MORNINGSTAR®

Material Risk Engagement

2026 Final Report (1 January - 31 October)





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

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This report summarizes the shareholder engagement activities that Stewardship Services performed between January and October 2026. If there is no specific reference to date in graphs and tables, the data is presented as per end of the reporting period. The report has been produced in November 2026 and uses data for the period 1 January 2026 through 31 October 2026. Version 1 was disseminated on 16 November 2026. Use of and access to this information is limited to Stewardship clients and is subject to Morningstar legal terms and conditions.

Engagement Approach

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

The Stewardship Services team will engage with companies covered by the analyst driven component of Morningstar Sustainalytics' ESG Risk Ratings universe, powered by three Morningstar Indexes, which have an ESG Risk Ratings score of 30 or more. The Morningstar Sustainalytics ESG Risk Ratings score reflects the unmanaged ESG risk, so the higher the score, the more risk the company is exposed to.

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



Material Risk Engagement in Review



Paulina Segreto
Director, Stewardship
Morningstar

Six Years of Engagement: Changing Risks, Enduring Principles

The Material Risk Engagement service was launched in 2020 to help investors address financially material ESG risks through direct company engagement. Over six years, we engaged hundreds of companies across global markets. While the issues changed, the underlying stewardship challenge remained constant: understanding whether companies had the governance and capabilities to manage material risks effectively.

Material Risk Engagement consistently engaged in dialogue with companies to better understand how those governance systems and capabilities translated into business resilience and long-term value creation. The clearest lesson is that effective risk management depends less on the type of risk a company faces and more on the quality of its governance and execution. Effective boards establish oversight. Management assigns ownership. The business then turns commitments into practice and demonstrates results.

A More Complex Operating Environment

Between 2020 and 2026, sustainability-related risks became more closely connected to corporate strategy and risk management. Investor expectations rose as reporting frameworks matured and regulation expanded in many markets, increasing scrutiny of how companies identified, governed and managed material risks.

At the same time, policy approaches diverged, with some markets introducing more comprehensive sustainability disclosure requirements while others faced growing debate over the role of ESG considerations. Companies operating internationally had to respond to different disclosure rules and the role of ESG-related risks in business decision-making.

This fragmentation affected our engagement. Regulation often created momentum for stronger oversight and better reporting. In other cases, companies became more cautious in how they described their work, even when internal risk-management efforts continued. As a result, investors increasingly needed to look beyond disclosures to assess how material risks were being governed and managed in practice. Through direct dialogue, Material Risk Engagement assessed whether companies had credible governance, clear accountability and evidence that stated ambitions were being translated into action.

From Commitments to Evidence

The focus of engagement shifted as corporate practice matured. Early discussions often centred on risk awareness, policies and public commitments. Over time, the emphasis moved towards implementation because investors needed to understand how companies translated commitments into business processes, accountability structures and decision-making, and whether those systems were producing measurable outcomes.

This shift exposed a persistent gap. Many companies could describe their approach, but fewer could show how it influenced capital allocation, operations or accountability. Disclosure remained useful, yet it was not evidence of effective management on its own.

Material Risk Engagement therefore assessed progress across the engagement journey. It recognized credible steps while maintaining clear expectations where implementation stalled or material concerns remained unresolved. This outcome-oriented approach gave investors a better understanding of how effectively companies were managing material risks than a narrow focus on policies or reporting alone.

New Risks, Familiar Questions

The engagement agenda broadened as risks related to nature, supply-chain resilience and responsible technology became more prominent. Their connections to established business risks also became evident. Yet the core stewardship test remained consistent; regardless of the topic, investors needed to understand whether the company could identify the risk, govern its response and demonstrate progress.

Five questions remained remarkably durable:

- Does the company understand the risk?
- Is responsibility clearly assigned?
- Is there effective oversight?
- Are management systems in place?
- Can the company demonstrate progress?

Over six years of engagement, these questions provided a consistent basis for assessing both established and emerging risks. They also helped distinguish corporate commitments and activities from effective risk management practices.

What Six Years of Engagement Taught Us

Three conclusions stand out.

First, governance is a leading indicator of progress. Companies moved further when board oversight was clear and management ownership was embedded across the business. Weak accountability often preceded slow or inconsistent implementation.

Second, engagement is most useful when it tests execution. Policies and targets create a starting point, but investors need evidence that companies are changing decisions, systems and outcomes.

Third, progress is rarely linear. Meaningful change often required sustained dialogue over several years. Constructive engagement created opportunities for improvement, while escalation and low-performance assessments provided a direct indication of where companies remained unwilling to address material concerns.

This outcome-oriented approach gave investors a more decision-useful view of corporate preparedness than a narrow focus on policies or reporting could provide.

Therefore, the need for effective engagement persisted even as regulatory requirements expanded. Rules can establish a common baseline and accelerate action, but they cannot by themselves create strong governance or effective implementation. Trust mattered as well. More candid dialogue gave investors a better understanding of operational constraints and enabled engagement to address the causes of weak performance rather than its symptoms.

Taken together, these lessons show why stewardship should focus on the quality of corporate response, not only the presence of commitments.

Looking Ahead

The closure of Material Risk Engagement does not diminish the relevance of its central insight. Material risks will continue to evolve, and language used to describe them may change, but effective management foundations will endure. Investors can apply this insight by testing whether companies connect oversight to action and action to evidence. This approach supports more informed stewardship decisions in a fragmented policy environment. The experience of Material Risk Engagement also reinforced the value of sustained engagement, which can strengthen corporate practice, reveal persistent deficiencies and provide investors with a forward-looking view of resilience.

The most useful question is therefore not whether a risk is new. It is whether the company has the governance and capabilities to manage it before it becomes a larger threat to long-term value.

Year in Review

Areas of focus during the 2026 reporting period included governance, climate transition, human rights and labour rights, community relations, environmental management, operational safety, and business ethics. Across engagements, we continued to assess how companies managed material ESG risks, strengthened oversight and accountability, responded to controversies, and improved transparency and stakeholder engagement.

A recurring theme throughout the year was the importance of effective board oversight in managing complex sustainability risks. Our research and engagement work highlighted how board effectiveness can influence companies' ability to anticipate emerging risks, oversee strategy execution, and respond to operational and stakeholder challenges.

The year also saw increased attention on emerging stewardship topics. The rapid development of artificial intelligence raised important questions around energy demand, infrastructure development, resource use, and broader sustainability implications. Beyond environmental impacts, there are also the social dimensions of AI, including workforce implications, human capital management, data governance, digital inclusion, and the potential for unintended societal harms.

At the same time, growing interest in Arctic activity reinforced the importance of understanding environmental, social, and governance risks in sensitive regions, as well as the importance of maintaining stakeholder trust where operations may have significant environmental or community impacts. In parallel, themes such as supply chain due diligence, responsible sourcing, and stakeholder engagement remained central to many of our engagements.

During the period, we resolved a number of long-standing engagements across environmental, social, and governance topics. Successful outcomes were often characterized by stronger governance frameworks, improved risk management practices, enhanced disclosure, and clearer accountability. These resolutions demonstrated how sustained engagement can support long-term improvements and reduce exposure to future risks.

Looking ahead, we expect increasing investor focus on the environmental and social implications of AI-related growth, companies' ability to maintain stakeholder trust and a social license to operate, and their capacity to manage supply chain, geopolitical, and sustainability risks through effective governance and long-term strategic planning.

Engagement Overview



274
engagements as of 31 October 2026

15
new engagements

681
companies engaged since March 2020

SDG 13 Climate Action
67% linked to engagement objective

Asia / Pacific
region with the largest number of engagements

Oil & Gas Producers and Utilities
industries with the most engagements

Disclosure and Climate Change - Transition Risk
top material ESG topics in engagement dialogue

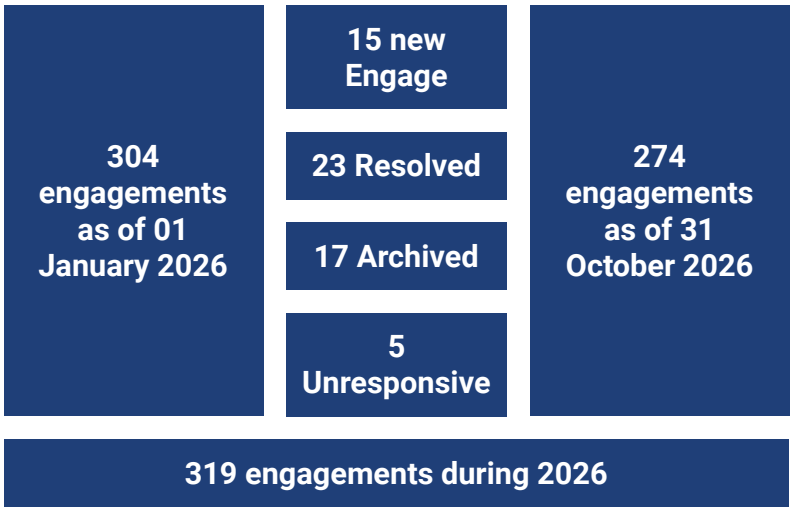
Engagement Status

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

Resolved The company has achieved the engagement objective.

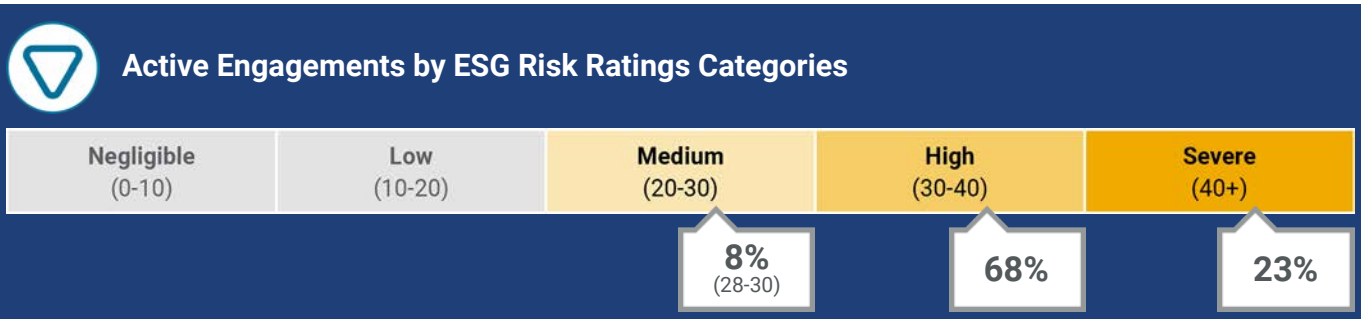
Archived Engagement is concluded, the engagement objective has not been achieved.

