Zürcher Kantonalbank

Quarterly Engagement Report Q2 2023

Global & Thematic Engagement

Our Engagement Activities

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

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

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

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

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

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

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

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

Your contacts

Enquiries should be emailed to:

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

Contacts for investment stewardship at Zürcher Kantonalbank:

Rocchino Contangelo
Asset Management
Phone +41 44 292 22 95

Martin Jordi
Legal & Compliance
Phone +41 58 344 47 88

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Quarterly Engagement Report Q2 2023

Content

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

Note that this report coverage period, from March to June 2023 (four months instead of three), is a result of changes to the reporting cycle. Our Quarterly Engagement Report delivery schedule has been moved to the third Monday in the month following every calendar quarter (i.e., the third Monday in April, July, October and January). The next Quarterly Engagement Report delivery is scheduled for the third Monday of October and will follow regular three-month intervals.

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Global Standards Engagement

Executive Summary

Between March 2023 and June 2023, Global Standards Engagement initiated engagement with one company and archived two cases, due to the lack of sufficient engagement progress, in combination with either the absence of new incidents or a lack of sources confirming ongoing company involvement in the controversies.

As part of Sustainalytics' ongoing Global Standards Engagement process with Vale, an interactive webinar was held in March 2023, attended by 21 investor clients. The webinar focused on the status and progress with the 2019 Brumadinho tailings dam collapse reparations process.

Clients expressed their expectations that substantial work still needs to be undertaken to mitigate the environmental damage, support livelihoods restoration and re-build community trust. Vale's Directors of Reparation and Territorial Development gave a comprehensive overview of how 58% of the 10-year Reparation Agreement (covering social, environmental, economic and infrastructure development) has been implemented and that dam safety initiatives are on track to achieve 100% compliance with the "Global Industry Standard for Tailings Management" by the end of 2023. In addition, water and sediment quality of the affected rivers have returned to pre-incident levels.

This Sustainalytics' webinar enabled significant progress towards the engagement objectives, by ensuring sharing of a broad scope of comprehensive data in a single engagement event. We aim to provide investor clients with more opportunities to join sessions such as these.

In addition, in May, we participated in the OECD Global Anti-Corruption & Integrity Forum in Paris (see more details below) and in June one of our engagement managers participated in a panel discussion on "How to address Human Rights Principles within an Investment Portfolio", at the Anthos Fund & Asset Management annual Sustainable Stewardship Summit in Amsterdam. The discussion focused on the role of engagement in promoting human rights within investment practices.

Also, in June we published an article regarding engagement with businesses operating in conflict-affected or high-risk areas, particularly those involved in controversial activities related to potential human rights violations. The full article 'Rising Conflict, Responsible Business: What Companies and Investors Need to Know About Operating in High-Risk Areas' can be found **here.**

New Engage Case

- **Blackstone, Inc.**, has been linked to child labour. According to the US Department of Labor's Wage and Hour Division investigation, Packers Holdings LLC, a cleaning and sanitation company, acquired by Blackstone in 2018, had employed at least 31 children between 13 and 17 years of age in hazardous occupations during overnight shifts.

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

2023 OECD Global Anti-Corruption & Integrity Forum

The Organisation for Economic Co-operation and Development (OECD) held its 11th Global Anti-Corruption & Integrity Forum in Paris from 24-25 May 2023. Morningstar Sustainalytics' Nigel Rossouw, Associate Director of Stewardship Services, attended the forum with an aim to purposefully incorporate the multilateralism provided by the OECD into the work the Global Standards Engagement team does on business ethics controversies. The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct is a key document that the GSE team uses during engagement to hold companies accountable and drive improved performance towards international best practice. The OECD has updated those guidelines and launched its 2023 version.

The theme of the OECD Forum was "Action to Impact: Working together to strengthen integrity and fight corruption." The focus was on the public sector and business ethics and responsible business conduct, and there was a special spotlight on corruption and its impact on human rights.

Sessions in which Morningstar Sustainalytics actively participated included:

- Strengthening the partnership between the public and private sectors to combat corruption;
- Data analytics for assessing fraud and corruption;
- Corruption in critical mineral supply chains;
- Incentivising integrity in infrastructure;
- Due diligence in anticorruption and human rights;
- Developing effective whistleblowing systems.

Speakers at the forum, such as the OECD Secretary-General, the President of Costa Rica, and the US Department of State's Global Coordinator for Anti-Corruption, emphasized that governments have a responsibility to protect internationally recognized fundamental rights and to improve the functioning of markets through good governance and fair regulations. Other speakers, such as the Chair of Transparency International, and the President of Microsoft, spoke about the need for companies to adopt responsible business practices and emphasized that transparency is a precondition for monitoring and scrutiny.

Morningstar Sustainalytics' participation at the OECD Forum provided the Global Standards Engagement team an opportunity to verify that its internal engagement framework effectively covers all the measures for business integrity to combat corruption, which includes:

1. Policies prohibiting corruption;
2. Code of conduct;
3. Ethics and compliance programmes;
4. Oversight and leadership by the board of directors;
5. Clear lines of responsibility at the executive team level;
6. Business principles for ethics and integrity;
7. Financial, accounting and procurement controls;
8. Compliance officers with direct reporting lines to the board of directors;
9. Information-technology safeguards;
10. Monitoring and auditing.

Some key take-aways for Morningstar Sustainalytics to incorporate in its engagement include:

- Recognizing that corruption is a global issue and not something that can be effectively addressed by companies alone; there is a need for business to participate in collective action and multi-stakeholder anti-bribery and corruption initiatives.
- All companies require anti-bribery and corruption intervention, a cultural transformation and a network approach, because corruption exists in social networks and the entire network needs to be the recipient of anti-bribery and corruption measures.
  The "tone from the top" is critical for companies in order to effectively mitigate risks related to fraud, corruption and unethical behaviour.

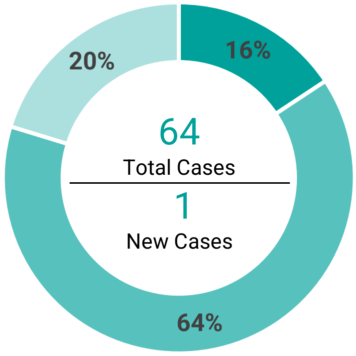
We note that the approach that we have adopted to engagement not only conforms to the expectations set by the OECD in developing mitigation strategies to address corruption, but it actually goes one step further by recommending that companies implement preventative measures to effect systemic cultural change.

