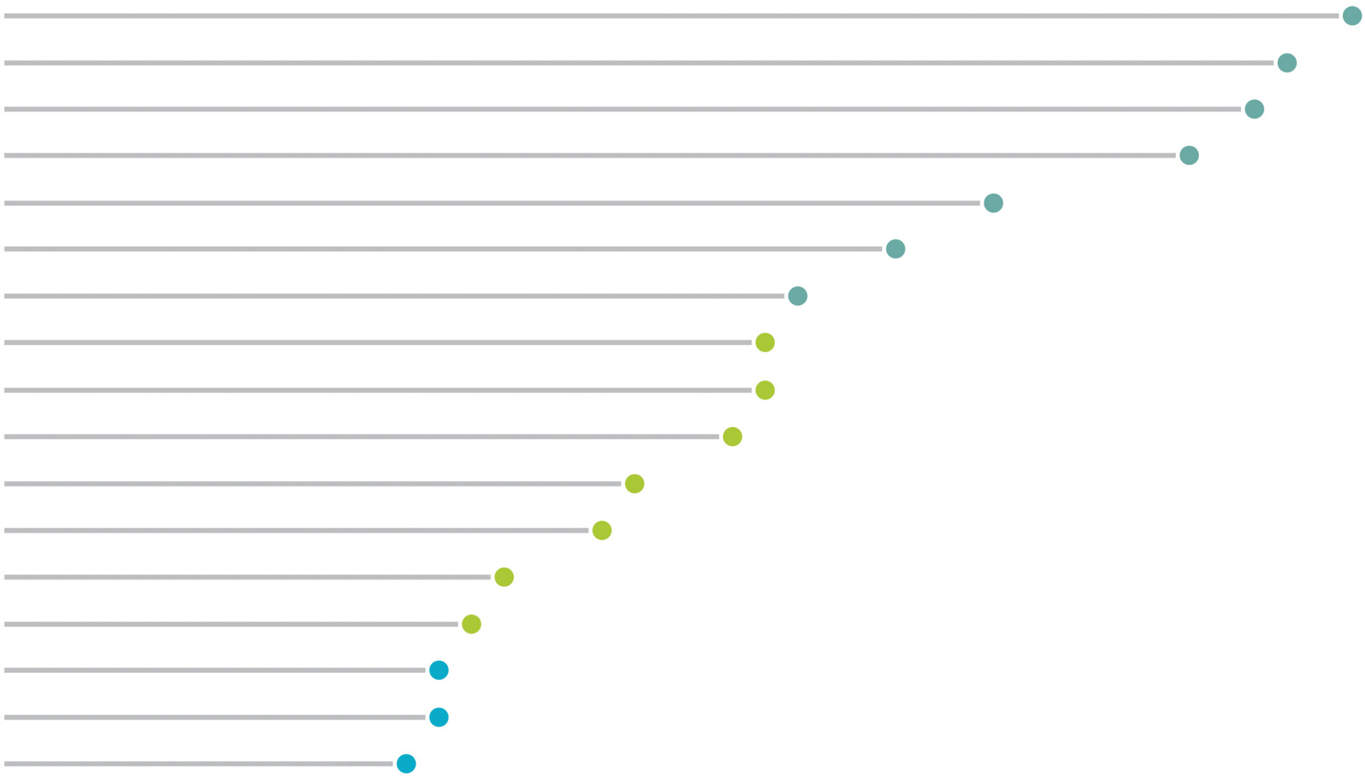
MORNINGSTAR | SUSTAINALYTICS

Material Risk Engagement

2024 Annual Report



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

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Engagement Approach

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

The Stewardship team will engage with companies in Morningstar Sustainalytics' Ratings universe, consisting of more than 4,500 investable issuers in developed and emerging markets, which have an ESG Risk Ratings score of 30 or more. The ESG Risk Ratings score reflects the unmanaged ESG risk, so the higher the score, the more risk the company is exposed to.

The engagement is driven by constructive dialogue. The research from the ESG Risk Ratings and the Controversies research are leveraged to encourage companies to cover gaps in Material ESG Issues risk management. Engagement Response, Progress, Positive Developments, and Milestones are consistently tracked to measure commitment and capability to change in addition to the engagement activities conducted. When a company improves by bringing the ESG Risk Ratings score to below 28, the Material Risk/Strategy & Risk Engagement case will be considered resolved.

Executive Summary

Paulina Segreto
Director, Stewardship
Morningstar Sustainalytics

Shane Tiley
Manager, Stewardship
Material Risk/Strategy & Risk Engagement
Morningstar Sustainalytics

We are pleased to report on the activities and results of our strategy and risk focused stewardship efforts for the full year of 2024. This year, our engagement activities have led to significant impacts, and we have successfully resolved numerous engagements.

Highlights of the Year

In 2024, we resolved 36 engagements, achieving an ESG Risk Rating score below 28 for these companies, indicating a move into the medium ESG Risk Rating category and lower overall unmanaged ESG risk.

Throughout the year, we engaged with 371 companies and ended with 310 active engagements. Since this programme's inception in March 2020, we have engaged with a total of 598 companies. Several companies were removed from our target list due to universe updates and were archived, while we added 24 new companies to our active engagements.

We tracked 312 Positive Developments related to our engagement objectives and suggested actions, and collectively recorded 176 Milestones achieved.

Our engagement managers developed strong and constructive dialogues with companies, conducting 184 meetings and exchanging 1,565 emails/phone calls. We also organized two engagement trips to five countries, meeting with 11 companies.

Our suggested actions guide less experienced companies through the complexities of ESG, while helping more experienced companies fine-tune and elevate their ESG risk management and disclosure practices.

Engagement Trips

In 2024, our team visited five countries to meet with companies in person, building relationships and gaining deeper insights into their ESG challenges and opportunities.

- **January 2024:** A team member traveled to Türkiye and Saudi Arabia, meeting with four companies in Türkiye and seven in Saudi Arabia, including site visits to a dairy farm and a large bread packing plant. We also met with the UN Global Compact and the Saudi Arabian Stock Exchange.
- **November 2024:** Our team visited Germany, France and Spain, focusing on sectors like utilities, chemicals, steel industrial gases, and construction. Discussions included green hydrogen, industrial electrification, green ammonia production, solar park innovations, decarbonizing feedstocks, and low-carbon products.

2024 Focus on Climate

Companies face various physical and transition risks related to climate change, including asset vulnerability to extreme weather and regulatory challenges. Failure to address these risks can undermine long-term value and erode investor trust.

In 2024, the team engaged with companies in hard-to-abate sectors on decarbonization and climate preparedness. We published several articles on climate action, including a key piece on integrating physical climate risks into business strategies.

Approximately 65% of active engagements relate to SDG 13 on Climate Action, with one-third focused on Carbon in Own Operations and Carbon in Products and Services. Key issues include de-risking low-carbon investments, aligning capital allocation with net-zero goals, and fostering stakeholder engagement.

Challenges to Regulatory Reporting and Validation in 2025

In 2025, several regulatory, reporting, and validation milestones will impact cases.

The Science Based Targets initiative (SBTi) will release its pathway for the oil and gas sector, providing new guidelines and targets for emissions reductions.

The International Sustainability Standards Board (ISSB) will continue consolidating global sustainability reporting standards, with Australia and Singapore implementing its standards from January 1.

In North America, the Securities and Exchange Commission (SEC), Canadian Securities Administrators (CSA), and Canadian Sustainability Standards Board (CSSB) will shape sustainability reporting requirements, influencing corporate disclosures and practices. In addition, California is going to implement more stringent environmental regulations, influencing broader trends.

At the same time, the outcome of the 2024 US elections could have significant implications for ESG policies, potentially altering the regulatory landscape.

The Corporate Sustainability Reporting Directive (CSRD) will require new reports in Europe covering fiscal year 2024.

Additionally, countries will enhance anti-greenwashing laws, to ensure the integrity of sustainability claims made by companies.

Looking Forward

In 2025, we will explore multi-faceted approaches to the just transition, sharing insights on companies, sectors, and geographies leading or lagging in the low-carbon transition.

Key topics include:

- **Clean Tech & Energy:** Ensuring the reliability and affordability of renewable energy sources.
- **Regulatory Ramp-Ups:** Integrating ESG reporting with financial reporting.
- **Labor Rights & Supply Chain Management:** Ensuring fair labour practices and robust supply chain management.
- **Community & Indigenous Relations:** Strengthening relationships with local communities and Indigenous groups.
- **Biodiversity & Natural Capital:** Prioritizing biodiversity protection and sustainable resource use.

When it comes to our engagement case work, several engagements have met or exceeded the 28-point ESG Risk Rating threshold, with final meetings scheduled for early 2025 to review implementation of Suggested Actions and provide new feedback.

We anticipate that CSRD-aligned reporting will impact our target list of European companies, potentially resolving many EU cases in 2025.

Engagement trips are planned for 2025, focusing on Indian, South Korean, and Chinese companies.

Engagement Overview

310
engagements as of 31 December 2024

24
new engagements

598
companies engaged since March 2020

SDG 13 Climate Action
linked to 65% active engagements

Asia / Pacific
region with the largest number of engagements

Oil & Gas Producers and Utilities
industries with the most engagements

Disclosure and Net-Zero/Decarbonization
top material ESG topics in engagement dialogues

Engagement Status

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

Resolved The company has achieved the engagement objective.

Archived Engagement is concluded, the engagement objective has not been achieved.

Unresponsive Unresponsive is the final step in the escalation for companies not responding to our engagement. At this final step, we have exhausted all other engagement tools.

