MORNINGSTAR®

Material Risk Engagement

2026 Q3 Report





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

Table of Contents

Engagement Approach . . . 1
Quarter in Review . . . 2
Engagement Overview . . . 3
Engagement Status . . . 4
Active Engagements by ESG Risk Ratings Categories . . . 4
Industry Distribution . . . 5
Engagements by Headquarter Location . . . 6
Engagement Topics . . . 7
Sustainable Development Goals - Mapping Engagements . . . 8
Case Study: Dominion Energy, Inc. . . . 9
Engagement Results . . . 10
Engagement Progress . . . 11
Engagement Response . . . 11
Engagement Performance . . . 12
Engagement Milestones . . . 13
Resolved - Agricultural Bank of China Ltd. (ABC) . . . 14
Resolved - AXIA Energia SA . . . 15
Resolved - Hyundai Steel Co. . . . 16
Resolved - Imerys SA . . . 17
Resolved - STRABAG SE . . . 18
Low Performance Engagements . . . 19
Engagement Status Updates . . . 23
New Engage . . . 23
New Resolved . . . 23
Beyond Carbon and Capacity: The Emerging Role of Social License in Data Center Risk, an Analysis of the US Data Center Market 24
Endnotes . . . 27
About Stewardship Services and Contacts . . . 28

This report summarizes the shareholder engagement activities that Stewardship Services performed between July and September 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 October 2026 and uses data for the quarter ending 30 September 2026. Version 1 was disseminated on 19 October 2026. Use of and access to this information is limited to Stewardship clients and is subject to applicable 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.



Quarter in Review



Paulina Segreto
Director, Stewardship
Morningstar

Q3 2026 saw continued progress across our Material Risk Engagement service, with five engagements resolved following sustained improvements in ESG performance, risk management and disclosure. Resolved companies spanned the banking, utilities, steel, construction materials and engineering sectors, demonstrating progress across a range of financially material ESG topics.

Across the resolved engagements, companies strengthened governance and oversight of sustainability issues, enhanced climate-related disclosure, improved stakeholder engagement practices and advanced implementation of sustainability strategies. Notable developments included progress in areas such as green finance, biodiversity management, decarbonization planning and executive accountability for ESG performance.

Alongside these stewardship outcomes, our ongoing engagement with Dominion Energy, Inc., one of the largest regulated electric utilities in the United States, highlights emerging stewardship themes linked to the rapid expansion of AI infrastructure. Dominion Energy serves the world's largest data center market in Virginia, while also developing one of America's largest offshore wind projects. The company is investing heavily in transmission and generation infrastructure to support rapidly growing demand from AI and cloud-computing data centers.

As electricity demand from data centers continues to rise, utilities like Dominion Energy are facing increasing pressure to balance reliability, affordability, infrastructure investment and decarbonization objectives. At the same time, community concerns regarding resource use, local impacts and the distribution of costs and benefits are playing a growing role in shaping regulatory responses and project approvals. These developments illustrate that, in addition to assessing decarbonization strategies and emissions performance, our engagement focus increasingly extends to how companies manage community impacts, stakeholder expectations, and broader questions of social license to operate.

As the build-out of AI-related infrastructure continues, stewardship expectations are likely to expand beyond traditional environmental metrics to include greater scrutiny of local impacts, transparency and stakeholder engagement practices. Overall, the quarter reflected both tangible engagement outcomes and the evolving nature of financially material ESG risks, highlighting how stewardship priorities continue to adapt alongside structural economic and technological change.

Engagement Overview



295
engagements as of 30 September 2026

3
new engagements

681
companies engaged since March 2020

SDG 13 Climate Action
66% 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

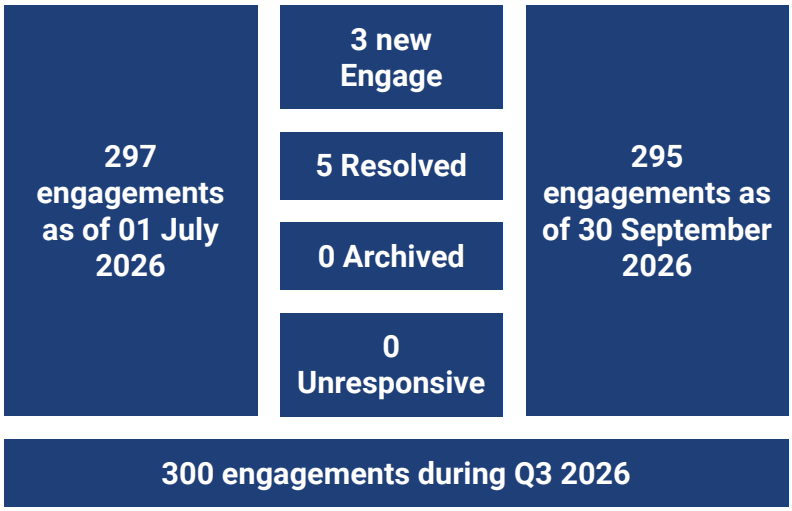
Engagement Status

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.

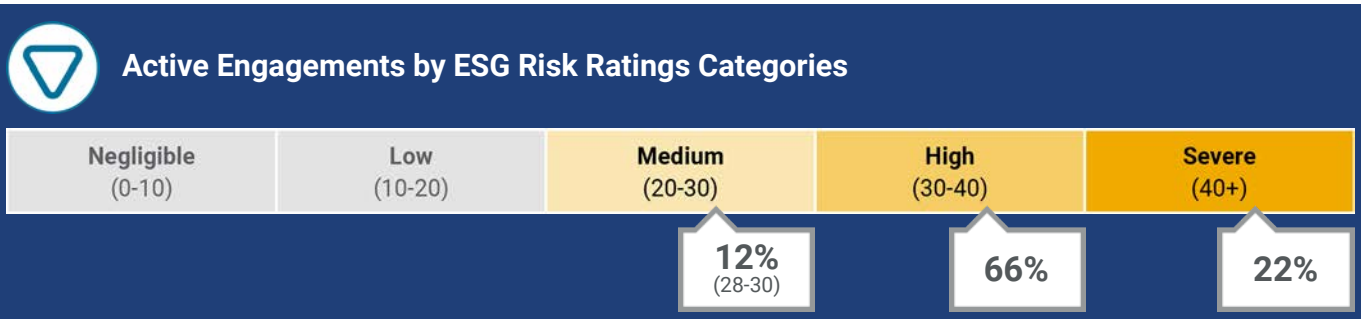
Archived Engagement is concluded, the engagement objective has not been achieved.

