Engagement 360

2025 Q1 Report



Stewardship is where insights become action. Engagement 360 supports a holistic approach to mitigating ESG risks and capitalizing opportunities.

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This report summarizes the shareholder engagement activities that Morningstar Sustainalytics performed between January and March 2025. 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 May 2025 and uses data for the quarter ending 31 March 2025. Version 1 was disseminated on 19 May 2025. Use of and access to this information is limited to clients of Morningstar Sustainalytics and is subject to Morningstar Sustainalytics legal terms and conditions.

Stewardship Approach

Engagement 360 is a holistic stewardship offering that promotes and protects the world's leading asset owners' and managers' long-term shareholder values through consistent engagement outcomes. Engagement 360 addresses ESG risks and strives to create positive social and environmental outcomes.

STRATEGY AND RISK promotes and protects long-term value by flagging high- and severe- risk companies to proactively engage unmanaged and financially material ESG issues. The focus is on companies with unmanaged ESG risk greater than 30 as identified by Morningstar Sustainalytics' ESG Risk Ratings.

INCIDENT engagements address companies that severely or systematically violate international standards, such as the UN Global Compact and OECD Guidelines for Multinationals to ensure that investors are managing associated reputation risk. This engagement aims to not only to verify how a company addresses the incident but also to effectuate change in the company's policies and/or processes to ensure proper policies and programmes are in place to avoid future reoccurrences and improve its ESG disclosure. Companies flagged as Watchlist or Non-Compliant as identified by Morningstar Sustainalytics' Global Standards Screening research are targeted for this engagement.

THEMES are SDG-aligned proactive engagements that enable investors to align their interests in addressing specific systemic issues across the ESG spectrum. Thematic engagement's philosophy centers around systematic change, collaboration, root causes and best practice sharing at its core. The purpose of this engagement is to influence companies to proactively manage specific ESG risks and capitalize on opportunities.

Executive Summary

Desiree Wareman
Manager, Treasury & Asset Management

We are pleased to present the results of the engagement activities for Q1 2025 on behalf of Coöperatie Menzis (hereafter Menzis). This report includes our engagement statistics, along with detailed insights that extend beyond our investment portfolio. Our commitment to making a positive impact spans not only our portfolio companies but also potential investments where we observe meaningful changes through our engagement. Additionally, we have highlighted specific cases that we consider important to report.

Highlights of the Quarter

The transition from the former Thematic Engagement to the new Thematic Stewardship Programme continues, driving up the total number of engagements, so by the end of the first quarter, Morningstar Sustainalytics has a total of 814 engagements. The Thematic Stewardship Programmes are ramping up and establishing the engagement dialogues and setting the expectations with the companies.

The Stewardship team of Morningstar Sustainalytics had 147 active engagements related to the Menzis portfolio and achieved 50 milestones in Q1 2025. No engagement was resolved successfully this quarter.

Looking Ahead

In the coming quarters, Morningstar Sustainalytics will continue seeing Thematic Stewardship Programmes adding companies to the programmes, and Strategy & Risk will replace some of the many engagements resolved with new companies. Finally, where 'we' has been used in this Engagement 360 report, this refers to Morningstar Sustainalytics and reflects the engagement activities that Morningstar Sustainalytics performs on behalf of Menzis.