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

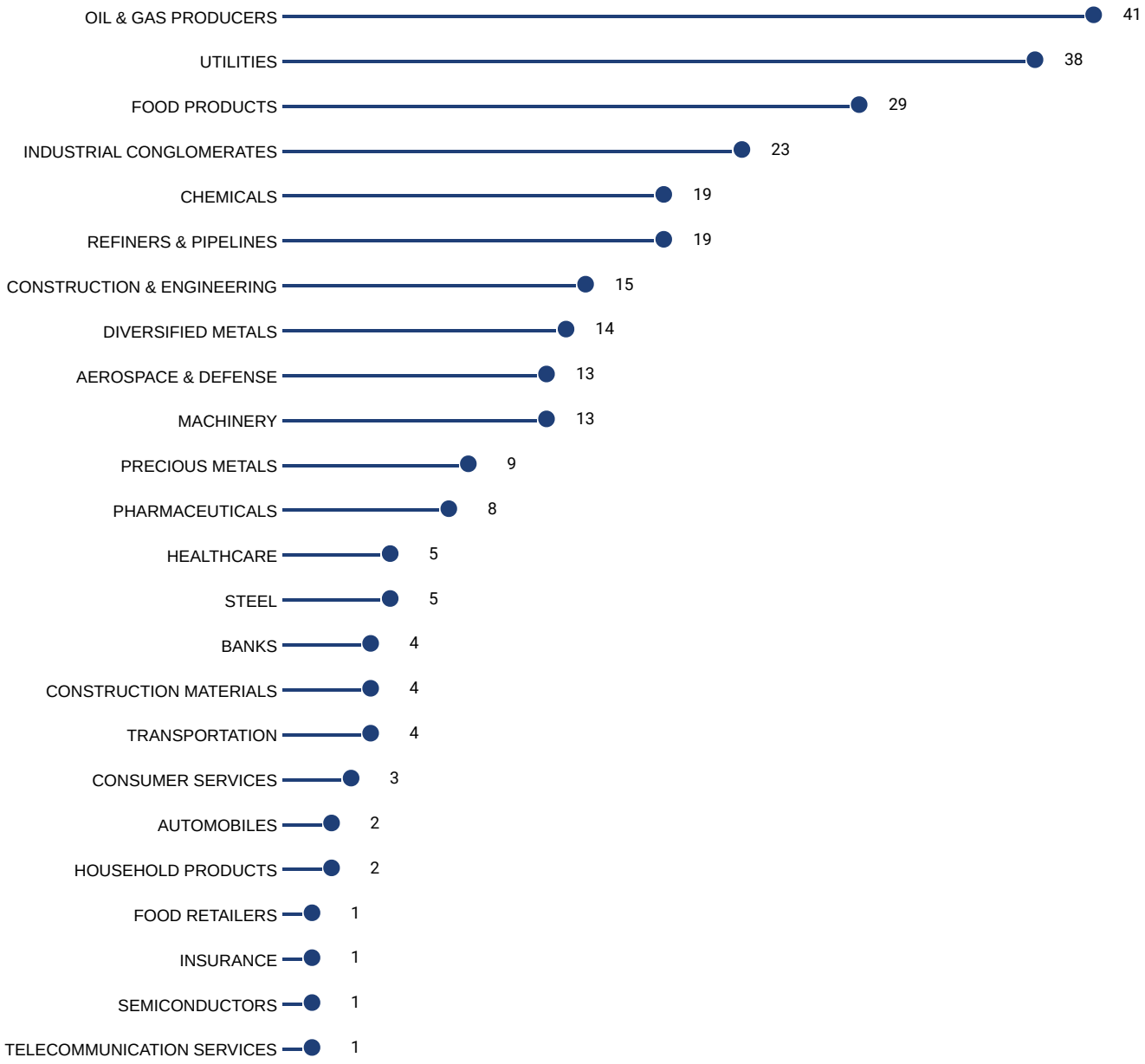


On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

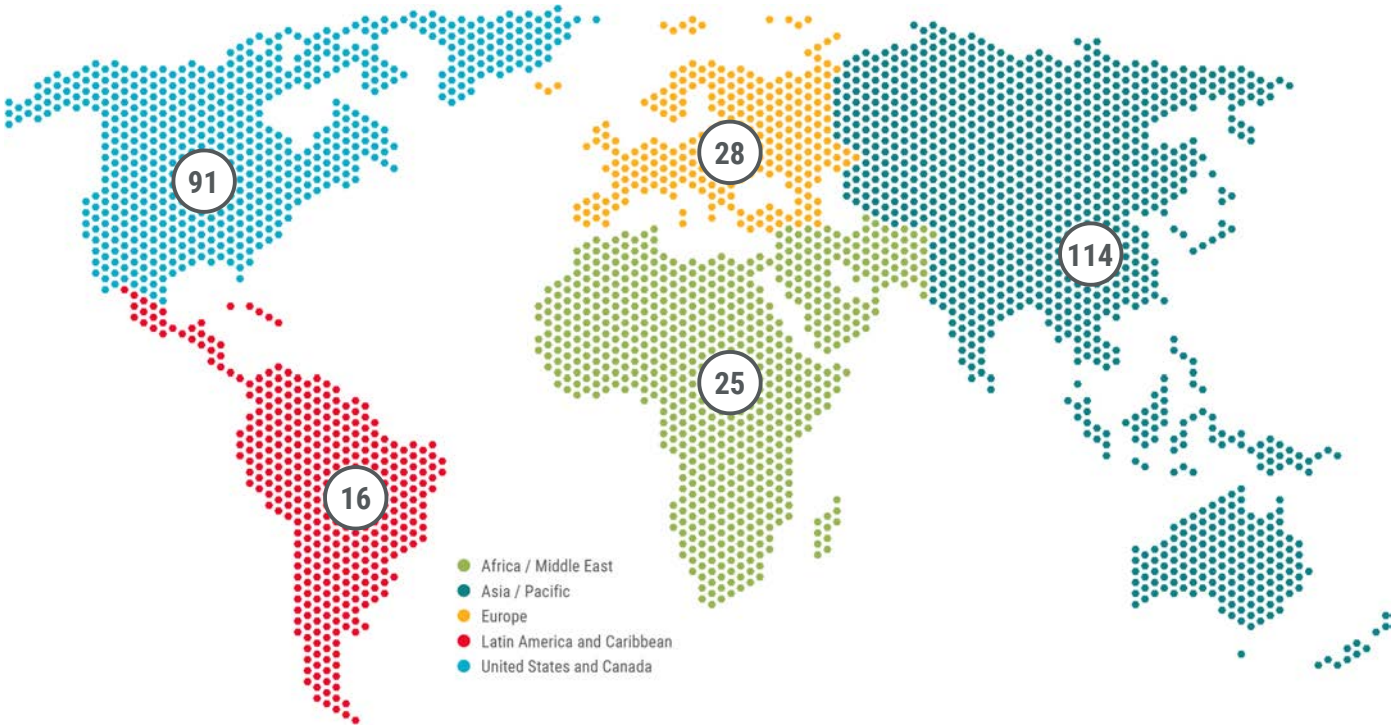
Active Engagements by ESG Risk Ratings Categories



Industry Distribution



Engagements by Headquarter Location



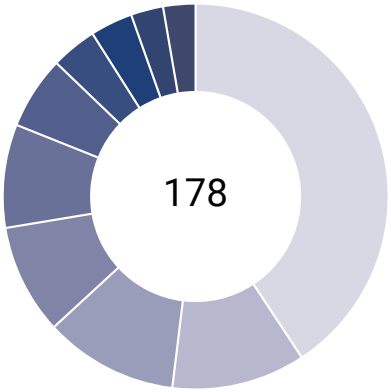


Engagement Topics

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

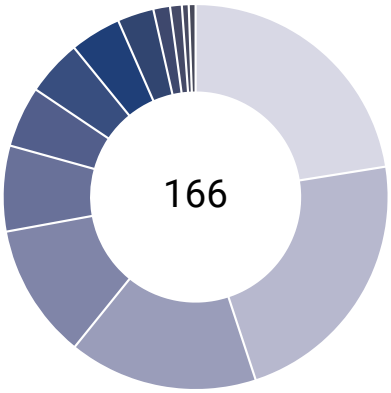
Environmental

- CLIMATE CHANGE - TRANSITION RISK (143)
- WASTE MANAGEMENT (39)
- WATER QUALITY (30)
- BIODIVERSITY (13)
- CIRCULAR ECONOMY (9)
- AIR POLLUTANT EMISSIONS (39)
- WATER SECURITY (32)
- LAND POLLUTION AND SPILLS (21)
- NATURAL RESOURCE USE (12)
- DEFORESTATION (9)



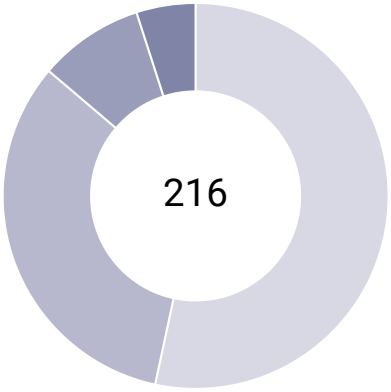
Social

- COMMUNITY RELATIONS (54)
- OCCUPATIONAL HEALTH AND SAFETY (38)
- HUMAN RIGHTS (17)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (11)
- MARKETING PRACTICES (7)
- LABOUR RIGHTS (2)
- WEAPONS (1)
- PRODUCT QUALITY AND SAFETY (54)
- HUMAN CAPITAL (27)
- DATA PRIVACY AND SECURITY (12)
- INDIGENOUS PEOPLE (10)
- JUST TRANSITION (3)
- HIGH-RISK TERRITORIES (1)



Governance

- DISCLOSURE (166)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (27)
- ESG GOVERNANCE (102)
- BOARD COMPOSITION (15)



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

Sustainable Development Goals - Mapping Engagements

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

1 No Poverty	0%	**10** Reduced Inequality	1%
2 Zero Hunger	1%	**11** Sustainable Cities and Communities	24%
3 Good Health and Well-Being	14%	**12** Responsible Consumption & Production	55%
4 Quality Education	0%	**13** Climate Action	67%
5 Gender Equality	2%	**14** Life Below Water	1%
6 Clean Water and Sanitation	9%	**15** Life on Land	6%
7 Affordable and Clean Energy	24%	**16** Peace & Justice, Strong Institutions	57%
8 Decent Work and Economic Growth	24%	**17** Partnerships to Achieve the Goal	0%
9 Industry, Innovation & Infrastructure	13%		

Case Study: ConocoPhillips

Material Risk/Strategy & Risk Engagement | Engagement Since: May 2023



Industry: **Oil & Gas Producers**

Country: **United States**

ConocoPhillips is a US-based independent exploration and production company. As one of the Arctic's largest operators, operations are characterized as large-scale, capital-intensive, and decades-long; designed to deliver stable volumes over time rather than short-cycle or marginal production.

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

Engagement Update

Since May 2023, ConocoPhillips has varied in its responsiveness. The most recent meeting was held in April 2026, following an introduction to the company's new Climate Risk Director. This engagement highlighted the absence of any reportable Arctic spills greater than one barrel in 2024 and two global spills exceeding 100 barrels; both with high recovery rates and supported by enhanced offshore well integrity monitoring and oversight. ConocoPhillips also maintains a structured, tiered emergency response system with clear escalation to regional and global teams and executive leadership for severe incidents, which is particularly relevant for managing high-impact risks in remote Arctic conditions.

Focus Area

Our engagement objectives focused on development of an assurance and reporting expansion roadmap for priority ESG metrics (including climate, emissions, and operational performance data) as well as more structured disclosure on policy influence, government payments, and decarbonization enablers.

Engagement Outcomes

ConocoPhillips clarified that it maintains a net zero ambition but has removed the 2050 timeline due to insufficient enabling actions at the societal, policy, and market levels. The company continues to advance its operational emissions strategy, targeting a 50-60% reduction in scope 1 and 2 GHG intensity by 2030 and a near-zero methane intensity goal. Dialogue also included forward-looking insight into assurance readiness and regulatory influence, discussing a shift toward more targeted, jurisdiction specific disclosures.

Insights & Outlook

Remaining gaps include opportunities to broaden external assurance over methane-related metrics and other key ESG indicators, absence of a roadmap scaling renewable energy use, and limited capital disclosure toward low-carbon investments attributed to market and policy-driven constraints. ConocoPhillips does not plan to adopt scope 3 targets, citing control and double-counting challenges.

Engagement Results



163
meetings, including 1 in-person meeting

2,142
emails and phone calls exchanged

23
engagements Resolved

188
Milestones achieved

485
Positive Developments

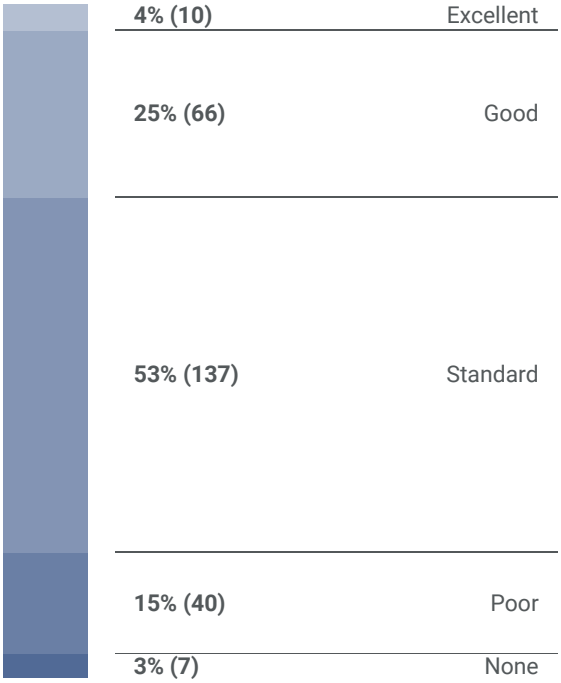
35%
of engagements with Excellent or Good Response

