Material Risk Engagement

2026 Q2 Report



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

Table of Contents

Table of Contents (cont.)

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

Strategy & Risk engagement activity in Q2 2026 focused on advancing material ESG outcomes across sectors, particularly climate transition and governance. Across engagements closed this quarter, companies showed increasing maturity; moving beyond establishing ESG frameworks to embedding material ESG factors into strategy and operations.

This shift translated into measurable progress. Several companies improved ESG Risk Ratings below the engagement threshold, driven by stronger governance, enhanced disclosure, and clearer accountability at board and management levels.

Climate transition remained central. Companies advanced scope 1 and 2 emissions reductions through efficiency and renewable energy, but progress remains uneven. Gaps persist in scope 3, third-party assurance, and transparency on low-carbon capital allocation. In high-impact sectors, transition strategies continue to be largely incremental.

Governance improvements also strengthened risk management and KPI tracking, supported by enhanced board oversight, clearer allocation of ESG responsibilities, and more structured monitoring of performance metrics. At the same time, supply chain and human rights risks moved to higher priority in engagement agendas, reflecting tighter regulatory expectations and growing investor scrutiny of value-chain accountability.

Arctic-linked supply chains emerged as a key area of focus. Accelerating resource development is increasing exposure to Indigenous rights, regulatory variability, and due diligence risks, with implications across global value chains. Emerging frameworks, including the EU Corporate Sustainability Due Diligence Directive, are further raising expectations on human rights transparency and risk management.

More broadly, the ESG and regulatory landscape continued to evolve in H1 2026. While some frameworks have been simplified or delayed, expectations around data quality, governance, and risk management are tightening, reinforcing the need for proactive engagement. In parallel, geopolitical developments in the Middle East are highlighting the importance of supply chain resilience and corporate preparedness, with energy price volatility and logistics disruptions exposing vulnerabilities across global value chains.

Looking Ahead

In the second half of 2026, we will test corporate readiness to deliver on ESG commitments and manage increasing regulatory and supply chain risks, with investor focus shifting toward execution and measurable outcomes.

We will also continue to assess the implications of emerging technologies, including AI, particularly in relation to energy demand, infrastructure readiness, community relations, governance, and regulatory compliance. This is becoming an important area of stewardship focus, with engagement priorities set to evolve as new risks and opportunities continue to materialize.

Engagement Overview

297
engagements as of 30 June 2026

3
new engagements

678
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.

308 engagements as of 01 April 2026

3 new Engage

9 Resolved

2 Archived

2 Unresponsive

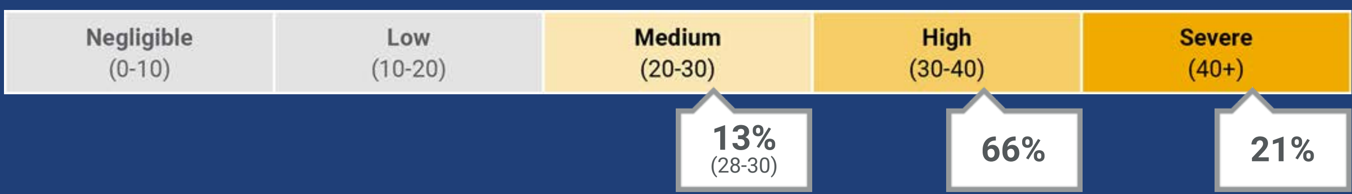
297 engagements as of 30 June 2026

311 engagements during Q2 2026

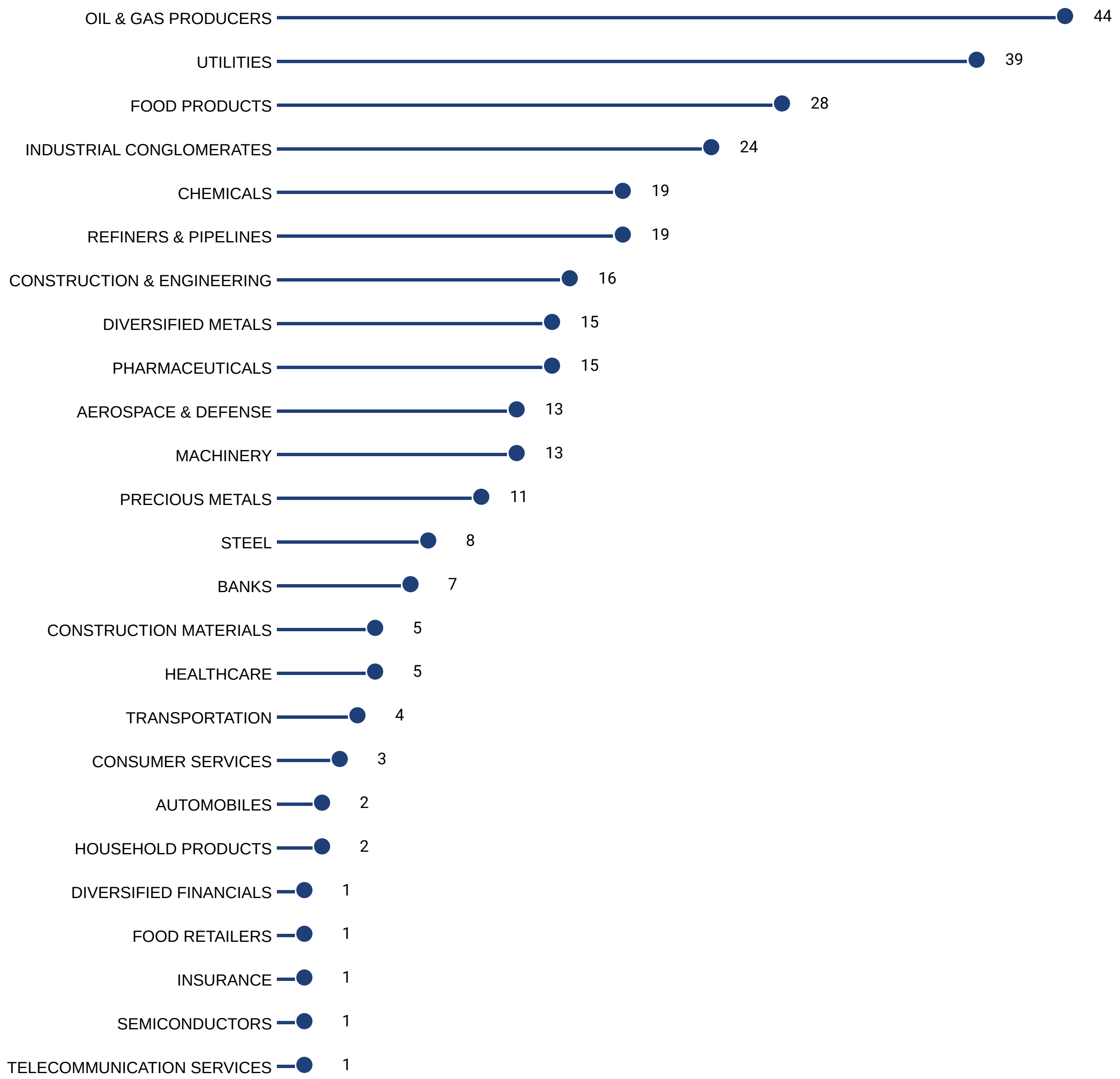
On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