Stewardship Overview

147
engagements as of 31 March 2025

15
new engagements

Banks
is the most engaged industry

Highest number of engagements
in a single market is the United States and Canada

Disclosure and Board Composition
are the most engaged topics

SDG 13 Climate Action
(23%) linked to engagement objective

Engagement Status

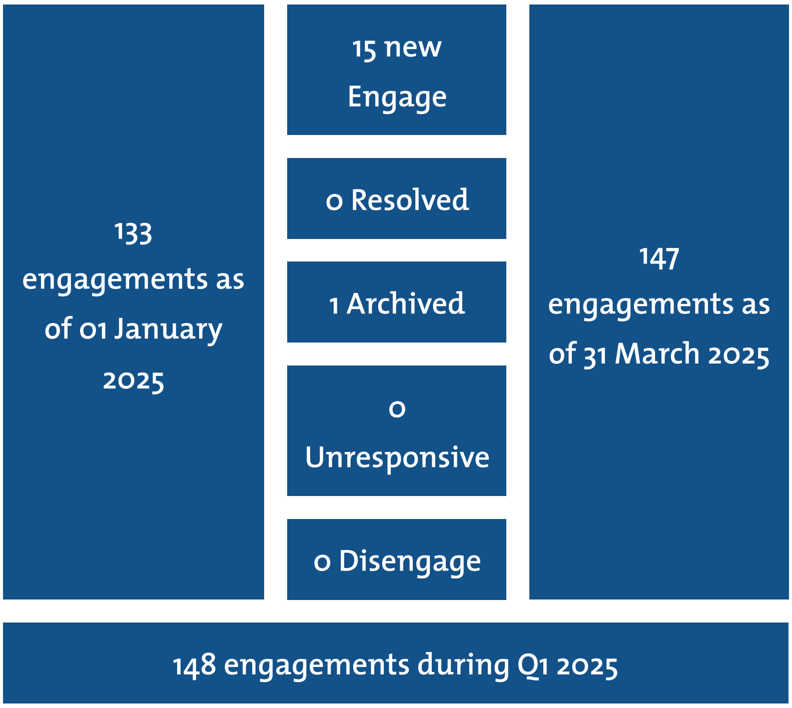
When we open an engagement, the status is Engage. We will then pursue engagement until we change status to:

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.

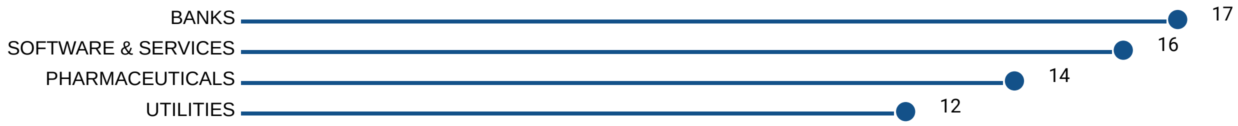
Disengage Engagement is deemed unlikely to succeed.



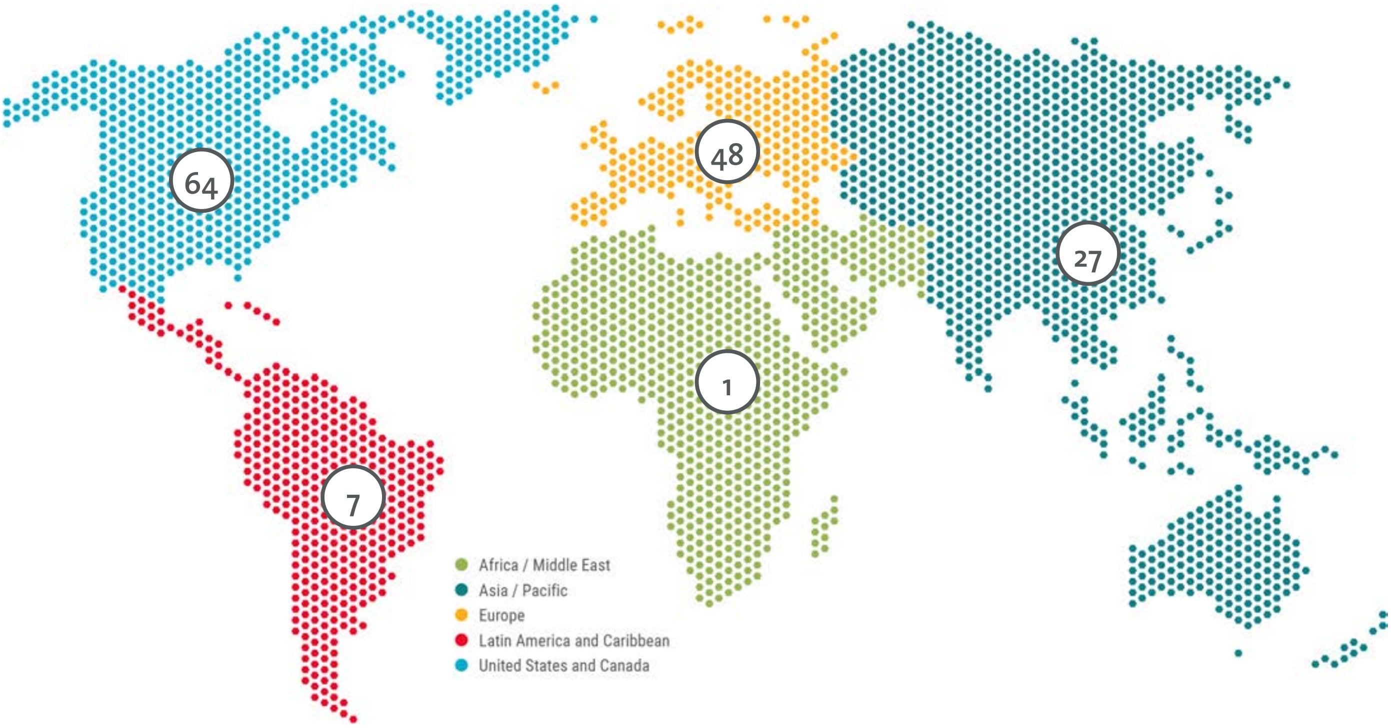
On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

