months and summarizing the engagement status and progress of each issuer along with an updated KPI assessment table.
 - Final report analyzing the findings and results on the theme and issuer level.

Figure 31: Examples of Reporting



Thematic Engagement Progress is assessed and reported on by measuring individual issuers' KPI performance from the start of the engagement period until the final report. These overviews provide high-level information to meet client reporting needs. Reports are followed up with webinars and individual client meetings to discuss key outcomes and conclusions.

Company	KPI 1	KPI 2	KPI 3	KPI 4	KPI 5	Baseline Score	December 2018 Score	July 2019 Score	December 2019 Score	June 2020 Score	December 2020 Score
FOOD RETAILERS											
	6	7.5	4	0	3	23.5	14.0	16	16	18.8	20.5
	6	6	4.5	0	3	10	N/A	18	18.5	19.5	19.5
	6	7.5	4.2	0	1.5	3.5	7	15	16	17.5	19.2
	6	6.5	1.7	0	1.6	2.5	12.8	10.8	15.8	15.8	15.8
	6	4.5	2.9	0	2.1	2	11.8	11.8	12.3	12.3	15.5
	6	3.5	0.3	0	1.5	6.5	11.3	11.3	11.3	11.3	11.3
	6	7	1.2	0	0.9	13	13	14	14	14.9	15.1
	6	7	6.3	0	6	14.7	18.6	22.5	23.2	24.1	25.3
	6	7	2.9	0	3.6	3	13.9	15.3	18	19.5	19.5
BEVERAGE PRODUCERS											
	6	4.5	2	0	3	9	14.5	14.5	15.5	15.5	15.5
	6	8	4.5	0	3	10	14	18	18	19.5	21.5
	6	6	2.5	0	3	7.5	17.5	17.5	17.5	17.5	17.5
FOOD PRODUCERS											
	6	6.3	3	0	1.5	8	12	15	16.3	16.3	16.8
	6	6	4.5	0	4	11.3	16.5	17.5	17.5	20.5	20.5
	6	4.5	2.2	0	0.8	3.8	3.8	6.8	6.8	6.8	15.5
	6	6.5	5.8	0	4.5	17.5	18.5	18.7	18.7	21.3	22.8
	6	7.5	5.7	0	3.5	15.3	17.9	22	22	22.7	22.7
Maximum Score	6	8	8	0	6	28	28	28	28	28	28

Table 1: Biannual breakdown of scores per company and KPI. Darker green color indicate lower score.

Clients receive detailed ESG indicator breakdowns in easy-to-read graphs and summaries showing individual issuers' progress towards the overall engagement objectives.

For example, in this table, the indicator breakdown shows that one of the issuers progressed from 10 (baseline score) to a final score of 19.5 after the three-year engagement period. It also shows that the issuer performed best on KPI 1 and 2 (human rights and labour rights).

- **Material Risk Engagement:**
 - Quarterly Report highlights key statistics, engagement activities and results in the previous quarter.
 - Annual Reports include annual statistics and overview of the engagement activities and results tracking of positive engagement cases/developments in the universe and flagging of issuers with poor response and/or poor progress in the universe. These reports include in-depth analysis of meta themes in the program such as climate or Gender Diversity in Japan.