348 engagements as of 01 January 2024

24 new Engage

36 Resolved

25 Archived

0 Unresponsive

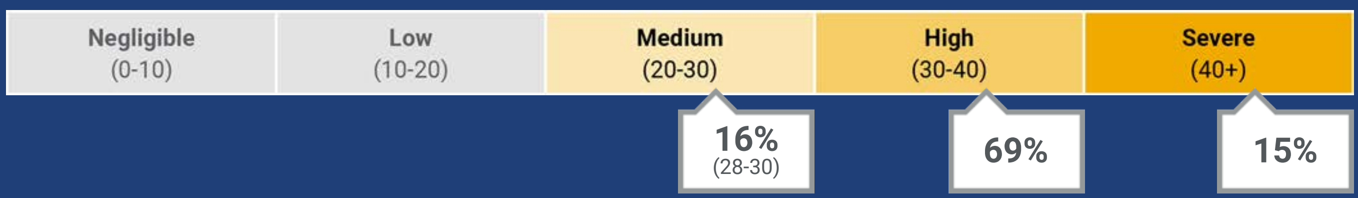
310 engagements as of 31 December 2024

371 engagements during 2024

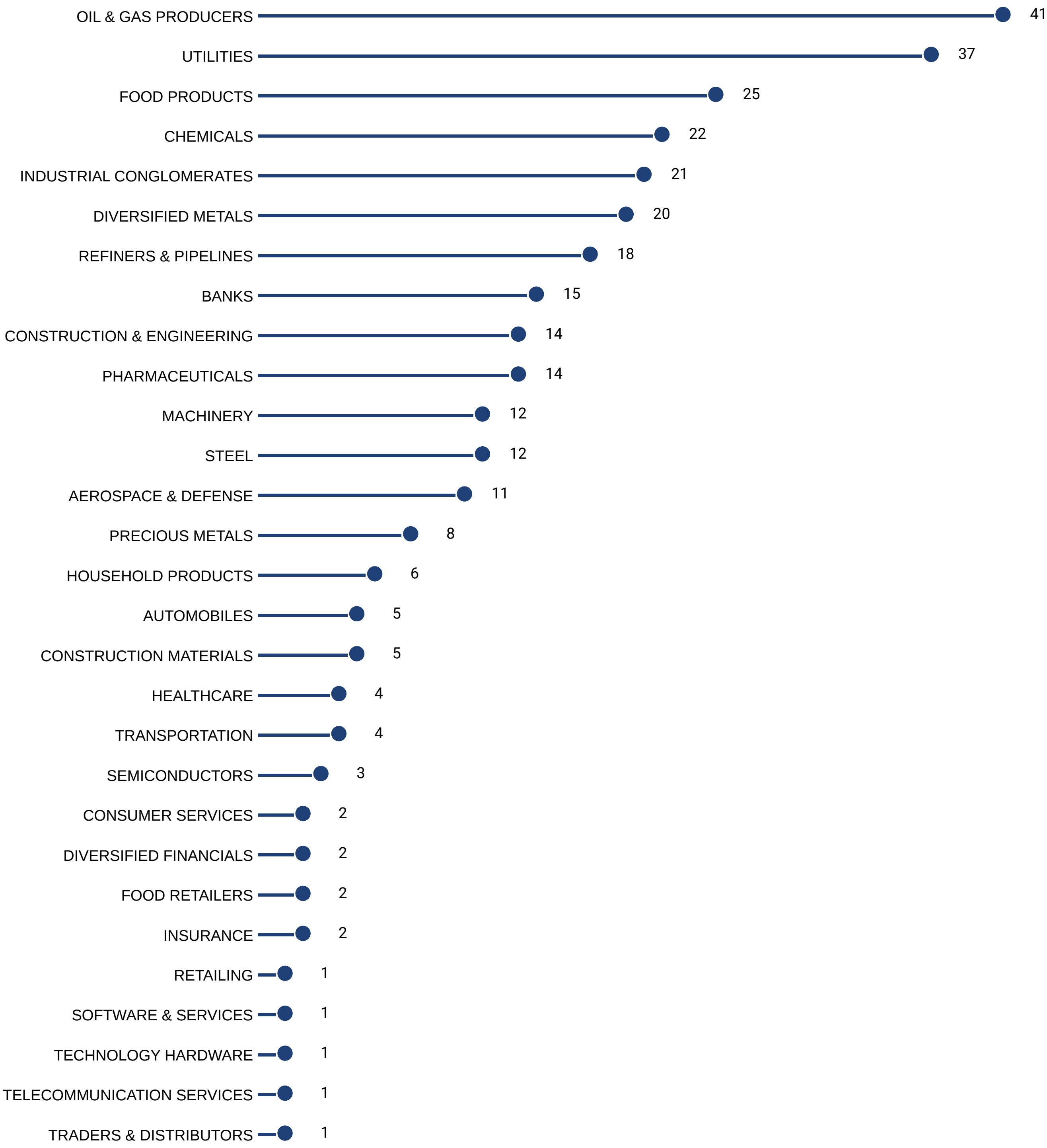
On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

Active Engagements by ESG Risk Ratings Categories

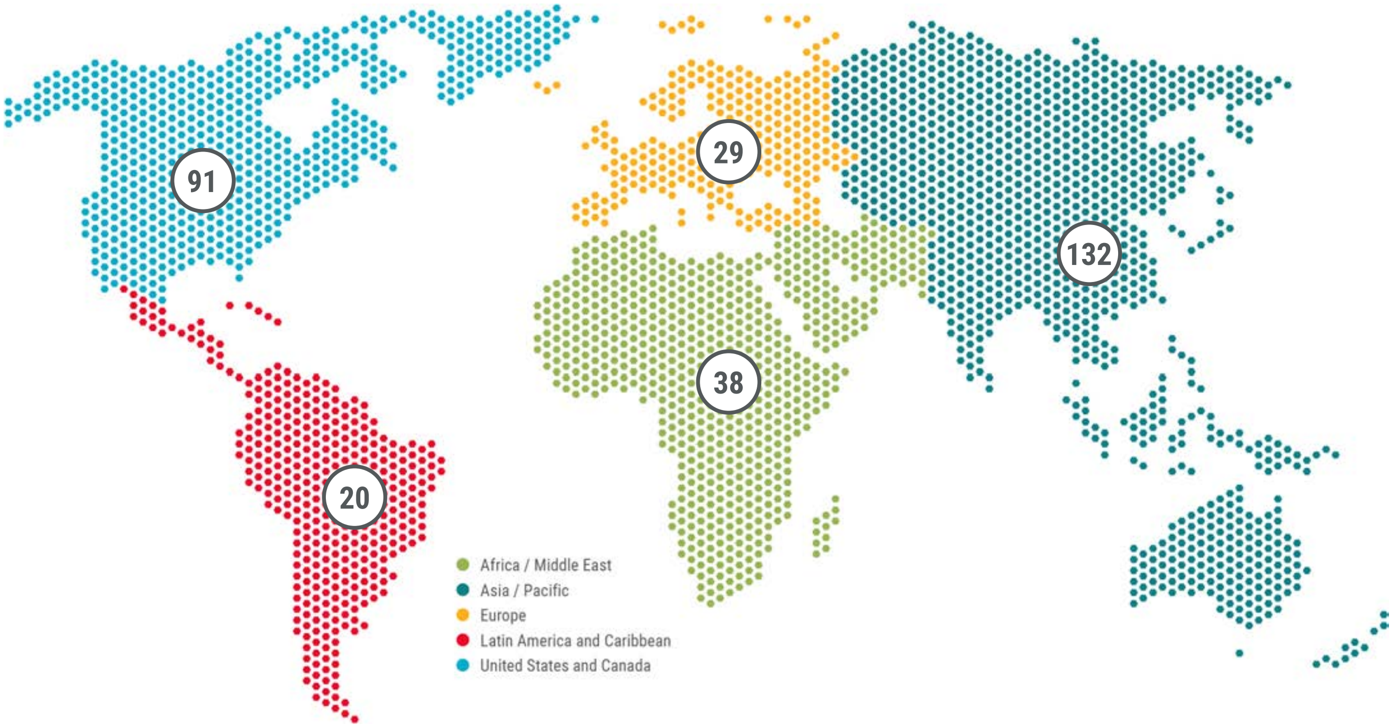
Active Engagements by ESG Risk Ratings Categories



Industry Distribution



Engagements by Headquarter Location

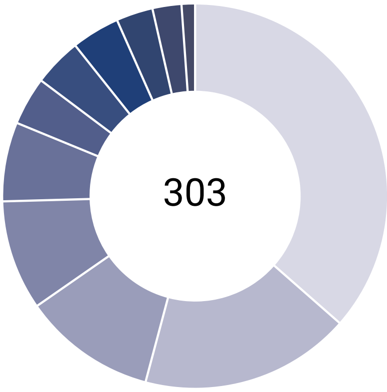


Engagement Topics

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

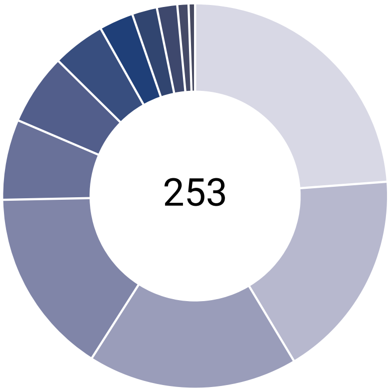
Environmental

- NET-ZERO/DECARBONIZATION (112)
- WATER SECURITY (34)
- WATER QUALITY (20)
- BIODIVERSITY (12)
- NATURAL RESOURCE USE (9)
- CIRCULAR ECONOMY (3)
- CLIMATE CHANGE (54)
- WASTE MANAGEMENT (28)
- AIR POLLUTANT EMISSIONS (12)
- LAND POLLUTION AND SPILLS (12)
- DEFORESTATION (7)



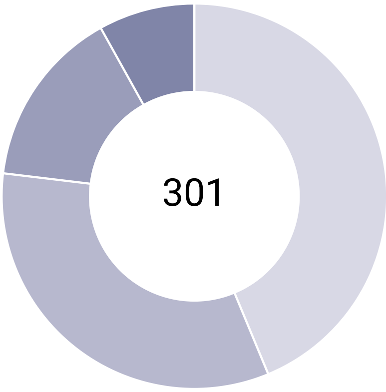
Social

- PRODUCT QUALITY AND SAFETY (61)
- HUMAN CAPITAL (45)
- HUMAN RIGHTS (17)
- DATA PRIVACY AND SECURITY (11)
- MARKETING PRACTICES (5)
- HIGH-RISK TERRITORIES (2)
- COMMUNITY RELATIONS (45)
- OCCUPATIONAL HEALTH AND SAFETY (40)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (15)
- INDIGENOUS PEOPLE (7)
- LABOUR RIGHTS (4)
- JUST TRANSITION (1)



Governance

- DISCLOSURE (132)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (45)
- ESG GOVERNANCE (100)
- BOARD COMPOSITION (24)



Note: An engagement can cover one or more issues and objectives reflected in overlapping issue statistics.

Sustainable Development Goals - Mapping Engagements

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

SDG	%	SDG	%
1 No Poverty	0%	10 Reduced Inequality	2%
2 Zero Hunger	1%	11 Sustainable Cities and Communities	22%
3 Good Health and Well-Being	12%	12 Responsible Consumption and Production	51%
4 Quality Education	0%	13 Climate Action	65%
5 Gender Equality	3%	14 Life Below Water	1%
6 Clean Water and Sanitation	7%	15 Life on Land	5%
7 Affordable and Clean Energy	22%	16 Peace and Justice, Strong Institutions	56%
8 Decent Work and Economic Growth	22%	17 Partnerships to Achieve the Goal	3%
9 Industry, Innovation and Infrastructure	15%		

Editorial Year in Review: Understanding Climate Risks for Hard-to-Abate Sectors

Shane Tiley
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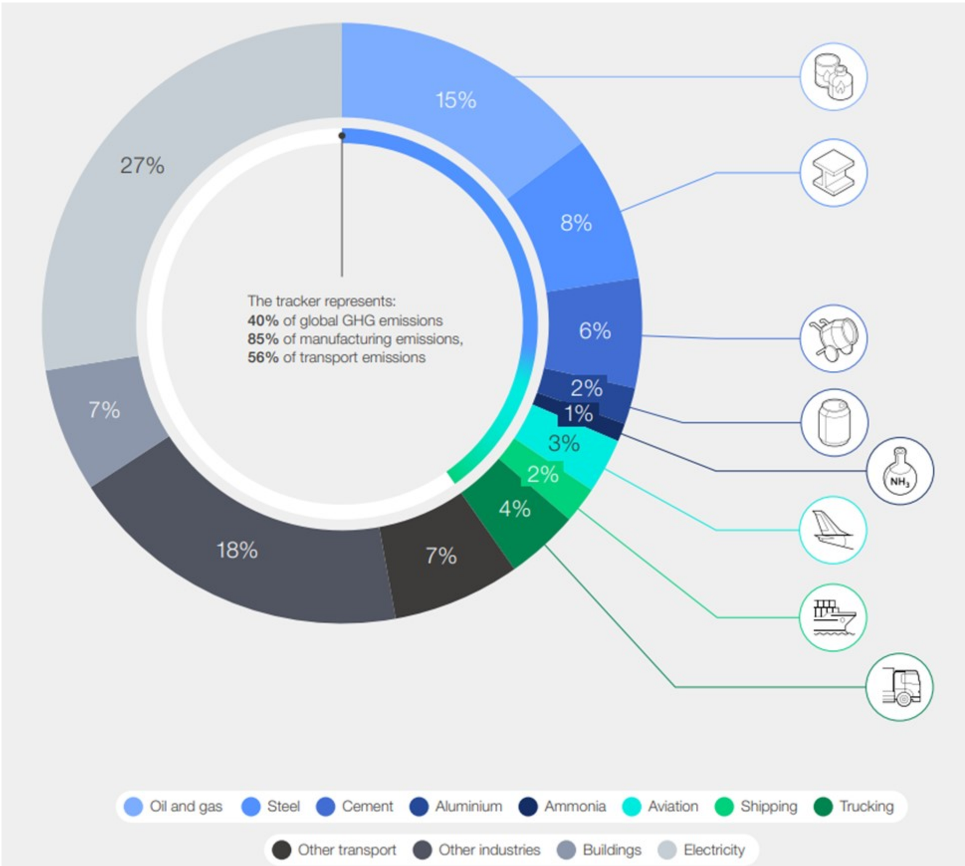
Material Risk/Strategy & Risk Engagement
Morningstar Sustainalytics

Hard-to-abate sectors are industries that are particularly challenging to decarbonize due to their high greenhouse gas emissions (GHGs) and low levels of readiness and adoption of low-emission and clean energy technologies. These sectors are crucial to the global economy, but present significant obstacles in the transition to a net-zero future.