53%
of engagements with Standard Progress

Engagement Progress

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

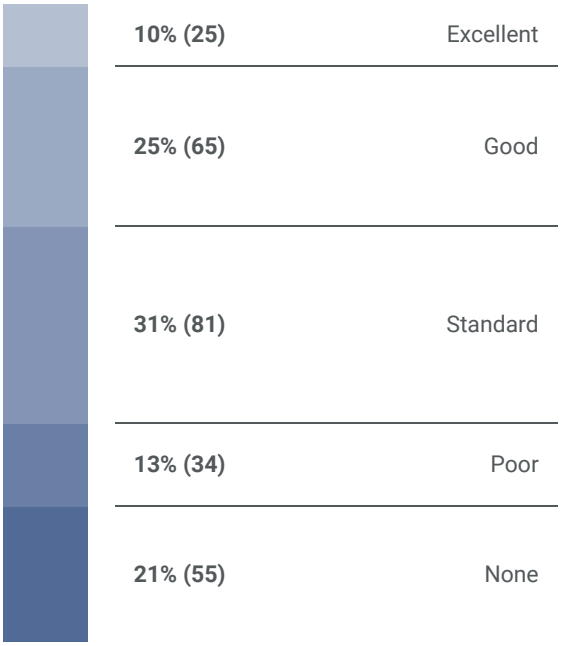
Excellent	The company has adopted a proactive approach and addressed the issues related to the change objective.
Good	The company has taken sufficient measures to address the issues related to the change objective.
Standard	The company has undertaken a number of measures to address the issues related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



Engagement Response

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

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



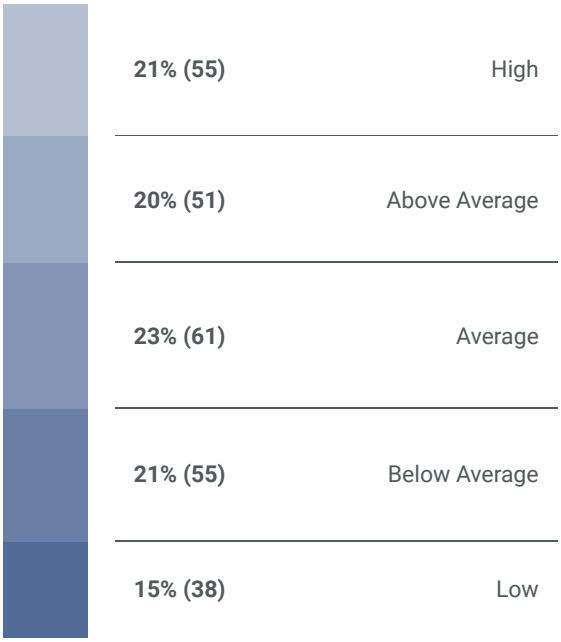
Engagement Performance

Performance describes the combined company Progress and Response.

Engagement Performance Assessment Update

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

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



Progress and Response Matrix

RESPONSE

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

Engagement Milestones

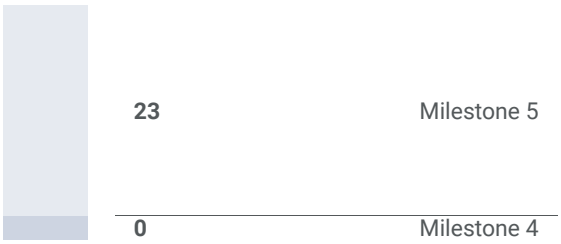
Milestones are our five-stage tracking system used in achieving the engagement objective.

188 Milestones achieved in 2026

Milestones Framework

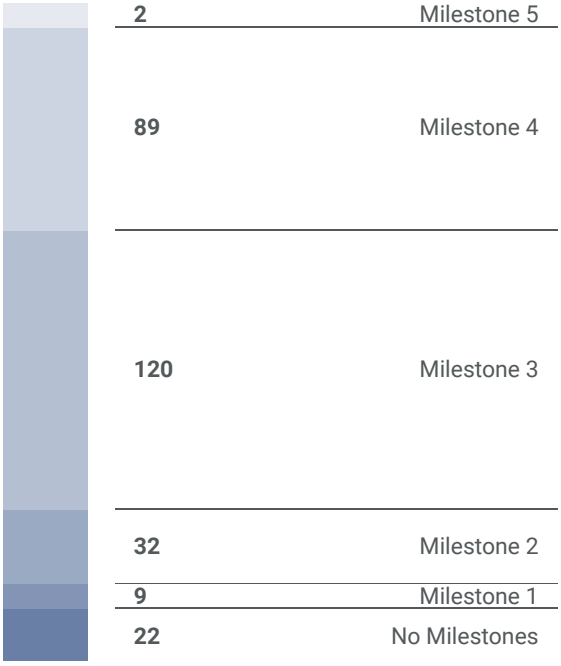
Resolved	Case successfully closed.
Milestone 5	Change objective is considered fulfilled.
Milestone 4	Implementation of strategy has advanced meaningfully, and related issuer disclosure maturing.
Milestone 3	Strategy is well formed and has moved into early stages of implementation.
Milestone 2	Issuer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

YTD Highest Milestone Achieved (Resolved)



Note: Cumulative year to date resolved cases.

Highest Milestone Achieved (Engage)



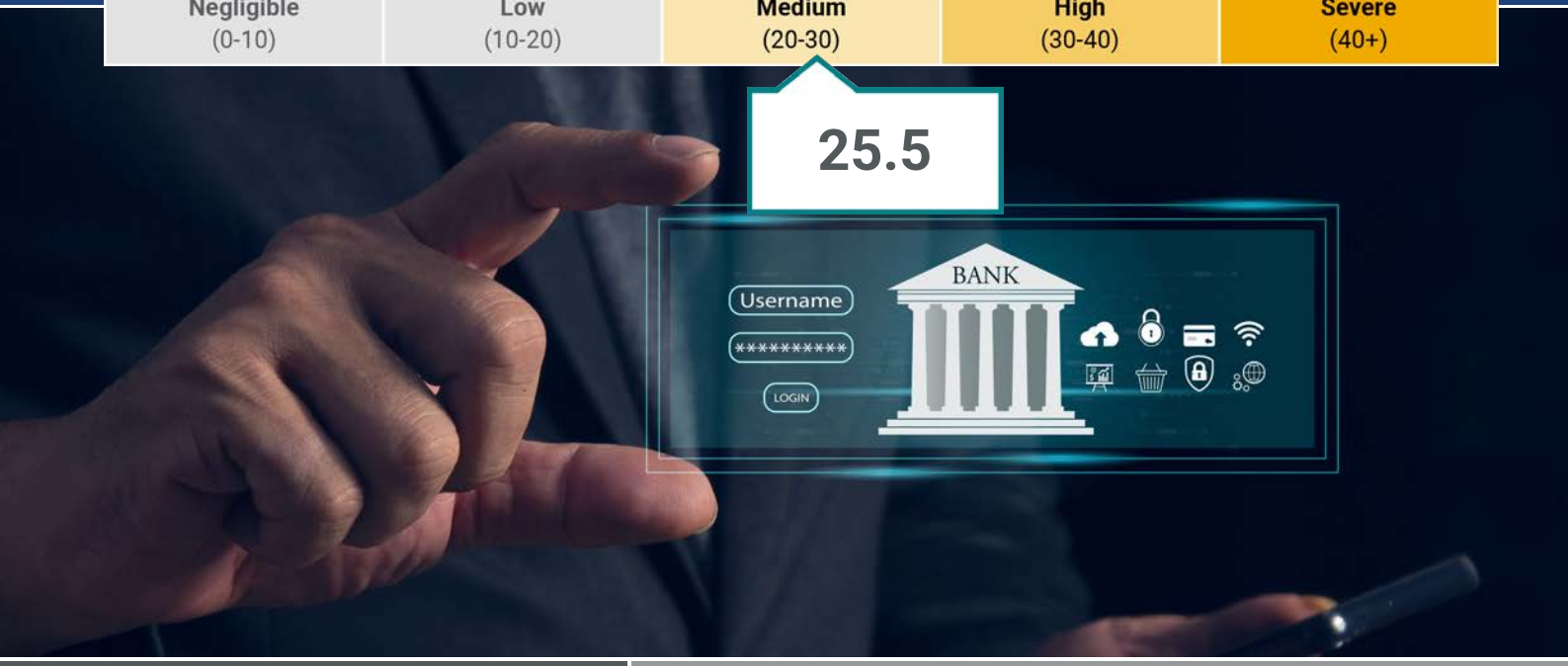
Note: Milestone distribution of ongoing Engage cases at the end of the reporting period.



Resolved Q4 - AlRayan Bank

ESG Risk Ratings Score

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



INDUSTRY:
Banks

COUNTRY:
Qatar

ENGAGEMENT FOCUS:

- **Product governance**
- **Corporate governance**
- **ESG Integration-Financials**

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

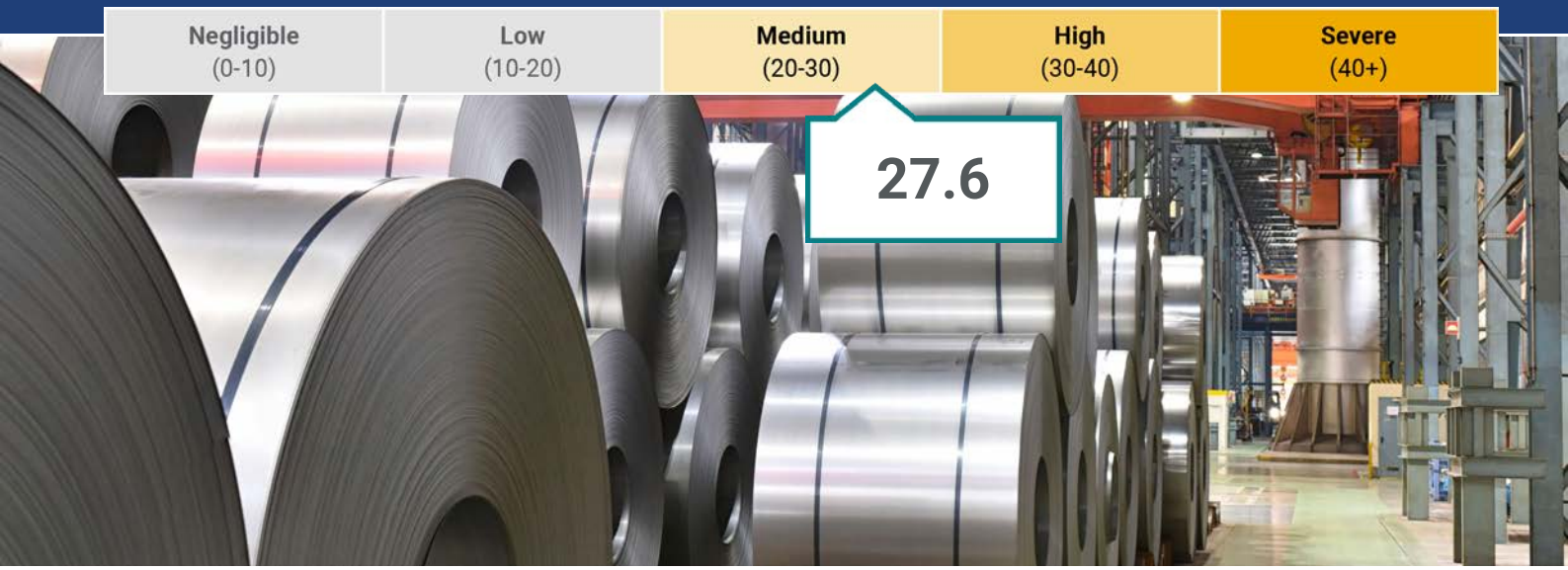
Positive Development Highlights:

- In February 2026, AlRayan Bank issued its inaugural Green Sukuk, raising QAR 500 million and demonstrating the transition from sustainable finance commitments to the delivery of sustainable and Sharia-compliant financing solutions.
- In December 2024, AlRayan Bank became the first Sharia-compliant bank in Qatar to join the Partnership for Carbon Accounting Financials (PCAF), strengthening its ability to measure and disclose financed emissions and establishing a foundation for future scope 3 Category 15 reporting.
- The Bank published a Board-approved ESG Policy in 2024, establishing a group-wide ESG governance framework and minimum ESG requirements across AlRayan Bank and its subsidiaries, with annual reviews to support ongoing implementation and oversight.
- The Bank developed the first Islamic ESG KPI-linked repo transaction with HSBC, linking sustainability performance considerations to financing activities and demonstrating continued integration of ESG factors into financial products.