Industry Distribution

(Industries with a minimum of 10 engagements)



Engagements by Headquarter Location

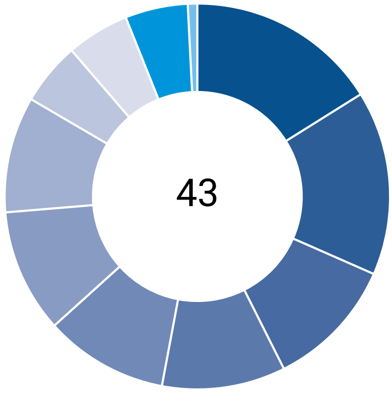


Engagement Topics

At the end of the reporting period, the engagements for the Menzis portfolio addressed a number of topics across the environmental, social and governance pillars.

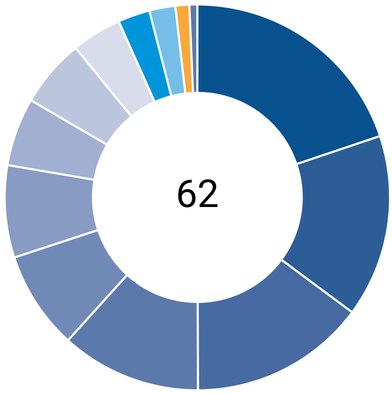
Environmental

- CLIMATE CHANGE (25)
- NET ZERO/DECARBONIZATION (17)
- LAND POLLUTION AND SPILLS (16)
- DEFORESTATION (15)
- NATURAL RESOURCE USE (8)
- AIR POLLUTANT EMISSIONS (1)
- WATER SECURITY (24)
- BIODIVERSITY (16)
- WATER QUALITY (16)
- CIRCULAR ECONOMY (8)
- WASTE MANAGEMENT (8)



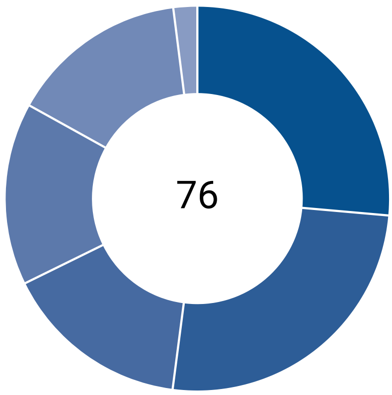
Social

- JUST TRANSITION (39)
- HUMAN CAPITAL (29)
- INDIGENOUS PEOPLE (16)
- FORCED LABOUR (11)
- COMMUNITY RELATIONS (8)
- PRODUCT QUALITY AND SAFETY (4)
- MARKETING PRACTICES (1)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (30)
- HUMAN RIGHTS (23)
- CHILD LABOUR (15)
- LABOUR RIGHTS (11)
- DATA PRIVACY AND SECURITY (5)
- OCCUPATIONAL HEALTH AND SAFETY (2)



Governance

- DISCLOSURE (71)
- ACCOUNTING AND TAXATION (42)
- SHAREHOLDERS RIGHTS (40)
- BOARD COMPOSITION (69)
- ESG GOVERNANCE (41)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (5)