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.

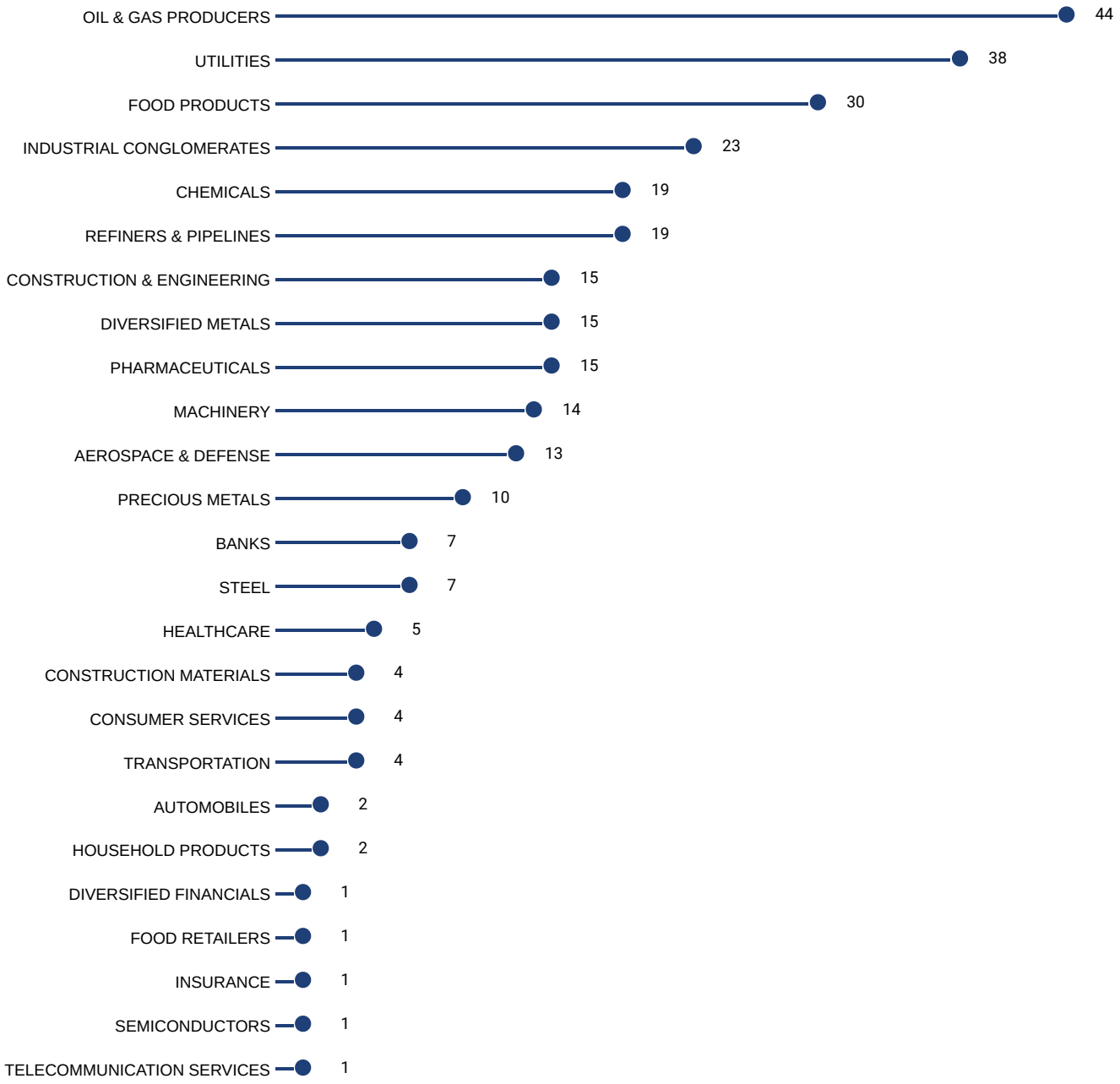


On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

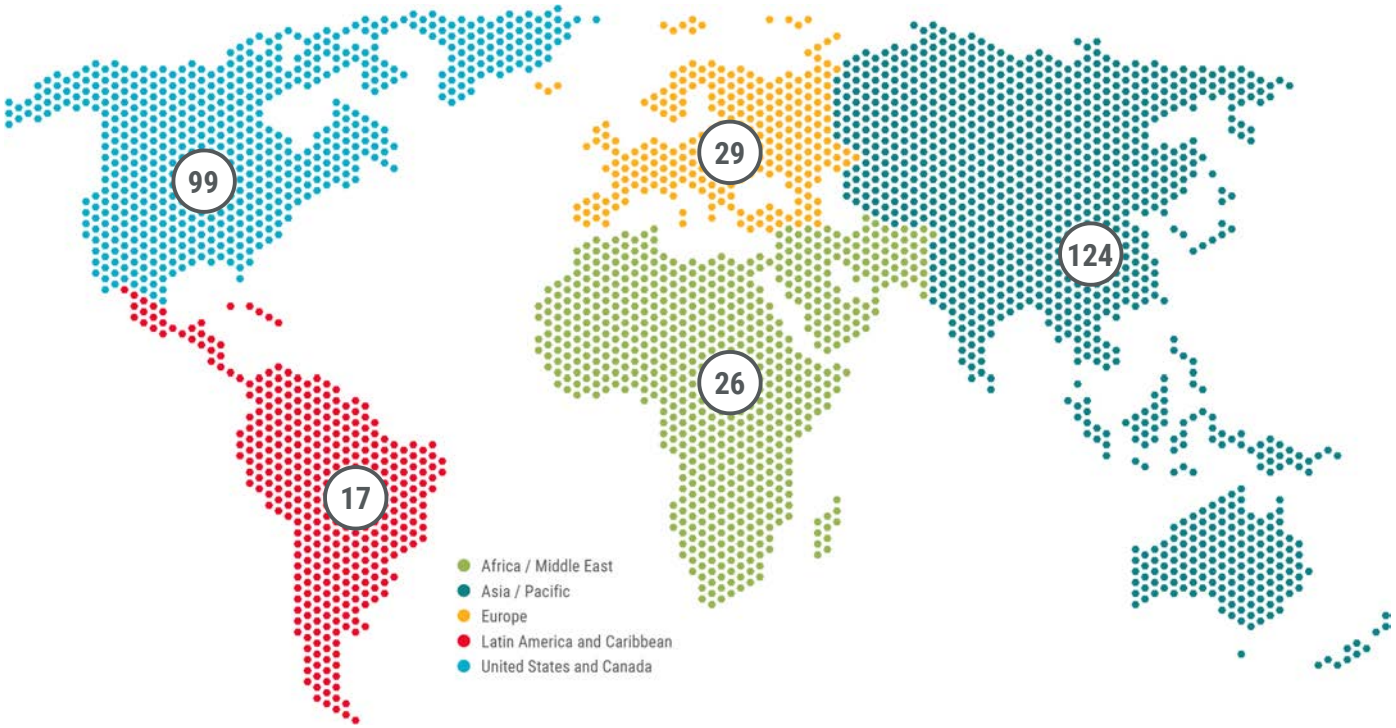
Active Engagements by ESG Risk Ratings Categories



Industry Distribution



Engagements by Headquarter Location



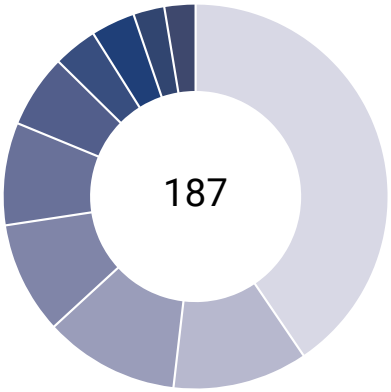


Engagement Topics

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

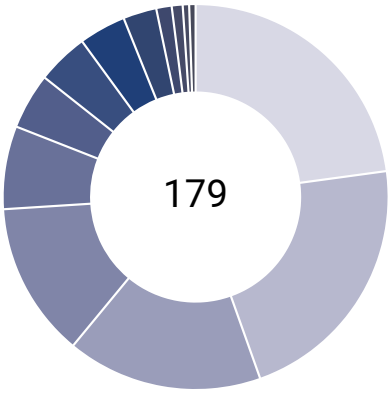
Environmental

- CLIMATE CHANGE - TRANSITION RISK (148)
- WASTE MANAGEMENT (41)
- WATER QUALITY (31)
- BIODIVERSITY (13)
- CIRCULAR ECONOMY (9)
- AIR POLLUTANT EMISSIONS (41)
- WATER SECURITY (34)
- LAND POLLUTION AND SPILLS (22)
- NATURAL RESOURCE USE (13)
- DEFORESTATION (9)



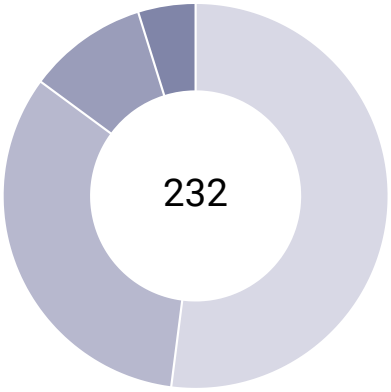
Social

- PRODUCT QUALITY AND SAFETY (60)
- OCCUPATIONAL HEALTH AND SAFETY (43)
- HUMAN RIGHTS (18)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (11)
- MARKETING PRACTICES (7)
- LABOUR RIGHTS (2)
- WEAPONS (1)
- COMMUNITY RELATIONS (57)
- HUMAN CAPITAL (34)
- DATA PRIVACY AND SECURITY (12)
- INDIGENOUS PEOPLE (10)
- JUST TRANSITION (3)
- HIGH-RISK TERRITORIES (1)



Governance

- DISCLOSURE (178)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (34)
- ESG GOVERNANCE (113)
- BOARD COMPOSITION (16)



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 Stewardship Services and refers to the focus and objective(s) of the engagement.

1 No Poverty	0%	**10** Reduced Inequality	2%
2 Zero Hunger	1%	**11** Sustainable Cities and Communities	24%
3 Good Health and Well-Being	16%	**12** Responsible Consumption & Production	55%
4 Quality Education	0%	**13** Climate Action	66%
5 Gender Equality	2%	**14** Life Below Water	1%
6 Clean Water and Sanitation	8%	**15** Life on Land	6%
7 Affordable and Clean Energy	23%	**16** Peace & Justice, Strong Institutions	58%
8 Decent Work and Economic Growth	24%	**17** Partnerships to Achieve the Goal	1%
9 Industry, Innovation & Infrastructure	13%		

Case Study: Dominion Energy, Inc.

Material Risk/Strategy & Risk Engagement | Engagement Since: June 2025



Industry: **Electric Utilities**

Country: **United States**

Based in Richmond, Virginia, Dominion Energy is an integrated energy company with over 31 gigawatts of electric generation capacity and more than 91,000 miles of electric transmission and distribution lines. Dominion is constructing a rate-regulated 5.2 GW wind farm off the Virginia Beach coast.