Key characteristics of hard-to-abate sectors include high energy intensity (these sectors require large amounts of energy, often from fossil fuels, to operate), technological challenges (existing technologies may not be sufficient to reduce emissions to the desired levels), and economic importance (these sectors are vital to the economy, making drastic changes potentially disruptive). Hard-to-abate sectors, such as heavy industry and transportation, collectively contribute approximately 40% of GHGs—making their decarbonization essential for achieving climate goals.[1] See *Figure 1*.

Figure 1. Global GHG Emissions by Sector



For informational purposes only. Data analyzed for publicly traded companies assessed using the most recent Sustainalytics Risk Rating as of October 19, 2024. Analysis includes 41 US Utilities companies, 26 US Chemical companies, 17 US Refiner and Pipeline companies, and 21 US O&G Producer companies. The Emergency Response Programme indicator assesses a company's ability to respond to and mitigate risks relating to the occurrence of emergencies. The identification of potential risks requiring emergency protocols (including through a formal risk assessment process) is weighted most heavily under this indicator, along with the presence of regional or site-specific response teams. Other considerations include the presence of regular emergency training, communication protocols, and company-wide emergency guidelines.

Throughout 2024, the Material Risk Engagement (MRE) team has considered questions the investment community has around the decarbonization and climate preparedness of hard-to-abate sectors. See how we have responded to these questions in our research and thought leadership articles summarized below.

Can Hard-to-Abate Sectors Be Sustainable?

'***Lines in the Sand: How Canada's Oil Sands Companies Can Pave Their Way to Net Zero***' discussed the challenges and strategies for decarbonizing Canada's oil sands industry.[2] These findings highlighting the complex path ahead for Canada's oil sands companies in their transition to a low-carbon future.

Key findings include:

- **High Emissions:** Oil sands production is highly energy-intensive, leading to significant GHG emissions. Emissions from oil sands have increased dramatically compared to conventional oil production.
- **Carbon Capture and Storage (CCS):** The industry is heavily relying on CCS to reduce emissions. The Pathways Alliance, a group of major oil sands producers in Canada, aims to achieve net-zero GHG emissions by 2050 through CCS and other technologies.
- **Challenges With Renewable Energy:** In Canada, Alberta's reliance on natural gas and recent restrictions on renewable energy projects limit short-term opportunities to reduce emissions through renewable energy sources.
- **Diversification and Innovation:** There are efforts to diversify into lower-carbon fuels and alternative business streams, such as hydrogen production and lithium extraction. The Bitumen Beyond Combustion (BBC) strategy aims to use bitumen for high-value products rather than fuel.
- **Environmental and Social Issues:** The oil sands are in sensitive ecosystems, posing additional ESG challenges, including impacts on Indigenous communities and biodiversity.

What Are Potential Effects of Climate Litigation on Corporate Balance Sheets?

'***The Rise of Climate Litigation: Financial Implications of Increasing Legal Action***,' an article published in MRE’s Q3 2024 Report, explores the growing trend of climate litigation and its financial impacts on corporations. The article emphasizes the need for companies to develop proactive strategies to manage climate-related legal risks, integrating legal reasoning with financial analysis and climate science.

Key findings include:

- **Increase in Climate Litigation:** There has been a significant rise in climate litigation cases over the past decade, with a notable shift towards targeting corporations rather than just governments. This trend is driven by the framework established by the 2015 Paris Agreement.
- **Impact on Corporations:** Climate litigation poses direct financial risks to companies, including higher borrowing costs, subsidy cuts, stricter regulations, and new disclosure requirements. Legal outcomes can also lead to reputational damage, reduced access to capital, and forced strategic changes.
- **Sector-Specific Exposure:** The degree of exposure to climate litigation varies by industry, with oil and gas producers being the most affected. This is due to their high emissions and the increasing scrutiny from stakeholders.
- **Financial Sector Implications:** Climate litigation is recognized as an emerging risk for the financial sector, potentially affecting credit quality and increasing compliance costs. Financial regulators and institutions are urged to consider litigation risk as a material financial issue.
- **Greenwashing and Legal Risks:** The article also discusses the role of legal actions in addressing greenwashing. For example, Greenpeace Canada led a complaint against Pathways Alliance, alleging false claims about emissions reductions. Such cases highlight the growing legal scrutiny of corporate environmental claims.

How Are Stakeholders Holding Companies Accountable for Deceptive Environmental Practices?

Our article *'**Clearing the Air With Canada's Oil & Gas Sector: The Interplay and Actions of Stakeholders on Greenwashing**'* outlines several ways stakeholders in Canada are taking action against greenwashing. These actions collectively contribute to a more transparent and accountable approach to corporate sustainability, helping to combat greenwashing and promote genuine environmental responsibility.

Key findings include:

- **Regulatory Oversight:** Canada's Competition Bureau is tightening federal laws to ensure transparency and accuracy in environmental claims. This includes stricter reporting requirements and penalties for misleading information.
- **Investor Activism:** Investors are increasingly scrutinizing companies' ESG practices. They are demanding more detailed and verifiable disclosures and are using their influence to push for genuine sustainability efforts.
- **Third-Party Verification:** Independent organizations are providing certifications and audits to verify the environmental claims made by companies. These third-party verifications help build trust and ensure that companies are held accountable for their sustainability practices.
- **Public Scrutiny:** Media outlets and watchdog organizations are playing a crucial role in exposing greenwashing. Public reports are raising awareness and putting pressure on companies to be more transparent and honest about their environmental impact.
- **Legal Actions:** There is an increase in legal challenges against companies accused of greenwashing. Lawsuits and regulatory actions are being used to hold companies accountable for deceptive practices.

Check out the follow-up article published by Responsible Investor: '*Investors Target Canadia Energy Firms Over Removal of Sustainability Disclosures*.'

Is Europe's Energy Transition at a Crossroads?

In connection to a field trip we conducted in November 2024, the article from the Q4 2024 MRE report, *'**Spotlight on Accelerating the EU Energy Transition**.'* The European Investor Trip in November 2024 explored whether the energy transition in the European Union (EU) is at a pivotal point, grappling with the aftermath of the energy crisis exacerbated by the Russia—Ukraine war, with European energy security being more urgent than ever. 2024 has been a reality check, exposing critical hurdles such as infrastructure bottlenecks, investment shortfalls in clean energy technologies, high electricity prices, and the challenge of integrating decentralized energy systems with grid stability. Adding to these challenges, the forthcoming Carbon Border Adjustment Mechanism (CBAM) is poised to reshape EU trade dynamics and intensify pressure on hard-to-abate industries already struggling to meet short-term carbon reduction goals.

Key findings include:

- In 2024, numerous media reports highlighted companies scaling back or delaying interim carbon reduction targets due to persistently high interest rates, elevated raw material costs, supply chain disruptions, project delays, and low demand for green products.
- China's dominance in critical low-carbon and renewable technology supply chains has heightened Europe's exposure to vulnerabilities in manufacturing capacity and industrial policy gaps. In November 2024, the EU's flagship project Northvolt filed for bankruptcy, delivering a blow to Europe's EV battery ambitions and intensifying concerns about the financial stability of key projects and the region's competitiveness.
- Companies face significant challenges in scaling commercially viable low-carbon technologies:
    - European subsidies and funding mechanisms have largely focused on the supply side, yet demand remains weak.

  - Both industrial and retail customers are highly cost-sensitive, with limited willingness to pay a green premium under current market conditions.
  - Despite ambitious EU targets and national hydrogen strategies, many green hydrogen projects stall before reaching final investment decisions due to insufficient off-taker commitments.

What Challenges Might Companies Face Due to the Rise of US Anti-ESG Sentiments?

The article *'A Perfect Storm: Anti-ESG in the US'* published in this 2024 Annual Report discusses the rise of anti-ESG sentiment in the United States and implications for businesses. The article emphasizes that physical climate risks are real and escalating, and businesses must act now to build resilience and comply with evolving regulations.

Key findings include:

- **Surge in Anti-ESG Sentiment:** There is a growing movement against ESG principles, led by state legislatures and corporate resistance in the US Several states have proposed or enacted legislation to limit or prohibit the use of ESG criteria in investment decisions and government contracts. Despite the anti-ESG rhetoric, the impacts of climate change are undeniable as US businesses are already facing financial, operational, and reputational challenges due to extreme weather events, such as hurricanes, heatwaves, and flooding.
- **Economic Costs of Climate Disasters:** The US has experienced billions in damage from numerous climate disasters over the last two years. These disasters increase operational costs, disrupt supply chains, and strain infrastructure. Insurers are retreating from high-risk areas, making it more difficult and expensive for businesses to protect their assets.
- **Federal Climate Adaptation:** The US Environmental Protection Agency (EPA) has outlined strategies to enhance climate resilience, including workforce training, facility assessments, and supply chain resilience. Companies must navigate the conflicting pressures of state-level restrictions and federal mandates.
  - **Sectoral Preparedness:** The level of climate preparedness varies across hard-to-abate sectors. Utilities and Oil and Gas Producers generally have stronger climate risk management programmes, while sectors like Chemicals and Refiners and Pipelines lag. Additionally, effective emergency management is crucial for business continuity—but while many companies have robust programmes, a significant number still lack adequate preparedness.
  - **Business Case for Climate Action:** Integrating physical climate risk management into corporate strategies is essential. Companies are encouraged to adopt resilience frameworks, conduct scenario analyses, and disclose their climate risks transparently. Companies that fail to act responsibly risk significant financial repercussions and loss of investor confidence.

What Role Does Materiality Play in Driving Investor Impact?

'Getting to Impact: Integrating Double Materiality in Responsible Investment Strategies' discusses how the concept of double materiality can enhance responsible investment strategies. By integrating a double materiality approach, companies can provide a more holistic view of their ESG performance, which is increasingly important for investors and other stakeholders.