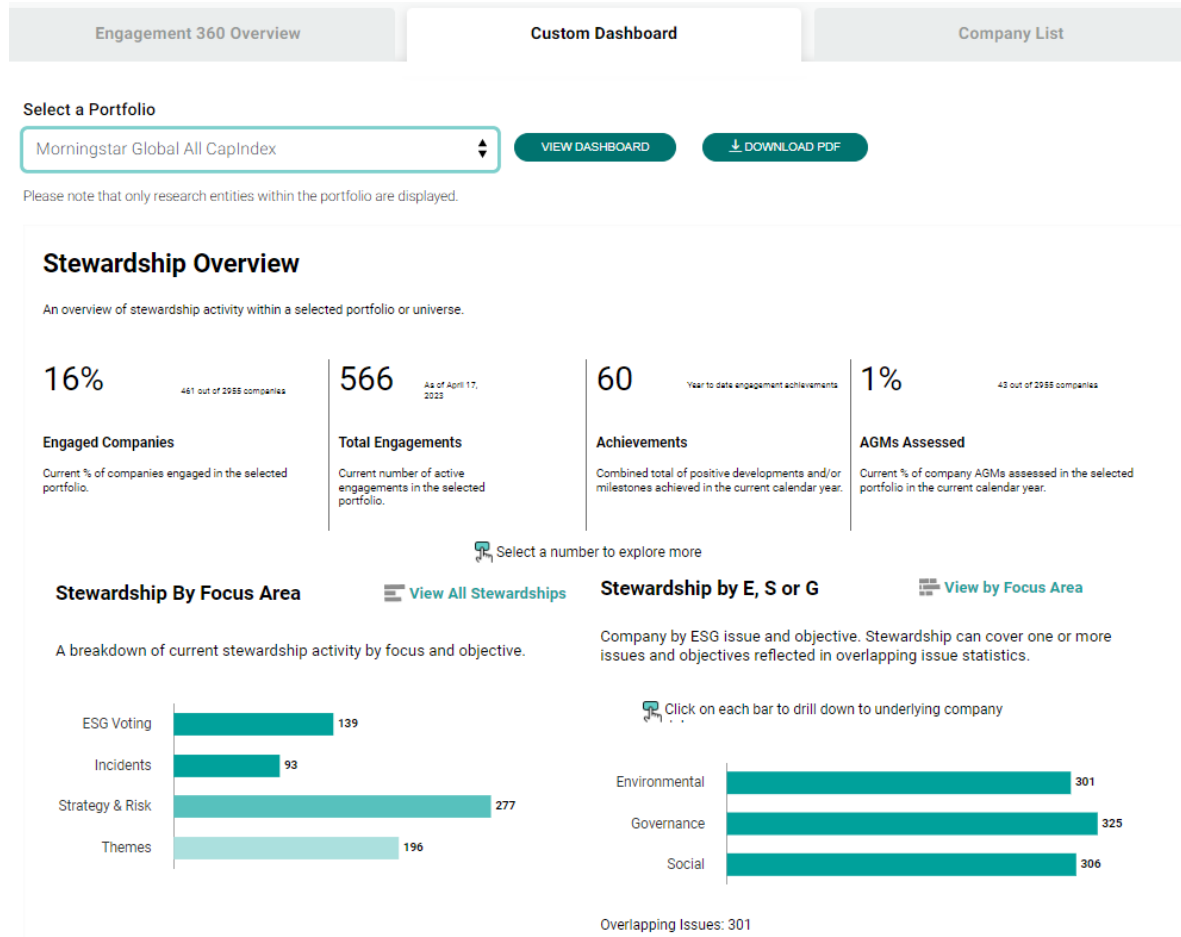
- **ESG Voting Policy Overlay**
 - Quarterly summary provides highlights of voting recommendations in the quarter.
 - Biannual reports published mid-year, and annual reports, published after the end of the calendar year, summarize voting activities for the previous 6 months and 12 months, respectively. These longer reports also contextualize developments and trends with commentary and thought leadership, describe highlights from the AGM seasons of selected markets and, in the case of annual reports, offer an outlook for the coming year.

3. Automated, custom and on-demand reporting

Morningstar Sustainalytics' Global Access platforms offers a portfolio upload tool where investor clients can load their portfolio holdings firmwide or parsed out by fund, mandate, geography, etc. From there, clients can filter and download key data in an excel format specific to their own portfolios.

The development of Engagement 360 advanced the ability for subscribing clients to load their chosen portfolio configurations and run a custom stewardship highlights overview dashboard for online viewing or PDF download and sharing.

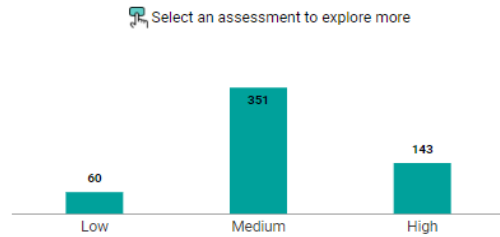
Figure 32: Morningstar Sustainalytics' Stewardship Dashboard Overview



Performance Overview

[View All Overviews](#)

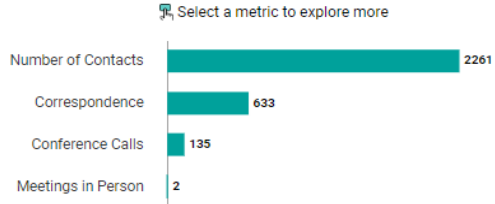
A combination of company response to engagement and progress on the issue/focus of engagement.