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

Sustainable Development Goals — Mapping Engagements

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

1 No Poverty	12%	**10** Reduced Inequality	25%
2 Zero Hunger	18%	**11** Sustainable Cities and Communities	1%
3 Good Health and Well-Being	38%	**12** Responsible Consumption and Production	55%
4 Quality Education	20%	**13** Climate Action	23%
5 Gender Equality	20%	**14** Life Below Water	10%
6 Clean Water and Sanitation	12%	**15** Life on Land	12%
7 Affordable and Clean Energy	13%	**16** Peace and Justice, Strong Institutions	27%
8 Decent Work and Economic Growth	61%	**17** Partnerships to Achieve the Goal	7%
9 Industry, Innovation and Infrastructure	57%		

Case Study: Crédit Agricole SA

Biodiversity and Natural Capital Stewardship Programme - Engagement Since: July 2022

Industry: **Banks**

Country: **France**

Crédit Agricole is the world's largest cooperative financial institution based in France, originally founded to support the French agricultural sector. Due to its strong ties in the agri-food sector, Crédit Agricole's financing and investment portfolios are highly exposed to biodiversity-related risks.

Progress: **Good** | Response: **Good** | Latest Milestone: **1**

Engagement Update

The latest meeting in January 2025 covered Crédit Agricole's Group CSR Sector Policy on Deforestation and Ecosystem Conversion, released in December 2024. The policy showcases its efforts on embedding nature and biodiversity into its strategy and business lines. Additionally, after testing various nature-related risk assessment methodologies, the company will confirm its final approach in mid-2025. Crédit Agricole is also preparing its Corporate Sustainability Reporting Directive (CSRD) which will be released as part of its Universal Registration Document this year.

Focus Area

Engagement focused on its ESG governance and participation in TNFD piloting projects. Sustainalytics provided toolkits to help address commodity-driven deforestation and strengthen human rights in its sectoral policy. Moving forward, discussions will continue on how Crédit Agricole assesses its nature-related impacts and financial risks, as well as the metrics and methods used for monitoring. The company is encouraged to transparently disclose its risk assessment results and establish a nature transition plan with clear targets to align with best practices.

Engagement Outcomes

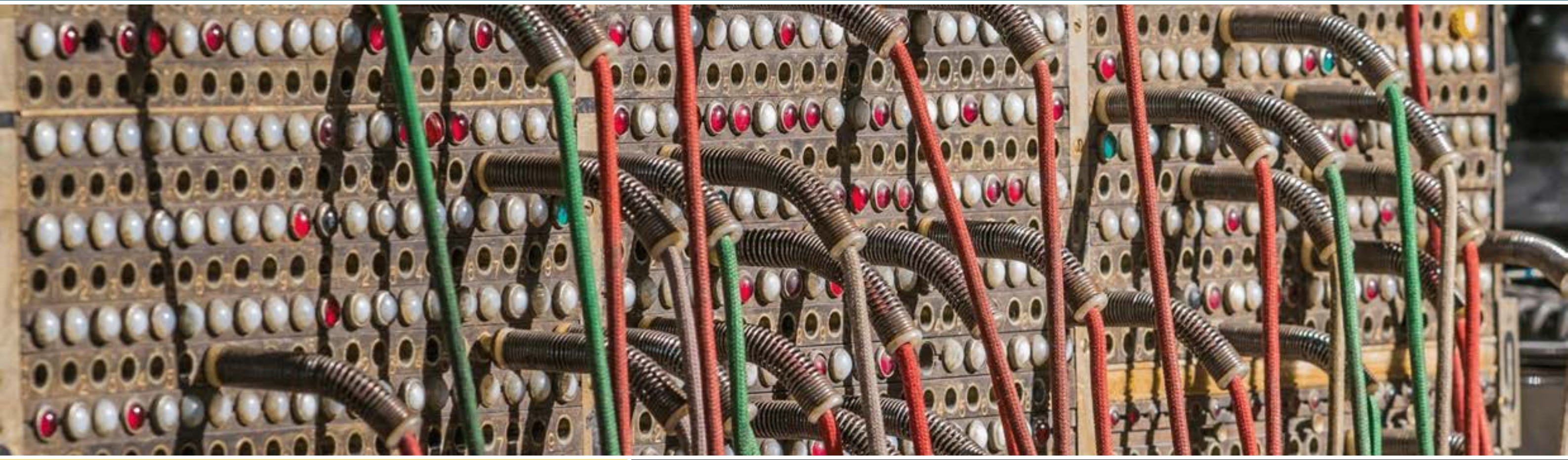
The company has made strong progress throughout our engagement dialogue. In 2023, it published a statement on natural capital and biodiversity, outlining its commitment and strategic plan. Crédit Agricole actively participates in industry initiatives, joining two TNFD pilot projects and contributing to nature target-setting guidance for UNEP FI's Principles for Responsible Banking (PRB). Its latest development in its Group CSR Sector Policy is a robust policy that aligns with global standards and covers all high-risk commodities across its business lines.