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

Engagement Update

Our most recent engagement with Dominion Energy from March 2026 highlighted how the rapid expansion of AI infrastructure is creating new stewardship considerations for utilities sector. The company noted that portions of its service territory are experiencing electricity demand growth of more than 5% annually and that it is managing a supply-demand gap of approximately 3 GW through a combination of market purchases and investments in new generation, storage, offshore wind, and transmission infrastructure.

Focus Area

Enhance the clarity of sustainability disclosures by offering high-level insights into how Dominion Energy's existing long-term planning processes, such as those reflected in the Integrated Resource Plan, inform resource decisions across affordability, dependable service, and emissions reduction.

Engagement Outcomes

Dominion Energy provided greater transparency on how its Integrated Resource Plan informs capital allocation decisions. The company clarified how affordability, dependable service, and emissions reduction objectives are evaluated together when assessing long-term energy investments. The discussion also highlighted the company's established sustainability reporting framework and ongoing efforts to enhance transparency around long-term planning and resource allocation.

Insights & Outlook

Our engagement with Dominion Energy illustrates how AI-related infrastructure growth is expanding the scope of investor stewardship. Future dialogue should continue to focus on transparency around how long-term planning processes inform decisions related to affordability, dependable service, and emissions reduction, and how these considerations are communicated to stakeholders. In addition to evaluating decarbonization strategies, investors may increasingly engage utilities on how they manage the affordability impacts of large-load growth, incorporate stakeholder concerns into planning decisions, and maintain public trust as infrastructure investment accelerates. In this context, social license is becoming an increasingly important consideration not only for data center operators, but also for the utilities that power them.

Engagement Results



35
meetings

490
emails and phone calls exchanged

5
engagements Resolved

54
Milestones achieved

95
Positive Developments

35%
of engagements with Excellent or Good Response

52%
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.



3% (9)	Excellent
26% (73)	Good
52% (145)	Standard
16% (46)	Poor
3% (7)	None

Engagement Response

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

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



10% (27)	Excellent
25% (71)	Good
30% (84)	Standard
14% (38)	Poor
21% (60)	None

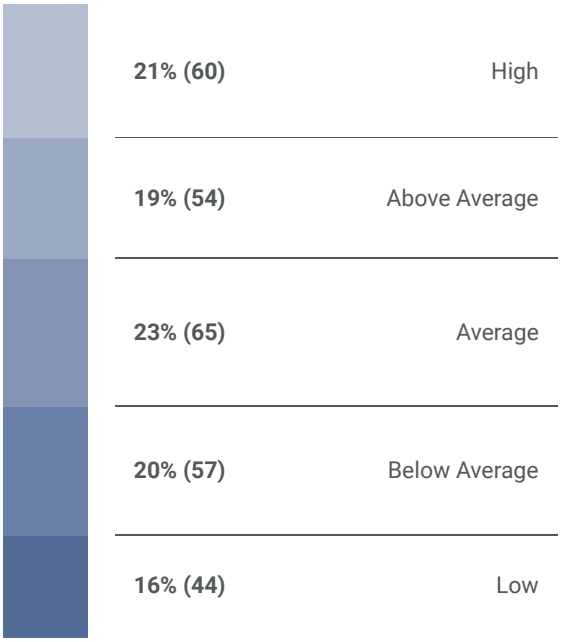
Engagement Performance

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

PROGRESS	RESPONSE: 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.

54 Milestones achieved in Q3 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)

14	Milestone 5
0	Milestone 4

Note: Cumulative year to date resolved cases.

Highest Milestone Achieved (Engage)



12	Milestone 5
85	Milestone 4
125	Milestone 3
39	Milestone 2
11	Milestone 1
23	No Milestones

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

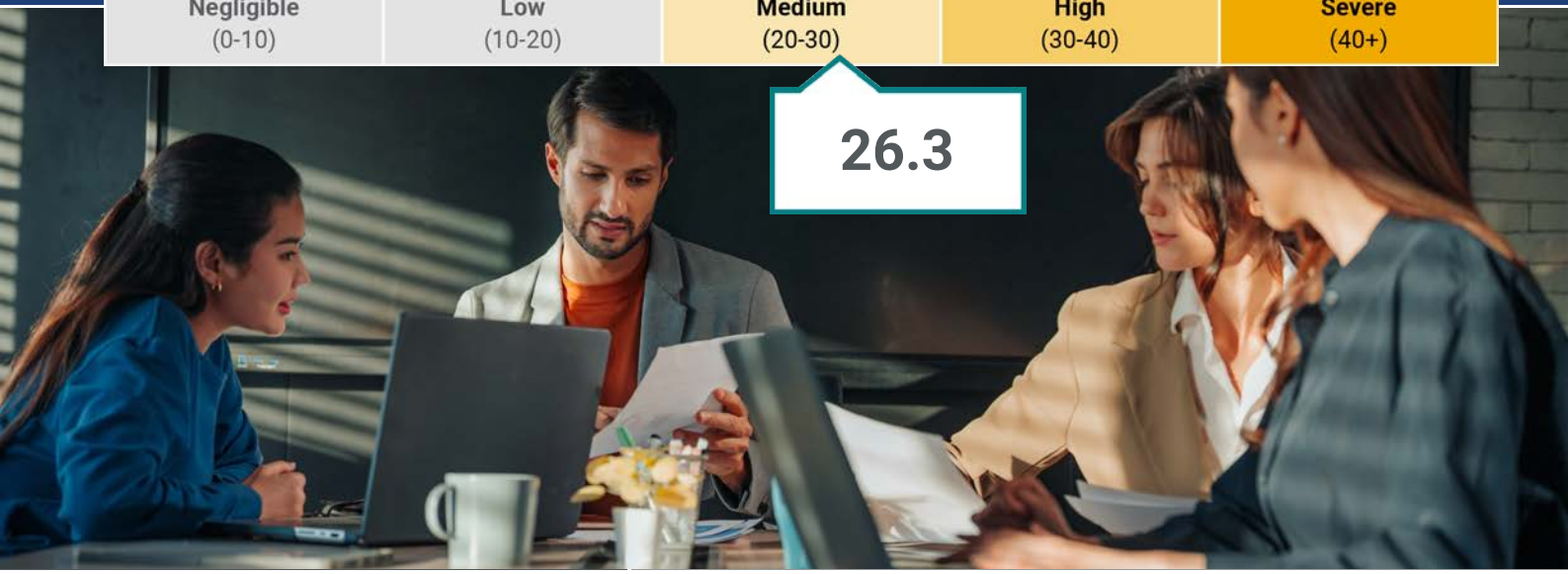


Resolved - Agricultural Bank of China Ltd. (ABC)