Dialogue Statistics

[View All Statistics](#)

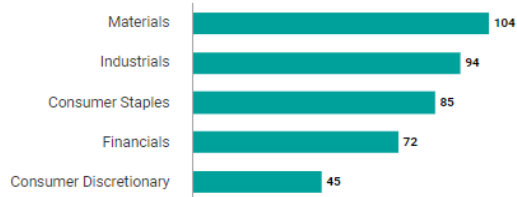
Summary of engagement activities with company touchpoints in the current calendar year.



Top 5 Engaged Sectors

[View All Sectors](#)

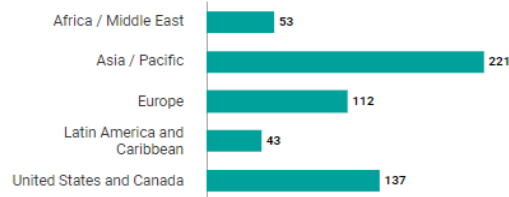
Companies engaged by sector.



Engagements by Region

[View All Engagements](#)

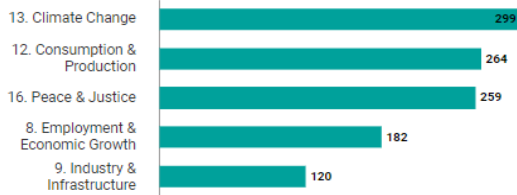
Companies engaged by geographic region.



Top Engagements per SDG

[View All SDGs](#)

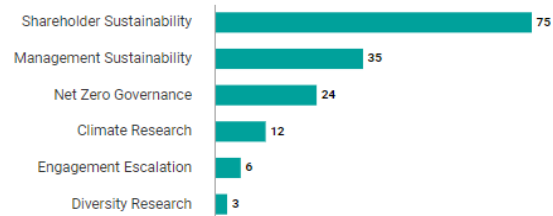
Engagement dialogue and activity mapped to applicable SDGs. Each dialogue can be mapped to one or more SDGs.



Voting Signals/Recommendations

[View All Votings](#)

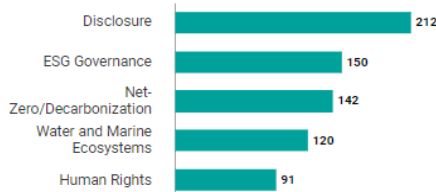
Summary of vote recommendations based on sustainability as well as research and engagement escalation signals.



Top 5 ESG Topics

[View All ESG Topics](#)

Topics in scope of engagement dialogue. Engagements can cover several topics.



Any requests regarding in-depth automated, custom, and on-demand reporting are discussed with investors at the onset of an assignment. Sales and client advisory colleagues work with clients to ensure a suitable delivery solution(s) and timelines.

4. Externally-facing communications

- **Blogs:** Engagement team members regularly contribute to Morningstar Sustainalytics' blog regarding their areas of expertise and/or specific Thematic Engagement topics. All publications can be accessed on our website at [Resource Center \(sustainalytics.com\)](#). We also occasionally publish at Morningstar.com at [Sustainable Investing | Morningstar](#).
- **Reports and White papers:** From time to time, the engagement team may issue reports or guidance on a certain topic, usually in cooperation with clients or other organizations. These are usually coupled with a webinar announcing the report and additional events to a broader audience e.g., through PRI or national SIFs/equivalents.

6.4 How Morningstar Sustainalytics ensures reporting is fair and balanced

We strive for the highest quality standards in everything we do. We believe our approach is unique given that we focus on transparency, so our clients have full insight into our engagement dialogues and activities. We thereby adhere to our own quality standards that are based on the pillars of independence and transparency.

Prior to posting meeting minutes and transcripts on Global Access, we provide issuers the opportunity to approve them before they are published. This allows us to correct any potential miscommunication, supplement transcripts with further information, and ensure reporting is both balanced and fair by including the engaged issuer's viewpoints. Furthermore, throughout the engagement process, we seek input from other stakeholders such as NGOs, trade unions, and government agencies, thus providing a balanced viewpoint to clients.

In addition, Morningstar Sustainalytics' screening research team and controversial event research team have strict rules to only consider publicly available information from trust-worthy media sources. We carefully verify the veracity of the information and only approve to disclose our research once we have triangulated the information is accurate and timely.