Quarterly Statistics March 2023 – June 2023

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

Cases by Theme

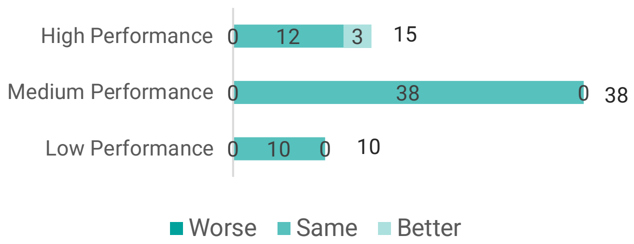
Environmental	4
Social	42
Governance	18



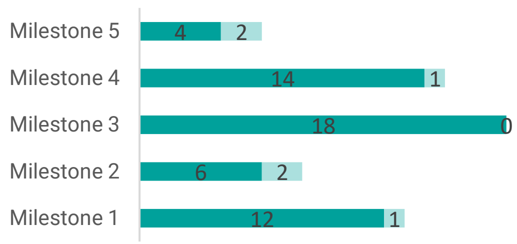
Case Status Overview

	Engage	Associated	Disengage	Resolved	Archived
New Status in this Quarter	1	1	0	0	2
Total	64	9	0		

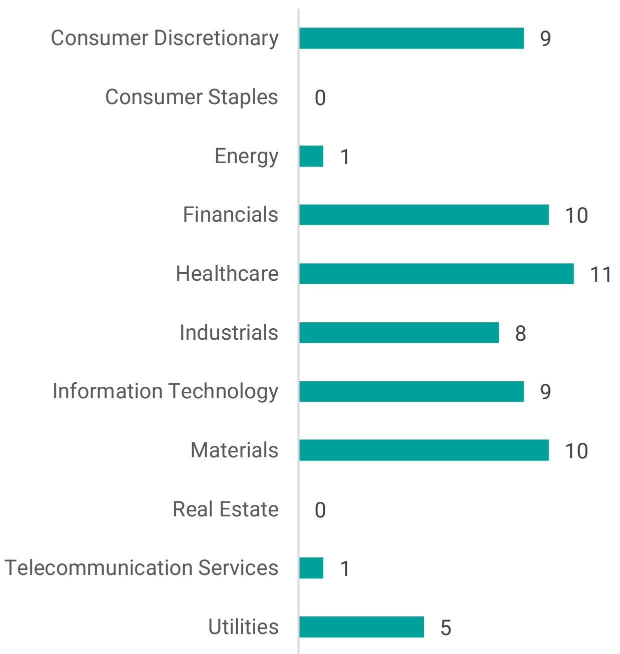
Engagement Performance Overview[2]



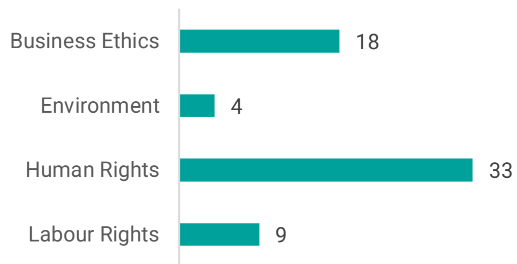
Milestone Overview



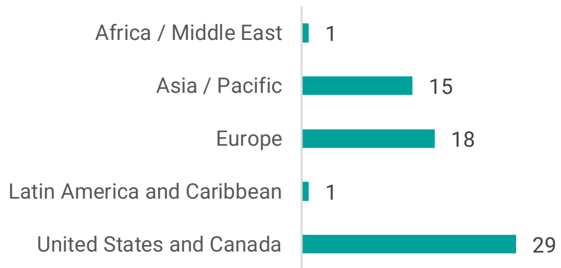
Cases by Sector



Cases by Norm



Cases by Headquarter

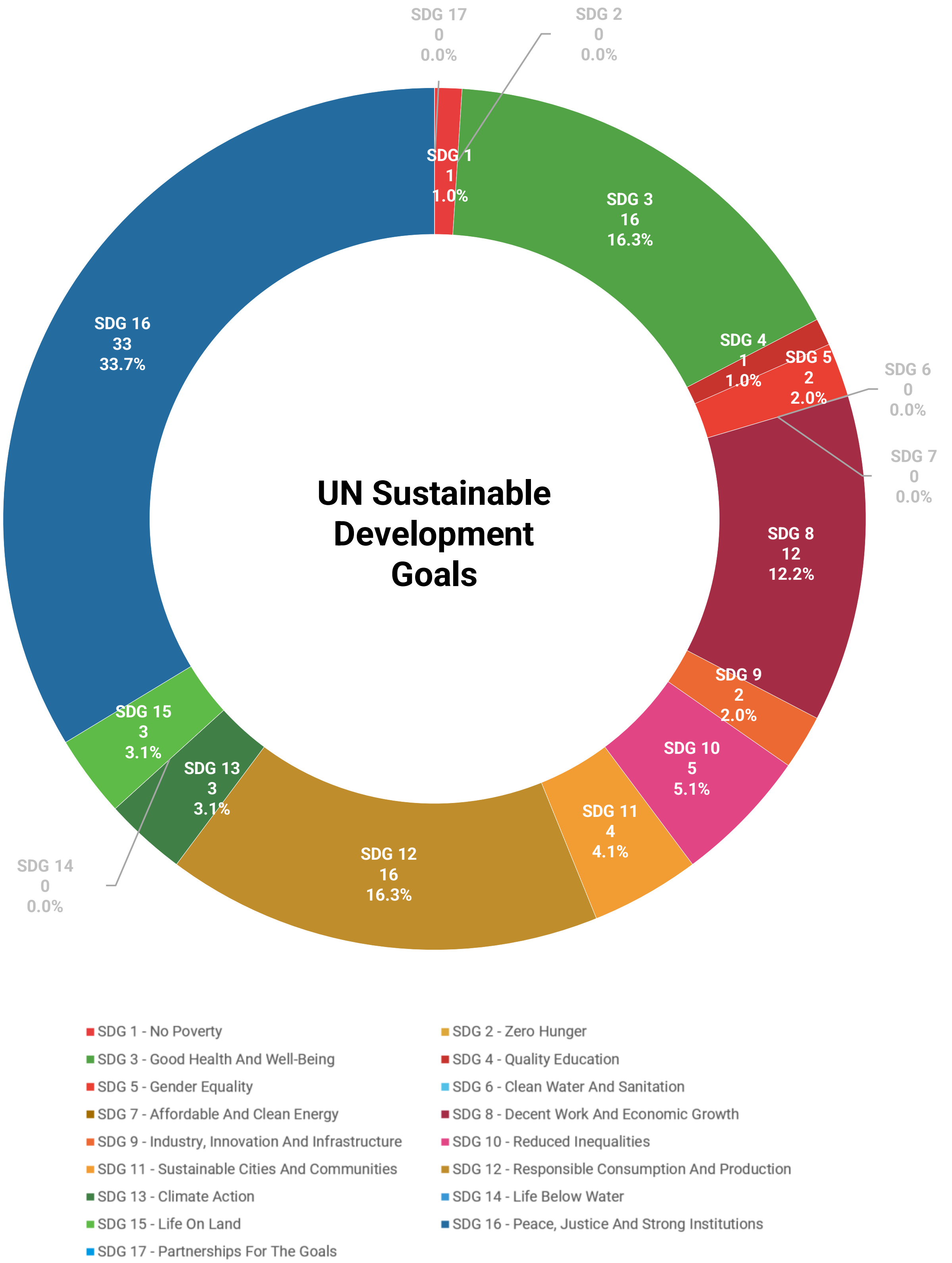


[1] The quarterly statistics is mapped according to Swisscanto's portfolio focus list which is updated on quarterly basis. Therefore, the statistics is refreshed every quarter.