Insights & Outlook

The Accountability Framework initiative guides the establishment of effective policies and implementation systems to eliminate deforestation and conversion recommended by 2025 in order to reach net zero by 2050. This timeframe highlights the urgency to mitigate the climate and biodiversity crises. The financial sector plays a crucial role in driving corporates' progress on supply chain commitments. Crédit Agricole's Sector Policy sets a strong example of how to address deforestation risks across its portfolios. Moving forward, Crédit Agricole should ensure a robust implementation strategy to support its clients in a smooth transition, reinforcing its commitment to halt biodiversity loss.

Case Study: Nippon Telegraph & Telephone Corp. (NTT)

Human Capital Management Stewardship Programme - Engagement Since: 12 December 2024



Industry: **Telecommunication Services**

Country: **Japan**

NTT is a Tokyo based multinational telecommunications company. It is the third largest publicly listed company in Japan, with a 300,000 strong workforce and consequently in competition for the best talent in the market.

Progress: **Good** | Response: **Good** | Latest Milestone: **1**

Engagement Update

The Programme held a first engagement call with NTT in February 2025. The company expressed willingness to engage. NTT also acknowledged the benefits of being on a call with market participants. The business shared the upcoming expansion of its disclosures, specifically in response to the Sustainability Standards Board of Japan (SSBJ) S1 and S2 requirements.

Focus Area

The focus of the engagement was around demographic changes and diversity, equity and inclusion and how the latter might support the former. Japan is currently facing conspicuous population decline, resulting in a corresponding labour shortage. With the majority of NTT's workforce located in Japan and the necessity for the company to attract the best talent, it is vital that has the company's human capital strategy has a direct response to this risk.

Engagement Outcomes

The company has expanded its recruitment pool to include wider demographics. It now targets at minimum of 30% mid-career hires and 30% women graduate hires. In 2024 this was achieved at 40% and 38% respectively. The company has also orientated its human capital pillars to support employee retention. NTT targets a year-on-year improvement in the employee engagement rate. However, in FY24 this indicator saw a 3% decrease. NTT informed us that a number of organizational reviews went into understanding and improving on this result and the business now expects a significant increase in FY25.

Insights & Outlook

During our call it became clear that NTT understands that the business' continued success is partly dependent on being able to position itself as an employer of choice. This is underlined by various related targets and initiatives to achieve objectives. So far, the company has been able to move with demographic challenges and attention should be on, if the company can maintain and evolve these targets. We have scheduled a second engagement call for Q4 2025. The focus will be on NTT's progress against maturing targets and a review of its upcoming SSBJ disclosures.

Case Study: Newmont Corp. (Newmont)

Human Rights and Transition Stewardship Programme - Engagement Since: 23 January 2025

Industry: **Precious Metals**

Company: **United States**

Newmont is the world's largest gold miner. It extracts metals and minerals vital for a green energy transition and is exposed to a number of salient human rights risks. It is obligated to respect human rights as per the UN Guiding Principles on Business and Human Rights.

Progress: **Standard** | Response: **Standard** | Latest Milestone: **3**

Engagement Update

Most recent engagements have been conducted via our collaborative engagement through PRI Advance. Dialogues covered human rights due diligence in a recent acquisition, and stakeholder engagement practices. It was one of the corporate presenters at our webinar on operational-level grievance mechanisms in March 2025. Newmont showcased how it uses data gathered from grievance channels to analyze risks and prioritize preventive measures for human rights due diligence.

Focus Area

We will continue the collaborative engagement with the company through PRI Advance. Most likely, we will follow up on past conversations on human rights due diligence. Other priority topics would be on the effectiveness of Newmont's grievance mechanisms and on targets and ambitions of the company's most salient human rights issues.