All our engagements follow our engagement approach. We assess each case's Progress and Response using a 5 point-scale: none, poor, standard, good, excellent. The same measurement is applied across our engagement products and functions as a basic reporting point for clients. Each engagement service also has solid measurement established, such as Milestones, so that we can report on the issuer's progress towards the engagement objectives in more systematic approaches. The measurement rules are set consistently across the same engagement service, so we can guarantee a fair and just assessment and unbiased reporting for all Engage cases. We also have group meetings for Engagement Managers to discuss case approaches, encourage peer reviews and brainstorm mutual solutions.

Morningstar Sustainalytics also has an Issuer Relations team to act as a forum to receive issuer feedback regarding our research and reporting and to coordinate feedback across Morningstar Sustainalytics' other research teams.

When assessing contentious incidents or issues, we take a balanced approach by reaching out to different stakeholders seeking their views and input during the engagement process.

As an example, palm oil plantations have for many years been the subject of high levels of controversy and subsequent focus by investors into the issuers themselves and from the buyers of the products. Some issuers claim to have taken considerable steps to improve their sustainability and ESG performance. In order to provide meaningful levels of assurance to claims made in reports, Morningstar Sustainalytics has engaged with NGOs in the sector who have themselves raised complaints against issuers in order to understand in greater detail the context of the complaints and the NGOs' view of the solutions presented by the issuer. Where appropriate we also engage with government agencies, particularly regulators to provide assurance that activities are in line with legal requirements. This is the case for an engagement with an issuer in South Africa which is remediating polluted land, an activity that requires regulatory approval.

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Appendix

MORNINGSTAR
SUSTAINALYTICS

CASE STUDY:

WALMART

Engagement Snapshot

<p>COMPANY: Walmart Inc. (Walmart)</p> <p>HQ: Bentonville, Arkansas, USA</p> <p>MARKETCAP: \$382.37 B</p> <p>CASE LOCATION: Several Countries</p> <p>CASE ISSUE: Recurring Labour Rights Violations</p> <p>ENGAGEMENT STATUS: Resolved</p> <p>GSS STATUS: Compliant</p> <p>ENGAGEMENT RESOLVED DATE: 25 August 2022</p> <p>SDG CONTRIBUTION: 5-Gender Equality, 8-Decent Work & Economic Growth and 10-Reduced Inequalities</p>	<p>QUICK FACTS BY THE NUMBERS (AT DECEMBER 31, 2022)</p> <table border="0" style="width: 100%;"> <tr> <td>CONTACTS: 286</td> <td>FACE TO FACE MEETINGS: 2</td> </tr> <tr> <td>CONFERENCE CALLS: 20</td> <td>PARTICIPATION: Open to investors</td> </tr> </table> <p>ENGAGEMENT STATUS (AT DECEMBER 31, 2022)</p> <table border="0" style="width: 100%;"> <tr> <td style="text-align: center;">MILESTONE</td> <td style="text-align: center;">PERFORMANCE HIGH</td> </tr> <tr> <td style="text-align: center;">  </td> <td style="text-align: center;">  </td> </tr> </table>	CONTACTS: 286	FACE TO FACE MEETINGS: 2	CONFERENCE CALLS: 20	PARTICIPATION: Open to investors	MILESTONE	PERFORMANCE HIGH		
CONTACTS: 286	FACE TO FACE MEETINGS: 2								
CONFERENCE CALLS: 20	PARTICIPATION: Open to investors								
MILESTONE	PERFORMANCE HIGH								
									

Key Issues & Background

- History of severe and systemic labour rights incidents relating to discrimination, unionization, modern slavery, and child labor
- Breaches span business and geography
- Several incidents leading to lawsuits, fines, and/or financial settlements

Change Objective

- Cease and mitigate non-compliance related to labour rights
- Establish (and implement) labour rights policies and guidelines