Since the engagement commenced in September 2022, AlRayan Bank improved its Sustainalytics ESG Risk Rating score by more than 5 points, bringing the company into the Medium Risk category. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4 - ArcelorMittal SA

ESG Risk Ratings Score



INDUSTRY:
Steel

COUNTRY:
Luxembourg

ENGAGEMENT FOCUS:

- **Health and Safety**
- **Emissions, Effluents and Waste**
- **Carbon - Own Operations**

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

Positive Development Highlights:

- The company's 2025 Sustainability Report demonstrates a well-established group-wide ESG and climate governance framework, supported by formal decarbonization targets, comprehensive climate strategy disclosures, and regular reporting on safety, emissions, and transition initiatives. ESG-related disclosures have become increasingly granular, while implementation of key sustainability initiatives appears mature and embedded within the business.
- In 2025, ArcelorMittal made progress on decarbonization, including the modernization of the Belval steel plant and completion of a new electric arc furnace (EAF). The EAF began initial testing in late 2025 and was expected to support the production of lower-carbon steel. Additionally, a major dedusting project at its steel production facility in Differdange, Luxembourg, was completed. The installation was expected to reduce diffuse emissions by around 80%. ArcelorMittal also completed third-party audits and quantitative risk assessments of its tailings storage facilities, which were managed in accordance with leading international frameworks, including the Mining Association of Canada protocols, Canadian Dam Association requirements, and the Global Industry Standard on Tailings Management.
- In 2025, ArcelorMittal progressed the implementation of recommendations from its independent dss+ workplace safety audit, including enhanced leadership oversight, competency-based training programmes, and site-specific action plans designed to strengthen safety culture and reduce serious incidents across the Group.

Since the engagement commenced in July 2021, ArcelorMittal improved its Sustainalytics ESG Risk Rating score by 9.4 points, bringing the company into the Medium Risk category and below the 28-point engagement threshold. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4 - Bank of Shanghai

ESG Risk Ratings Score

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



INDUSTRY:
Banks

COUNTRY:
China

ENGAGEMENT FOCUS:

- **Product Governance**
- **Business Ethics**
- **ESG Integration-Financials**

RATIONALE FOR RESOLVED STATUS:

Bank of Shanghai has improved its ESG Risk Rating score to 28.

Positive Development Highlights:

- The bank strengthened end-to-end controls over product sales through structured pre-sale reviews, monitoring of sales practices, post-sale customer feedback processes, and full transaction traceability, supported by mandatory compliance training for sales staff.
- The bank enhanced consumer protection oversight through its Consumer Rights Protection Committee, conducting 2,312 consumer rights protection reviews in 2025, a 44.5% increase year-on-year, while embedding customer protection requirements into product design, marketing, sales, complaint handling, and contract review processes.
- The bank introduced the Interim Measures for the Management of Environmental, Social and Governance Risks, requiring ESG due diligence within the credit approval process. It also established a formal ESG rating framework covering 16 indicators, completed ESG assessments for 168 companies, and applies a “one-vote veto” mechanism for clients that breach environmental, social, or safety requirements.
- The bank demonstrated a structured approach to supporting the transition of high-carbon sectors by providing transition financing subject to defined conditions, ongoing monitoring, milestone tracking, and risk controls throughout the financing period.

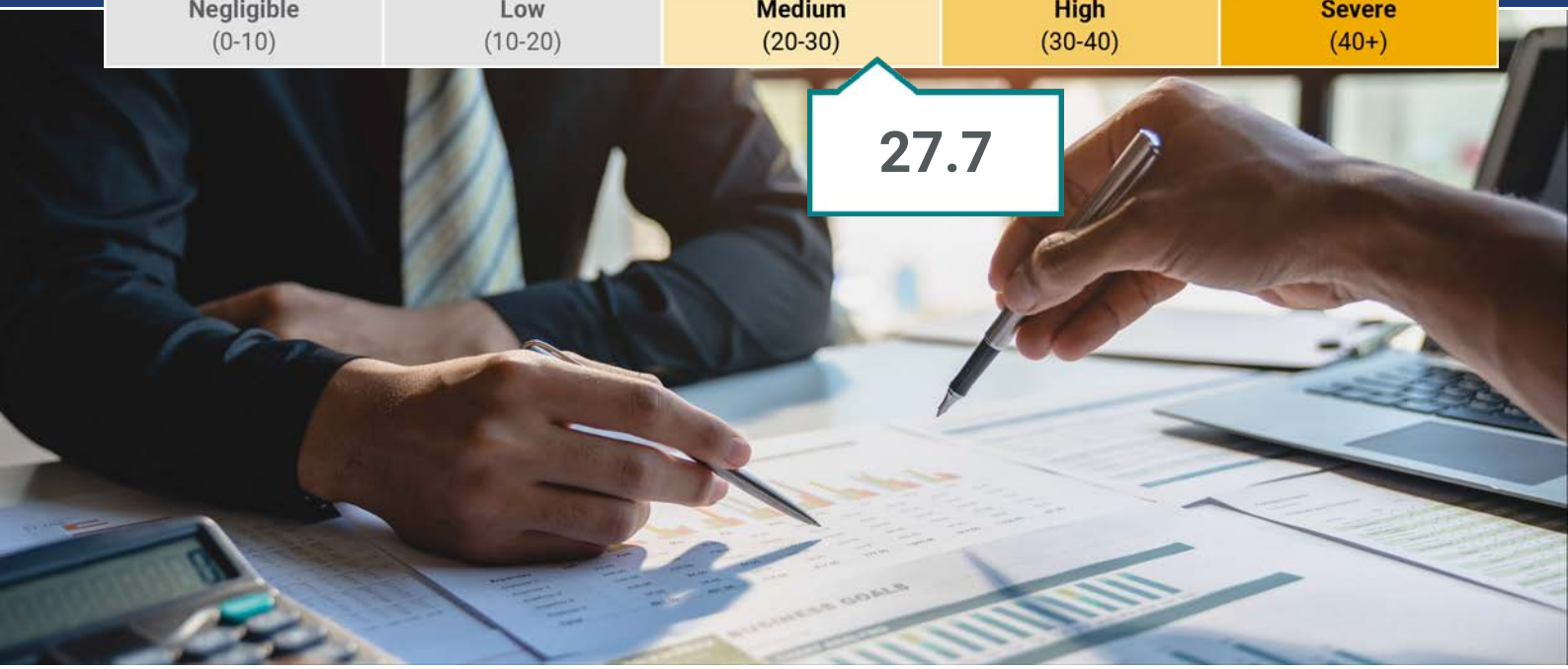
Since the engagement commenced in March 2021, Bank of Shanghai improved its Sustainalytics ESG Risk Rating score by 6.4 points, bringing the company into the Medium Risk category. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4 - Bausch Health Cos., Inc.

ESG Risk Ratings Score

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

27.7



INDUSTRY:
Pharmaceuticals

COUNTRY:
Canada

ENGAGEMENT FOCUS:
- **Product Governance**
- **Access to Basic Services**
- **Human Capital**

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

Positive Development Highlights:

- Bausch Health strengthened its management of material ESG risks through enhanced governance frameworks, policies and disclosures across key sustainability topics, including product quality and safety, business ethics, human capital and climate-related risks.
- The company increased transparency regarding its product quality and safety management systems, including disclosure related to quality assurance processes, quality management certifications, clinical trial practices and product governance frameworks, providing investors with greater visibility into how product-related risks are managed.
- In 2024, Bausch Health published a Global Human Rights Policy, formalizing its approach to labour and human rights issues and strengthening disclosure of expectations applicable across its operations and supply chain.
- In 2025, the company published a TCFD-aligned climate report, enhancing disclosure of its governance, oversight and management of climate-related risks and opportunities, and providing investors with greater insight into its approach to climate risk management.

Since the engagement commenced in February 2020, Bausch Health improved its Sustainalytics ESG Risk Rating score by 8.4 points, bringing the company into the Medium Risk category and below the 28-point engagement threshold. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4- Industrial & Commercial Bank of China Ltd. (ICBC)

ESG Risk Ratings Score



INDUSTRY:
Banks

COUNTRY:
China

ENGAGEMENT FOCUS:

- **Business Ethics**
- **Product Governance**
- **ESG Integration-Financials**

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

Positive Development Highlights:

- According to the 2025 Sustainability Report, ICBC strengthened climate and ESG risk management by integrating climate risk into its enterprise-wide risk management framework, conducting climate stress testing, and embedding ESG considerations throughout lending and investment decision-making processes.
- ICBC established a formal ESG risk management system covering the full financing lifecycle, including due diligence, approval, post-lending monitoring, and risk reporting. The bank also incorporated ESG risks into credit assessments and risk appetite frameworks and deployed an intelligent risk control system that automatically identifies ESG-related risks during credit processes.
- The bank expanded its support for inclusive and transition finance, with outstanding inclusive SME loans reaching RMB 3.55 trillion in 2025, representing 22.8% year-on-year growth. It also continued to develop transition finance, carbon finance, biodiversity finance, and other sustainable finance products.
- Board-level oversight of consumer protection was strengthened through the Social Responsibility and Consumer Protection Committee. During 2025, ICBC approved Consumer Rights Protection Management Measures, introduced AI-enabled consumer protection review tools, reduced customer complaints by 22.6% year-on-year, and increased customer satisfaction to 96.11%.

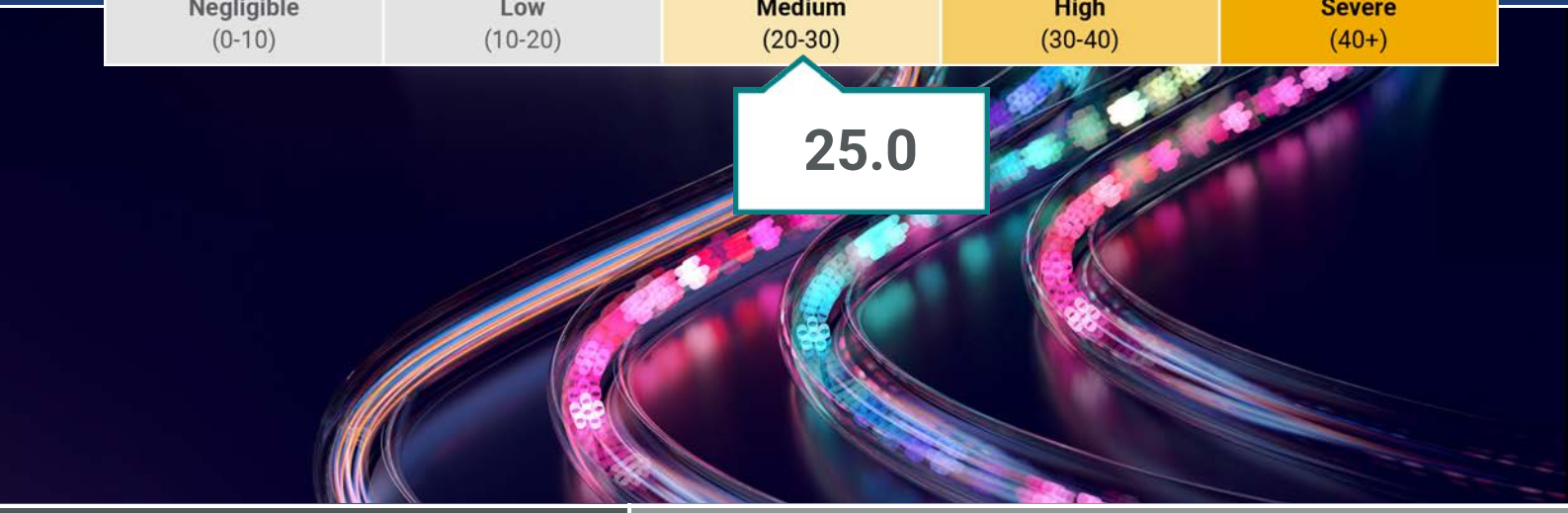
Since the engagement commenced in February 2020, ICBC improved its Sustainalytics ESG Risk Rating score by 11.1 points, bringing the company into the Medium Risk category and below the 28-point engagement threshold. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4 - Keikyu Corp.