ESG Risk Ratings Score

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

26.3



INDUSTRY:
Banks

COUNTRY:
China

ENGAGEMENT FOCUS:
- **Product Governance**
- **Business Ethics**
- **ESG Integration - Financials**

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

Positive Development Highlights:

- ABC expanded its green finance activities, while also enhancing transparency on both progress and implementation challenges. Its 2025 Sustainability Report provides more systematic disclosure of green lending, investment portfolios, and the alignment of financing activities with sustainability objectives.
- The company also improved the definition, classification, and tracking of green assets, supporting better measurement of environmental impact.
- The bank has advanced carbon accounting for its investment and financing activities by issuing internal guidance and conducting pilot exercises across high-emission sectors, including power generation, steel, building materials, non-ferrous metals, petrochemicals, chemicals, paper, aviation, and livestock.
- In 2024, ABC made significant strides in advancing green finance. With a total green credit balance reaching RMB 4.97 trillion (USD 0.74 trillion), representing a 22.9% year-on-year growth, the bank demonstrated its strong commitment to supporting environmentally responsible projects.

Since engagement commenced in July 2021, ABC improved its Sustainalytics ESG Risk Rating score by 5.8 points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement in 2025. Continued progress against engagement objectives supported the engagement being resolved in Q3 2026.

Resolved - AXIA Energia SA

ESG Risk Ratings Score

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



INDUSTRY:
Utilities

COUNTRY:
Brazil

ENGAGEMENT FOCUS:

- **Occupational Health and Safety**
- **Emissions, Effluents and Waste**
- **Land Use and Biodiversity**
- **Corporate Governance**

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

Positive Development Highlights:

- Axia (formerly Eletrobras) strengthened governance oversight following its privatization in 2022, including the elevation of sustainability responsibilities to Vice President level and the continuation of independent Board evaluations supported by a third-party adviser.
- The company enhanced ESG disclosure through its 2023 Sustainability Report and TCFD reporting, providing greater transparency on climate-related physical risks, scenario analysis, biodiversity management, and stakeholder engagement activities.
- Axia advanced implementation of its ESG strategy through the launch of METRIA in 2026, a greenhouse gas emissions measurement and decarbonization platform, and continued biodiversity initiatives covering approximately 400,000 hectares.
- The company published the "Community Relations 2023" report, providing a detailed overview of its engagement and risk mitigation efforts across local communities. In 2025 it reported that it operates in 1,500 municipalities, spans 64 indigenous territories, and engages with 35 indigenous ethnic groups through various initiatives.
- In 2025 the company revised the Water Resources Policy, with an emphasis on access to quality water, adaptive planning, and the protection of aquatic ecosystems.

Since the initiation of engagement in 2020 under our Material Risk Engagement service, Axia improved its Sustainalytics ESG Risk Rating score by 16.2 points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement in February 2026. Continued progress against engagement objectives supported the engagement being resolved in Q3 2026.

Resolved - Hyundai Steel Co.

ESG Risk Ratings Score

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



INDUSTRY:
Steel

COUNTRY:
South Korea

ENGAGEMENT FOCUS:
- **Carbon – Own Operations**
- **Corporate Governance**

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

Positive Development Highlights:

- As disclosed in its Sustainability Report 2025, Hyundai Steel strengthened ESG accountability through quantitative targets for material issues, enhanced climate-related disclosures, and ESG-linked executive KPIs, which account for at least 5% of performance evaluations.
- In the Integrated Report 2023, Hyundai Steel disclosed a Board business skills matrix, which helps clarify the skills and areas of expertise represented on the Board. It also set targets to increase the proportion of women in executive positions, reflecting efforts to promote diversity at the senior management level.
- Hyundai Steel has strengthened its diversity and inclusion framework, including initiatives to increase female representation through recruitment, talent development and promotion to managerial positions. The company published a formal Diversity & Inclusion Policy in September 2022 (revised in June 2025).
- In 2023, Hyundai Steel developed and disclosed medium-term targets aligned with its 2050 net zero goal, together with a roadmap outlining key actions and milestones, providing greater clarity on its decarbonization pathway and climate commitments.

Since engagement commenced in May 2022, Hyundai Steel improved its Sustainalytics ESG Risk Rating score by 9.4 points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement in February 2026. Continued progress against engagement objectives supported the engagement being resolved in Q3 2026.

Resolved - Imerys SA

ESG Risk Ratings Score

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



INDUSTRY:
Construction Materials

COUNTRY:
France

ENGAGEMENT FOCUS:

- **E&S Impact of Products and Services**
- **Occupational Health & Safety**
- **Water Use - Own Operations**
- **Corporate Governance**

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

Positive Development Highlights:

- Imerys published its 2024 Universal Registration Document, incorporating its first full CSRD-aligned sustainability disclosures, including a double materiality assessment, enhanced governance disclosures, climate transition planning and validated SBTi targets.
- Through its 2025 Universal Registration Document, the company further enhanced sustainability reporting, providing additional transparency on environmental performance, sustainability governance and implementation of its climate, water-management and circularity initiatives.
- Imerys continued implementation of its sustainability strategy through initiatives focused on renewable energy, circularity, water management and resource recovery, supporting progress toward its climate and sustainability objectives.
- Imerys has increased the share of renewable electricity in its energy mix and enhanced transparency on year-on-year progress. The company strengthened disclosure on the drivers of this progress, including the execution of long-term renewable electricity procurement through virtual power purchase agreements and the expansion of on-site solar.