Active Engagements by ESG Risk Ratings Categories

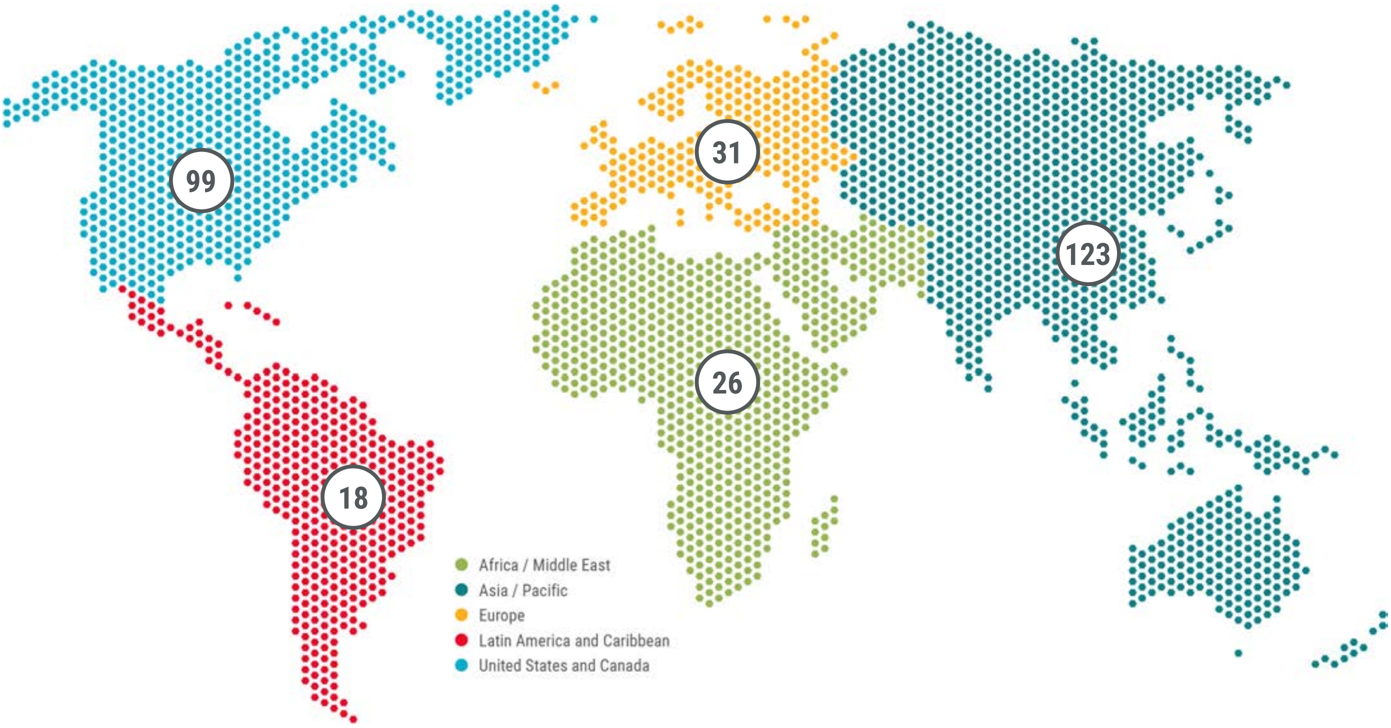
Active Engagements by ESG Risk Ratings Categories



Industry Distribution



Engagements by Headquarter Location

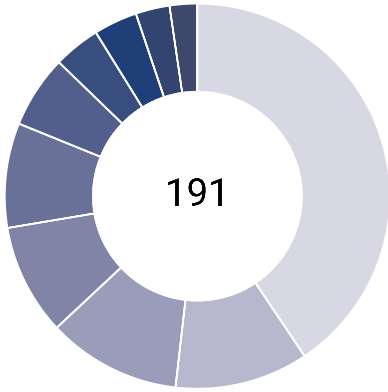


Engagement Topics

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

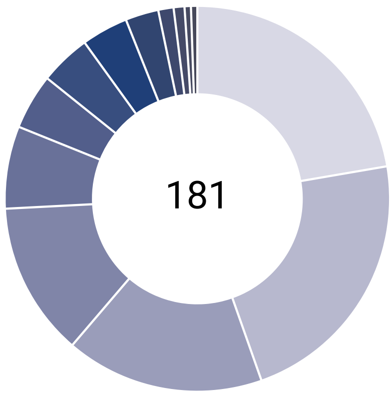
Environmental

- CLIMATE CHANGE - TRANSITION RISK (150)
- WASTE MANAGEMENT (41)
- WATER QUALITY (32)
- NATURAL RESOURCE USE (14)
- CIRCULAR ECONOMY (10)
- AIR POLLUTANT EMISSIONS (41)
- WATER SECURITY (34)
- LAND POLLUTION AND SPILLS (22)
- BIODIVERSITY (13)
- DEFORESTATION (8)