ESG Risk Ratings Score

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

25.0



INDUSTRY:
Industrial Conglomerates

COUNTRY:
Japan

ENGAGEMENT FOCUS:

- **Occupational Health and Safety**
- **Corporate Governance**
- **Emissions, Effluents and Waste**
- **Human Capital**
- **Carbon – Own Operations**
- **Product Governance**

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

Positive Development Highlights:

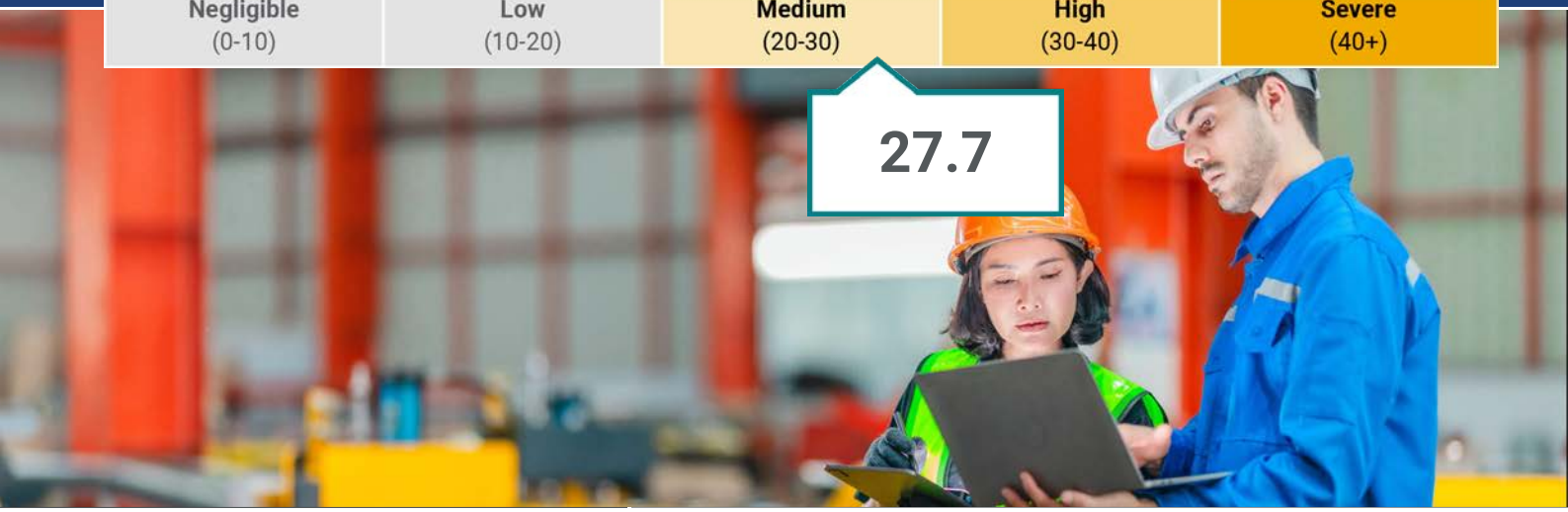
- Keiyku Corporation strengthened its sustainability governance framework through the establishment of a Sustainability Committee under Board supervision, the identification of material ESG issues with quantitative KPIs, and the disclosure of executive-level responsibility for sustainability. The company further enhanced Board independence, with independent outside directors representing a majority of the Board (7 of 13 directors), while increasing female representation from two to three directors.
- The company enhanced its climate strategy by updating its medium-term greenhouse gas reduction target to align with a 1.5°C pathway, disclosing medium- and long-term emissions reduction targets, and calculating and obtaining third-party assurance for its scope 3 emissions.
- Recognizing employee safety as a material ESG issue, Keikyu Corporation improved disclosure of occupational health and safety performance data, clarified management accountability for safety performance, established relevant targets and KPIs, and increased transparency regarding emergency response guidelines and employee training.
- The company strengthened disclosure related to operational risk management by providing greater transparency on its quality management framework, including disclosure of the scope of its ISO 9001 certification across group companies, and by enhancing reporting on its materiality assessment and ESG management approach.

Since the engagement commenced in April 2021, Keikyu Corp. improved its Sustainalytics ESG Risk Rating score by 6.9 points, bringing the company into the Medium Risk category and below the 28-point engagement threshold. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4 - Nucor Corp

ESG Risk Ratings Score

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



INDUSTRY:
Steel

COUNTRY:
United States

ENGAGEMENT FOCUS:

- **Occupational Health & Safety**
- **Community Relations**
- **Carbon - Own Operations**
- **Human Capital**
- **Business Ethics**

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

Positive Development Highlights:

- Nucor continues to demonstrate a mature approach to ESG risk management, supported by strong board and management oversight, transparent reporting on material sustainability issues, and ongoing initiatives across occupational health and safety, climate, human capital, and business ethics.
- Nucor has strengthened its safety management systems through recognized frameworks including ISO 45001, OSHA's Voluntary Protection Program (VPP) and SHARP. In 2025, 24 divisions participated in VPP and approximately 25% of steel mill teammates worked at ISO 45001-certified facilities subject to independent third-party audits.
- Nucor advanced its safety culture through continued investment in leadership development, including its dedicated Safety Leadership Program, which trained 324 front-line supervisors in 2025 to enhance safety accountability, risk awareness and hazard prevention across operations.
- Nucor formalized a Serious Injury and Fatality prevention strategy focused on identifying high-risk tasks, strengthening critical controls, analyzing potential serious-injury events and sharing lessons learned across divisions. The strategy reflects a shift from reactive incident management towards proactive risk prevention.
- Nucor enhanced climate-related disclosure in its 2024 Sustainability Report by providing detailed year-over-year scope 1, 2 and 3 emissions data and GHG intensity trends, improving investor visibility into decarbonization progress and climate performance.

Since the engagement commenced in April 2022, Nucor Corp. improved its Sustainalytics ESG Risk Rating score 4.5 points, bringing the company into the Medium Risk category and below the 28-point engagement threshold. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4 - Vale SA

ESG Risk Ratings Score



INDUSTRY:
Diversified Metals

COUNTRY:
Brazil

ENGAGEMENT FOCUS:

- **Occupational Health and Safety**
- **Emissions, Effluents and Waste**
- **Community Relations**
- **Corporate Governance**

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

Positive Development Highlights:

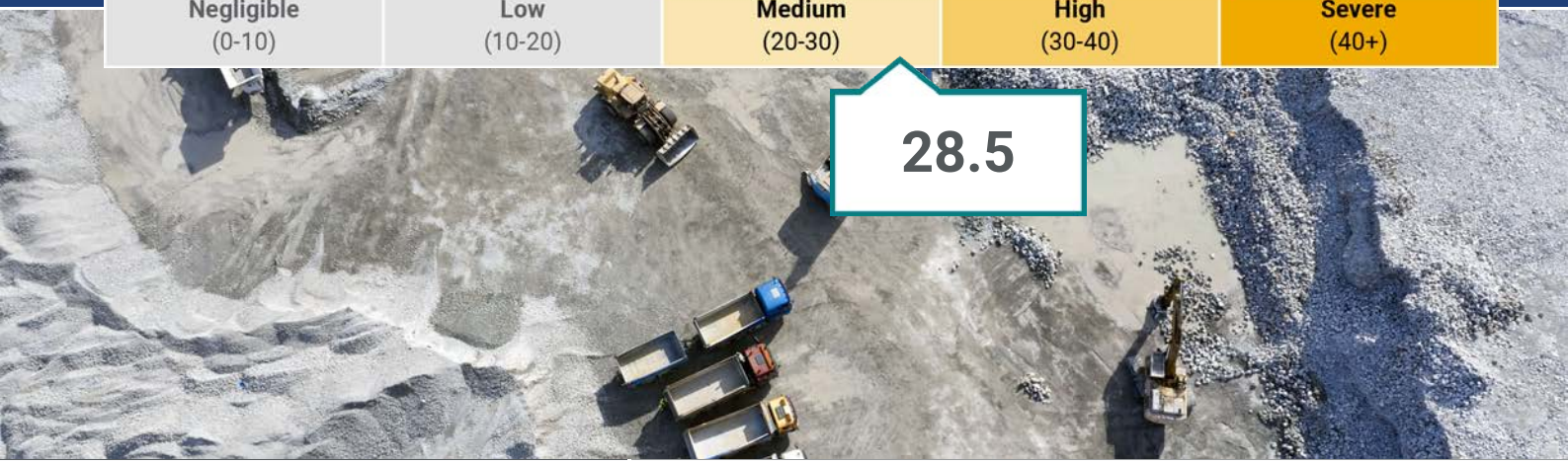
- In 2020, Vale SA committed to invest at least USD 2 billion in support of its goal to achieve carbon neutrality by 2050 and established an interim target to reduce carbon emissions by 33% by 2030, strengthening the company's long-term climate transition strategy.
- Vale SA enhanced transparency regarding community safety by disclosing multi-year safety performance trends and providing greater detail on the causes of serious incidents, including road traffic collisions, railway incidents and unauthorized access to operational areas. The company also strengthened its Integrated Community Safety Plans and expanded corrective actions involving operations, suppliers, communities and public authorities.
- The company strengthened engagement with affected communities through enhanced disclosure on the effectiveness of its Listening and Response Mechanism. In 2025, 99.4% of recorded community comments received a response and 85.6% were addressed, with disclosure of response and resolution timelines improving transparency and accountability.
- Vale SA further strengthened governance and oversight of social and operational risks through enhanced ethics and compliance reporting. In 2025, the company expanded disclosure on compliance governance, risk management, whistleblowing and corrective actions, while continuing to provide transparency on whistleblower outcomes and programme effectiveness through periodic external review.

Since the engagement commenced in November 2021, Vale SA improved its Sustainalytics ESG Risk Rating score 14.2 points, bringing the company into the Medium Risk category and below the 28-point engagement threshold. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Resolved Q4 - Zijin Mining Group Co., Ltd.

ESG Risk Ratings Score

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



INDUSTRY:
Precious Metals

COUNTRY:
China

ENGAGEMENT FOCUS:

- **Emissions, Effluents and waste**
- **Occupational Health and Safety**
- **Water Use - Own Operations**
- **Human Capital**
- **Corporate Governance**

RATIONALE FOR RESOLVED STATUS:
Zijin Mining has improved its ESG Risk Rating score to 28.

Positive Development Highlights:

- In 2025 and 2026, Zijin Mining strengthened ESG governance and accountability through the introduction of a compensation clawback mechanism and the integration of ESG metrics into senior management remuneration, with ESG factors accounting for 20% of incentive compensation.
- The company significantly enhanced its human rights management framework by formalizing supplier human rights due diligence requirements and introducing monthly labour and human rights inspections covering contractors across its subsidiaries to monitor working conditions, labour rights, worker welfare and compliance with company standards.
- Zijin Mining strengthened environmental and tailings risk management by deploying intelligent real-time monitoring systems across all Class D tailings facilities, implementing real-time water quality and discharge monitoring across its operations, and committing not to develop new mines that require riverine tailings disposal.
- In 2025 and 2026, the company advanced the integration of climate- and nature-related considerations into business decision-making through the introduction of an internal carbon pricing mechanism for new projects, adoption of the Taskforce on Nature-related Financial Disclosures (TNFD) framework, and application of the LEAP methodology across major operating assets.

Since the engagement commenced in February 2020, Zijin Mining improved its Sustainalytics ESG Risk Rating score by 36.3 points, bringing the company into the Medium Risk category and below the 28-point engagement threshold. Continued progress against engagement objectives supported the engagement being resolved in Q4 2026.

Low Performance Engagements

The following list displays Low Performance companies with Poor or None Progress in combination with Poor or None Response.