Since engagement commenced in September 2021, Imerys improved its Sustainalytics ESG Risk Rating score by 4.5 points, bringing the company into the Medium Risk category and below the 28-point threshold for engagement in December 2025. Continued progress against engagement objectives supported the engagement being resolved in Q3 2026.

Resolved - STRABAG SE

ESG Risk Ratings Score

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



INDUSTRY:
Construction & Engineering

COUNTRY:
Austria

ENGAGEMENT FOCUS:
- **Corporate Governance**
- **Product Governance**
- **Community Relations**

RATIONALE FOR RESOLVED STATUS:
STRABAG SE improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- The company plans to strengthen its sustainability governance through the integration of ESG-linked KPIs into executive remuneration, effective from 2027, further embedding ESG accountability within management decision-making.
- STRABAG continued to advance its approach to circular construction through initiatives promoting refurbishment, conversion and reuse, supporting more sustainable management of materials across its project portfolio.
- The company expanded disclosure on circularity, including policy commitments, governance arrangements, management processes and reporting on raw-material use and waste metrics, providing greater transparency on how sustainability considerations are integrated into operational activities.
- According to its Annual and Sustainability Report 2025, STRABAG also demonstrated progress in climate management, with scope 1, 2 and 3 emissions reduction targets validated by the SBTi.

Since engagement commenced in June 2023, STRABAG improved its Sustainalytics ESG Risk Rating score by 6.5 points, bringing the company into the Medium Risk category and below the 28-point threshold for engagement in October 2025. Continued progress against engagement objectives supported the engagement being resolved in Q3 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 an Unresponsive 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		0-3
Saudi Arabian Oil Co.	Saudi Arabia	Focus on Emissions, Effluents and Waste and Community Relations		0-3
Almarai Co.	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure		3-6
DTE Energy Co.	United States	Focus on Carbon Own Operations		3-6
PGE Polska Grupa Energetyczna SA	Poland	Focus on Carbon and Emissions, Effluents and Waste		3-6
QL Resources Bhd.	Malaysia	Focus on Product Governance		3-6
Shimizu Corp.	Japan	Focus on Business Ethics		3-6
Canadian Natural Resources Ltd.	Canada	Focus on Carbon Products and Services	Director Letter	6-9
Chevron Corp.	United States	Focus on Carbon Products and Services		6-9
Coca-Cola Consolidated, Inc.	United States	Focus on E&S Impact of Products and Services	Director Letter	6-9
Eneva SA	Brazil	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	6-9

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
				One piece equals three months.
EQT Corp.	United States	Focus on Carbon and Community Relations	Director Letter	6-9
Kikkoman Corp.	Japan	Focus on Product Governance		6-9
Masimo Corp.	United States	Focus on Risk Assessment and ESG Disclosure	Investor Letter, Voting Recommendations	6-9
Mesaieed Petrochemical Holding Co. QSC	Qatar	Focus on Risk Assessment and ESG Disclosure	Director Letter	6-9
PPB Group Bhd.	Malaysia	Focus on Land Use and Biodiversity Supply Chain	Director Letter	6-9
SABIC Agri-Nutrients Co.	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure	Director Letter	6-9
Südzucker AG	Germany	Focus on Carbon and Resource Use	Director Letter	6-9
Viking Holdings Ltd. (Bermuda)	Bermuda	Focus on Product Governance		6-9
Blue Owl Capital, Inc.	United States	Focus on Product Governance		9-12
Industries of Qatar Co.	Qatar	Focus on Risk Assessment and ESG Disclosure	Director Letter	9-12
Occidental Petroleum Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste		9-12
Reliance Industries Ltd.	India	Focus on Risk Assessment and ESG Disclosure	Director Letter	9-12
Zoomlion Heavy Industry Science & Technology Co., Ltd.	China	Focus on Carbon and Product Governance	Director Letter	9-12

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
				One piece equals three months.
DraftKings, Inc.	United States	Focus on Business Ethics	Director Letter	12-15
ARC Resources Ltd.	Canada	Focus on Emissions, Effluents and Waste	Director Letter	15-18
Encompass Health Corp.	United States	Focus on Product Governance and Emissions, Effluents and Waste	Director Letter	15-18
Athabasca Oil Corp.	Canada	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	18-21
Baytex Energy Corp.	Canada	Focus on Risk Assessment and ESG Disclosure	Director Letter	18-21
HF Sinclair Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	18-21
ORION Corp.	South Korea	Focus on Product Governance	Director Letter, Investor Letter, Voting Recommendations	18-21
Yunnan Baiyao Group Co., Ltd.	China	Focus on Product Governance	Director Letter, Investor Letter, Voting Recommendations	18-21
Zhangzhou Pientzehuang Pharmaceutical Co., Ltd.	China	Focus on Risk Assessment and Corporate Governance	Director Letter, Investor Letter, Voting Recommendations	18-21
China State Construction Engineering Corp. Ltd.	China	Focus on Risk Assessment	Director Letter	21-24
EOG Resources, Inc.	United States	Focus on Emissions, Effluents and Waste	Director Letter	21-24
General Dynamics Corp.	United States	Focus on Risk Assessment and ESG Disclosure	Director Letter	21-24

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
				One piece equals three months.
Saudi Industrial Investment Group	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure	Director Letter, Investor Letter	21-24
Saudi Kayan Petrochemical Co.	Saudi Arabia	Focus on Emissions, Effluents and Waste and Community Relations	Director Letter, Investor Letter	21-24
Whitecap Resources, Inc.	Canada	Focus on ESG Disclosure	Director Letter	21-24
Exxonmobil Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	Above 24
Grupo Carso SAB de CV	Mexico	Focus on Risk Assessment and ESG Disclosure	Director Letter, Voting Recommendations	Above 24
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	China	Focus on Product Governance	Director Letter, Voting Recommendations	Above 24
Suncor Energy, Inc.	Canada	Focus on ESG Disclosure	Director Letter	Above 24
Targa Resources Corp.	United States	Focus on Emissions, Effluents and Waste and Community Relations	Director Letter, Investor Letter	Above 24

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Engagement Status Updates

The following is an overview of all engagement status updates from 1 July to 30 September 2026.