Key findings include:

- **Definition of Double Materiality:** Double materiality considers both financial materiality (how ESG issues affect a company's financial performance) and environmental and social materiality (how a company's activities impact the environment and society). This dual perspective is crucial for comprehensive ESG analysis.
- **Regulatory Developments:** The article highlights recent regulatory developments that emphasize the importance of double materiality. For example, the European Union's Corporate Sustainability Reporting Directive (CSRD) requires companies to report on both financial and non-financial impacts.

- **Investor Expectations:** Investors are increasingly expecting companies to adopt double materiality in their reporting. This approach helps investors understand the broader impacts of their investments and make more informed decisions.
- **Implementation Challenges:** Implementing double materiality can be challenging due to the need for robust data collection and analysis. Companies must develop new methodologies and frameworks to accurately assess and report on both financial and non-financial impacts.
- **Benefits of Double Materiality:** Adopting double materiality can lead to better risk management, enhanced reputation, and improved stakeholder relationships. It also aligns with the growing demand for transparency and accountability in corporate sustainability practices.

Our Conclusions

Many companies in hard-to-abate sectors do not yet have credible climate transition and resilience plans, and are therefore exposed to financial, legal, regulatory, reputational, and operational risks. Greater emphasis on ESG outcomes and real-world impact within the responsible investment community can help to proactively manage and address systemic risks that could materially affect investment returns at the portfolio level, thereby promoting long-term value. Early identification of potential risks can enable investors to make better-informed decisions and capture emerging opportunities.

Case Study: Vistra Corp.

Material Risk/Strategy & Risk Engagement — Engagement Since: 25 February 2021

Industry: **Utilities**

Country: **United States**

ESG Risk Rating: **29.3**

Vistra is a leading US integrated retail energy provider and power generation company based in Texas, serving four million residential, commercial and industrial retail customers. Vistra is also the largest competitive power generator in the US.

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

Engagement Update

Four conference calls with Vistra have been held since 2021. The latest meeting in May 2024 focused on material risk and net zero transition, and we discussed the Vistra's progress towards its low carbon transition strategy and its disclosures on non-GHG air emissions, effluents and wastes. While the company demonstrates consistent improvements in its disclosure practices and climate transition strategy development, challenges remain regarding disclosure of the company's capital allocation to finance the low carbon transition and specific details regarding how these investments will contribute to achieving the company's GHG emission reduction targets and long-term net zero goal.

Focus Area

Discussions focused on the Vistra's effluent and non-GHG emissions management, decarbonization targets, climate transition strategy and associated metrics, data, and incentivization programs. Dialogue around Vistra's biodiversity and nature related risks was underpinned by its decommission and conversion processes of its coal plants, where Vistra described its current evaluation of utilizing land distribution for new solar power generation and battery storage systems on its properties, including those with decommissioned coal plants.

Engagement Outcomes

Positive developments were observed with Vistra's enhanced reporting regarding Scope 1 and 2 GHG emissions, stakeholder relations, emergency response and spill management. The company remains open to suggestions to improve its disclosure practices.

Insights & Outlook

The engagement showcases Vistra's ambitious yet cautious approach to achieving its decarbonization goals and demonstrates the company's proactive viewpoint to reclaiming decommissioned coal plants while also underscoring areas requiring enhanced disclosure. Investor queries on biodiversity and nature related risks, supplier engagement for Scope 3 emissions reductions, and adequacy of disclosures regarding public policy engagement indicated growing interest in these areas.

Case Study: NEL ASA

Material Risk/Strategy & Risk Engagement — Engagement Since: 22 April 2020

Industry: **Machinery**

Country: **Norway**

ESG Risk Rating: **28.1**

NEL ASA is a hydrogen technology company delivering optimal solutions to produce, store and distribute hydrogen from renewable energy to industries, energy, and gas companies.

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

Engagement Update
We have held a total of five meetings with NEL, with the latest meeting in May 2024. The company has always been responsive and willing to continuously engage with Morningstar Sustainalytics and learn from investor perspectives. Since the beginning of our engagement, NEL has shown a strong commitment to formalizing and structuring its ESG governance, risk, and performance management. Additionally, the company has acknowledged the need to expand and improve the quality of its ESG disclosure.

Focus Area
At the start of the engagement, Morningstar Sustainalytics discussed topics such as ESG governance and materiality, risk management, and sustainability strategy. As the company's approach to ESG evolved, the focus has recently shifted to product stewardship, eco-design and circularity, and human capital management.

Engagement Outcomes
NEL's ESG journey has been systematic and consistent. Early in the engagement, NEL established a cross-functional ESG management team to coordinate and implement ESG-related initiatives, and also conducted a comprehensive materiality analysis by consulting its main internal and external stakeholder groups. Following the assessment, it published an ESG policy explicitly outlining commitments regarding the strategic direction and objectives of the company's ESG programme. The next phase of NEL's ESG programme involved implementing a robust approach to govern business ethics risks, launching a whistleblowing function, and reporting statistics in line with best practices. Since 2023, NEL significantly accelerated its ESG program in response to the upcoming EU Corporate Sustainability Reporting Directive (CSRD). 2024 Positive Developments include advancements in eco-design, end-of-life initiatives, the implementation of a robust stewardship governance approach, a high level of externally certified management systems, and a heavily invested human capital management programme.

Insights & Outlook
The engagement has showcased NEL's shift from a reactive to a proactive approach to ESG, anticipating and preparing for regulatory changes and evolving stakeholder expectations. The well-established and open dialogue provides Morningstar Sustainalytics with timely opportunities to offer tangible suggestions, supporting the company in further scoping and focusing its ongoing ESG efforts.

Engagement Results

184
meetings

1,565
emails and phone calls exchanged

36
engagements Resolved

176
Milestones achieved

312
Positive Developments

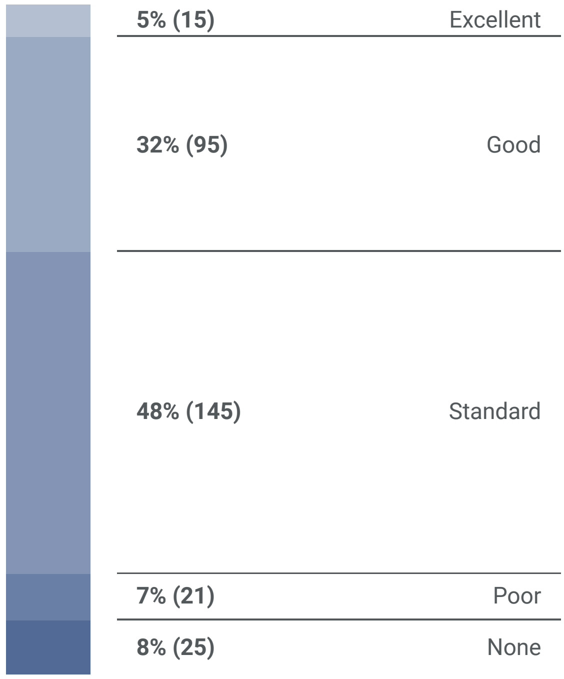
51%
of engagements with Good or Excellent Response

48%
of engagements with Standard Progress

Engagement Progress

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

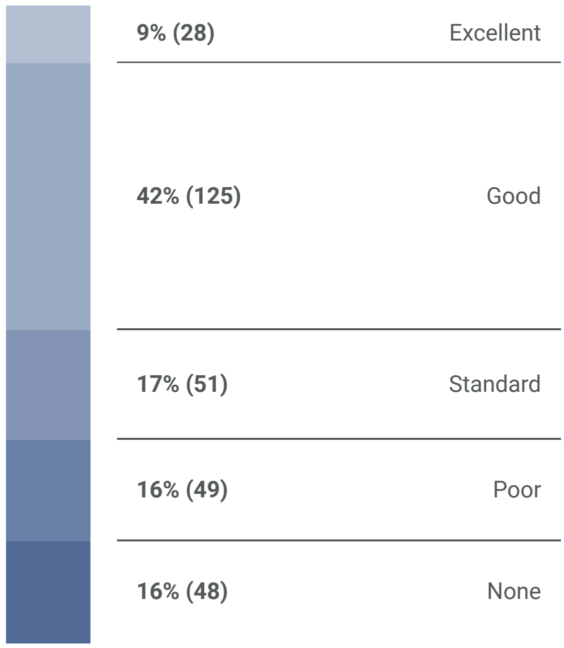
Excellent	The company has adopted a proactive approach and addressed the issues related to the change objective.
Good	The company has taken sufficient measures to address the issues related to the change objective.
Standard	The company has undertaken a number of measures to address the issues related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



Engagement Response

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

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



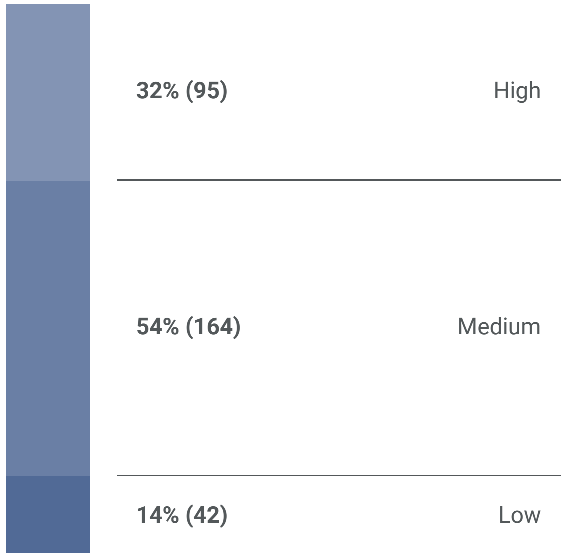
Engagement Performance

Performance describes the combined company Progress and Response.

High Good or Excellent Progress in combination with Good or Excellent Response.

Medium Standard level of Progress and Response.

Low Poor or None Progress in combination with Poor or None Response.



Engagement Performance Assessment Update

To provide a more granular assessment, we have expanded the tiers used to evaluate Engagement Performance. Previously, engagements assessed Performance using three tiers: Low, Medium, and High (as listed above).

Going forward, we will use five tiers to offer a more nuanced understanding. The new tiers are: Low, Below Average, Average, Above Average, and High. This change subdivides the previous Medium category into three distinct categories. In the future, all reporting will use the five-tier system.

The following Progress and Response matrix is used to determine Performance.

RESPONSE

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

Engagement Milestones

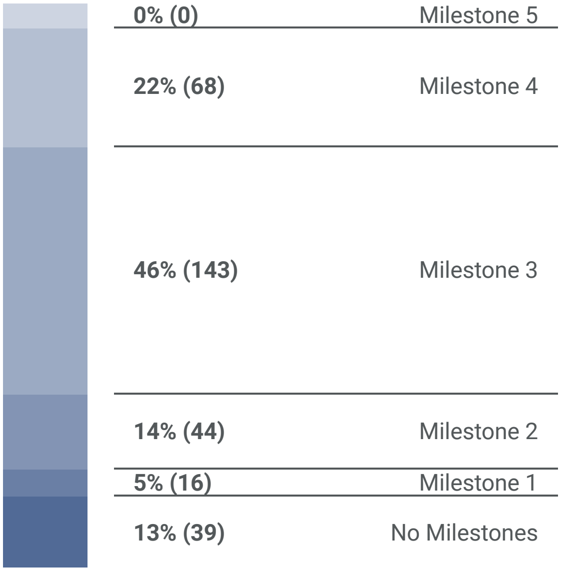
Milestones are our five-stage tracking of progress in achieving the engagement objective.