[2] One new case was opened at the end of Q2 2023. Within the next quarter, the performance and milestone assessment will be available and included in the statistics.

UN Sustainable Development Goals Attribution

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



Companies Mentioned in this Engagement Brief

Engage Associated Disengage Resolved Archived

Engage Cases

Blackstone, Inc.

Background
PACKERS HOLDINGS LLC (Packers), a cleaning and sanitation company that does business as Packers Sanitation Services, Inc. (PSSI), acquired by BLACKSTONE, Inc. (Blackstone) in 2018, has been accused of child labour in US. In August 2022, the US Department of Labor's (DOL) Wage and Hour Division launched an investigation into potential child labour violations by PSSI. The investigation revealed that the company had employed at least 31 children between 13 and 17 years of age in hazardous occupations during overnight shifts. In addition, in February 2023, US Department of Labor announced that the federal investigation had found that PSSI had employed at least 102 children in hazardous occupations and working overnight shifts at 13 meat processing facilities across eight US states. PSSI reached an agreement with the US Department of Labor to implement remedial measures to help prevent the hiring of unauthorized minor workers.

Engagement Objective and Activity
The focus of the engagement with Packers, is to monitor progress with the implementation of the company's remediation programme and compliance processes to eliminate child labour. In addition, the hiring practices and due diligence processes will be discussed with the company. The engagement with Blackstone will focus on the governance arrangements to enable effective oversight of Packer's compliance and risk management.

Next Step
The initial engagement with Blackstone and Packers will focus on encouraging the companies to conduct human rights due diligence and implement programmes to eliminate child labour.

STATUS

Engage

ISSUE(S)

- Child Labour

ENGAGEMENT MANAGER

Nigel Rossouw
Associate Director
Amsterdam

CONTRIBUTION TO SDGs

8
Decent Work & Economic Growth

Company Dialogue & Progress Summary

Legend

Country

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

Year

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

Response

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

None	Poor	Standard	Good	Excellent

Progress

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

None	Poor	Standard	Good	Excellent

Performance

The indicator describes the combined company progress and response performance.

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

Medium Performance - standard level of Response and Progress.

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

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

Low Performance Tracker (Tracker)

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

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

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

Milestones

The indicator describes the milestone achieved from 1 to 5.

3/5 Achieve

Engage

AFRICA / MIDDLE EAST

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

Milestones
Response
Progress
Performance Same

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

ASIA / PACIFIC

AMP Ltd. (Australia, 2019)
▶ Consumer Interests - Business Ethics

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Better

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

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

Milestones
Response
Progress
Performance Same

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

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

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

Milestones
Response
Progress
Performance Better

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Better

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Vedanta Ltd. (India, 2019)
▶ Community Relations

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Better
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same
Tracker

EUROPE

Barclays PLC (United Kingdom, 2019)
▶ Business Ethics

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

Credit Suisse Group AG (Switzerland, 2019)
▶ Business Ethics

Change Objective: Credit Suisse should ensure that it reviews all of its operations with regard to anti-money laundering. Credit Suisse should implement robust policies, programs, compliance processes and risk management systems that prevent anti-money laundering (AML) and corruption throughout the entire company and where appropriate, disclose these policies.

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Deutsche Bank AG (Russia, 2019)
▶ Money Laundering

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

Milestones
Response
Progress
Performance: Same
Tracker

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

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

Associated company: **EDP Renováveis SA*

Milestones
Response
Progress
Performance: Same

Glencore Plc (Switzerland, 2022)
▶ Bribery and Corruption

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

Milestones
Response
Progress
Performance: Same

Glencore Plc (Bolivia, 2021)
▶ Child Labour

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

Milestones
Response
Progress
Performance: Same

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

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

Milestones
Response
Progress
Performance: Same

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

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

Milestones
Response
Progress
Performance: Same

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

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

Milestones
Response
Progress
Performance: Same

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

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

Milestones
Response
Progress
Performance: Same

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

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

Milestones
Response
Progress
Performance: Same

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

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

Associated company: **Siemens Energy AG*

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Teleperformance SA (France, 2021)
▸ Freedom of Association

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

Milestones
Response
Progress
Performance Better

LATIN AMERICA AND CARRIBEAN

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

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

Milestones
Response
Progress
Performance Better

UNITED STATES AND CANADA

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance New

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

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

Milestones
Response
Progress
Performance New

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

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

Milestones
Response
Progress
Performance Worse

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Johnson & Johnson (United States, 2018)
▶ Quality and Safety - Human Rights

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Better
Tracker

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

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Better

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

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

Milestones
Response
Progress
Performance Better
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same
Tracker

Stryker Corp. (United States, 2019)
▶ Quality and Safety - Human Rights

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same
Tracker

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

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

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

Milestones
Response
Progress
Performance Same

Archived

ASIA / PACIFIC

Li Ning Co., Ltd. (China, 2022)

Sustainalytics has decided to archive the case due to lack of sources confirming that the company utilized suppliers that are involved in the use of forced labour.

ISSUE
- Forced Labour - Supply Chain

ZTE Corp. (Iran, 2019)