New Engage

COMPANY	COUNTRY	ISSUE
FOOD & LIFE COMPANIES LTD.	Japan	Focus on E&S Impact of Products and Services
Hokuhoku Financial Group, Inc.	Japan	Focus on Product Governance
Organo Corp.	Japan	Focus on Product Governance

New Resolved

COMPANY	COUNTRY	ISSUE
Agricultural Bank of China Ltd.	China	Focus on Business Ethics
AXIA Energia SA	Brazil	Focus on Community Relations and Land Use and Biodiversity
Hyundai Steel Co.	South Korea	Focus on Carbon Own Operations
Imerys SA	France	Focus on E&S Impact of Products and Services
STRABAG SE	Austria	Focus on E&S Impact of Products and Services and Community Relations

Beyond Carbon and Capacity: The Emerging Role of Social License in Data Center Risk, an Analysis of the US Data Center Market



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Key Insights

- As AI infrastructure expands, social license to operate is emerging as a material constraint, with community concerns around water use, electricity demand, and local impacts increasingly driving regulatory intervention and project delays.
- Data center impacts are highly localized and intensifying, particularly in major hubs like Northern Virginia and Texas, while emerging markets such as Florida are beginning to address these risks earlier through pre-emptive policy measures. Similar dynamics are emerging in data center markets worldwide.
- The rise of community-generated data and bottom-up reporting is enhancing visibility into local impacts, elevating social license alongside carbon and grid readiness as an increasingly important dimension of data center risk.

The rapid expansion of artificial intelligence is reshaping electricity demand and accelerating investment in data center infrastructure. Historically, investors assessing data center growth have focused on carbon intensity, energy availability, and grid resilience. Increasingly, however, another factor is emerging as an important consideration for project viability: **social license to operate**.

Social license refers to the ongoing acceptance of a project's activities by local communities and stakeholders. While informal, it can have tangible consequences for permitting outcomes, operating costs, infrastructure development, and regulatory oversight.

As development accelerates across major data center markets in the US such as Northern Virginia, Texas, and increasingly Florida, community concerns around water use, electricity affordability, land use, and infrastructure strain are translating into material business and policy risks.

While this analysis focuses on the US market, similar tensions are surfacing globally. Ireland's grid operator effectively froze new data center connections around Dublin from 2021 to 2025 over grid strain; the Netherlands has restricted new hyperscale development nationally since 2022 and barred new facilities in Amsterdam through 2030; and Malaysia halted approvals for new non-AI data centers in February 2026 over power and water concerns. These examples suggest that the social-license pressures examined here are not unique to the United States.[1]

These risks are becoming more visible because new, community-driven forms of reporting - crowdsourced mapping platforms, citizen complaint logs, and local news investigations - are filling a transparency gap that formal disclosure has not. Taken together, these developments suggest that investors, policymakers, and operators can no longer evaluate data center risk solely through the lenses of carbon intensity and grid capacity. Social license is increasingly becoming a core consideration in assessing the long-term sustainability and scalability of AI infrastructure.

From System-Level Metrics to Local Reality

The scale of resource demand associated with data centers is substantial, but demand impacts are highly uneven across geographies. In the US, data centers currently account for approximately 4–5% of electricity consumption, with that share projected to rise to between 9% and 17% by 2030.[2] However, national figures likely understate how concentrated underlying pressures are at the local level.

In Northern Virginia, currently the world's largest data center hub, data centers already draw roughly a quarter of regional electricity, a share projected to reach 41% to 59% by 2030.[3]

Water consumption tells a similar story: large hyperscale facilities can consume up to 19 million litres of water per day (five million gallons), equivalent to a small town's needs.[4] In the US, direct data center water use reached an estimated 64 billion litres in 2023 (17 billion gallons), roughly triple the 2014 level, though that figure covers only on-site cooling and excludes the far larger indirect water footprint tied to electricity generation.[5] Land tells a parallel story: the average data center site now covers roughly 91 hectares (224 acres), up 144% since 2022, with the largest hyperscale campuses exceeding 405 hectares (1,000 acres).[6]

Communities hosting these developments absorb the cumulative effects of resource demand, infrastructure buildout, and environmental stress; effects that rarely register in national averages, and that are increasingly shaping both public perception and regulatory response.

Social License as a Material Risk Factor

Social license to operate is quickly emerging as a critical determinant of data center project viability. Unlike formal regulatory approval, social license is not granted through permitting processes, but is instead earned through trust, transparency, and perceived fairness. Its absence can cause delays, regulatory intervention, or outright project cancellation.

In Virginia, lawmakers considered more than 60 data center-related bills during the 2026 legislative session. The bills reflected concerns over the sector's impact on electricity demand, water resources, and land use, with several introducing requirements for water-use disclosure, impact assessments, and cost-sharing for supporting infrastructure.[7,8]

In Texas, regulatory attention has intensified at the highest levels of government: in June 2026, Governor Greg Abbott directed state regulators to ensure data centers do not pass infrastructure costs onto ratepayers and do not “drain water needed for our communities,” while also citing noise and land-use impacts.[9] Community concerns, in other words, are now shaping policy well above the level of local zoning hearings.