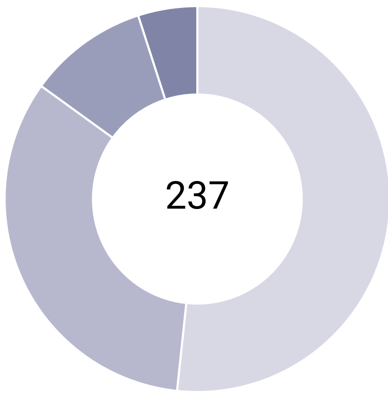
Social

- COMMUNITY RELATIONS (59)
- OCCUPATIONAL HEALTH AND SAFETY (44)
- HUMAN RIGHTS (18)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (11)
- MARKETING PRACTICES (7)
- LABOUR RIGHTS (2)
- WEAPONS (1)
- PRODUCT QUALITY AND SAFETY (59)
- HUMAN CAPITAL (34)
- DATA PRIVACY AND SECURITY (12)
- INDIGENOUS PEOPLE (10)
- JUST TRANSITION (3)
- HIGH-RISK TERRITORIES (1)



Governance

- DISCLOSURE (182)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (35)
- ESG GOVERNANCE (117)
- BOARD COMPOSITION (17)



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	15%	12 Responsible Consumption & Production	54%
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	23%	16 Peace & Justice, Strong Institutions	57%
8 Decent Work and Economic Growth	23%	17 Partnerships to Achieve the Goal	1%
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 focus 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 lack of third-party assurance for methane emissions (pending regulatory clarity), 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

53
meetings

540
emails and phone calls exchanged

9
engagements Resolved

31
Milestones achieved

176
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.

Engagement Response

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

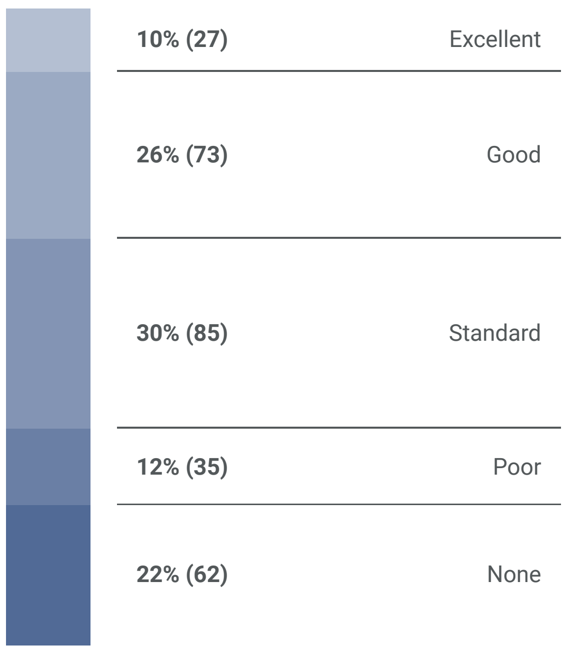
Excellent The company is proactive in communicating around the issues related to the change objective.

Good The company addresses all the issues related to the change objective.

Standard The company provides responses to some of the issues related to the change objective.

Poor The company has initially responded but not properly addressed the issues related to the change objective and is unwilling to engage further with us.

None The company has not responded to the inquiries.



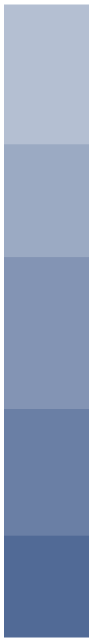
Engagement Performance

Performance describes the combined company Progress and Response.

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.



22% (63)	High
18% (50)	Above Average
24% (67)	Average
20% (57)	Below Average
16% (45)	Low

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.

31 Milestones achieved in Q2 2026

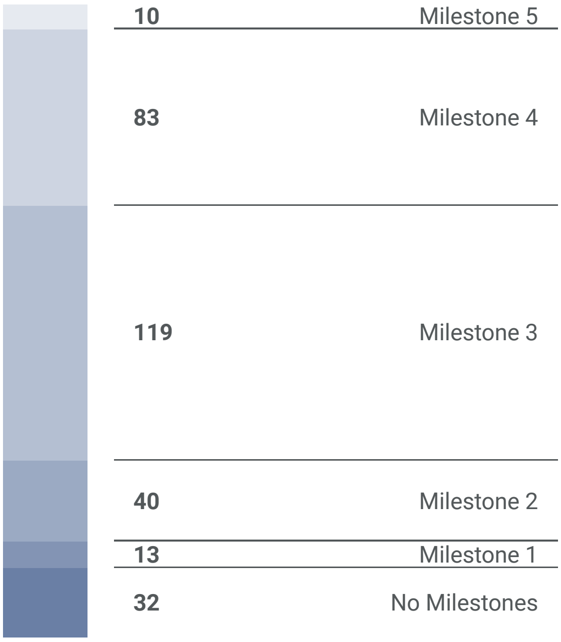
Milestones Framework

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 - Advanced Petrochemical

ESG Risk Ratings Score

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

25.7

INDUSTRY:
Chemicals

COUNTRY:
Saudi Arabia

ENGAGEMENT FOCUS:

- **E&S Impact of Products and Services**
- **Carbon – Own Operations**
- **Emissions Effluents and Waste**