176 Milestones achieved in 2024

Milestone Framework

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

Engagements by Highest Milestone Achieved



Engagements Resolved

COMPANY	COUNTRY	INDUSTRY	ISSUE	QUARTER
CEZ as	Czech Republic	Utilities	Focus on Occupational Health and Safety	Q4
CJ CheilJedang Corp.	South Korea	Food Products	Focus on Carbon Own Operations	Q4
Fortive Corp.	United States of America	Industrial Conglomerates	Focus on Product Governance	Q4
General Motors Co.	United States of America	Automobiles	Focus on Carbon Products and Services	Q4
K+S AG	Germany	Chemicals	Focus on Carbon and Community Relations	Q4
Nordnet AB	Sweden	Banks	Focus on Product Governance	Q4
Toyota Industries Corp.	Japan	Machinery	Focus on Carbon and E&S Impact of Products and Services	Q4
Winbond Electronics Corp.	Taiwan	Semiconductors	Focus on Resource Use	Q4
Charoen Pokphand Foods Public Co. Ltd.	Thailand	Food Products	Focus on Corporate Governance	Q3
Elders Ltd.	Australia	Retailing	Focus on Risk Assessment and ESG Disclosure	Q3
LONGi Green Energy Technology Co., Ltd.	China	Semiconductors	Focus on Corporate Governance and Human Capital	Q3
CF Industries Holdings, Inc.	United States of America	Chemicals	Focus on Carbon and Emissions, Effluents and Waste	Q2
Chemical Works of Gedeon Richter Plc	Hungary	Pharmaceuticals	Focus on Access to Basic Services	Q2
Conagra Brands, Inc.	United States of America	Food Products	Focus on Product Governance	Q2
Envista Holdings Corp.	United States of America	Healthcare	Focus on Product Governance	Q2

COMPANY	COUNTRY	INDUSTRY	ISSUE	QUARTER
Glanbia Plc	Ireland	Food Products	Focus on Product Governance	Q2
Graco, Inc.	United States of America	Machinery	Focus on Risk Assessment and ESG Disclosure	Q2
Grupo Bimbo SAB de CV	Mexico	Food Products	Focus on Corporate Governance	Q2
HYUNDAI ENGINEERING & CONSTRUCTION CO., LTD.	South Korea	Construction & Engineering	Focus on Risk Assessment and ESG Disclosure	Q2
Hyundai Motor Co., Ltd.	South Korea	Automobiles	Focus on Product Governance	Q2
Mitsubishi Heavy Industries, Ltd.	Japan	Machinery	Focus on Carbon Products and Services	Q2
OGE Energy Corp.	United States of America	Utilities	Focus on Risk Assessment and ESG Disclosure	Q2
Peab AB	Sweden	Construction & Engineering	Focus on Carbon and E&S Impact of Products and Services	Q2
PPL Corp.	United States of America	Utilities	Focus on Carbon and Emissions, Effluents and Waste	Q2
Shin-Etsu Chemical Co., Ltd.	Japan	Chemicals	Focus on Carbon Own Operations	Q2
Sumitomo Chemical Co., Ltd.	Japan	Chemicals	Focus on Carbon Own Operations	Q2
Banco de Credito e Inversiones SA	Chile	Banks	Focus on ESG Integration Financials	Q1
BRF SA	Brazil	Food Products	Focus on E&S Impact of Products and Services and Land Use and Biodiversity	Q1
China Construction Bank Corp.	China	Banks	Focus on ESG Integration Financials	Q1
Hitachi Ltd.	Japan	Industrial Conglomerates	Focus on Product Governance	Q1
Kumho Petrochemical Co., Ltd.	South Korea	Chemicals	Focus on Carbon Own Operations	Q1

COMPANY	COUNTRY	INDUSTRY	ISSUE	QUARTER
Mahindra & Mahindra Ltd.	India	Automobiles	Focus on Risk Assessment and ESG Disclosure	Q1
Metropolitan Bank & Trust Co.	Philippines	Banks	Focus on ESG Integration Financials	Q1
NovoCure Ltd.	United Kingdom	Healthcare	Focus on Risk Assessment and ESG Disclosure	Q1
Stryker Corp.	United States of America	Healthcare	Focus on Product Governance	Q1
Teva Pharmaceutical Industries Ltd.	Israel	Pharmaceuticals	Focus on Business Ethics	Q1

Resolved - CEZ as

ESG Risk Ratings Score

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

26.8

INDUSTRY:
Utilities

COUNTRY:
Czech Republic

ENGAGEMENT FOCUS:
Data Privacy and Cybersecurity
Emissions, Effluents and Waste
Carbon – Own Operations

RATIONALE FOR RESOLVED STATUS:
CEZ as has improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- CEZ has established a robust ESG governance structure with board-level oversight and accountability, linking ESG performance metrics to executive pay.
- CEZ has set 1.5 degree-aligned carbon emissions reduction targets, verified by the Science Based Target Initiative. It published its first TCFD report in 2022 and subsequently disclosed key actions and investments in low-carbon technologies.
- CEZ implemented the Integrated Security Operations Center to oversee cybersecurity and information systems, fully integrating cybersecurity into all processes and management systems, with its nuclear plants certified to ISO 27001.

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

Resolved - General Motors Co.

ESG Risk Ratings Score

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

27.0

INDUSTRY:
Automobiles

COUNTRY:
United States

ENGAGEMENT FOCUS:
Carbon – Products and Services
Product Governance
Human Capital

RATIONALE FOR RESOLVED STATUS:
General Motors Co. has improved their ESG Risk Rating score to below 28.

Positive Development Highlights:

- General Motors (GM) has set science-based targets to reduce Scope 1 and 2 emissions by 72% and Scope 3 emissions by 51% per vehicle kilometer by 2035, compared to a 2018 baseline.
- The company has strengthened its product governance by integrating safety and quality standards into every stage of product development. The company continues to uphold ISO 9001 (Quality Management Systems) and ISO 14001 (Environmental Management Systems) certifications across its global operations and actively participates in developing industry safety standards.
- GM has committed to producing 100% electric light-duty vehicles by 2035.The company has already launched several electric vehicle models and continues to invest heavily in EV technology and infrastructure.

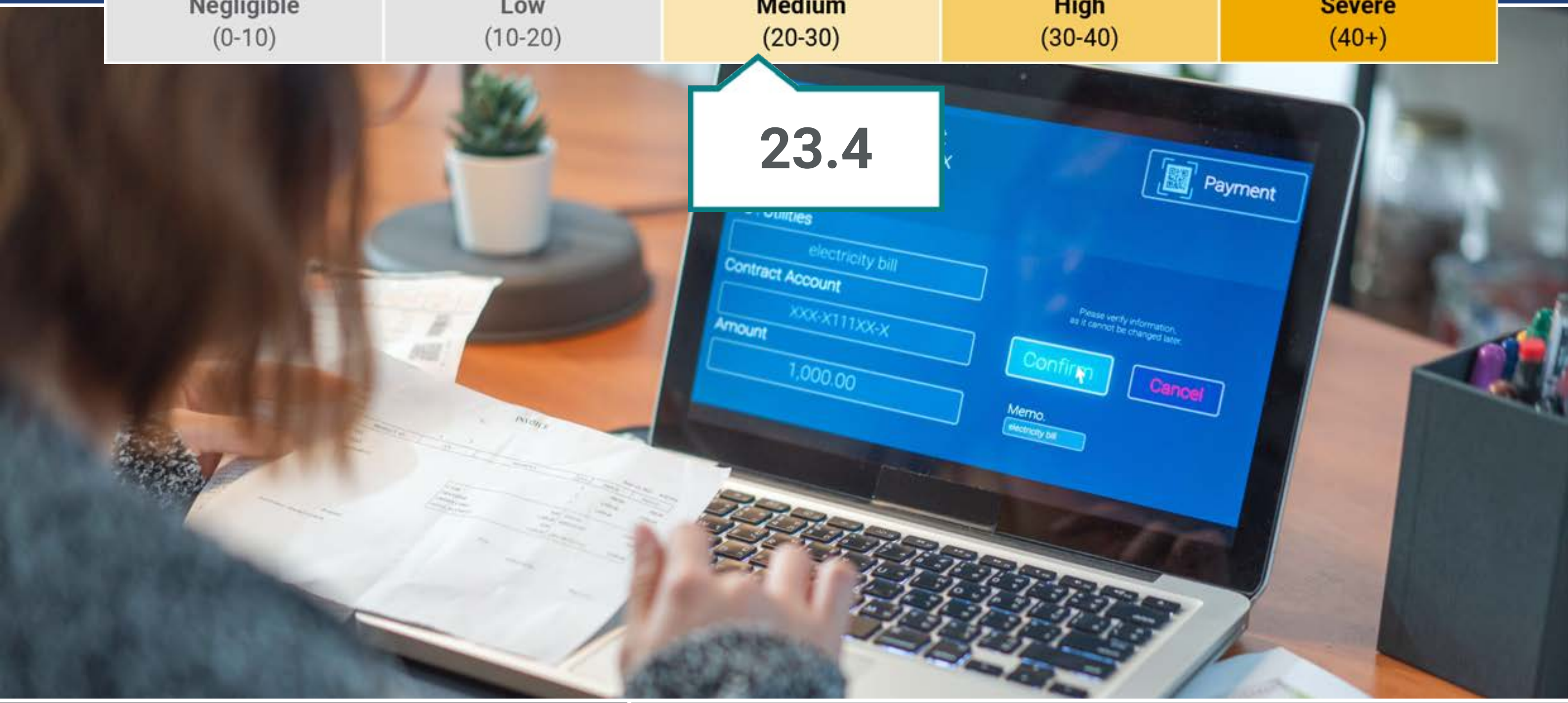
In the latest update of the ESG Risk Rating, GM's Risk Rating score has improved, bringing it into the medium risk category and below our 28-point threshold for engagement.

Resolved - Nordnet AB

ESG Risk Ratings Score

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

23.4



INDUSTRY:
Banks

COUNTRY:
Sweden

ENGAGEMENT FOCUS:
Product Governance
Data Privacy and Cybersecurity
Corporate Governance
Business Ethics

RATIONALE FOR RESOLVED STATUS:
Nordnet AB has improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- Nordnet established a clear governance structure for its sustainability function, with oversight conducted by the Board. It detailed how the sustainability department, the Board, and board-level committees interact on ESG topics.
- The company disclosed risks, governing policies, management systems, initiatives, and performance metrics for all material ESG issues.
- It implemented a customer complaint mechanism, enabling users to report issues and trigger corrective actions. This channel was made accessible in all local languages where Nordnet operates, ensuring ease of use for customers.
- Nordnet published a stand-alone Data Privacy Policy, outlining its commitment to upholding data protection standards, implementing robust security safeguards, addressing data privacy concerns, and ensuring data subjects' rights to access, correct, and erase their personal information. It also disclosed details about its cybersecurity programme.

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

Resolved - Toyota Industries Corp.

ESG Risk Ratings Score

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

28.0

INDUSTRY:
Machinery

COUNTRY:
Japan

ENGAGEMENT FOCUS:
Corporate Governance
Carbon – Products and Services
Human Capital
E&S Impact of Products and Services

RATIONALE FOR RESOLVED STATUS:
Toyota Industries Corp. has improved their ESG Risk Rating score to 28.