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

ISSUE
- Involvement With Entities Violating Human Rights

Global Standards Engagement Overview

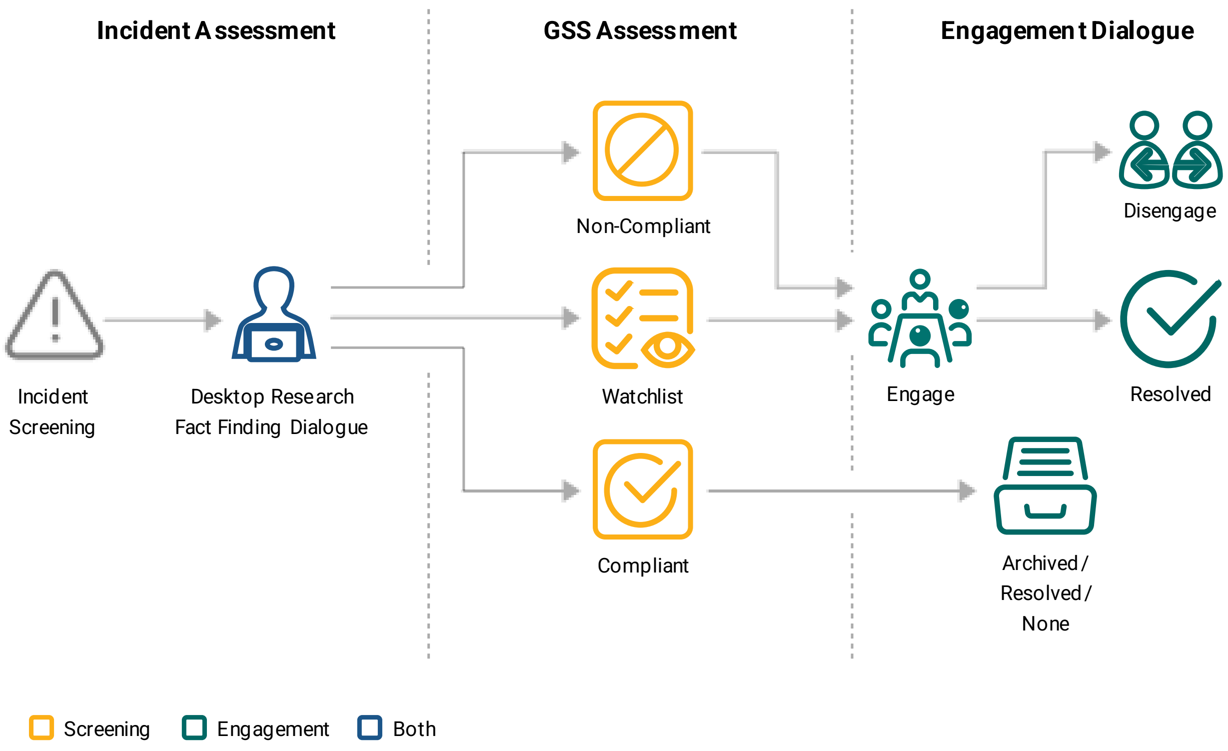
Global Standards Engagement is an incident-driven engagement with focus on companies that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals. The engagement is based on a thorough and continuous assessment of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

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

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

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

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



Global Standards Engagement Status

Evaluate

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

Engage

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

Associated

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

Disengage

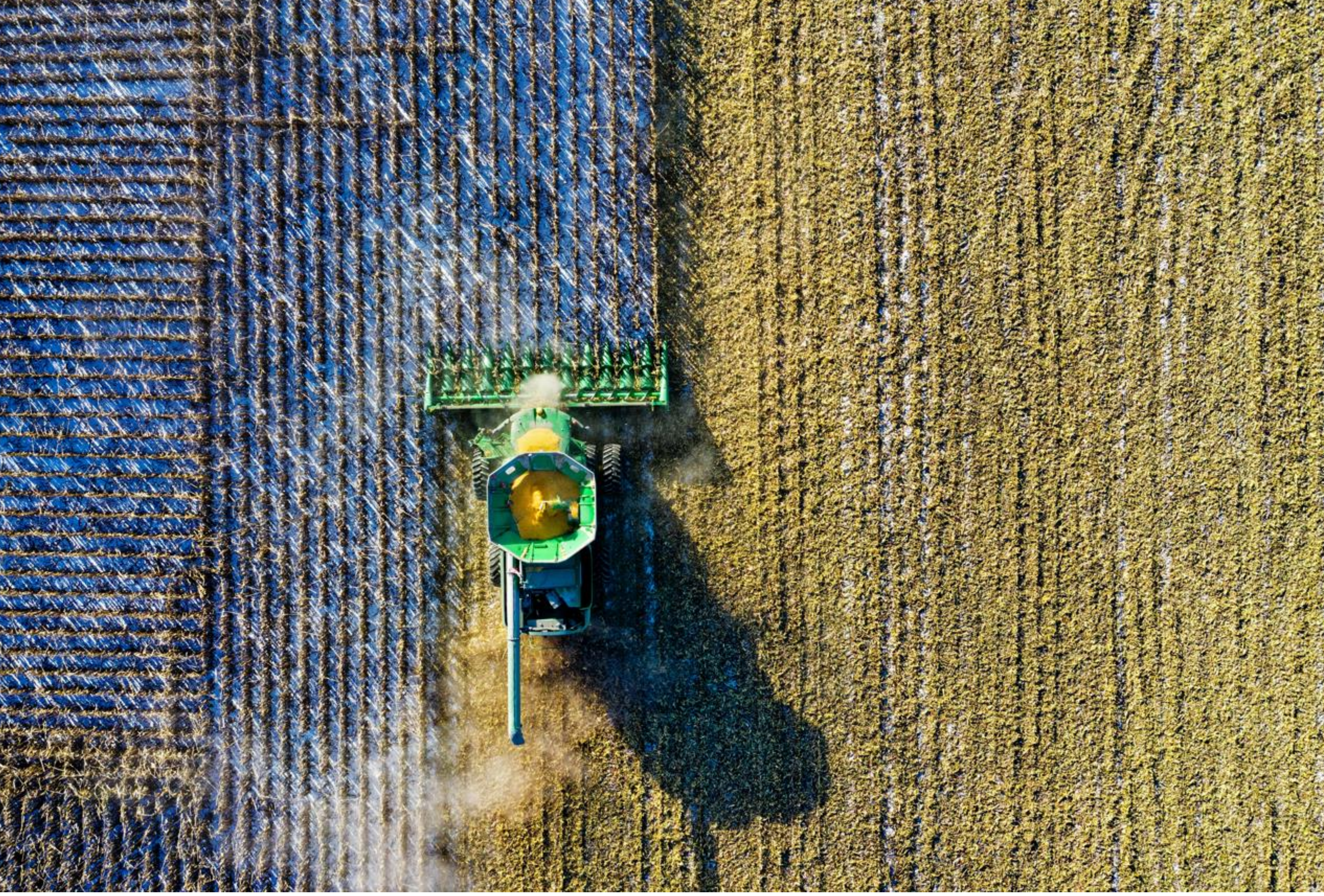
- Poor or no progress and/or poor or no response from the company within a period of two years after the start of engagement.
- Companies classified as non-engageable due to no or limited publicly traded securities or under significant distress.
- Companies whose business models rely on activities where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

Resolved

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

Archived

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



Thematic Engagement
Biodiversity and Natural Capital

EXECUTIVE SUMMARY

Introduction

This report covers the engagement period between 1 April 2023 and 30 June 2023, during which we sent 245 emails and received 148 responses. Furthermore, we hosted 19 conference calls and one in-person meeting while attending four AGMs and one company event. One company progressed to Milestone 1, bringing the total to 25, and two companies progressed to Milestone 2, taking the total to eight.