RATIONALE FOR RESOLVED STATUS:
Advanced Petrochemical improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- Advanced Petrochemical assigned ESG responsibilities to the Board Risk Committee and Internal Audit function in 2024, representing the integration of ESG oversight at the executive level.
- The company reported a 13% year-on-year reduction in nitrogen oxide emissions in 2024, supported by process enhancements. It also expanded disclosure of non-GHG air emissions in its 2024 ESG Report to include sulfur oxides, particulate matter, volatile organic compounds, and hazardous air pollutants.
- Continuous emissions monitoring systems are in place, and flaring oversight is aligned with regulatory requirements. The company reports ongoing optimization initiatives targeting boilers and other emission sources.
- Advanced Petrochemical achieved 100% supplier Code of Conduct acknowledgement through mandatory electronic procurement controls, as reported in 2024 disclosures. Vendor registration requires compliance confirmation. Third-party audits are conducted for international suppliers, and supplier performance evaluations are included in post-contract reviews.

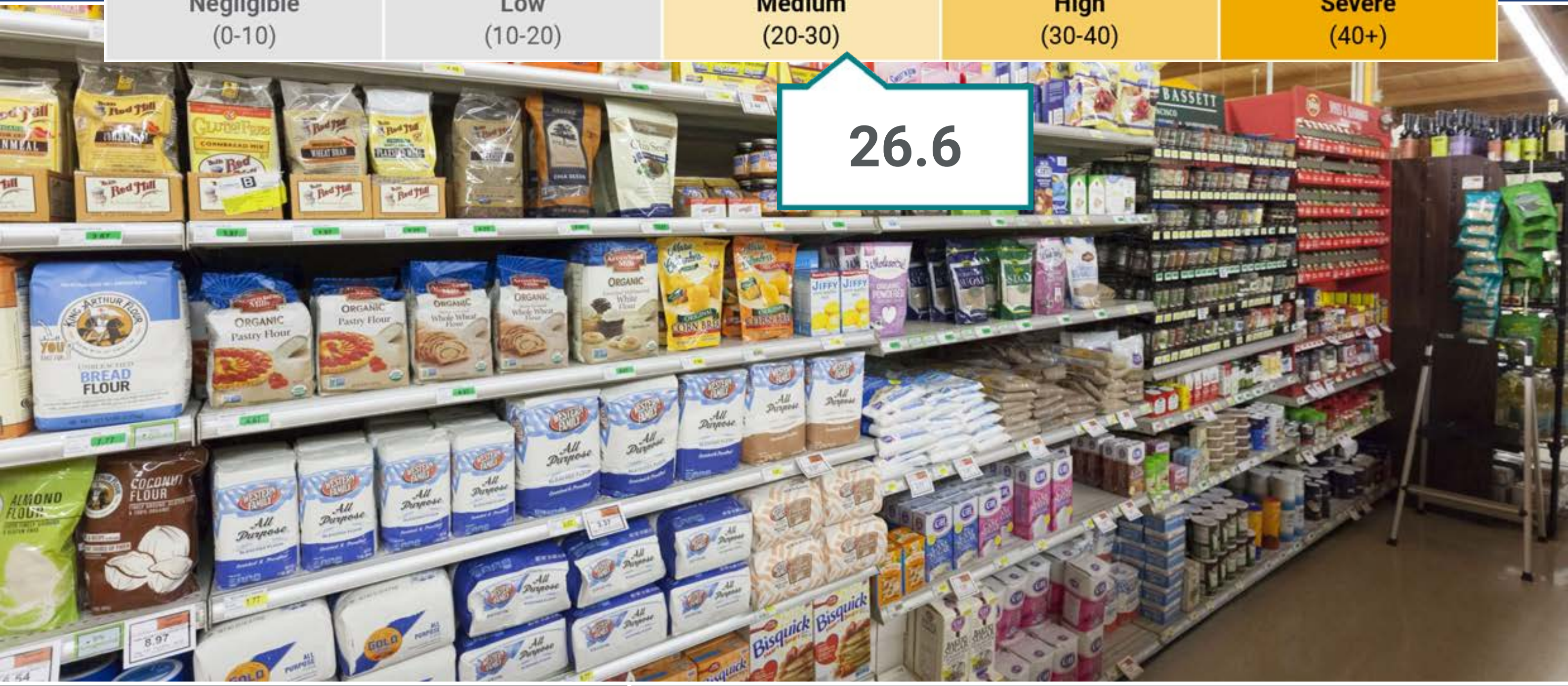
Since engagement commenced in March 2022, Advanced Petrochemical improved its Risk Rating score by 5.1 points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement in late 2024. Continued progress against engagement objectives supported the engagement being resolved in Q2 2026.

Resolved - BIM Birlesik Magazalar AS

ESG Risk Ratings Score

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

26.6



INDUSTRY:
Food Retailers

COUNTRY:
Turkey

ENGAGEMENT FOCUS:

- **E&S Impact of Products and Services**
- **Product Governance**
- **Human Rights – Supply Chain**

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

Positive Development Highlights:

- BIM formalized its commitment to the Science Based Targets initiative (SBTi) in January 2026, including targets to achieve a 54.5% reduction in absolute scope 1 and 2 emissions and a 39.4% reduction in scope 3 FLAG emissions by 2033, alongside a net-zero target for 2050. The company also met its GHG intensity reduction target one year ahead of schedule and expanded its climate disclosures in alignment with Türkiye Sustainability Reporting Standards.
- BIM strengthened supply chain oversight through the establishment of a dedicated Supply Chain Management Directorate and an increase in supplier audits to 1,074 in 2025 from 950 in 2024. It also introduced a social compliance certification programme covering selected suppliers and disclosed initial certification rates.
- In 2025, the company reported continued progress in operational sustainability, including disclosed sustainability capex (TRY 4.5 bn in 2025; TRY 5.3 bn planned for 2026), renewable energy investments, and first-time disclosure of a food waste metric.
- In its 2024 report, BIM introduced a board-approved deforestation policy applicable to suppliers and business partners, establishing initial expectations on responsible sourcing and biodiversity risk management across its supply chain.