Positive Development Highlights:

- Toyota Industries Corp. obtained Science Based Targets certification in 2024. The company commits to reduce absolute Scope 1 and 2 GHG emissions 42% by FY2031 from FY2022 base year and to reduce absolute Scope 3 GHG emissions from use of sold products 30% by FY2031 from FY2019 base year.
- Toyota Industries Corp. appointed one female executive officer in 2022 and one female director in 2024, where there were no women in the Board and executive officers before then.
- In June 2024, the percentage of independent directors on the Board increased from 33% to 43%, exceeding the market standard set by Japan's Corporate Governance Code, which requires at least one-third independent directors for Prime Market-listed companies.
- Toyota Industries Corp. formulated and disclosed the Group Anti-Bribery Policy.

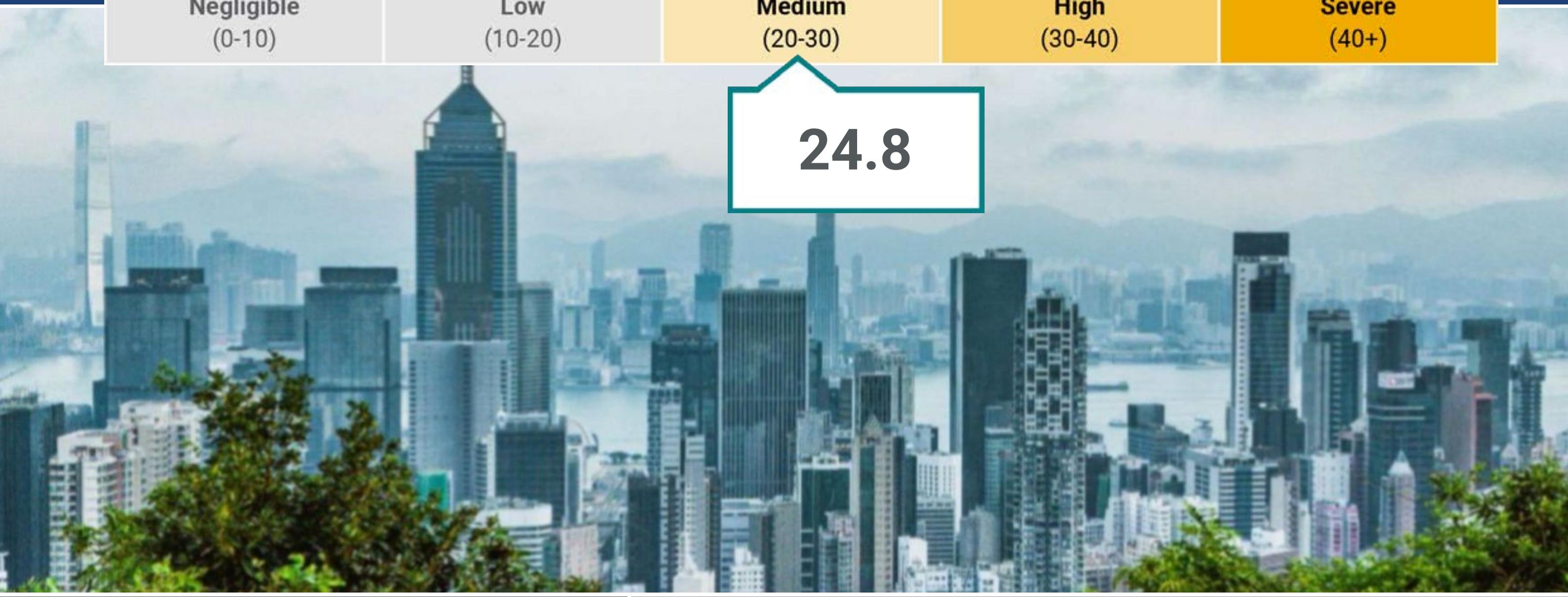
In the latest update of the ESG Risk Rating, Toyota Industries Corporation's management score improved, bringing the company into the medium risk category and to the 28-point threshold for engagement.

Resolved - LONGi Green Energy Technology Co., Ltd.

ESG Risk Ratings Score

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

24.8



INDUSTRY:
Semiconductors

COUNTRY:
China

ENGAGEMENT FOCUS:
Human Capital
Business Ethics
Corporate Governance

RATIONALE FOR RESOLVED STATUS:
LONGi Green Energy Technology Co., Ltd. has improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- LONGi's 2023 Sustainability Report is prepared in accordance with well-recognized international reporting standards (e.g. Global Reporting Initiative) and covers comprehensively all material ESG issues, as well as initiatives in all areas to mitigate the material ESG issues.
- The company has expanded the board-level Strategy Committee to become the Strategy and Sustainable Development Committee, which oversees the full scale of ESG issues within the company.
- It has obtained the ISO 37001 certification for Anti-Bribery Management Systems and the ISO 37301 certification for Compliance Management Systems.
- In June 2023, LONGi introduced its first Human Rights Policy. It has established a screening system for suppliers with environmental as well as social criteria.
- In 2023, LONGi was recognized by the Science Based Target initiative (SBTi) for its emission reduction targets, which align with the 1.5°C target in the Paris Agreement.

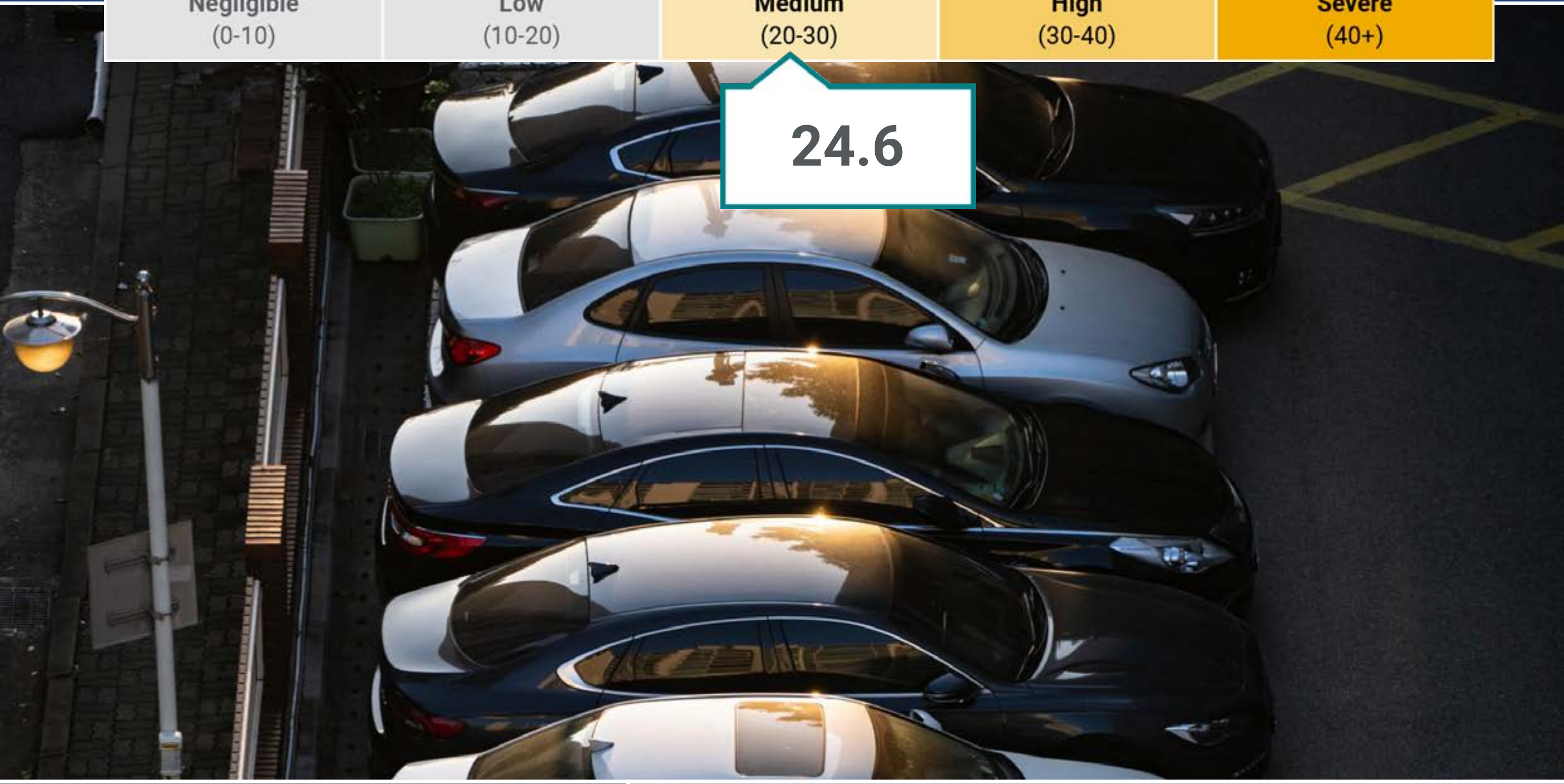
In the latest update of the ESG Risk Rating, LONGi has achieved a significant improvement that brings the score to below 28 and comfortably within the medium risk category.

Resolved - Hyundai Motor Co., Ltd.

ESG Risk Ratings Score

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

24.6



INDUSTRY:
Automobiles

COUNTRY:
South Korea

ENGAGEMENT FOCUS:
Product Governance
Carbon – Products and Services
Human Capital

RATIONALE FOR RESOLVED STATUS:
Hyundai Motor Co., Ltd. (HMC) has improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- HMC has over the years significantly expanded disclosure on product quality and safety performance and now discloses statistics on product recalls and costs associated with these.
- The company has improved the ESG governance with a clear reporting structure to the board level, where the redefined Sustainable Development Committee receives regular performance updates on the seven priority tasks. Additionally, it implemented a third party review of the board efficiency-driven by Korean university experts on corporate governance.
- Investor insight to human capital development has improved with disclosure on employee turnover and strike activities.

In the latest ESG Risk Rating update, Hyundai Motor's score improved, bringing it into the medium risk category and below the 28-point threshold for engagement.

Resolved - China Construction Bank Corp.

ESG Risk Ratings Score

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

26.1

INDUSTRY:
Banks

COUNTRY:
China

ENGAGEMENT FOCUS:
ESG Integration in Credit and Investment
Corporate Governance
Sustainable Finance
Anti – Corruption

RATIONALE FOR RESOLVED STATUS:
China Construction Bank Corp (CCB) has improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- CCB is now disclosing the Anti-Bribery and Anti-Corruption policyand is providing whistleblowers an opportunity to report anonymously with a no retaliations guarantee.
- The company has established a board committee with governance oversight of the ESG area. The board has well-established processes in place to monitor ESG performance.
- CCB has enhanced transparency of ESG criteria used in credit approval and sectoral approach.
- The 2021 TCFD Report has disclosed CCB's approach to providing financing to eight out of the 75 sectors that the bank has a credit policy on. The second TCFD-aligned report covering 2022 provided overview and insight into the climate-related risk that the bank is exposed to and the management practices in place to mitigate these risks, including stress-test and ESG integration in credit.