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

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

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
				One piece equals three months.
Oil & Natural Gas Corp. Ltd.	India	Focus on Carbon and Emissions, Effluents and Waste		3-6
Saudi Arabian Oil Co.	Saudi Arabia	Focus on Emissions, Effluents and Waste and Community Relations		3-6
Almarai Co.	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure		6-9
DTE Energy Co.	United States	Focus on Carbon Own Operations		6-9
PGE Polska Grupa Energetyczna SA	Poland	Focus on Carbon and Emissions, Effluents and Waste		6-9
QL Resources Bhd.	Malaysia	Focus on Product Governance		6-9
Shimizu Corp.	Japan	Focus on Business Ethics		6-9
Canadian Natural Resources Ltd.	Canada	Focus on Carbon Products and Services	Director Letter	9-12
Chevron Corp.	United States	Focus on Carbon Products and Services		9-12
Coca-Cola Consolidated, Inc.	United States	Focus on E&S Impact of Products and Services	Director Letter	9-12

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
				One piece equals three months.
Eneva SA	Brazil	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	9-12
EQT Corp.	United States	Focus on Carbon and Community Relations	Director Letter	9-12
Kikkoman Corp.	Japan	Focus on Product Governance		9-12
Masimo Corp.	United States	Focus on Risk Assessment and ESG Disclosure	Investor Letter, Voting Recommendations	9-12
Mesaieed Petrochemical Holding Co. QSC	Qatar	Focus on Risk Assessment and ESG Disclosure	Director Letter	9-12
PPB Group Bhd.	Malaysia	Focus on Land Use and Biodiversity Supply Chain	Director Letter	9-12
SABIC Agri-Nutrients Co.	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure	Director Letter	9-12
Südzucker AG	Germany	Focus on Carbon and Resource Use	Director Letter	9-12
Viking Holdings Ltd. (Bermuda)	Bermuda	Focus on Product Governance		9-12
Industries of Qatar Co.	Qatar	Focus on Risk Assessment and ESG Disclosure	Director Letter	12-15
Occidental Petroleum Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste		12-15
Reliance Industries Ltd.	India	Focus on Risk Assessment and ESG Disclosure	Director Letter	12-15

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
				One piece equals three months.
Zoomlion Heavy Industry Science & Technology Co., Ltd.	China	Focus on Carbon and Product Governance	Director Letter	12-15
DraftKings, Inc.	United States	Focus on Business Ethics	Director Letter	15-18
Athabasca Oil Corp.	Canada	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	21-24
Baytex Energy Corp.	Canada	Focus on Risk Assessment and ESG Disclosure	Director Letter	21-24
HF Sinclair Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	21-24
China State Construction Engineering Corp. Ltd.	China	Focus on Risk Assessment	Director Letter	Above 24
EOG Resources, Inc.	United States	Focus on Emissions, Effluents and Waste	Director Letter	Above 24
Exxonmobil Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	Above 24
General Dynamics Corp.	United States	Focus on Risk Assessment and ESG Disclosure	Director Letter	Above 24
Grupo Carso SAB de CV	Mexico	Focus on Risk Assessment and ESG Disclosure	Director Letter, Voting Recommendations	Above 24
Saudi Industrial Investment Group	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure	Director Letter, Investor Letter	Above 24

Stewardship Services does not provide investment advice; the decision of investment or exclusion lies solely with investors. Stewardship Services provides insights, information, and services, and it remains the client's sole responsibility and decision to manage their portfolio. Stewardship Services' clients benefit from engagement activities, such as participating in company meetings, webinars, and roundtable events. Investor clients are also provided with insights and data stemming from those activities.

Engagement Status Updates

The following is an overview of all engagement status updates from 1 January to 31 October 2026.

New Engage

COMPANY	COUNTRY	ISSUE	QUARTER
Hokuhoku Financial Group, Inc.	Japan	Focus on Product Governance	Q3
Organo Corp.	Japan	Focus on Product Governance	Q3
Cosmo Energy Holdings Co., Ltd.	Japan	Focus on Occupational Health and Safety	Q2
Electric Power Development Co., Ltd.	Japan	Focus on Carbon and Emissions, Effluents and Waste	Q2
South Bow Corp.	Canada	Focus on Emissions, Effluents and Waste and Community Relations	Q2
Celsius Holdings, Inc.	United States	Focus on Product Governance	Q1
CPFL Energia SA	Brazil	Focus on Product Governance	Q1
Genesis Minerals Ltd.	Australia	Focus on Carbon and Resource Use	Q1
Ithaca Energy Plc	United Kingdom	Focus on Corporate Governance and Carbon Products and Services	Q1
K92 Mining, Inc.	Canada	Focus on Emissions, Effluents and Waste	Q1
North Atlantic Energies	France	Focus on Corporate Governance and Carbon Products and Services	Q1
Seabridge Gold, Inc.	Canada	Focus on Occupational Health and Safety	Q1
Thai Oil Public Co. Ltd.	Thailand	Focus on Emissions, Effluents and Waste	Q1
Vår Energi ASA	Norway	Focus on Carbon and Emissions, Effluents and Waste	Q1
YTL Power International Bhd.	Malaysia	Focus on Carbon and Emissions, Effluents and Waste	Q1

New Resolved

COMPANY	COUNTRY	ISSUE	QUARTER
AlRayan Bank ESG Risk Rating	Qatar	Focus on ESG Integration Financials	Q4
ArcelorMittal SA ESG Risk Rating	Luxembourg	Focus on Occupational Health and Safety	Q4
Bank of Shanghai Co., Ltd. ESG Risk Rating	China	Focus on Risk Assessment and ESG Disclosure	Q4
Bausch Health Cos., Inc. ESG Risk Rating	Canada	Focus on Product Governance	Q4
Industrial & Commercial Bank of China Ltd. ESG Risk Rating	China	Focus on ESG Integration Financials	Q4
Keikyu Corp. ESG Risk Rating	Japan	Focus on Occupational Health and Safety	Q4
Nucor Corp. ESG Risk Rating	United States	Focus on Occupational Health and Safety	Q4
Vale SA ESG Risk Rating	Brazil	Focus on Emissions, Effluents and Waste and Community Relations	Q4
Zijin Mining Group Co., Ltd. ESG Risk Rating	China	Focus on Risk Assessment and ESG Disclosure	Q4
Agricultural Bank of China Ltd. ESG Risk Rating	China	Focus on Business Ethics	Q3
AXIA Energia SA ESG Risk Rating	Brazil	Focus on Community Relations and Land Use and Biodiversity	Q3
Hyundai Steel Co. ESG Risk Rating	South Korea	Focus on Carbon Own Operations	Q3
Imerys SA ESG Risk Rating	France	Focus on E&S Impact of Products and Services	Q3
STRABAG SE ESG Risk Rating	Austria	Focus on E&S Impact of Products and Services and Community Relations	Q3
Advanced Petrochemical Co. ESG Risk Rating	Saudi Arabia	Focus on Emissions, Effluents and Waste and Resource Use	Q2

COMPANY	COUNTRY	ISSUE	QUARTER
BIM Birlesik Magazalar AS ESG Risk Rating	Turkey	Focus on Corporate Governance	Q2
Eiffage SA ESG Risk Rating	France	Focus on E&S Impact of Products and Services	Q2
Etihad Etisalat Co. ESG Risk Rating	Saudi Arabia	Focus on Corporate Governance and Human Capital	Q2
Grupo México S.A.B. de C.V. ESG Risk Rating	Mexico	Focus on Emissions, Effluents and Waste and Community Relations	Q2
PT Perusahaan Listrik Negara (Persero) ESG Risk Rating	Indonesia	Focus on Carbon Own Operations	Q2
Shanghai M&G Stationery, Inc. ESG Risk Rating	China	Focus on ESG Disclosure	Q2
Sun Pharmaceutical Industries Ltd. ESG Risk Rating	India	Focus on ESG Disclosure	Q2
The People's Insurance Co. (Group) of China Ltd. ESG Risk Rating	China	Focus on Product Governance	Q2

New Archived

COMPANY	COUNTRY	ISSUE	PREVIOUS STATUS	QUARTER
ARC Resources Ltd.	Canada	Focus on Emissions, Effluents and Waste	Engage	Q4
Blue Owl Capital, Inc.	United States	Focus on Product Governance	Engage	Q4
Coterra Energy, Inc.	United States	Focus on Carbon and Emissions, Effluents and Waste	Engage	Q4
Encompass Health Corp.	United States	Focus on Product Governance and Emissions, Effluents and Waste	Engage	Q4
FOOD & LIFE COMPANIES LTD.	Japan	Focus on E&S Impact of Products and Services	Engage	Q4
Jiangsu Hengrui Pharmaceuticals Co., Ltd.	China	Focus on Product Governance	Engage	Q4
Legend Biotech Corp.	United States	Focus on Product Governance and Access to Basic Services	Engage	Q4
Natera, Inc.	United States	Focus on Product Governance and Access to Basic Services	Engage	Q4
Energisa SA	Brazil	Focus on Emissions, Effluents and Waste and Resource Use	Engage	Q2
Frontline Plc	Cyprus	Focus on Occupational Health and Safety and Emissions, Effluents and Waste	Engage	Q2
China State Construction International Holdings Ltd.	Hong Kong	Focus on Occupational Health and Safety and Human Capital	Engage	Q1
Formosa Petrochemical Corp.	Taiwan	Focus on Carbon Own Operations	Engage	Q1
Jinko Solar Co., Ltd.	China	Focus on Corporate Governance and Human Rights	Engage	Q1
Kellanova	United States	Focus on Product Governance	Engage	Q1
MicroPort Scientific Corp.	China	Focus on Risk Assessment and Corporate Governance	Engage	Q1

COMPANY	COUNTRY	ISSUE	PREVIOUS STATUS	QUARTER
Parkland Corp.	Canada	Focus on Carbon and Emissions, Effluents and Waste	Engage	Q1
UBE Corp.	Japan	Focus on Carbon Own Operations	Engage	Q1

New Unresponsive

COMPANY	COUNTRY	ISSUE	QUARTER
ORION Corp.	South Korea	Focus on Product Governance	Q4
Yunnan Baiyao Group Co., Ltd.	China	Focus on Product Governance	Q4
Zhangzhou Pientzehuang Pharmaceutical Co., Ltd.	China	Focus on Risk Assessment and Corporate Governance	Q4
China Petroleum & Chemical Corp.	China	Focus on Carbon and Emissions, Effluents and Waste	Q2
GS Holdings Corp.	South Korea	Focus on Carbon Own Operations	Q2

Universe Change Impact

COMPANY	COUNTRY	ISSUE	NOTES	QUARTER
Banpu Public Co. Ltd. (OLD)	Thailand	Focus on Emissions, Effluents and Waste and Resource Use	Entity currently not eligible for research. Previous status: Engage	Q4

Lessons from Six Years of Material Risk Engagement



Paulina Segreto
Director, Stewardship
Morningstar

A Consistent Test for a Changing Risk Agenda

Over the six years of the Material Risk Engagement, the issues facing companies changed substantially. Climate transition plans became more detailed. Human rights due diligence moved closer to the centre of corporate risk management. Nature-related risk and responsible technology gained prominence. This expanding agenda could suggest that investors need a different engagement model for every new issue. However, the Material Risk Engagement experience points to a more durable conclusion: the subject may change, but the conditions for an effective corporate response remain consistent.

In practice, the same stewardship questions remained relevant regardless of the topic. Companies make stronger progress when they understand the business relevance of a risk, assign clear responsibility, and establish effective oversight. They then need systems that translate intent into practice, and evidence that those systems work.

Governance Predicts the Capacity to Act

Governance was the most consistent differentiator between engaged companies that advanced and those that struggled. Where boards understood the issue and senior management owned the response, companies were better able to set priorities and resolve trade-offs. Clear accountability also helped move responsibility beyond a sustainability team and into the functions that controlled operations, capital and incentives.

Weak governance produced a different pattern. Companies often had policies but lacked a clear decision-maker. Actions remained fragmented, implementation slowed and investors had limited evidence that material risks influenced business strategy. For stewardship, governance is therefore more than one topic among many. It is a practical indicator of a company's ability to effectively respond as risks evolve.

Disclosure Opened the Conversation. Implementation Determined the Outcome.

Disclosure played an important role throughout the service, but its value changed over time. Early reporting helped investors establish whether companies recognized a risk and had begun to respond. As practice matured, the key question became whether commitments shaped decisions. This distinction matters because polished reporting can coexist with limited execution. Investors need to assess the link between what a company says and what it does. Evidence of implementation provides a stronger basis for judging resilience than disclosure alone.

The shift from commitments to evidence also sharpened escalation decisions. Where companies remained unable or unwilling to demonstrate progress, engagement provided investors with improved insight into persistent governance and management weaknesses.

Climate and Human Rights Showed the Same Pattern

Climate change remained the most prominent engagement theme. Over time, the discussion moved beyond target-setting towards transition planning and execution. The more decision-useful questions concerned how climate considerations affected capital expenditure and operational planning. Investors also needed to understand who was accountable when delivery fell behind.

Human rights engagement topics followed a similar path. Companies increasingly recognized that workforce practices and supply-chain impacts could create operational disruption or regulatory exposure. The focus then moved to due diligence, remedy, and oversight.

Although the issues differed, the stewardship test was the same: could the company connect risk recognition to accountable action and credible evidence?

Regulation Set the Baseline, Not the Standard of Leadership

Material Risk Engagement's lifespan coincided with significant regulatory changes around the world. New requirements often improved the availability and comparability of information, while also encouraging companies to formalize governance and due diligence processes. However, regulation rarely explained the full difference in corporate performance as companies operating under the same rules showed varied levels of preparedness.

Policy fragmentation made this distinction important. Through our engagements, we observed that some companies responded to changing regulatory requirements and shifting policy expectations with reduced external communication as public debate intensified, while continuing internal work. Others treated minimum compliance as the endpoint. Engagement helped investors look through both responses and tested management quality and implementation rather than relying on the volume of disclosure.

Emerging Risks Reinforced Enduring Principles

In the later years of the service, engagement expanded into issues involving responsible technology. The growth of artificial intelligence and data-centre infrastructure brought questions about energy demand, water use, and community impacts where developments showed how quickly an emerging issue could connect with established business risks.