Since engagement commenced in June 2022, BIM improved its Risk Rating score by 3.7 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 Q2 2026.

Resolved - Eiffage SA

ESG Risk Ratings Score

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

26.7

INDUSTRY:
Construction & Engineering

COUNTRY:
France

ENGAGEMENT FOCUS:

- **Corporate Governance**
- **Human Capital**
- **E&S Impact of Products and Services**

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

Positive Development Highlights:

- Eiffage strengthened disclosure and structuring of responsible labour practices in its 2024 Universal Registration Document, consolidating KPIs on diversity, training and health & safety with year-on-year tracking.
- The company advanced alignment with CSRD requirements, including completion of a double materiality assessment, ESRS mapping and stronger ESG data governance and reporting processes.
- The company enhanced community engagement governance through early-stage consultation, operational accountability and implementation of stakeholder identification systems and a grievance mechanism.
- Eiffage improved transparency on sustainability-linked products by disclosing that 10-24.99% of revenue is derived from environmental or social benefit activities, as referenced in its 2024 disclosures.

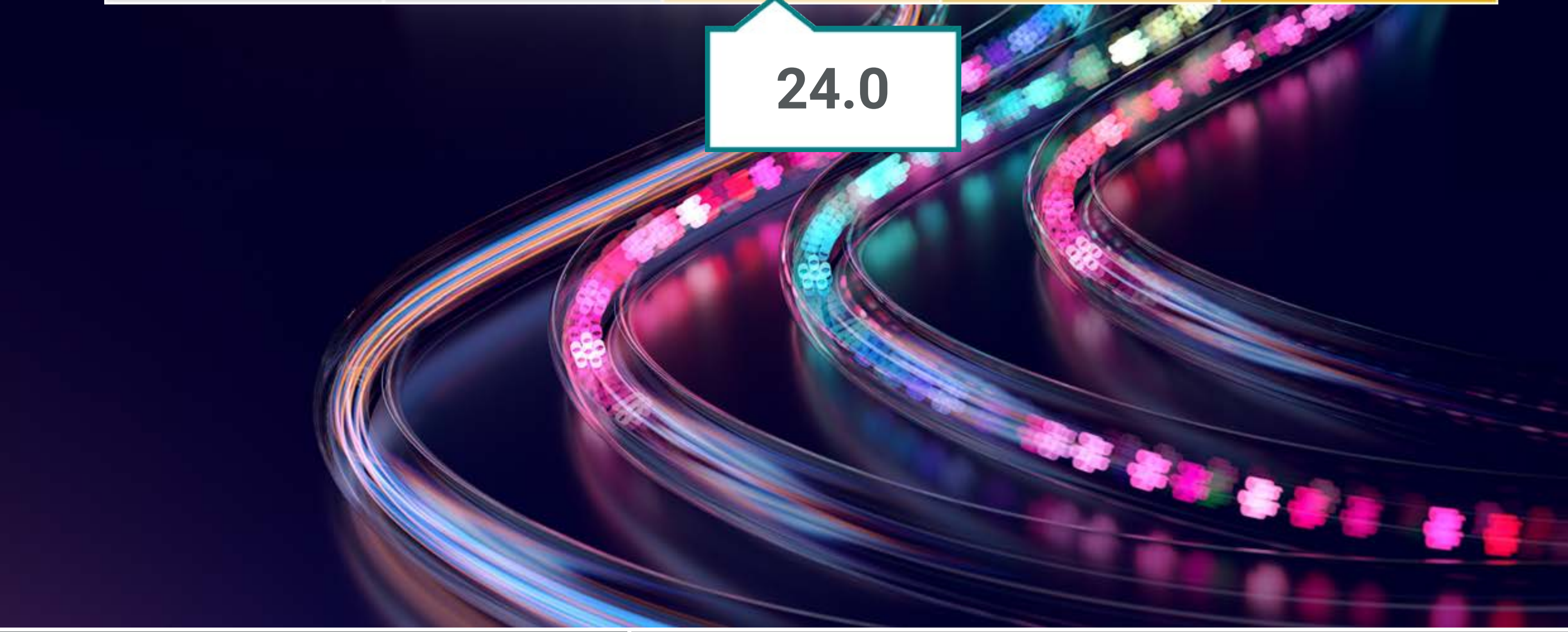
Since engagement commenced in September 2021, Eiffage SA improved its Risk Rating score by nine points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement in April 2026. Continued progress against engagement objectives supported the engagement being resolved in Q2 2026.

Resolved - Etihad Etisalat Co.

ESG Risk Ratings Score

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

24.0



INDUSTRY:
Telecommunication Services

COUNTRY:
Saudi Arabia

ENGAGEMENT FOCUS:
- **Carbon – Own Operations**
- **Product Governance**
- **Human Capital**
- **Corporate Governance**

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

Positive Development Highlights:

- Etihad formalized its sustainability governance through a CEO-chaired Sustainability Committee with monthly KPI oversight and integration of ESG risks into its Enterprise Risk Management framework, as disclosed in its 2024 sustainability reporting.
- The company improved disclosure quality by aligning its 2024 sustainability reporting with GRI and SASB standards, completing a double materiality assessment and reporting scope 1 and 2 emissions with year-on-year trends.
- Etihad achieved a 13.8% reduction in total energy consumption in 2024, supported by diesel reduction initiatives, deployment of solar-powered infrastructure and energy-efficient cooling upgrades.
- The company strengthened supply chain and governance practices by enforcing its Supplier Code of Conduct, enhancing anti-corruption controls and embedding ESG criteria into supplier oversight processes.