Engagement Outcomes

We see that Newmont has seemingly strong human rights due diligence practices in place. One example of that is that Newmont has integrated a root-cause analysis methodology into its site stakeholder management system to better understand the underlying drivers of complaints and grievances and reduce or eliminate repeat issues. This can help decrease community opposition and controversies. Moreover, under the company's Stakeholder Relationship Management Standard, the effectiveness of each site's stakeholder engagement efforts must be assessed annually, with stakeholder perception studies required at least every three years.

Insights & Outlook

While a human rights strategy is in place, controversies remain, indicating gaps in human rights management and strategy implementation. Newmont is not alone in this. Many mining companies of similar size are also facing community opposition and controversies. This suggests that deeper understanding of community needs and concerns are needed to build both resilient operations and communities. On that note, we will deepen our understanding of the results of such efforts in engagement dialogues with this company and others along renewable energy value chains.

Case Study: O'Reilly Automotive (O'Reilly)

Scaling Circular Economies Stewardship Programme - Engagement Since: 23 August 2024

Industry: **Retailing**

Company: **United States of America**

O'Reilly is an aftermarket automotive parts retailer in the United States and Mexico with more than USD 16 billion in annual sales. In its reporting, the company cites its contribution to a circular economy through recycling and remanufacturing.

Progress: **Standard** | Response: **Standard** | Latest Milestone: **0**

Engagement Update

O'Reilly was initially unresponsive to our request for dialogue, but agreed to a first engagement call in February 2025. The purpose of the call was to gain a deeper understanding of the company's approach to a circular economy to identify areas for potential improvement. The company's general counsel, investor relations director and sustainability director joined the call.

Focus Area

O'Reilly outlines various business and financial risk factors in its ESG and annual reporting and proxy statements. Although the company does not name sustainability factors among its headline risks, the company has committed to carbon emission reduction targets across scopes 1, 2 and 3, each with 2026, 2035 and 2050 milestones. Our first engagement call covered the company's materiality analysis and the connection between its carbon strategy and circularity initiatives, as well as its recycling and remanufacturing activities.

Engagement Outcomes

On the call, O'Reilly advised that its strategy for achieving emissions goals is evolving. Scope 3 category Purchased Goods & Services constitutes the largest source of emissions. The company underlined how this is less in its control, but it encourages its suppliers to be on the path of greenhouse gas reduction. The company is also taking steps to reduce embedded product emissions by offering in-store recycling of operational materials, such as oil, fluids and batteries. Its ESG Report makes a direct equation between the recycling of different categories of material and avoided emissions.

Insights & Outlook

We recommend that O'Reilly elaborates on the link between its circular economy initiatives and its carbon emission reduction strategy in its reporting and considers conducting and publishing a materiality analysis relating to relevant sustainability issues. The company is already offering customers "good/better/best" product options and loans customers quality tools to install parts, helping them to save costs. There may be further opportunities to integrate circular economy considerations in these product recommendations. We will seek to set up a second call later in 2025 after the company publishes its next sustainability report, which will explore in greater depth the company's recycling and remanufacturing activities, as well as the nexus between customer relationships and the promotion of circularity.

Case Study: Deutsche Börse AG (Deutsche Börse)

Sustainability and Good Governance Stewardship Programme - 15 February 2024

Industry: **Diversified Financials**

Country: **Germany**

Deutsche Börse, a German financial exchange, has a significant impact on the European capital market and its sustainability transformation. The company primarily generates revenue through its Eurex and Clearstream segments. Additionally, sustainability is becoming a crucial business area.

Progress: **Standard** | Response: **Excellent** | Latest Milestone: **3**

Engagement Update

Deutsche Börse is open to engagement. We met with the board member of the Supervisory Board and senior executives. We discussed the recent significant leadership changes, strategic priorities for 2025, the new executive remuneration system, and the role of Deutsche Börse and the capital markets in Europe in the sustainability transformation. We plan to meet with the new chair in December 2025.

Focus Area

The engagement aims to ensure Deutsche Börse's corporate governance and governance of sustainability are best in class to raise the bar for the European finance industry. We encouraged the company to disclose its double materiality analysis results and target-setting process to clarify how its sustainability goals and ESG targets in executive compensation are aligned with its most significant impacts from a double materiality perspective. Additionally, we recommended developing tax disclosures in line with the OECD or GRI 207 standards, including Country-by-Country reporting.