Governance, and *Strategy and Integration* were significant focus areas during the dialogues; consequently, issuers achieved the most markers on these outcomes. Of the 50 companies in the engagement programme, 40 have acknowledged that biodiversity is a material issue, and 34 have committed to addressing their impacts and risks associated with biodiversity and natural capital. As the dialogue with companies continues, and we encourage them to reflect on their impacts and dependencies on biodiversity and natural capital, we expect the numbers to increase.

There has been some progress on the other markers, but this is limited by the topic's maturity for many issuers. Until recently, companies have had little guidance on holistically assessing impacts and dependencies on nature and defining science-informed targets. With the release of SBTN's methodologies in May 2023 and the TNFD framework coming in September 2023, we expect leading companies to progress on assessments and target-setting in the coming quarters. These will be important steps towards the companies defining a clear strategy on the topic and progressing from milestones 2 to 3.

The Link Between Water and Biodiversity

Nature plays an indispensable role in global water security as the quality and availability of freshwater are determined by diverse ecosystems providing services such as water storage, flow regulation, filtering, and flood and drought protection. Biodiversity is crucial in maintaining these services while being a co-beneficiary of improved ecosystem conditions.

Freshwater ecosystems cover less than 1% of the Earth's surface yet harbour more than 10% of all species. Despite this exceptional biodiversity, more than 50% of all wetlands globally have been lost since 1900, and freshwater vertebrate populations have fallen by 83% since 1970, more than twice as steeply as terrestrial or marine populations.[3] Conversion and pollution are the dominant drivers of biodiversity loss in freshwater ecosystems, while direct exploitation, climate change and invasive alien species are also significant drivers.[4]

Halting global biodiversity loss requires holistic policies and actions tackling all the major drivers holistically—not as individual drivers in isolation. Similarly, a significant challenge to effectively protecting and restoring freshwater ecosystems is that the management of water risk insufficiently considers the importance of ecosystem integrity. Essentially, current water and biodiversity solutions are siloed and inadequate.

Investors, Biodiversity, and Water Security

Biodiversity loss presents a risk to companies, and their investors, depending on the services well-functioning ecosystems provide to generate economic value. The 2023 World Economic Forum Global Risks Report placed biodiversity loss and ecosystem collapse fourth on the list of risks to the global economy over the next 10 years.[5] The World Economic Forum further estimated that USD 44 trillion of global value generation comes from industries highly (USD 13 trillion) or moderately (USD 31 trillion) dependent on nature and its ecosystem services.[6] For context, USD 44 trillion is more than half of the world's GDP. Estimates have put the total value of freshwater ecosystem services globally at USD 4 trillion annually.[7]

Investing in nature can reduce risk and leverage latent opportunities, simultaneously benefiting the bottom line and nature. According to the Future of Nature and Business Report, action for nature-positive transitions could generate up to USD 10.1 trillion annually in business opportunities and create 395 million jobs by 2030.[8] Additionally, businesses benefit from improved supply chain resilience and social license to operate, in addition to demonstrating action to an ever more demanding consumer and investor audience. There are also significant benefits of protecting freshwater and marine ecosystems to address climate risk. Wetlands, coastal mangroves and flood plains serve as carbon sinks sequestering carbon from the atmosphere while also being essential adaptation tools as protection against accelerating extreme weather events.

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[3] "Water Input on Freshwater-Biodiversity Linkages: Response to the Zero-Draft Document from the Open-Ended Working Group on the Post-2020 Global Biodiversity Framework." UN, February 14, 2020. https://www.unwater.org/publications/un-water-input-freshwater-biodiversity-linkages-response-zero-draft-document-open.

[4] Jaureguiberry, Pedro, Nicolas Titeux , Martin Wiemers, Diana E Bowler , Luca Coscieme , Abigail S. Golden , Carlos A Guerra, et al. "The Direct Drivers of Recent Global Anthropogenic Biodiversity Loss." Science.org , November 9, 2022. https://www.science.org/doi/10.1126/sciadv.abm9982

[5] World economic forum. Accessed July 7, 2023. https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf

[6] World economic forum. Accessed July 7, 2023. https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

[7] Darwall et al., 2018. The Alliance for Freshwater Life: A global call to unite efforts for freshwater biodiversity science and conservation

[8] The Future of Nature and business - world economic forum. Accessed July 7, 2023. https://www3.weforum.org/docs/WEF_The_Future_Of_Nature_And_Business_2020.pdf

The Role of Water in Addressing Nature-related Risks and Opportunities

Currently, a global agreement on water does not exist. Yet, well-functioning freshwater ecosystems and the sustainable management of water resources play a role in achieving most of the SDGs.[9] Moreover, the Kunming-Montreal Global Biodiversity Framework considers water explicitly in targets 2, 3 and 11, but all 23 targets are relevant to the water agenda.

The Taskforce on Nature-Related Financial Disclosures (TNFD) considers the four realms of nature: atmosphere, land, ocean, and freshwater. As a part of the framework, users are asked to consider areas of water stress when identifying priority locations. Moreover, the TNFD's proposed disclosure metrics include several water-specific indicators such as total water withdrawal from water-stressed areas, volume of water discharged and concentrations of key pollutants in the wastewater discharged. Similarly, water impacts and risks are central to the guidance for setting science-based targets on nature currently being developed by the Science Based Targets Network (SBTN).

The Thematic Stewardship Programme leverages a holistic natural capital approach, and individual dialogues will address issuers' most significant drivers of biodiversity loss and nature-related risks. As we move into the second year of engagements and focus on company assessments of nature-related impacts and risks, water and its connection to biodiversity will undoubtedly feature highly in the dialogues.

Looking Forward

The next quarterly report will cover the period from 1 July 2023 to 30 September 2023 and will be released on 18 September 2023. During Q3, Sustainalytics will continue to focus on conference calls with issuers to better understand their impact and risk assessments and encourage them to publish a roadmap for how the organization will address these. While we anticipate that many issuers will have yet to make significant advances early in this programme, we aim to identify assessment gaps as the basis for future conversations. Special attention will be given to how impact assessments consider the drivers of biodiversity loss identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and whether the companies have identified the most material impact drivers. In this regard, we will promote the methodologies and tools of the Science-Based Targets Network (SBTN) as a valuable foundation for assessment. Furthermore, we will continue highlighting the importance to issuers in considering the Global Biodiversity Framework in risk assessments and when defining their strategy and targets. In September 2023, the Taskforce for Nature-related Financial Disclosures (TNFD) will launch the first version of the framework, which we will also encourage the companies to.

We will also continue our dialogue with SBTN and TNFD to develop opportunities for collaboration. In particular, the TNFD has expressed interest in our support in reaching issuers representing geographies and industries that have been less involved in piloting the TNFD and promoting issuers' uptake of the framework. Furthermore, we will follow up with Ceres concerning Nature Action 100 to pursue synergies between the initiative and the Biodiversity and Natural Capital Stewardship Programme.