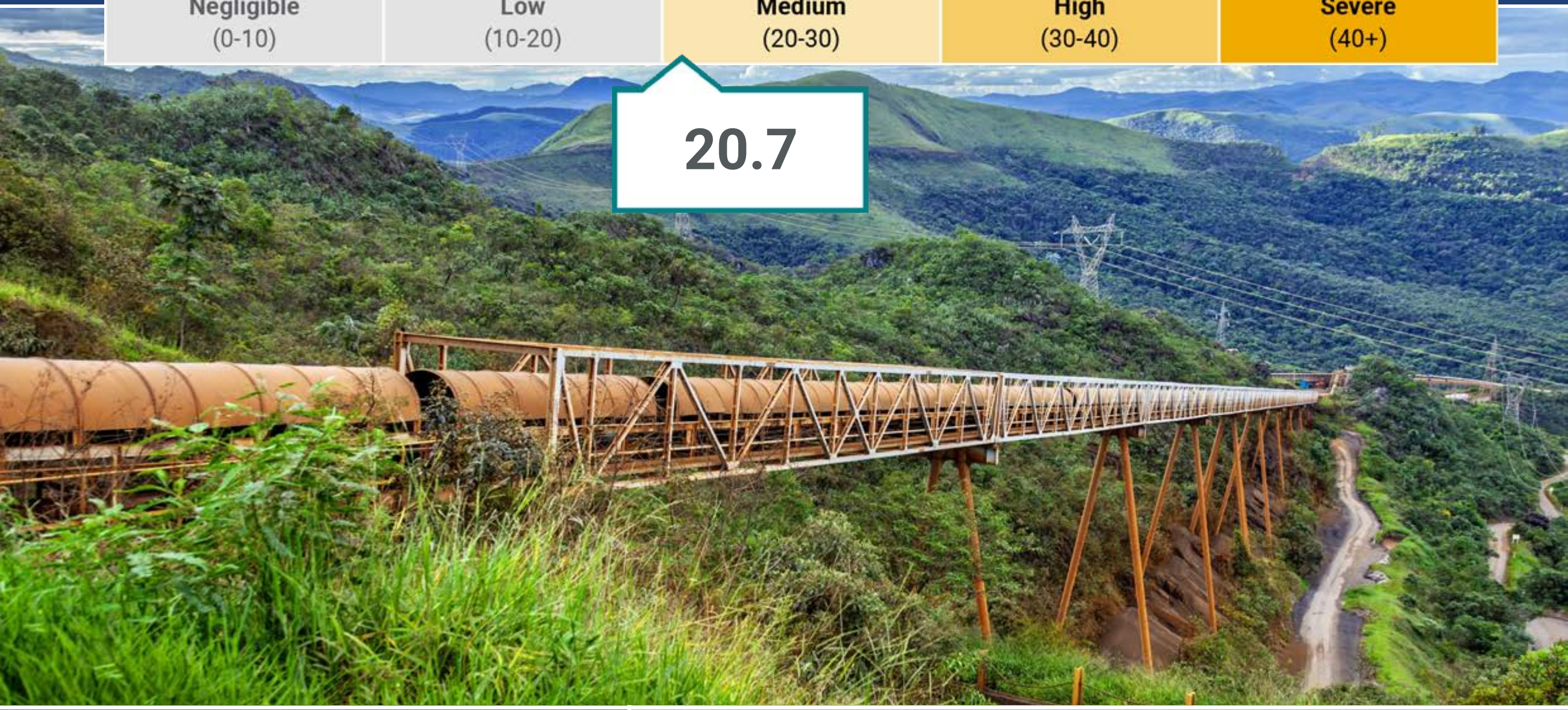
Since engagement commenced in October 2022, Etihad improved its Risk Rating score by 7.8 points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement in September 2025. Continued progress against engagement objectives supported the engagement being resolved in Q2 2026.

Resolved - Grupo México S.A.B. de C.V.

ESG Risk Ratings Score

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

20.7



INDUSTRY:
Diversified Metals

COUNTRY:
Mexico

ENGAGEMENT FOCUS:
- **Corporate Governance**
- **Emissions, Effluents and Waste**
- **Community Relations**

RATIONALE FOR RESOLVED STATUS:
Grupo México improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- Grupo México strengthened water risk management and disclosure, introducing clearer targets and asset-level performance data to improve visibility on long-term water-related risks in 2024.
- The company enhanced climate governance through a board-approved Climate Change Policy and a more defined decarbonization roadmap, integrating climate risks into project planning and capital allocation.
- Grupo México expanded environmental management practices by increasing renewable electricity use to 34.5% in its Mining Division and implementing internal water stewardship training programmes.
- The company improved ESG disclosure and governance oversight through quarterly reporting of 30+ ESG indicators to the board and increased transparency on employee metrics and grievance mechanisms.