Achievements to Date

Milestone 5 – Advanced Stage of Implementing Strategy

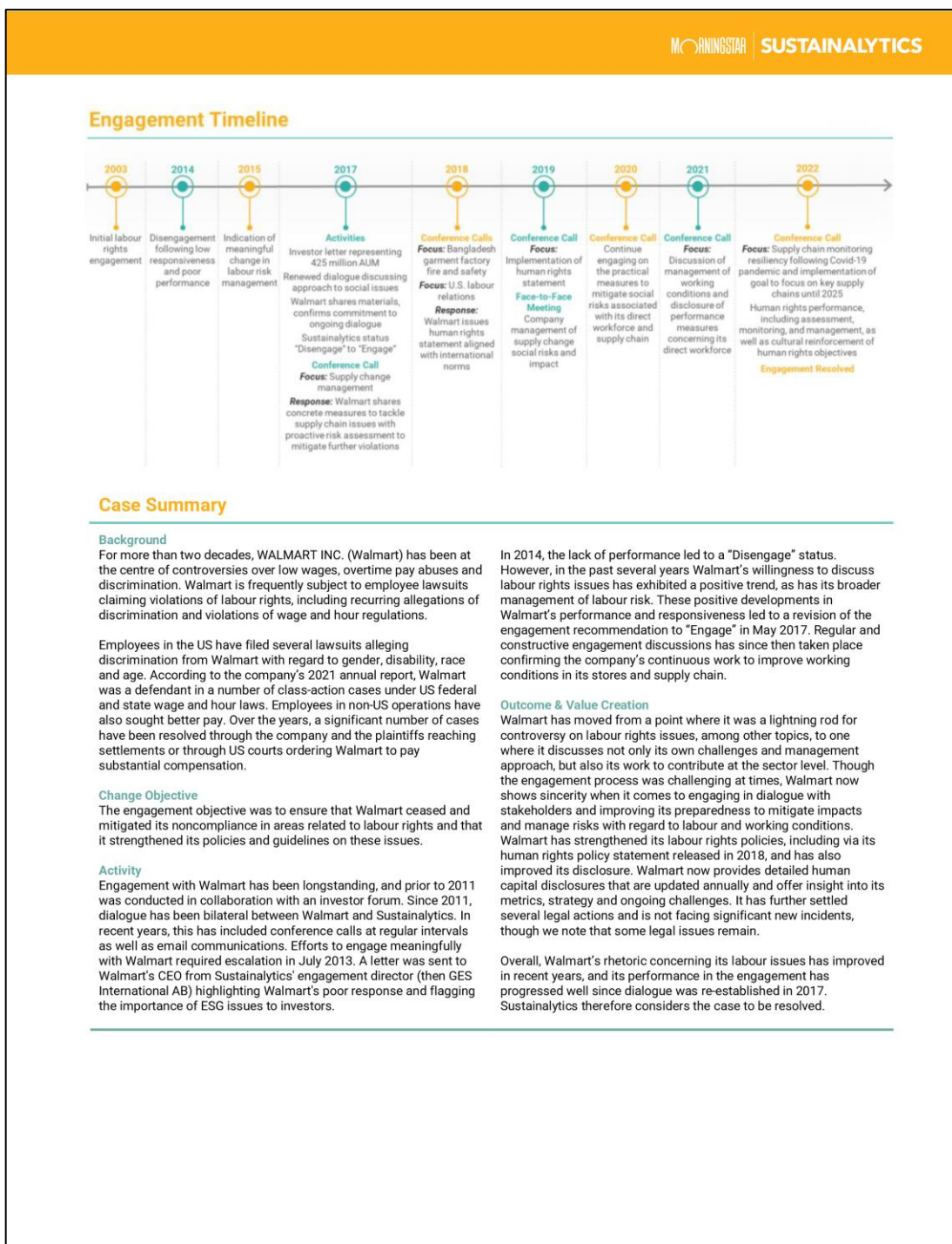
- Walmart's tone concerning its labour issues improved and the company's performance during the engagement was good after dialogue was re-established in 2017. Notably, Walmart strengthened its policies related to labour rights, and it made a human rights policy statement release in 2018.
- The company's disclosure also became more sophisticated. It now makes detailed human capital disclosures, which it updates annually, and provides insight into its metrics, strategy and ongoing challenges.
- Walmart settled a number of legal actions against it and is not involved in significant new incidents, though we note that legal issues remain.

Milestone 4 – Strategy Developed to Address Issue

- Walmart issued a human rights statement in November 2018 based on international norms with clear internal buy-in and integration across functions

Milestone 3 – Company Commits to Address Issue

- Walmart initiated several efforts to address identified problems and shortcomings among its workforce.
- Pledged to take a leadership role in promoting ethical recruitment and treatment of workers in retail supply chains.