[9] "Water Security and the Sustainable Development Goals." Unesdoc.unesco.org, 2019. https://unesdoc.unesco.org/ark:/48223/pf0000367904?posInSet=3&queryId=N-EXPLORE-b053dea0-2e6b-4636-aaad-0cb23c32730d

Thematic Engagement

Climate Change - Sustainable Forests and Finance

EXECUTIVE SUMMARY

Climate Risks and Forest Value Chains

The **Synthesis Report** from the **Intergovernmental Panel on Climate Change** (IPCC) concludes that the current pace of climate action is not enough to prevent climate disasters.[10] The report again reaffirms the urgent need to transform agriculture systems to achieve the Paris Agreement.[11] The issue between climate and agribusiness is not only direct emissions due to land use changes and practices but also the threatens food production and human livelihoods as a result of extreme climate weather.[12] With the release of the **Science Based Targets initiative**'s (SBTi) **Forest, Land and Agriculture guidance** (FLAG), companies are now able to set meaningful science-based targets to tackle FLAG-related emissions. In addition, the **EU deforestation ban** will also accelerate improvements in supply chain traceability and eliminate deforestation practices.

To get on track for the 1.5-degree emissions reduction pathway, the entire forestry value chain needs to accelerate climate action. As enablers, banks should scale up global climate finance 10 times faster than its current pace,[13] with a strong focus on financial flows to developing countries to meet adaptation needs.[14] Soft commodities and end value chain companies should halt deforestation across the supply chain as soon as possible otherwise net zero by 2050 will be impossible.[15]

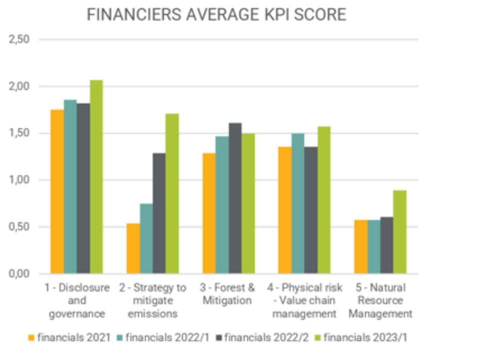


Figure 1: Graphs showing the average KPI score across the financiers in the value chain, the minimum score being 0, while the maximum score is 3.

Update on Engagement Efforts

The third biannual report covers the period of engagement that took place between September 2022 and March 2023. In this period, Sustainalytics conducted 21 engagement calls, prepared 241 outgoing emails, received 145 incoming emails and attended three company events on climate strategies. As the three-year engagement theme reaches its halfway mark, companies are more prepared for dialogue with investors on not only their climate strategies but also their approach toward a net zero commitment and natural resource management. Throughout the engagement, Sustainalytics assesses the engaged companies on five key performance indicators (KPIs) that cover: Disclosure and Governance; Strategy; Forests and Mitigation; Physical risk; and Natural Resource Management. In the engagement, Sustainalytics has identified companies' gaps in performance and disclosure based on the expectations set out in the engagement KPIs which is then provided to the companies as suggested actions to improve. There is a growing awareness that more robust data is required by investors and stakeholders in both risk assessments and net zero/climate strategies.

Since September 2022, we onboarded five companies as part of the replacement of previous non-responsive companies. We have established dialogue with the five companies so far. These companies have been responsive and willing to share their climate actions and experiences with investors.

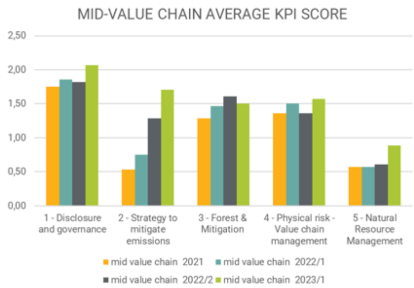


Figure 1: Graphs showing the average KPI score across the Commodity companies in the value chain, the minimum score being 0, while the maximum score is 3.

For financiers, thanks to various industrial initiatives such as Net Zero Banking Alliance (NZBA), Net Zero Asset Owners (NZAO), Net Zero Asset Managers (NZAM), and Glasgow Financial Alliance for Net Zero (GFANZ), six out of seven financiers we engage with have already targets and strategies for portfolio-based emissions reductions for its net zero commitment. However, strategies around forestry-related risks and natural resource management are challenging topics for the financial sector. It's common to have a general policy on sustainable financing, but the granularity on specific commodities and a due diligence approach is missing.

For mid-value chain commodities companies, most companies we engage with have a certain zero deforestation commitment, conduct nature-related risk assessments such as High Conservation Value (HCV) and High Carbon Stock (HCS) and are actively tracking their commodities' sources of origin and percentage of certification. However, these soft commodities companies are less advanced in conducting climate-related physical risk assessments, despite the importance and highly-relevance of extreme weather on their business operations.

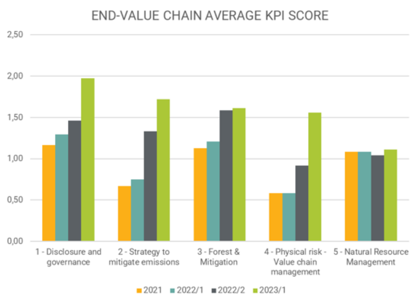


Figure 2: Graphs showing the average KPI score across the end of value chain companies, the minimum score being 0, while the maximum score is 3.0

[10] https://www.wri.org/insights/2023-ipcc-ar6-synthesis-report-climate-change-findings?utm_campaign=wridigest&utm_source=wridigest-2023-03-22&utm_medium=email
[11] https://reliefweb.int/report/world/latest-ipcc-report-highlights-critical-need-transform-agrifood-systems-way-mitigate-and-adapt-climate-change
[12] https://www.foodnavigator.com/Article/2023/03/22/IPCC-report-findings-suggest-how-food-production-must-change-to-cope-with-climate-crisis
[13] https://systemschangelab.org/finance
[14] https://www.climatechangenews.com/2023/03/20/ipcc-highlights-rich-nations-failure-to-help-developing-world-adapt-to-climate-change/
[15] https://climatechampions.unfccc.int/wp-content/uploads/2022/06/Why-net-zero-needs-zero-deforestation-now-June-2022.pdf

The end value chain companies continue to excel in their scope 1 and 2 emissions reduction progress, but the main challenge still lies in its product's traceability and how it works across supply chains to increase data availability, eliminate carbon emissions and create natural positive results.

The dialogue thus far continues to be positive with the higher-scoring companies being more receptive to challenging questions and more forthcoming with issues they have yet to resolve. Recognizing the breadth of the topics discussed, some companies have agreed to continue the dialogue in two separate calls covering climate specifically in one and deforestation (and with that increasingly TNFD) in the other. This allows for deeper dialogue with specialists who are invited to provide details on the calls. Furthermore, companies have also highlighted the value of investor perspectives and stated their appreciation for investor participation and questions during the engagement meetings.