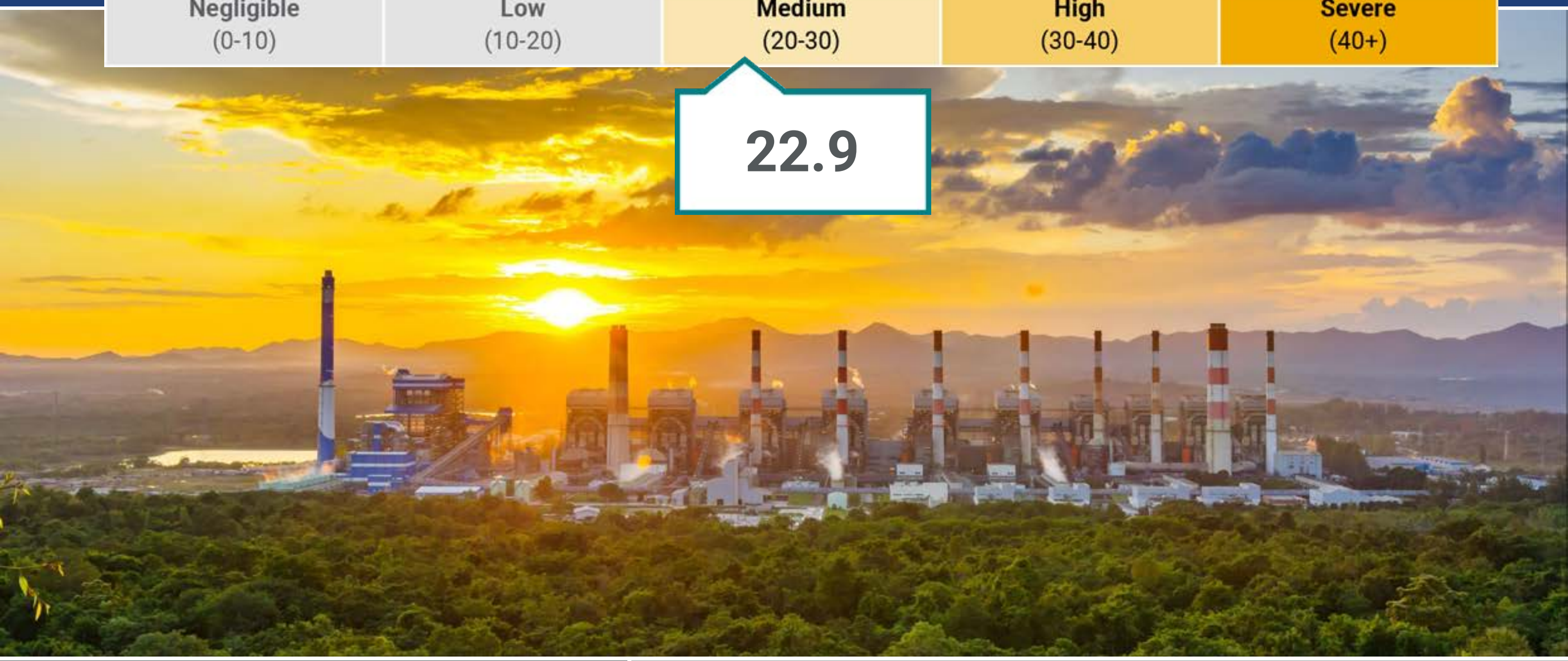
Since engagement commenced, Grupo México's ESG Risk Rating improved by 24.5 points, bringing the company below the 28-point threshold for engagement in October 2025. Continued progress against engagement objectives supported the engagement being resolved in Q2 2026.

Resolved - PT Perusahaan Listrik Negara (Persero) (PT PLN)

ESG Risk Ratings Score

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

22.9



INDUSTRY:
Utilities

COUNTRY:
Indonesia

ENGAGEMENT FOCUS:

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

RATIONALE FOR RESOLVED STATUS:
PT PLN improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- PT PLN exceeded its annual GHG reduction target in 2024, delivering 12.7-12.8 $MtCO_2e$ emissions reductions and demonstrating measurable progress in carbon management.
- The company accelerated its energy transition through renewable capacity expansion and biomass co-firing initiatives across 43 coal plants, supporting diversification of the generation mix, as stated in its 2024 ESG Performance Report.
- In 2023, PT PLN formalized environmental governance through comprehensive policies covering GHG emissions, air pollutants, waste and effluents, strengthening oversight and risk management processes.
- The company introduced water reduction targets and monitoring systems in 2022, with defined managerial accountability and initiatives to reduce freshwater consumption across operations.
- PT PLN has implemented group-wide OHS systems covering both employees and contractors, with formal certifications, clear KPIs, and systematic performance monitoring.

Since engagement commenced in March 2021, PT PLN's ESG Risk Rating improved by 22.7 points, bringing the company below the 28-point engagement threshold in late 2025. Continued progress against engagement objectives supported the engagement being resolved in Q2 2026.

Resolved - Shanghai M&G Stationery, Inc.

ESG Risk Ratings Score

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

9.8

INDUSTRY:
Commercial Services

COUNTRY:
China

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

RATIONALE FOR RESOLVED STATUS:
Shanghai M&G Stationery improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- Shanghai M&G Stationery strengthened its ESG governance framework by introducing clear, quantitative and trackable targets across its strategic pillars, supported by performance monitoring and accountability mechanisms.
- The company embedded sustainable design principles into product development, requiring all new products to meet defined sustainability criteria and expanding its portfolio of sustainable materials.
- Shanghai M&G Stationery achieved a 46.4% reduction in scope 1 and 2 emissions in 2024 versus 2021, supported by renewable energy adoption, energy efficiency upgrades and digitalized energy management.
- The company strengthened supply chain ESG management by conducting audits covering 100% of key suppliers and collecting scope 3 emissions data from the majority of its supplier base, according to its 2024 ESG report.

Following the reclassification of Shanghai M&G Stationery from the Household Products sector to Office Services in December 2025, the company now falls within the Low Risk category. Together with the positive developments achieved during the engagement period, Stewardship Services resolved the engagement.

Resolved - Sun Pharmaceutical Industries Ltd. (Sun Pharma)

ESG Risk Ratings Score

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

24.3

INDUSTRY:
Pharmaceuticals

COUNTRY:
India

ENGAGEMENT FOCUS:

- **Carbon – Own Operations**
- **Business Ethics**
- **Corporate Governance**

RATIONALE FOR RESOLVED STATUS:
Sun Pharma improved its ESG Risk Rating score to below 28.

Positive Development Highlights:

- Sun Pharma reduced scope 1 and 2 emissions by 18.23% versus its 2020 baseline, alongside significant improvements in energy and emissions intensity, as stated in its Sustainability Report FY23-24.
- The company strengthened board-level ESG oversight by expanding its Corporate Governance and ESG Committee, with a formal mandate to monitor sustainability strategy and compliance.
- For reporting period 2023-2024 Sun Pharma implemented TCFD-aligned climate scenario analysis, including quantified physical risk exposure at site level, enhancing climate risk management and disclosure.
- The company enhanced business ethics and compliance frameworks through the introduction of a new Global Code of Conduct, reinforcing standards on ethical practices and industry interactions.