Case Summary

Background

For more than two decades, WALMART INC. (Walmart) has been at the centre of controversies over low wages, overtime pay abuses and discrimination. Walmart is frequently subject to employee lawsuits claiming violations of labour rights, including recurring allegations of discrimination and violations of wage and hour regulations.

Employees in the US have filed several lawsuits alleging discrimination from Walmart with regard to gender, disability, race and age. According to the company's 2021 annual report, Walmart was a defendant in a number of class-action cases under US federal and state wage and hour laws. Employees in non-US operations have also sought better pay. Over the years, a significant number of cases have been resolved through the company and the plaintiffs reaching settlements or through US courts ordering Walmart to pay substantial compensation.

Change Objective

The engagement objective was to ensure that Walmart ceased and mitigated its noncompliance in areas related to labour rights and that it strengthened its policies and guidelines on these issues.

Activity


Engagement with Walmart has been longstanding, and prior to 2011 was conducted in collaboration with an investor forum. Since 2011, dialogue has been bilateral between Walmart and Sustainalytics. In recent years, this has included conference calls at regular intervals as well as email communications. Efforts to engage meaningfully with Walmart required escalation in July 2013. A letter was sent to Walmart's CEO from Sustainalytics' engagement director (then GES International AB) highlighting Walmart's poor response and flagging the importance of ESG issues to investors.


In 2014, the lack of performance led to a "Disengage" status. However, in the past several years Walmart's willingness to discuss labour rights issues has exhibited a positive trend, as has its broader management of labour risk. These positive developments in Walmart's performance and responsiveness led to a revision of the engagement recommendation to "Engage" in May 2017. Regular and constructive engagement discussions has since then taken place confirming the company's continuous work to improve working conditions in its stores and supply chain.

Outcome & Value Creation

Walmart has moved from a point where it was a lightning rod for controversy on labour rights issues, among other topics, to one where it discusses not only its own challenges and management approach, but also its work to contribute at the sector level. Though the engagement process was challenging at times, Walmart now shows sincerity when it comes to engaging in dialogue with stakeholders and improving its preparedness to mitigate impacts and manage risks with regard to labour and working conditions. Walmart has strengthened its labour rights policies, including via its human rights policy statement released in 2018, and has also improved its disclosure. Walmart now provides detailed human capital disclosures that are updated annually and offer insight into its metrics, strategy and ongoing challenges. It has further settled several legal actions and is not facing significant new incidents, though we note that some legal issues remain.

Overall, Walmart's rhetoric concerning its labour issues has improved in recent years, and its performance in the engagement has progressed well since dialogue was re-established in 2017. Sustainalytics therefore considers the case to be resolved.





CASE STUDY: BIODIVERSITY AND NATURAL CAPITAL ENGAGEMENT

Biodiversity loss is merging as one of the greatest risks to institutional investors, rivalling climate change, pandemics, and armed conflict. Through investments and financing, investors are exposed to the physical risks of less resilient ecosystems, while the growing attention of stakeholders increases market, regulatory and reputational risks.

Morningstar Sustainability's Biodiversity and Natural Capital Impact Engagement partners with global investors to address the critical issue of biodiversity loss and natural capital degradation. The programme evolves upon Sustainability's thematic engagement approach, targeting more than 50 national and multinational companies while leveraging new ways to amplify investors' impact. The programme was launched in May 2022.

Engagement Objectives

To strengthen issuers' management of biodiversity-related impacts, risks and opportunities toward a nature-positive economy.

The engagements target five outcomes related to issuers, governance, risk assessment, strategy, targets, and disclosure. Combined, the five outcomes embody best practices in managing biodiversity-related risks and opportunities and provide a standardized approach to assessing progress on engagement objectives.

Sustainable Development Goals

Aligned to goals and select targets of SDGs

12
Responsible Consumption & Production

13
Climate Action

14
Life Below Water

15
Life on Land

Participants

7+ Institutional Investors:
A mix of Asset Managers and Asset Owners

50 issuers from sectors highly exposed to nature risks
The first companies represent the agricultural value chain— from financiers and retailers to traders, agrochemicals, and producers.