Looking Ahead

The next six months of the thematic engagement will further investigate companies' key gaps in public disclosure and the challenges they face on their climate transition journeys. For leaders, we will continue the conversations on best practices and their roles in advocating ambitious goals in their industries and other relevant initiatives. For laggards, we will identify quick wins and must-haves so they can prioritize their focus considering their current approaches and external opportunities. The engagement theme going forward will encourage companies to increase their ambition on their climate targets if it's not aligned with the 1.5-degree pathway and enhance the disclosure to meet external expectations and regulatory requirements. For the next six months, we will also look out for the results from the AGM season and investigate relevant trends and how companies respond to climate issues. Various developments will be coming on the horizon, such as the SEC climate disclosure ruling, ISSB sustainability reporting standards, and TNFD finalization.

Thematic Engagement
Feeding the Future

EXECUTIVE SUMMARY

The Issue at Hand

Ensuring a sustainable supply of food for the world's fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population will reach 9.1 billion (34% higher than today), putting more pressure on already constrained resources. Food production will need to increase by 56% over a 2010 baseline to feed the larger population[16], meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

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

Update on Engagement Efforts

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

High-level Insights and Outcomes

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

Looking Ahead

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

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

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

Thematic Engagement
Localized Water Management

EXECUTIVE SUMMARY

The Issue at Hand

The water crisis is a global challenge, that needs local solutions. The growing scarcity of freshwater resources is a risk to the economic, social and environmental well-being of communities around the world, in addition to being a material issue for companies. Company-wide water strategies are therefore essential, but because water security challenges are experienced at the local level, and water basin conditions are unique, there is no one-size-fits-all solution for companies to implement. Ensuring a sustainable freshwater supply for all basin users for the long-term is an extremely complex challenge that requires collaboration between various stakeholders including communities, authorities, and companies. The purpose of Sustainalytics' Localized Water Management engagement is to have positive impacts on water management and stewardship on a company and basin level, and more broadly where possible.

Engagement Results February 2020 – March 2023

This thematic engagement focuses on 18 companies with operations in the Tiete basin in Brazil and/or the Vaal basin in South Africa. We discussed our gap analysis of these KPIs and encouraged company-appropriate strategies and solutions. Supply chain water risk assessment was the most common focus area along with wastewater quality although crisis management increased in relevance over the course of the three years.
This engagement resulted in incremental improvements across the KPIs (see **Chart 1**), linked to changes at all 18 companies. Most companies continued to display strong performance on KPI 1 Water Governance over time. Improvements were observed based on plans to link executive compensation to water metrics, expansion of environmental management system certification, and completion of a value chain pilot program for ESG among other improvements. Although, a clear strategy for water management in the value chain has been the most common deficiency.
Performance on KPI 2 Water Risk & Opportunity Management improved significantly over the course of the engagement related to completing physical climate risk scenario analysis, completing site-specific water risk analysis, and leveraging water opportunities. Again, deficiencies related to the supply chain are frequent, although the companies that excel in this area tend to leverage external certifications and/or third-party services for understanding and mitigating supply chain risk.

KPI 3 Water Quantity has demonstrated the most consistent scoring or the fewest improvements since the baseline, which is likely related to global reporting standards enabling more stable and frequent disclosure on this topic. Moreover, companies understand the operational and financial benefits of improving water efficiency at their own facilities and tend to measure and disclose what they are managing. Improvements on KPI 3 were related to water quantity management programs and increased localized reporting. However, some companies still lack detailed context-based management plans and/or water targets for all high-risk sites.

Consistent with Morningstar Sustainalytics' previous water engagement program that concluded in 2019, performance on KPI 4 Water Quality lags KPI 3 Water Quantity. A trend that appears both in the disclosure and in our dialogues is the prioritization of water efficiency and decreasing water withdrawal. As a result, there is less direct focus on decreasing water discharges and improving the quality of the effluent because effluent quantities naturally decrease as recycling, and efficiency water metrics increase. Although most companies do not disclose wastewater quality goals, several have implemented or are planning to implement municipal wastewater recycling. The current ineffective state of wastewater treatment is well documented in both basins. By increasing the capacity and efficiency of municipal wastewater treatment and reusing the water in their industrial operations, companies are able to improve local water quality and water security for all basin users. Wastewater reuse agreements tend to make financial sense while also decreasing reputational risk related to localized competition for water. Disclosure related to KPI 4 is strongly driven by regulatory compliance and very few companies actively plan to go above and beyond this. However, with the growing trend towards natural capital valuations, science-based biological limits will become more relevant in risk-based evaluations and compliance and legal limits will continue to be seen as a minimum standard.

KPI 5 Integrated Water Resource Management is the second to last performing KPI in the framework. At the inception of the Localized Water Management engagement program, companies scored low on average on KPI 5 and 6, the most ambitious KPIs. It was challenging to determine what company programs were in place based on the available public disclosure. Despite this, several companies excelled in this area as they had clearly committed to Integrated Water Resources Management and proactively discussed it in their disclosure. Shifting a company's management perspective to a basin level from a facility level (or corporate-wide) approach can be difficult as it requires considerations that are outside the company's control. Companies are willing to work hard to secure business continuity, but stewardship also requires more serious consideration of other stakeholders' interests which can be difficult to model and quantify internally. The most common missing element in our evaluation of KPI 5 is a clear and systemic approach to community WASH (Water, Sanitation, and Hygiene). Many companies list ad hoc community water programs they have led or supported; however, systematic support is lacking.

KPI 6 Public Water Management, asks companies to understand and manage risks inherent in local infrastructure and regulatory conditions and demonstrate local water crisis management capacity. KPI 6 demonstrates the largest score increase since the baseline report, by a significant margin. At the same time KPI 6 remains the lowest-performing KPI. Many companies were triggered to evaluate the risk to public infrastructure by recent extreme water stress or utility interruption events.

Tangible outcomes over the course of the engagement include individual companies:

- linking executive compensation to water metrics in FY2022;
- publishing a corporate water policy;
- releasing Taskforce on Climate-Related Financial Disclosure (TCFD) aligned reports including physical climate risk assessments;
- creating a water opportunity by generating revenue from wastewater streams

- reusing treated municipal wastewater;
- implementing a corporate-level effluent standard with more stringent criteria than local regulations;
- evaluating a majority of its critical suppliers for water risk, including audits and mitigation assistance plans;
- publishing the Water Security Index, a single company-level value that expresses the company's exposure to the risk of water stress;
- using sustainability-linked financing instruments to fund water efficiency projects;
- completing site-level assessments for water stress and implementing mitigations;
- regional level disclosure on material water issues;
- committing to their first water replenishment project; and
- implementing various infrastructure changes to increase water security triggered by the outcomes of water reduction scenarios.