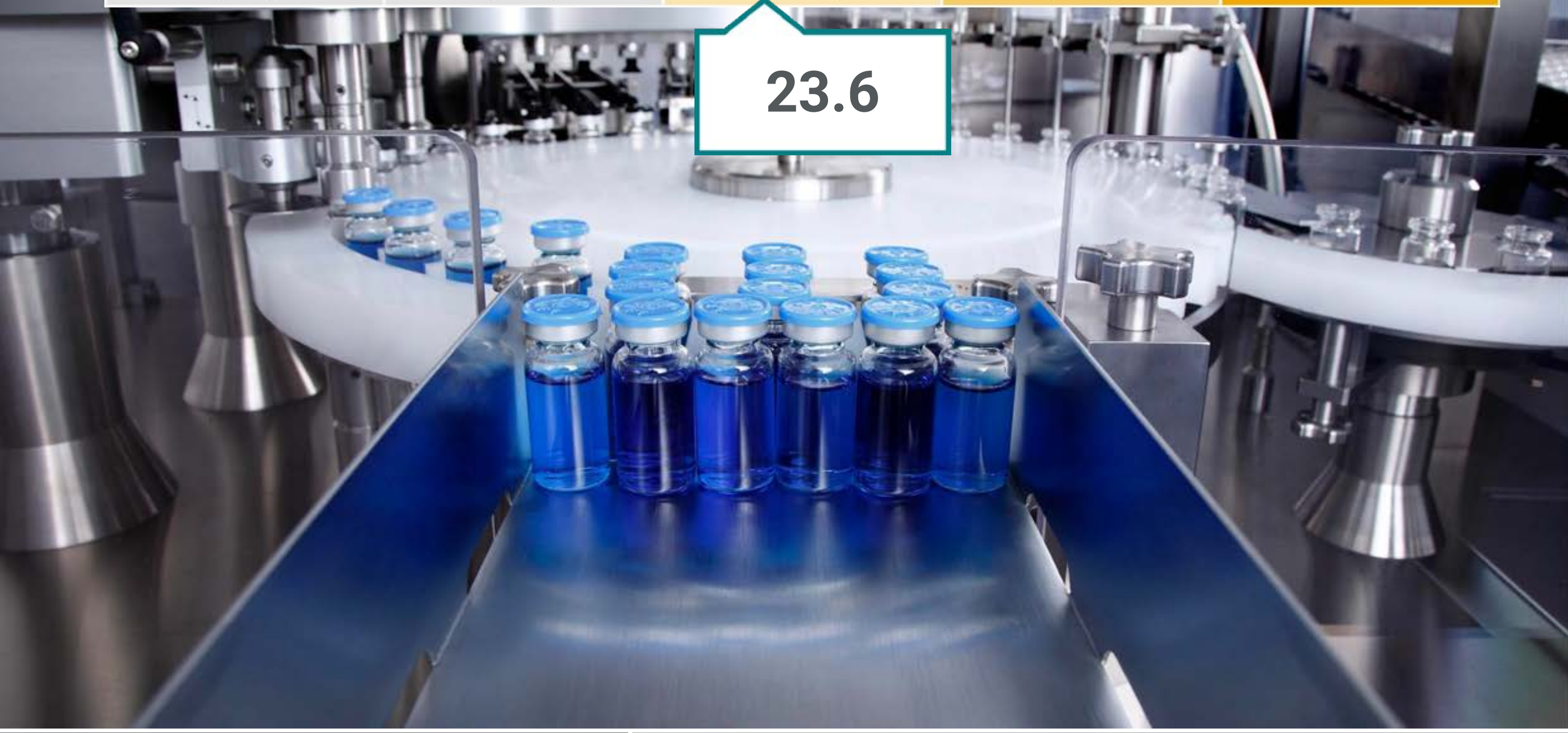
In the latest ESG Risk Rating update, CCB's score improved, bringing the company into the medium risk category and below the 28-point threshold for engagement.

Resolved - Stryker Corp.

ESG Risk Ratings Score

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

23.6



INDUSTRY:
Healthcare

COUNTRY:
United States

ENGAGEMENT FOCUS:
Product Governance
Corporate Governance
Human Capital

RATIONALE FOR RESOLVED STATUS:
Stryker Corp. has improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- Stryker's sustainability strategy is underpinned by several goals and performances are reported on.
- The Governance and Nominating Committee has oversight responsibility of corporate responsibility matters. A Corporate Responsibility Steering Committee reporting to the CEO is also in place to drive sustainability management efforts.
- Stryker released the Animal Welfare Directive, authored by the Managing Director of Global Quality and Operations QRC, in 2023. The document describes Stryker's commitment to the 3 Rs: replace, reduce and refine the use of animal in research. The company also commits to limit the use of animals everywhere possible.

In the latest update of the ESG Risk Rating update, Stryker's score improved, bringing it into the medium risk category and below our 28-point threshold for engagement.

A Perfect Storm: Anti-ESG in the US

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The surge in anti-ESG sentiment across the US, led by state legislatures and corporate resistance, poses a grave-risk not just to sustainability initiatives but to the very survival of businesses.[3] While some factions dismiss ESG as a "woke" distraction, the reality of climate change tells a different story. Companies are already experiencing the mounting financial, operational, and reputational impacts of physical climate hazards from billion-dollar hurricanes to prolonged heatwaves. Businesses must not only acknowledge and mitigate the threats posed by climate change, but actively integrate climate resilience into their corporate strategies.

The Growing Threat of Billion-Dollar Disasters

The past decade has seen a relentless rise in global temperatures, culminating in 2023 as the hottest year on record and 2024 on track to be hotter. With 2023 global averages climbing 1.4°C above pre-industrial levels (driven in part by the El Niño phenomenon) the world is entering a dangerous new climate regime.[4] For US businesses, this will continue to translate into rising cooling costs and energy demands, operational disruptions, and stress on aging infrastructure.

A series of devastating extreme weather events over the last two years alone have caused billions in damage across the US.[5,6,7] In late 2024, Hurricane Helene brought devastating damage to Florida and the US southeast as the strongest landfall and highest storm surge on record in Florida's Big Bend. Helene also produced copious rain, causing unexpected catastrophic flooding in the southern Appalachians as well as inland damaging winds that spawned several destructive tornadoes. Also in 2024, the US southwest was ravaged by heatwaves, with Phoenix, Arizona enduring over 100 days of temperatures above 100°F (37°C).[8,9] These extreme events present significant operational challenges, damage physical infrastructure, disrupt supply chains, and pose direct health risks to employees—all of which affect business continuity.

The frequency of extreme weather events is escalating, and so are the associated costs. According to the National Oceanic and Atmospheric Administration (NOAA), 2023 witnessed 23 separate billion-dollar climate disasters in the US, ranging from hurricanes to wildfires.[10,11] Insurers are beginning to retreat from high-risk areas like California and Florida, making it more difficult and expensive for businesses to protect their assets.[12,13]

Anti-ESG Legislation: A Self-Inflicted Wound

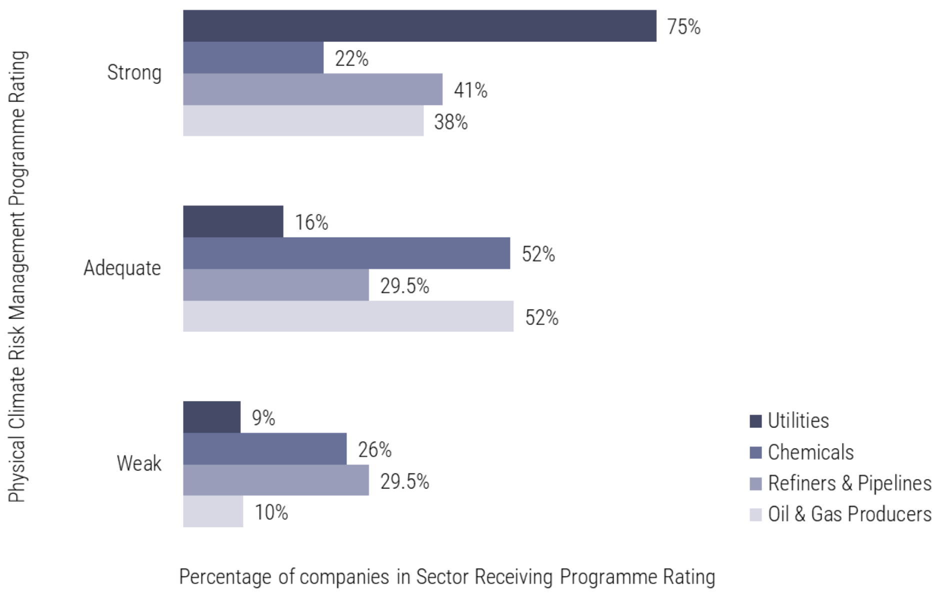
Amid these growing climate-related hazards, US anti-ESG legislation is gaining momentum. As of mid-June 2024, a total of 26 states, including Florida, had proposed anti-ESG legislation or resolutions to limit or prohibit the incorporation of ESG criteria in state investment decisions or the selection of government contractors.[14] These proposals often arise from concerns that ESG criteria may prioritize social or environmental goals over financial returns, potentially impacting economic performance and shareholder value. While these laws might appeal to some ideological factions, they fail to address the reality that climate resilience is a fiduciary responsibility.

In contrast to these state proposals, federal plans have moved in a different direction through 2024. For instance, the US Environmental Protection Agency (EPA)'s 2024-2027 Climate Adaptation Action Plan emphasizes critical strategies such as fostering a climate-ready workforce, conducting facility resilience assessments, and developing climate-resilient supply chains.[15] This includes integrating climate considerations into federal funding opportunities and rulemaking processes to ensure effective responses to climate-related risks, such as extreme weather events and rising temperatures. As a result, companies must comply with increasing climate-related regulations or risk penalties, operational disruptions, and loss of access to federal contracts and funding. Companies caught between state-level restrictions and federal resilience mandates must carefully navigate these contradictory pressures.

The State of US Preparedness

The level of a company's climate preparedness can vary widely across industries. We analyzed some of the highest emitting sectors in the US (Utilities, Chemicals, Refiners and Pipelines, and O&G Producers) and determined that US Utilities and O&G Producer companies generally perform strongest among the sectors analyzed in terms of their physical climate risk management programmes. Other high-emitting sectors, such as Chemicals and Refiners and Pipelines, are lagging. Our analysis revealed that over 25% of Refiners and Pipelines as well as Chemicals companies were identified as having a weak physical climate risk management programme. See *Figure 2*.