For investors, this suggests a more efficient approach to emerging-risk engagement. The first task is not to demand a comprehensive new policy; it is to test whether the company has the institutional capacity to understand the issue and respond proportionately. This approach keeps engagement relevant without making it reactive to every new theme, and returns discussion to financially material questions about resilience, execution, and long-term value.

By continuously monitoring developments across markets, industries and regulatory frameworks, Material Risk Engagement aimed to ensure that engagement remained relevant to the risks most likely to affect companies in the future, rather than solely those already reflected in current reporting practices or investor expectations.

From a Catalogue of ESG Issues to a Theory of Effective Response

Six years of engagement points towards a practical framework for stewardship.

First, assess whether the company understands the business implications of the risk. General awareness is not enough. Management should be able to explain the exposure and its potential consequences.

Next, examine whether responsibility is clearly assigned and supported by effective oversight. Responsibility should sit with decision-makers who have the authority and resources to act, while board oversight should be clear enough to challenge management and monitor progress.

Then test whether appropriate management systems are in place. Investors should look for evidence that governance affects operations, decision-making and resource allocation.

Finally, assess whether the company can demonstrate progress. Companies do not need to resolve every issue immediately, but they should be able to show measurable outcomes, respond openly to challenge and demonstrate a credible path forward.

This framework is deliberately stable. It can be applied across sectors and risks, giving investors a consistent basis for judgement while leaving room for company-specific context.

Long-Term Engagement Remains Essential

Material Risk Engagement has shown us why engagement should not be treated as a binary activity. Meaningful improvements rarely followed a single meeting or commitment. They developed through sustained dialogue as companies built awareness, strengthened governance and implemented change.

This dual role is important. Engagement can support change, but it also generates information. A company's response to clear and reasonable expectations reveals much about management quality and the effectiveness of its governance. The experience of Material Risk Engagement therefore supports a disciplined model of stewardship with its core lesson enduring:

The risk agenda will continue changing, but investors can remain forward-looking by applying a consistent stewardship test: does the company have the governance, accountability, and capacity to turn risk awareness into effective action?

Consultation, Consent, and Capital: Why Arctic Supply Chains Pose Growing Human Rights Risks for Investors



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Arctic warming is reshaping the region's geopolitical and economic importance, opening access to new shipping routes and critical minerals. These developments intersect with the rights of Indigenous peoples, who are central to sustainable development in the region, and raise increasingly material questions for investors regarding human rights due diligence across supply chains. As Arctic extraction becomes more closely linked to energy-transition and supply-security objectives, understanding the complexity of Arctic governance and Indigenous rights frameworks becomes essential for responsible investment decision-making. Human rights risks at extraction sites do not remain localized; they can extend downstream through supply chains, affecting companies and investors far removed from Arctic operations.

Key Takeaways

- Positioning Arctic extraction as essential to the energy transition and strategic supply security has compressed consultation timelines, increasing exposure to litigation, project delays, cancellations, and associated financial impacts, as illustrated by recent court rulings and regulatory interventions across multiple jurisdictions.
- Diverse frameworks on the rights of Indigenous Peoples across Arctic jurisdictions create material variability in regulatory and legal exposure. Minerals sourced from different Arctic countries may therefore carry meaningfully different levels of Indigenous rights-related risk that downstream companies and investors need to identify and assess.
- Emerging mandatory human rights due diligence frameworks, including the EU Corporate Sustainability Due Diligence Directive (CSDDD), extend corporate responsibility for human rights impacts across the full value chain, elevating Arctic supply-chain risk from a localized operational issue to a compliance, litigation, and stewardship concern for downstream companies and investors.
- A recurring risk identified in Arctic contexts is that of constrained consent, where community acceptance of extractive projects may reflect limited economic alternatives rather than durable agreement. Investors should assess the quality and durability of consent against internationally recognized Free, Prior and Informed Consent (FPIC) standards, and look beyond group-level policy commitments to examine site-level implementation, the disclosure of meaningful metrics, and track records on community-related controversies.

Critical Minerals, Strategic Acceleration, and Indigenous Peoples' Rights

As global warming transforms the Arctic at nearly four times the global average rate,[1] the region[2] is emerging as a strategically significant zone where climate change, energy security, geopolitics, and demand for transitional minerals intersect. Melting sea ice is opening new shipping corridors while revealing opportunities to access oil, gas, and critical mineral deposits.[3] Long-standing governance arrangements, such as the Arctic Council, face new pressures amid shifting geopolitical dynamics.[4] These changes are unfolding in a region home to diverse Indigenous Peoples whose governance systems, land use practices, and cultural resilience remain central to sustainable development – and whose territories increasingly overlap with mineral deposits and infrastructure critical to global supply chains.

Demand for critical minerals such as copper, nickel, and rare earth elements continues to rise due to their key roles in electric vehicles, batteries, and renewable energy technologies. The International Energy Agency (IEA) estimates that achieving global energy transition goals will require a significant increase in mineral inputs by 2040.[5] Several Arctic jurisdictions, including Norway, Finland, and Canada, are positioning themselves as suppliers of responsibly sourced minerals.

Once extracted, these materials enter complex global supply chains, ultimately reaching manufacturers of electric vehicles, batteries, electronics, and renewable energy infrastructure. Human rights risks arising at the point of extraction therefore travel downstream, potentially affecting companies and investors that do not operate directly in the Arctic. Geopolitical developments have further accelerated these dynamics. NATO and allied governments have increased their focus on the Arctic's role in collective defense and supply chain resilience, influencing infrastructure and resource development priorities.[6]

Canada's critical minerals strategy offers a clear example: the federal government has committed substantial public funding and has acknowledged that many critical mineral deposits overlap with First Nation, Inuit, and Métis communities and treaty lands.[7,8] When mineral developments are framed as strategically necessary for national or alliance resilience, political and commercial pressure to accelerate or advance projects can increase. In these contexts, consultation processes, cumulative impact assessments, and Indigenous participation may be compressed, raising the likelihood that unresolved social, cultural, or legal issues surface later in the project lifecycle.

Indigenous leaders, researchers, and civil society organizations increasingly describe this pattern as "green colonialism," a term used to describe situations in which climate- or security-driven solutions disproportionately transfer social and environmental burdens onto Indigenous communities without their meaningful participation in decision-making. From an investor perspective, such dynamics can signal elevated risk, particularly where accelerated permitting coincides with unresolved rights claims.[9,10]

A range of Arctic projects illustrate how these pressures can manifest. In Norway, disputes surrounding mining and infrastructure developments have highlighted the tension between national climate or industrial policy objectives and Sámi land use rights. Projects promoted as contributing to the energy transition may still face sustained opposition related to reindeer herding, marine ecosystems, or cumulative land use impacts.[11,12] Even where courts uphold permits, under domestic law, conflicts may persist through protests, legal appeals, or international advocacy, creating extended periods of uncertainty.

The pace of development across the Arctic is intensifying. Governments continue to expand licensing rounds for offshore oil and gas exploration, citing energy security considerations, which Arctic shipping traffic has surged in parallel.[13,14] For Indigenous communities reliant on marine subsistence and traditional livelihoods, increased vessel traffic, infrastructure development, and environmental disturbance can pose direct risks.[15] These impacts underscore that human rights and environmental considerations are not separate from strategic or transition objectives, but integral to their long-term viability.

Indigenous Rights Landscape: Shared Risk Drivers Across Arctic Governance Systems

For investors exposed to Arctic-linked supply chains, risks linked to the rights of Indigenous peoples often stem from recurring structural dynamics that transcend national boundaries. While legal frameworks differ across jurisdictions, common governance patterns repeatedly give rise to litigation, project delays, and regulatory intervention, particularly as Arctic extraction becomes more closely tied to energy transition objectives and supply security narratives.

A central risk driver is the reliance on procedural consultation frameworks that do not secure durable consent. Projects may be permitted under domestic law while remaining vulnerable to legal challenge where Indigenous cultural practices or livelihoods are affected. Court decisions have demonstrated that regulatory compliance does not necessarily align with international human rights standards, allowing disputes to persist well beyond project approval.

Another recurring factor is the treatment of land-use impacts through project-by-project assessments that fail to account for cumulative effects.[16] Indigenous livelihoods and ecosystems in the Arctic often depend on interconnected landscapes and seasonal mobility, while regulatory systems assess developments in isolation. This mismatch can permit incremental risk accumulation until opposition or legal action escalates, creating correlated exposure across assets that appear independent at the permitting stage. Strategic acceleration further amplifies these risks.

Governance capacity and transparency also shape investor risk. In Arctic environments where disclosure is limited and civic space constrained, assessing the quality of Indigenous engagement and the durability of consent becomes more difficult. These conditions materially limit the feasibility of robust human rights due diligence, particularly where supply chains extend across multiple jurisdictions or rely on intermediaries.

Across governance systems, a persistent source of disruption arises from gaps between corporate-level commitments on the rights of Indigenous peoples and asset-level implementation. Weak contractor oversight, underdeveloped grievance mechanisms, and limited engagement beyond permitting remain common drivers of controversy, reinforcing the financial materiality of the rights of Indigenous peoples governance for investors, well beyond the Arctic.

De-risking Arctic Investment and Supply Chains

The jurisdictional complexity outlined in this article has direct implications for human rights due diligence across supply chains dependent on Arctic-sourced materials. While mining is central to many energy transition pathways, independent assurance regarding the rights of Indigenous peoples, such as third-party verification of engagement processes, remains limited across much of the Arctic. Domestic permitting often serves as the primary source of validation, despite wide variation in rigor and scope.[17]

A recurring risk identified in Arctic contexts is that of constrained consent. Where alternative livelihoods have been eroded by climate impacts or land-use change, community acceptance of extractive projects may reflect limited options rather than durable agreement.[18] Consent obtained under such conditions may prove unstable, increasing the likelihood of future disputes. Even when projects proceed with formal approvals, unresolved tensions related to land use, cultural continuity, and long-term livelihoods can resurface through legal challenges, social opposition, or international scrutiny.[19,20]

For investors, controversies related to the rights of Indigenous peoples can translate into delayed or withdrawn permits, project redesigns, litigation, higher costs of capital, and reputational risk. When disruptions occur at the extraction stage, they can propagate through supply chains, affecting availability, pricing, and the overall risk profile of downstream manufacturers and technology companies.[21]

Regulatory frameworks are evolving in response. The EU Corporate Sustainability Due Diligence Directive (CSDDD), requires large companies to identify and address human rights impacts across their value chains, including upstream suppliers.[22] Similarly, the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas provides an internationally recognized framework for identifying and mitigating human rights risks associated with mineral sourcing.[23] Together, these frameworks mean that companies sourcing minerals from Arctic jurisdictions or from intermediaries linked to Arctic operations bear increasing legal and reputational responsibility for understanding risks related to the rights of Indigenous peoples, embedded in those supply chains.

From a stewardship perspective, the quality of a company's policy and practices on the rights of Indigenous peoples is not only an ethical consideration, but a forward-looking indicator of risk management. Investors may also look beyond policy commitments to assess site-level implementation, the disclosure of meaningful metrics, grievance mechanisms, and the company's track record in managing community-related controversies. Across engagement activities, gaps between group-level policy adoption and operational practice at asset level remain an area of focus.

Stewardship and Engagement Considerations for Investors

Investors concerned about Arctic-linked risk-mitigation should consider the robustness of issuer governance processes, the durability of consent from Indigenous peoples assessed against internationally recognized FPIC standards, and the traceability of human rights risks across value chains. Practical steps include:

- **Differentiate risk by jurisdiction and asset, not just by commodity.** Investors should assess how consultation, consent, and enforcement standards vary across Arctic jurisdictions and reflect these differences in supply-chain risk screening, escalation thresholds, and engagement priorities.
- **Test the quality and durability of Indigenous engagement and consent.** Engagement assessments should examine whether consultation processes are inclusive, ongoing, and supported by effective grievance mechanisms, rather than limited to one-off approvals.
- **Look beyond group-level policies to site-level implementation.** Investors may reduce exposure by prioritizing companies that disclose asset-level practices, indicators, and outcomes related to the rights of Indigenous peoples, including how commitments are translated into operational decision-making and contractor oversight.
- **Strengthen supply-chain transparency and traceability.** Downstream companies sourcing minerals, energy, or components linked to Arctic operations can mitigate risk by mapping upstream suppliers, identifying risk exposure related to the rights of Indigenous peoples, and aligning procurement practices with recognized due diligence frameworks for high-risk and conflict-affected areas. This approach is increasingly relevant as regulatory expectations extend responsibility beyond direct operations.
- **Integrate risks related to the rights of Indigenous peoples into stewardship and escalation strategies.** Where recurring disputes, litigation, or regulatory interventions are evident, investors may consider time-bound engagement objectives, voting actions, or portfolio re-weighting to reflect heightened financial and reputational risk. Persistent controversies can signal weaknesses in risk governance, with implications for cost of capital and project resilience.