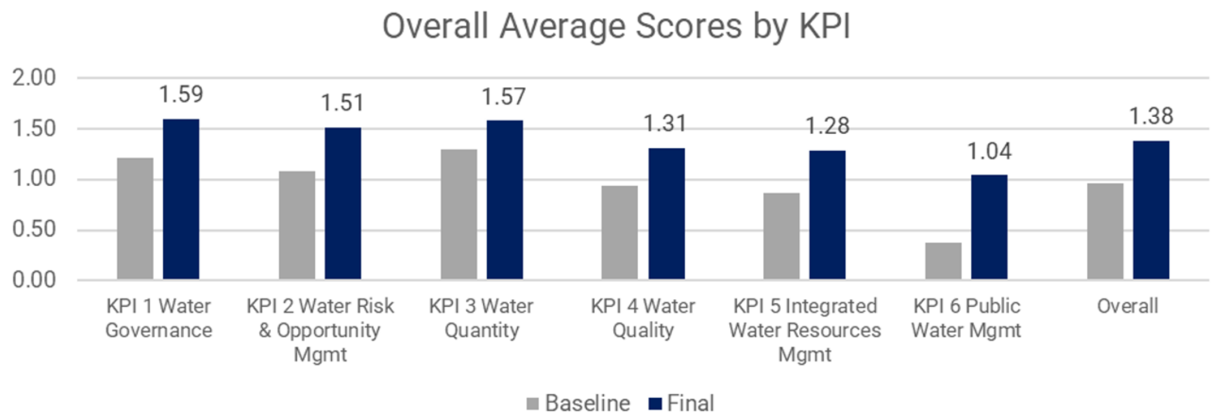


Chart 1: Overall Average KPI Scores Baseline vs Final

Next Steps

Unlike carbon, water is localized, and must be managed at a basin level, which is why this theme was geographically focused. At the conclusion of these three years, we are seeing more than just the leading companies committing to larger scale basin-level projects that consider all stakeholders. The localized water management theme has been a proactive thematic engagement, and although that made it difficult to be scalable and impactful initially, we did our part to raise awareness within companies. We continue to challenge companies to take an investor lens and consider whether their reporting meaningfully discloses localized water risk and mitigation measures. To further scale impact, all water actors need to get involved, urgently. It is up to whole governments, economic actors, and societies to act together and not just as siloed groups of water-focused individuals. Results will come as we make the links between climate, nature, and water and address them through a holistic approach to nature-risk (or natural capital). Continued dialogues on water in the context of natural capital will promote a holistic approach to addressing nature risks including water risks.

Thematic Engagement

Responsible Cleantech

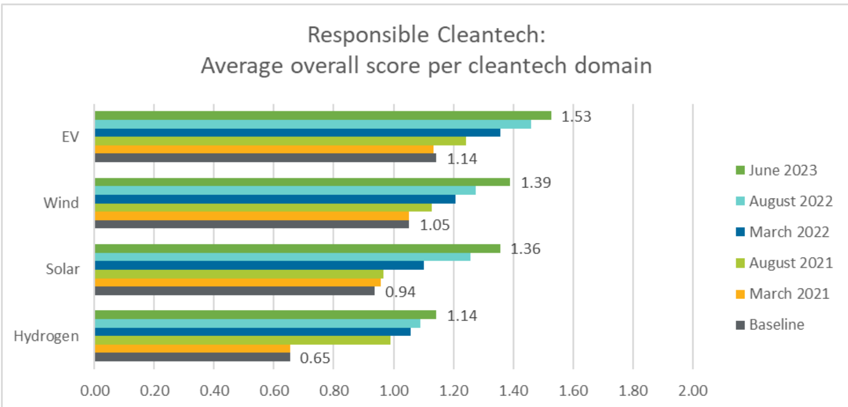
EXECUTIVE SUMMARY

The issue at Hand

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

Engagement Updates

The Responsible Cleantech thematic engagement program started with a baseline report in September 2020. This fifth biannual report accounts for the progress made between August 2022 and June 2023.
Throughout the engagement, Sustainalytics assesses the engaged companies on five key performance indicators (KPIs) that cover governance, operational management, supply chain management, circularity, and stakeholder engagement. A scoring scale from 0.00 up to 2.00 is used for this purpose. The chart below shows the average overall score per cleantech domain. The EV domain continues to lead and the hydrogen domain continues to lag, relatively. The solar domain has been catching up with the wind domain.



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

High-level Insights and Outcomes

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

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

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

Next Steps

Sustainalytics will organize a round of concluding calls to consolidate the progress made in the course of the programme and specify further steps for the companies, and then also evaluate the added value of the dialogue and check company preparedness to keep hosting forward-looking

Thematic Engagement
The Governance of SDGs

EXECUTIVE SUMMARY

The 2030 Agenda for Sustainable Development recognizes the private sector as a key agent in achieving a more sustainable future and provides companies and investors with tools to translate global development needs into business solutions, investment strategies, and products. Therefore, Sustainalytics launched the Governance of the SDGs Thematic Engagement to encourage companies in the Financial, Consumer Goods, and Information and Communications Technology (ICT) sectors to implement meaningful SDG strategies aligned with their business models and plans. At the midway point of the 2030 Agenda, advancement towards the SDGs needs more momentum. The progress on 30% of the SDGs has relapsed, and progress on another 50% is insufficient. The gap between developed and developing countries is widening. Agenda 2030 can be rescued but it requires a paradigm shift and massive investment. Sustainable finance is at the heart of the SDGs conversation right now. In May 2023, the UN Secretary-General called for a fully-fledged Rescue Plan for People and Planet, consisting of additional sustainable finance, scaling affordable long-term financing development and contingency financing, tackling the high cost of debt and tax evasion, and reforming the global financial architecture through which the world's public and private savings are channeled into investments.[17] The latest 2023 editions of the most important reports on sustainable development echo these calls.

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

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

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

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

Update On Engagement Efforts

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

Engagement Insights

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

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

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

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

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

Looking Ahead

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

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

Thematic Engagement Circularity

New Engagement Programme Update

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

The Circularity and Resource Management Stewardship Programme being developed throughout 2023 targets companies that supply products and services that help meet everyday consumer needs. As a start, we will engage the automotive value chain. This encompasses not only automotive but also metals, renewable energy, materials processing (including metals and plastics), original equipment manufacturers (OEMs), and waste management. Throughout 2023 we will develop our strategy to expand engagement in this area, create a framework for engagement and identify a target list of companies that to approach for engagement on these issues.

About Morningstar Sustainalytics

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. With 17 offices globally, Sustainalytics has more than 1,800 staff members, including more than 850 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com.