Our Approach

- Identify **impact pathways** through the programme's Theory of Change.
- Use **diplomatic and probing dialogue** to build trust and promote best practices.
- **Escalate** cases with poor progress or response via proxy voting.
- **Engage and collaborate** with stakeholders and industry initiatives, such as the Taskforce for Nature-related Financial Disclosure (TNFD), UNEP-WCMC, IPBES, and Nature Action 100.
- **Participate in global conferences** such as the UN Water Conference and UN Biodiversity Conference.
- Advocate **Science-based Targets for Nature** via membership of the Science-based Targets Network's (SBTN) Corporate Engagement Program.
- **Quarterly reporting** to update investors on material developments.
- Present **thought leadership** via blogs, webinars and in-person events.
- Provide feedback on **regulation and standards** such as the Global Reporting Initiative and EFRAG.
- Eventually, **field trips** for investors to experience topics firsthand and **policy maker engagements** for greater impact.

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CASE STUDY: CHILD LABOUR IN COCOA

Sustainalytics' Child Labour in Cocoa Thematic Engagement took place between 2019 and 2022. It set out to address the issue of child labour in cocoa supply chains in the two-leading cocoa-producing origins globally - Ivory Coast and Ghana.

All engaged companies scaled up their respective roll-out of child labour monitoring and remediation systems in cocoa-growing communities. Large-scale access to education for children in cocoa-growing communities was also being implemented, with substantial contributions by all companies targeted in the engagement. Moreover, the companies increased their level of activities to boost farmer income levels and have improved reporting of those.

Engagement Objectives

To advance the cocoa and chocolate industry's preparedness and efforts to address systemic child labour in its cocoa supply chains.

Companies were asked to demonstrate substantial progress in the roll-out of child labour monitoring and remediation systems, show how they contributed to access to education for children in cocoa-growing communities and demonstrate progress towards a living income for cocoa-growing farmers.

Sustainable Development Goals

Aligned to goals and select targets of SDGs



Participants

30+ Institutional Investors:
A mix of Asset Managers and Asset Owners

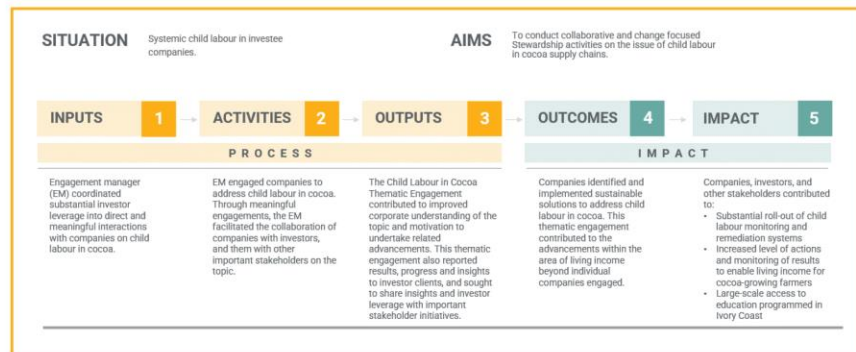
7 major cocoa and chocolate companies:
A mix of leaders and laggards along the supply chain, together dominating the cocoa and chocolate industry

Our Approach

- **Conducted stakeholder engagements** to select meaningful objective and targets
- **Introduced 3 KPIs to assess progress:** child labour monitoring and remediation systems, access to education for children in cocoa-growing communities and enablement of living income for cocoa-growing farmers
- **Held 44 meetings** and sent over **300 emails**
- **Sent 7 investor statements and 7 investor letters** to the CEOs and Chairmen of targeted companies
- **Held a roundtable: "Accelerating farmer livelihoods"**
- **Helped organize a living income survey and webinars**
- **Developed good practice material** on living income and labour rights due diligence for companies and investors
- **Coordinated** an investor endorsement of living income and living wage roadmaps led by IDH.
- **Spoke at various sector and topic relevant events and podcast**
- **Standing member of the Advisory Board** of the Multistakeholder Living Income Community of Practice

Applying Theory of Change

The model below illustrates how our engagement activities sought to contribute to advancements by companies and other stakeholders in addressing child labour in cocoa.



We attribute the success of this thematic engagement to maintaining: an active involvement by investors; an understanding of the companies, sectors and topics we engaged on, including the latest trends and overall developments; a continuous dialogue, including finding new ways of sharing and good practices learnings; a clear focus on living income and living wages and addressing root causes of labour rights issues; and an active network of stakeholders beyond like-minded investors.



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**STEWARDSHIP
CODE | 2021**

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Contact us today to connect with our team of experts.**

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