Since engagement commenced in February 2021, Sun Pharma improved its Risk Rating score by 11.9 points, bringing the company well into the Medium Risk category and below the 28-point threshold for engagement in early 2025. Continued progress against engagement objectives supported the engagement being resolved in Q2 2026.

Resolved - The People's Insurance Co. (Group) of China Ltd. (PICC)

ESG Risk Ratings Score

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

27.7

INDUSTRY:
Insurance

COUNTRY:
China

ENGAGEMENT FOCUS:

- **Product Governance**
- **Corporate Governance**
- **Business Ethics**

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

Positive Development Highlights:

- PICC strengthened its product governance framework, enhancing customer protection policies, suitability management and certification approaches across its operations.
- According to 2025 Sustainability Report, PICC advanced climate risk integration by conducting climate stress testing across its investment portfolio and improving risk assessment capabilities.
- PICC published a carbon accounting white paper aligned with Partnership for Carbon Accounting Financials in 2025, positioning itself as an early mover in developing industry methodologies for financed emissions.
- In the 2023 Sustainability Report, PICC enhanced ESG governance and compliance frameworks, including board-level oversight, whistleblower mechanisms and strengthened internal control systems.

Since engagement commenced in August 2021, PICC's ESG Risk Rating improved by 4.4 points, bringing the company below the 28-point threshold for engagement in September 2025. Continued progress against engagement objectives supported the engagement being resolved in Q2 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.
Almarai Co. Ltd.	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure		0-3
DTE Energy Co.	United States	Focus on Carbon Own Operations		0-3
PGE Polska Grupa Energetyczna SA	Poland	Focus on Carbon and Emissions, Effluents and Waste		0-3
QL Resources Bhd.	Malaysia	Focus on Product Governance		0-3
Shimizu Corp.	Japan	Focus on Business Ethics		0-3
Canadian Natural Resources Ltd.	Canada	Focus on Carbon Products and Services	Director Letter	3-6
Chevron Corp.	United States	Focus on Carbon Products and Services		3-6
Coca-Cola Consolidated, Inc.	United States	Focus on E&S Impact of Products and Services	Director Letter	3-6
Eneva SA	Brazil	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	3-6
EQT Corp.	United States	Focus on Carbon and Community Relations	Director Letter	3-6
Kikkoman Corp.	Japan	Focus on Product Governance		3-6

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
				One piece equals three months.
Masimo Corp.	United States	Focus on Risk Assessment and ESG Disclosure	Investor Letter, Voting Recommendations	3-6
Mesaieed Petrochemical Holding Co. QSC	Qatar	Focus on Risk Assessment and ESG Disclosure	Director Letter	3-6
PPB Group Bhd.	Malaysia	Focus on Land Use and Biodiversity Supply Chain	Director Letter	3-6
SABIC Agri-Nutrients Co.	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure	Director Letter	3-6
Südzucker AG	Germany	Focus on Carbon and Resource Use	Director Letter	3-6
The Middleby Corp.	United States	Focus on Carbon and E&S Impact of Products and Services	Director Letter	3-6
Viking Holdings Ltd. (Bermuda)	Bermuda	Focus on Product Governance		3-6
Blue Owl Capital, Inc.	United States	Focus on Product Governance		6-9
Industries of Qatar Co.	Qatar	Focus on Risk Assessment and ESG Disclosure	Director Letter	6-9
Occidental Petroleum Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste		6-9
Reliance Industries Ltd.	India	Focus on Risk Assessment and ESG Disclosure	Director Letter	6-9
Zoomlion Heavy Industry Science & Technology Co., Ltd.	China	Focus on Carbon and Product Governance	Director Letter	6-9
DraftKings, Inc.	United States	Focus on Business Ethics	Director Letter	9-12

One piece equals three months.

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

One piece equals three months.

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
Saudi Kayan Petrochemical Co.	Saudi Arabia	Focus on Emissions, Effluents and Waste and Community Relations	Director Letter, Investor Letter	18-21
Whitecap Resources, Inc.	Canada	Focus on ESG Disclosure	Director Letter	18-21
Targa Resources Corp.	United States	Focus on Emissions, Effluents and Waste and Community Relations	Director Letter, Investor Letter	21-24
Exxon Mobil 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
Hindustan Petroleum Corp. Ltd.	India	Focus on Carbon and Community Relations	Director Letter, Investor Letter	+ Above 24
National Industrialization Co.	Saudi Arabia	Focus on Emissions, Effluents and Waste and Land Use and Biodiversity	Director Letter	+ 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

Engagement Status Updates

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

New Engage

COMPANY	COUNTRY	ISSUE
Cosmo Energy Holdings Co., Ltd.	Japan	Focus on Occupational Health and Safety
Electric Power Development Co., Ltd.	Japan	Focus on Carbon and Emissions, Effluents and Waste
South Bow Corp.	Canada	Focus on Emissions, Effluents and Waste and Community Relations

New Resolved

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

New Archived

COMPANY	COUNTRY	ISSUE	PREVIOUS STATUS
Energisa SA	Brazil	Focus on Emissions, Effluents and Waste and Resource Use	Engage
Frontline Plc	Cyprus	Focus on Occupational Health and Safety and Emissions, Effluents and Waste	Engage

New Unresponsive

COMPANY	COUNTRY	ISSUE
China Petroleum & Chemical Corp.	China	Focus on Carbon and Emissions, Effluents and Waste
GS Holdings Corp.	South Korea	Focus on Carbon Own Operations

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.

Endnotes

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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?
Contact us today at engagement.support@morningstar.com to connect with our team of experts.