Together, these examples point to a broader shift: data center risk is no longer defined solely by system-level constraints such as grid capacity or carbon intensity. Instead, it is increasingly shaped by whether a project is perceived as equitable, transparent, and compatible with the interests of the community hosting it.

Community Data is Reshaping Transparency

A defining feature of this emerging risk landscape is the proliferation of bottom-up data. Historically, information on data center impacts was fragmented, inconsistently disclosed, or simply hard to access, leaving many of the sector's localized externalities poorly understood outside regulatory and technical circles. That is changing quickly, as communities turn to digital platforms and advocacy tools to document their experiences, transforming individual observations into aggregated datasets capable of revealing patterns, identifying hotspots, and informing policy discussions.

Visibility is what turns that aggregation into leverage: as local impacts become more measurable and widely reported, they gain traction with policymakers, regulators, and investors. What was previously anecdotal becomes evidence; what was previously local becomes systemic, accelerating the integration of social considerations into risk assessment frameworks.

Case Study: Erin Brockovich and the Emergence of Community Data

The growing importance of bottom-up data is exemplified by the recent work of Erin Brockovich, the environmental advocate known for uncovering groundwater contamination in California in the 1990s.[10] In May 2026, she launched a nationwide mapping initiative, hosted at brockovichdatacenter.com, developed to support community reports around data center concerns, including water use, electricity demand, and additional local environmental impacts. The platform has grown quickly: reported submissions climbed from roughly 2,700 in late May 2026 to more than 5,000 within two weeks and had surpassed 8,000 community-reported locations by midsummer.[11] While not a substitute for formal disclosure, the data offers valuable insight into how impacts are perceived and experienced locally and can highlight persistent transparency gaps around water consumption and cumulative environmental effects.

The broader significance is structural: information is no longer produced solely by companies or regulators. Communities are now contributing directly to the evidence base, creating new forms of accountability.

How Regional Policy Responses Are Evolving

Social license risk is evolving at different speeds across regions in US. Virginia, Texas, and Florida sit at three distinct points on a curve representing saturation, rapid growth, and early anticipation, with each state's policy response reflecting where it stands.

Virginia illustrates what happens once a market reaches saturation. With the world's highest data center density, the state has moved

from incremental oversight toward structural reform: its 2026 General Assembly considered 61 data center-related bills, the largest volume yet, sending 15 to the governor's desk. Two stand out: a first-of-its-kind electricity consumption tax on data centers, effective July 2026,[12] and a new large-user electricity rate class designed to keep those infrastructure costs off residential bills.[13] Virginia's focus has shifted from managing growth to allocating its costs.

Texas illustrates a market expanding faster than its regulatory apparatus. Senate Bill 6, enacted in 2025, requires large facilities to disclose usage plans and help fund grid connections.[14] Growth still outpaced the rules: by June 2026, the interconnection queue held roughly 475 gigawatts of large-load requests, over 90% of it data centers, prompting Governor Abbott to order a full audit and push for rules requiring facilities to fund their own infrastructure and report water and electricity use.[15] Texas is choosing to accommodate growth on stricter terms rather than restrict it.

Florida offers a forward-looking counterpoint, acting before saturation rather than after it. SB 484, Florida's large-load cost-allocation law, enacted in 2026, requires large-load customers to bear their own full cost of service, with compliance filings due by October 2026.[16,17] Lawmakers pointed explicitly to Virginia's rising residential rates as the outcome they wanted to avoid.

Read together, these three states trace a single arc: reactive cost allocation where the market is saturated, real-time intervention where it's still growing, and pre-emptive design where it's just beginning. **Social license is no longer a constraint that emerges after infrastructure is built, it should be a project feasibility consideration from the outset**.

As community awareness increases, transparency expectations are evolving alongside it. Regulators are placing greater emphasis on disclosure of water use, electricity demand, and cumulative environmental impacts, while policymakers introduce mechanisms ensuring that data centers, not residential consumers, bear the cost of their own development. The broader pattern here is a realignment of incentives: by increasing transparency and accountability, regulatory frameworks are seeking to align infrastructure development with public interest, reinforcing social license as a determinant of long-term project viability.

Implications for Investors and Stewardship

As social license becomes more material, investor stewardship may need to evolve accordingly. In addition to engaging companies on emissions, renewable energy procurement, and grid impacts, investors may increasingly seek insight into how operators assess and manage local stakeholder concerns. Relevant engagement topics could include:[18]

- Community engagement processes - how early and thoroughly residents are consulted before permitting
- Water-use transparency - public disclosure of consumption volumes and sourcing
- Cumulative-impact assessments - evaluating the combined effect of multiple facilities in one area
- Infrastructure cost allocation - who bears the cost of grid and water upgrades
- Mechanisms for receiving and addressing community grievances - formal channels and response commitments.

Investors may also wish to understand how boards oversee social-license risks and how these considerations are incorporated into site-selection decisions, project development processes, and long-term growth strategies. As regulatory scrutiny increases and community opposition becomes a more frequent source of project delays or restrictions, effective management of local impacts may become an increasingly important indicator of operational resilience. For stewardship-focused investors, social license is therefore not only a societal consideration but also a potential driver of execution risk, capital efficiency, and long-term value creation.[19]

The trajectory of AI infrastructure development is entering a new phase. Energy availability and carbon intensity remain critical, but they are no longer sufficient to capture the full range of risk. Social license has emerged as a defining factor, shaped by community experience, data visibility, and regulatory response.

As data centers continue to scale, their success will depend not only on access to power, but on the ability to operate transparently and responsibly within the communities they serve. Social license is therefore becoming an increasingly important consideration in the long-term development and scalability of AI infrastructure.

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About Stewardship Services and Contacts

Stewardship Services provides an integrated solution that combines engagement and voting recommendations within a single framework designed to help investors incorporate ESG and sustainable investment considerations throughout the investment lifecycle.

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.



Do you have any questions regarding our Stewardship Services?
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