As the strategic importance of the Arctic continues to grow, so too will the consequences of inadequate engagement and due diligence, particularly during early project phases. With mandatory human rights due diligence requirements expanding globally, Arctic supply-chain risks are no longer peripheral considerations – they are increasingly central to responsible investment. Understanding jurisdictional governance models, consultation standards, and the operationalization of commitments on the rights of Indigenous peoples is therefore essential for managing both short- and long-term financially material risks. At the same time, alternative pathways such as mineral recycling, demand-side reduction, and system-level redesign may reduce pressure for new extraction in sensitive regions, offering additional avenues for risk mitigation consistent with a just transition.

Board Effectiveness: How Japan Compares to Leading Asia-Pacific Region



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Japan's Corporate Governance Code was introduced in 2015, and a third round of revisions is expected mid-2026.[1] While the code and relevant initiatives have contributed to progress in corporate governance reforms, there is a growing demand for more substantive reform, going beyond compliance.[2] Against this backdrop, the upcoming revisions including the Code and related frameworks aim to foster an institutional environment that enhances "board effectiveness," one of the key pillars of Japan's broader governance reforms.

In the context of Japan's governance reforms, strengthening board effectiveness broadly refers to enhancing the board's decision-making and oversight capabilities to support sustainable corporate value. This places particular focus on practical mechanisms, such as board secretariat functions, that facilitate effective interactions between boards and management. Accordingly, further improving the structures that underpin board effectiveness has become a practical cornerstone of Japan's reform agenda.

This article offers a comparative analysis of Japanese company board effectiveness relative to leading Asia-Pacific companies, focusing on the factors that underpin effective boards. Based on this comparison, the analysis highlights areas where Japanese boards could further improve effectiveness. Notably, while the Japanese Corporate Governance Code emerged from a global movement to institutionalize corporate accountability, largely shaped by practices in the US and Europe, the Asia-Pacific region provides a relevant benchmark given that key regional economies face governance reform pressures that differ in nature but are shaped by some common market- and institution-driven dynamics.

What is Board Effectiveness?

Most international corporate governance codes place the corporate board at the heart of good governance. While no single definition emerges, there is broad convergence on what matters in practice: providing strategic guidance, overseeing management, and ensuring accountability. For example, the G20/OECD Principles of Corporate Governance outline key board responsibilities – from overseeing risk management and compliance to setting strategic direction and monitoring management.[3] Similarly, the UK Corporate Governance Code states that "a successful company is led by an effective and entrepreneurial board" that promotes long-term sustainable success.[4] Principle 1 of the International Corporate Governance Network's Global Governance Principles states that "The board should promote the long-term best interests of the company by acting…for the benefit of shareholders, while having regard to relevant stakeholders."[5]

Taken together, these frameworks suggest that board effectiveness is best understood as the board's capability to move beyond formal structures and fulfill its essential responsibilities in a way that drives corporate value creation.

Why does board effectiveness matter for investors? The reason is straightforward: boards represent the company and shareholders' interests through the effective monitoring and oversight of company management. Strong board leadership and accountable management protect against downside risks while driving long-term, sustainable corporate value.

Board Effectiveness in Japan and the Asia-Pacific Region

There are various indicators and approaches for assessing the effectiveness of a board of directors, and cross-company comparisons require multiple perspectives. However, we have determined that boards can be compared against a few key dimensions.

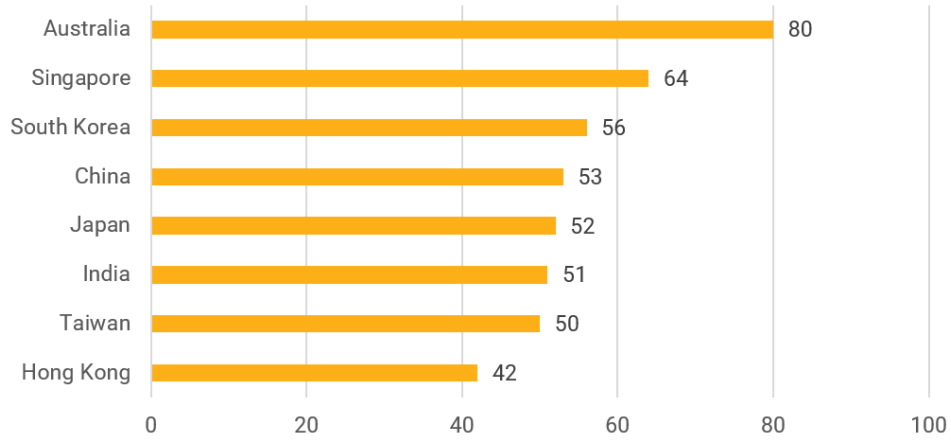
To benchmark Japanese company board effectiveness, we considered how they compared with a large number of companies across the Asia-Pacific region which have been analyzed by Morningstar Sustainalytics' "Board Effectiveness" Risk Rating indicator. This indicator is a key component of the ESG Risk Rating's Corporate Governance analysis and evaluates a board's effectiveness based on three important criteria – independence, expertise, and commitment – scoring each from 0 to 100 in 25-point increments.

To begin our analysis, the average company score for each country and region evaluated was calculated. Given the uneven coverage across jurisdictions, countries with a small number of companies covered by the rating were excluded.[29] The analysis was therefore conducted focusing on the eight major countries and regions.

The results of the analysis show the following ranking from highest to lowest: Australia, Singapore, South Korea, China, Japan, India, Taiwan, and Hong Kong. See Figure 1. Based on this ranking, Australia leads in board effectiveness with an average score of 80. Singapore and South Korea follow with 64 and 56, respectively. Japan places fifth, with an average board effectiveness indicator score of 52, positioning it mid-way among peers in the Asia region ranking.

While the analysis reflects multiple factors, Japan's outcome may be partly attributed to the country's comparatively later adoption of its governance framework, including the Corporate Governance Code which was introduced more than a decade after similar frameworks in leading countries – highlighting the importance of examining the underlying drivers of board effectiveness in greater detail.[30]

Figure 1 Ranking of Board Effectiveness Average Scores by ESG Risk Rating in Japan and the Asia-Pacific Region



Source: Morningstar Sustainalytics' ESG Risk Rating Data. Data as of February 2026. For informational purposes only.

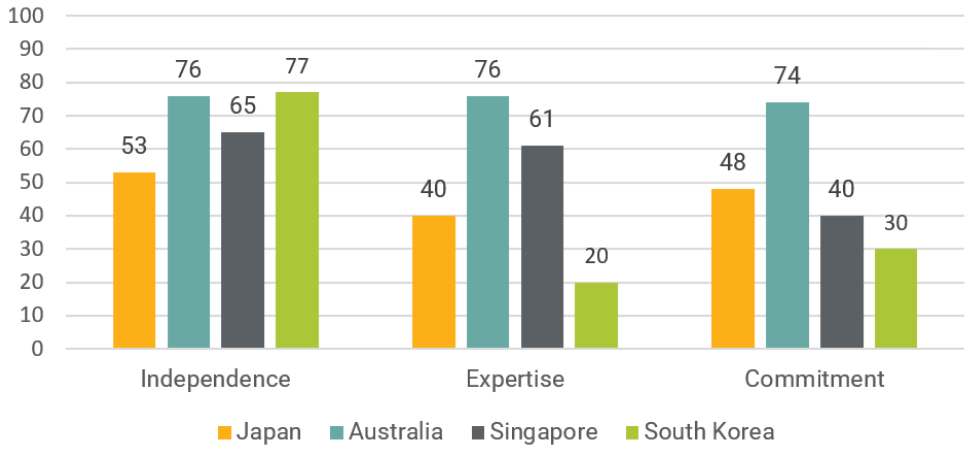
Component-Level Board Effectiveness: Japan and Leading Asia-Pacific Countries

To obtain a more detailed understanding of board effectiveness in Japan and the broader Asia-Pacific region (Australia, Singapore, South Korea), the analysis focuses on the individual components – independence, expertise, and commitment – underlying the ESG Risk Ratings' assessment of board effectiveness. As the ESG Risk Rating does not disclose scores for each criterion, other relevant corporate governance indicators within the rating were used.[31]

- **Independence** was assessed through indicators on the presence of independent directors on the board and key committees.
- **Expertise** was examined through indicators capturing whether the board has an appropriate mix of executive and non executive experience.
- **Commitment** was examined through compensation related indicators tied to short , medium , and long-term incentive schemes, reflecting directors' dedication to long-term objectives.

Based on these indicators, average scores were calculated for each country to derive a more granular picture of board effectiveness, focusing on Australia, Singapore, South Korea, and Japan (see Figure 2).

Figure 2 Component-Level Board Effectiveness: Japan and Leading APAC Countries



Source: Morningstar Sustainalytics' ESG Risk Rating Data. Data as of February 2026. For informational purposes only.

Figure 2 shows Japan's position on each of the three key components of board effectiveness, relative to Australia, Singapore, and South Korea; the leading markets in the Asia-Pacific region as determined in Figure 1. Australian companies' aggregate scores are consistently high across independence, expertise, and commitment. Singapore also demonstrates relatively high levels of independence and expertise; however, incentive structures that may reflect director commitment tend to be comparatively restrained. South Korea shows a different pattern: independence remains high, but expertise and commitment are the lowest among the comparison group.

Focusing on Japan, which ranks fifth in the board-effectiveness indicator evaluated for Figure 1, levels of independence and expertise remain lower than those observed in Australia and Singapore, indicating that there may be scope for further enhancement. In contrast, remuneration practices appear stronger than those of companies in Singapore and South Korea, though still below those of Australia. Although Japan's governance framework outlines expectations regarding independence, a diverse mix of board skills, and incentive structures for directors, the results suggest that challenges may remain in the effective implementation of these elements.

Taken together, these comparisons indicate that strengthening independence and expertise could represent an important opportunity for improving the overall effectiveness of Japanese boards relative to regional leaders.

Conclusion

Board effectiveness can be assessed through a wide range of indicators and methodological approaches. While there are similarities in the economic and market contexts across Asia-Pacific countries and regions, material differences limit the comparability of assessments based solely on a narrow set of indicators. Nonetheless, indicator based analysis provides a valuable benchmark for evaluating whether corporate governance frameworks and code revisions are positioned to support stronger board effectiveness.

To complement this analysis, Morningstar Sustainalytics' Stewardship team seeks to deepen dialogue through our Strategy & Risk Engagement Service. Engagement adds important qualitative depth to the Risk Rating methodology by enabling a more contextual assessment of board effectiveness, taking into account each company's overall governance profile.

Through ongoing engagement with Japanese companies, our discussions consider how boards assess their own effectiveness in practice as well as the broader governance factors that underpin board effectiveness, such as director independence, board skills composition, and remuneration structures. In these dialogues, we delve into board effectiveness assessments, for example, how the processes work, key findings from these assessments, identification of areas for improvement, and the level of transparency in related discussions. This allows us to understand the specific actions companies are taking, the level of detail they disclose, and the direction in which their governance practices are evolving. Considering all this information holistically, we identify both common strengths and gaps across companies and provide insights into where boards may benefit from further development to enhance effectiveness and align with global best practices.

Taken together, the combination of indicator based benchmarking and engagement insights provides a more comprehensive perspective on board effectiveness in general. Building on this analysis, engagement efforts will continue with a focus on the key factors that support stronger board effectiveness, with the aim of contributing to further improvements in corporate governance overall.

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About Stewardship Services and Contacts

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Our stewardship offering builds on more than 30 years of experience in sustainable investing and responsible investment practice. Our stewardship heritage has strong Nordic roots through GES International, a Stockholm-founded engagement, screening, and fiduciary voting specialist with more than 25 years of experience as an owner advocate prior to joining Morningstar.

Today, we support a global +€6.5 trillion investor footprint, serving more than 100 asset owners and managers worldwide through a stewardship model designed to connect research-informed engagement, voting alignment, progress measurement, and stakeholder reporting in a consistent and operationally structured way.

Our stewardship team is based in Toronto, Copenhagen, Stockholm, Amsterdam, Tokyo, London, and Madrid.



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