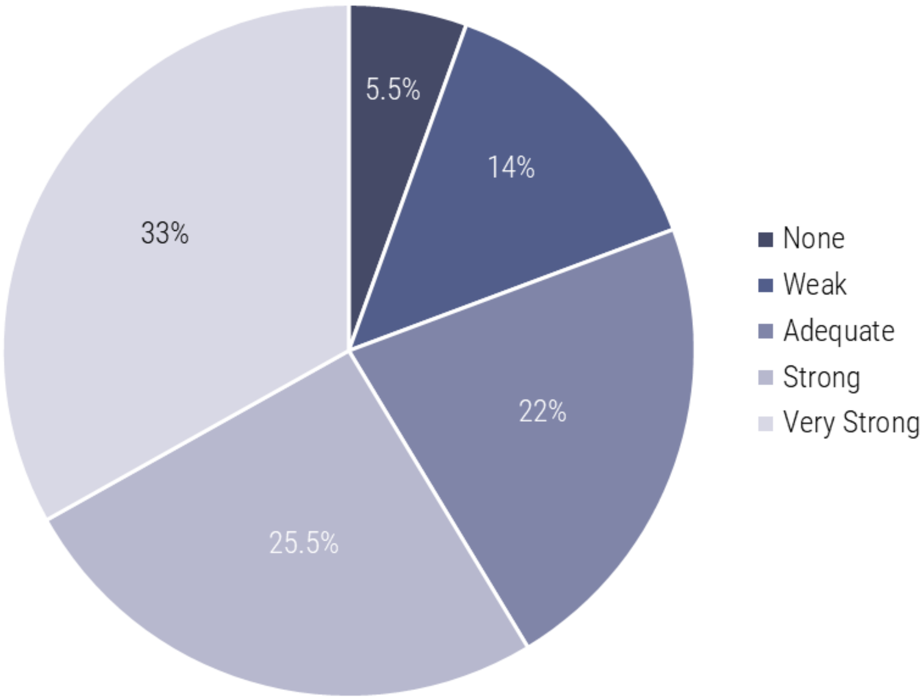
Figure 2. Sectoral Assessment of US Company Physical Climate Risk Management Programme Strength



For informational purposes only. Data analyzed for publicly traded companies assessed using the most recent Morningstar Sustainalytics Risk Rating as of September 29, 2024. Analysis includes 44 US Utility companies, 27 US Chemical companies, 17 US Refiner and Pipeline companies, and 21 US O&G Producer companies. The Physical Climate Risk Management indicator assesses a company's recognition of the physical risks related to climate change, as well as whether managerial or executive responsibility are assigned for this issue. The assessment also focuses on whether the company provides detailed reporting on physical climate change risk drivers relevant to its operations (e.g., changes in precipitation, cyclones, etc.). Disclosure of initiatives to prepare for withstanding extreme weather events is also taken into consideration, but the highest weighting is allocated to companies that integrate physical climate-related risks into their regular risk assessments and business strategy.

Emergency response programmes are another critical area where companies cannot afford to fall short. Once companies understand the physical climate hazards their operations are exposed to, emergency response and preparedness programmes should be developed or enhanced to address these hazards. While almost 60% of US companies report robust emergency response programmes, a worrying 19.5% disclose a weak or no such programme at all. See *Figure 3.*

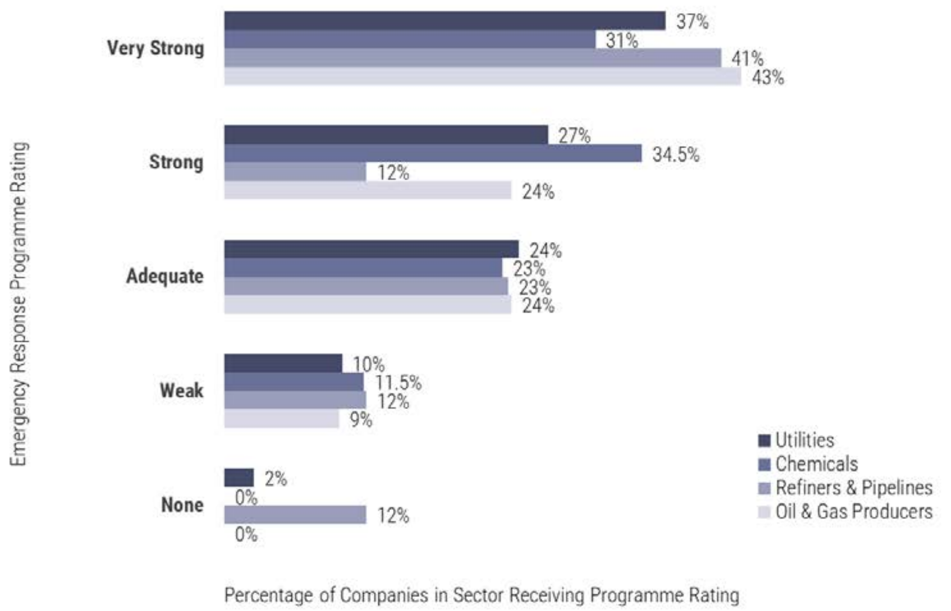
Figure 3. Assessment of US Company Emergency Response Programme Strength



For informational purposes only. Data is for 145 publicly traded US headquartered companies' most recent Sustainalytics Risk Rating assessments as of September 30, 2024. The Emergency Response Programme indicator assesses a company's ability to respond to and mitigate risks relating to the occurrence of emergencies. The identification of potential risks requiring emergency protocols (including through a formal risk assessment process) is weighted most heavily under this indicator, along with the presence of regional or site-specific response teams. Other considerations include the presence of regular emergency training, communication protocols, and company-wide emergency guidelines.

Data analyzed from Morningstar Sustainalytics Risk Ratings demonstrates that US O&G Producers perform the strongest among the sectors analyzed, with ~90% of O&G Producers having at least an adequate emergency response programme. Furthermore, 67% of O&G Producers have a strong or very strong rated emergency response programme. All Chemicals companies have disclosed an emergency response programme, with ~88% having at least an adequate programme in place. 88% of US Utilities companies also have at least an adequate programme, but ~12% have a weak or no emergency response programme in place. Disappointingly, our research shows that almost 25% of Refiners and Pipelines companies have a weak or no emergency response programme disclosed. See *Figure 4*.

Figure 4. Sectoral Assessment of US Company Emergency Response Programme Strength



For informational purposes only. Data analyzed for publicly traded companies assessed using the most recent Sustainalytics Risk Rating as of October 19, 2024. Analysis includes 41 US Utilities companies, 26 US Chemical companies, 17 US Refiner and Pipeline companies, and 21 US O&G Producer companies. The Emergency Response Programme indicator assesses a company's ability to respond to and mitigate risks relating to the occurrence of emergencies. The identification of potential risks requiring emergency protocols (including through a formal risk assessment process) is weighted most heavily under this indicator, along with the presence of regional or site-specific response teams. Other considerations include the presence of regular emergency training, communication protocols, and company-wide emergency guidelines.

The Business Case for Climate Action

Anti-ESG sentiments may grab headlines, but they ignore the fundamental truth that climate risks are financial risks. Businesses that fail to integrate climate resilience into their strategies are not just risking their operations—they are risking their viability. Investors can take stewardship action to support companies who acknowledge climate change and the associated physical risks and impacts with three key recommendations:

- **Adopt Resilience Frameworks**
  Businesses must embed climate risk management into their governance and operational strategies. Using guidance, like that published by the Task Force for Climate Related Financial Disclosures (TCFD), companies can align their climate risk management practices with investor expectations while also preparing for regulatory demands.

- **Conduct Robust Scenario Analyses**
  Incorporating low-, mid- and high-degree warming scenarios into climate scenario analysis activities allow companies to anticipate the full spectrum of risks and quantitative impacts (such as asset damage or productive capacity loss) specific to the locations of their operations and assets. Scenario planning is not just about surviving worst-case scenarios—it is about thriving despite them—so companies should be reminded to also determine opportunities under each scenario.

- **Disclose Transparently**
  Transparent reporting builds trust among stakeholders. Proactive companies are setting the standard by sharing quantitative data on climate risks and mitigation efforts, whereas others are performing the work internally or not at all. With the tools and data resources available to investors today, companies must improve their disclosure practices to demonstrate their preparedness and resilience against physical climate hazards specific to their operations.

The era of denial is over-climate risks are real, and they are escalating. Rising temperatures, extreme weather, and shifting industry practices have made it clear that climate change is not just an environmental issue; it is a core business issue with profound financial and legal implications. While some US stakeholders continue to push back against ESG principles, the costs of inaction far outweigh the perceived benefits. Companies must act now to build climate resilience into their operations, comply with evolving regulations, and prepare for the unavoidable realities of a changing planet.

Integrating climate risks into governance and strategy is not just good business—it is a fundamental aspect of fiduciary duty. Companies owe it to their shareholders to address material risks, and failure to act responsibly could lead to significant financial repercussions and erosion of investor confidence. The question is no longer if businesses will be impacted, but whether they will adapt in time to survive, or even thrive.

Engagement Techniques: Appreciative Enquiry

Joe Attwood
Associate Director, Stewardship
Global Standards/Incidents
Engagement
Morningstar Sustainalytics

Successful engagement is built on trust. For companies to meaningfully respond to our advances, to embed our recommendations and then create lasting strategies, they need to recognize the value in what we are bringing to them. It should not be a 'one way street' of the company providing responses to our queries, this being the conventional approach. Building trust requires consistency and honesty and needs to show mutual respect. To achieve this, we adopt a palette of techniques with one powerful approach being the use of *Appreciative Enquiry (AE).*

Appreciative Enquiry is identified as a transformative assessment approach focusing on identifying and leveraging an organization's strengths and successes. It was developed by David Cooperrider and Suresh Srivastva during the 1980s at Case Western Reserve University.

Unlike traditional problem-solving methods that concentrate on identifying and fixing issues, *AE* seeks to uncover what works well and build upon it unlocking positive change that may have become 'trapped' in less positive actions. This strengths-based approach has been shown to lead to profound changes in organizational culture, employee engagement, and overall performance.[16]

Facilitating a New Conversation

Appreciative Enquiry is a collaborative and constructive process. The very nature of the collaborative approach makes it an ideal tool for use in engagement, from one-on-one discussions to round tables and webinars. By talking about the strengths of the company and repeating these strengths across the scope of the engagement, positive attributes and actions are cemented. This is especially relevant when we want to create a dialogue around controversial or sensitive topics that may be challenging for the company to discuss openly. *Appreciative Enquiry* is based on the premise that organizations grow in the direction of what they consistently ask questions about and focus on. Through our engagement we can influence both the tone and content of those questions by facilitating a new dialogue. Importantly *AE* fosters a culture of continuous improvement and innovation by emphasizing positive potential and possibilities.

Delivering Appreciative Enquiry

Adopting appreciative enquiry is not technically demanding but it does help to understand and deliver using the 5D's framework below:

- Define: Establish the focus of the enquiry. This involves identifying the topic or area that the company should want to improve—this may be the delivery of quality improvement processes, improved health and safety, or an awareness of what is strong 'culture'. This is what we want the company to achieve through the engagement.
- Discover: Gather stories and examples of when the company was at its best. This stage involves engaging stakeholders to share their experiences and insights and sits very comfortably into the engagement approach. This is a key part of the trust building, where we seek the company's view on what it thinks it does best and highlighting to them where we have identified its strengths. This does not necessarily have to be linked to the controversy but can be used to show that the company can deliver good practice.
- Dream: Envision the future by imagining what the company could achieve if it builds on its strengths. This is the 'new' more resilient company, one that for example understands how to deliver effective and meaningful human rights commitments.
- Design: Develop concrete plans and strategies to achieve the envisioned future. This involves co-creating actionable steps and initiatives and is the strategy that we want the company to adopt to get to the 'dream'. This is where we can employ our palette of engagement techniques—best practice, peer recognition, sector intelligence. We can co-create the strategy.

- Destiny/Deliver: Implement the plans and monitor progress. This stage focuses on sustaining the momentum and ensuring that the positive changes are embedded in the organizational culture. Culture change is one of the more challenging aspects of our engagements but in many instances is necessary to ensure sustainability and build resilience.

Conclusion

Our engagement outcomes seek to build lasting positive change in companies, to build their resilience confirming them as good corporate citizens. The logic-led approach we adopt in creating our outcome strategies using *theory of change* lends itself effectively to delivering a range of engagement techniques that probe the company at every level and offers recommendations to strengthen performance.[17] *Appreciative Enquiry* is a tool that takes as its basis the strengths of the company and uses those strengths to develop a strategy to deliver change. The collaborative nature of the framework is an idea for developing robust engagement opportunities and allows us to build the necessary trust with the company.

Endnotes

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