Engagement Outcomes

Deutsche Börse's performance is strong, with corporate governance aligned with best practices. Notably, the Supervisory Board comprises 44% women and will have a new female chair. The company's corporate strategy, Horizon 2026, includes sustainability as a key growth driver. In 2024, Deutsche Börse enhanced its ESG governance by establishing a Group Sustainability Committee reporting to the Executive Board. The company provides robust ESG disclosure and has the best verification of it among the companies in our programme (reasonable assurance).

Insights & Outlook

During our engagement, we learned that Deutsche Börse is working on its post-2026 strategy and it aims to be a one-stop shop for financial services, emphasizing geographical expansion and a competitive edge. Its post-merger integration of SimCorp is underway, as well as a technological partnership with a US company to renew its tech landscape. The company finds human capital one of its most material ESG topics currently it has active people strategy, promotes diversity, equity and inclusion, and systematically measures how attractive the company is as an employer. Future engagement will focus on positive developments in the company's tax reporting and encourage the same concerning its sustainability impacts.

Engagement Results

36
meetings

796
emails and phone calls exchanged

0
engagements resolved

13
Positive Developments

50
Milestones Achieved

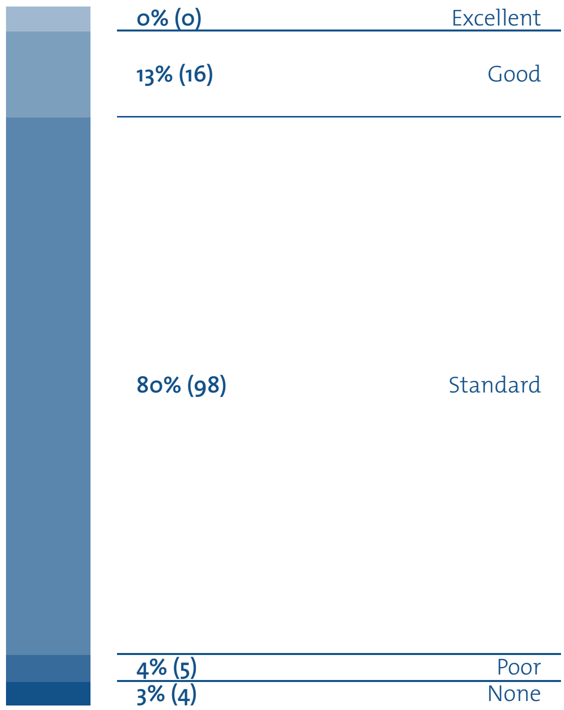
31%
of engagements with Excellent or Good Response

13%
of engagements with Excellent or Good Progress

Engagement Progress

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

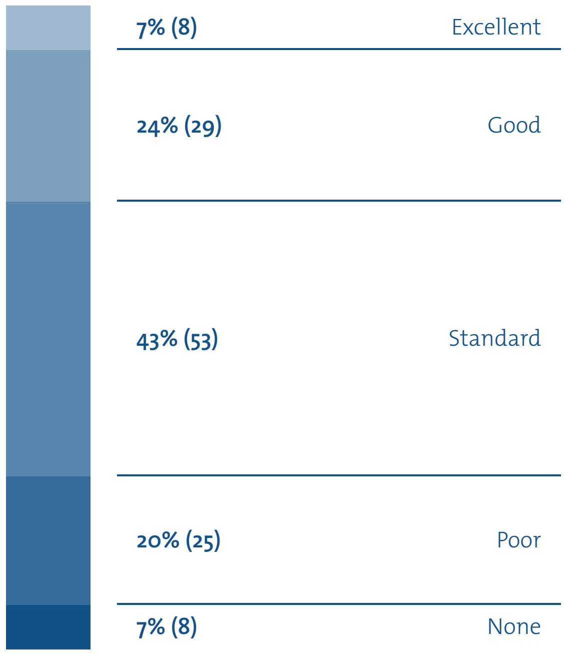
Excellent	The company has adopted a proactive approach and addressed the issues related to the change objective.
Good	The company has taken sufficient measures to address the issues related to the change objective.
Standard	The company has undertaken a number of measures to address the issues related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



Engagement Response

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

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



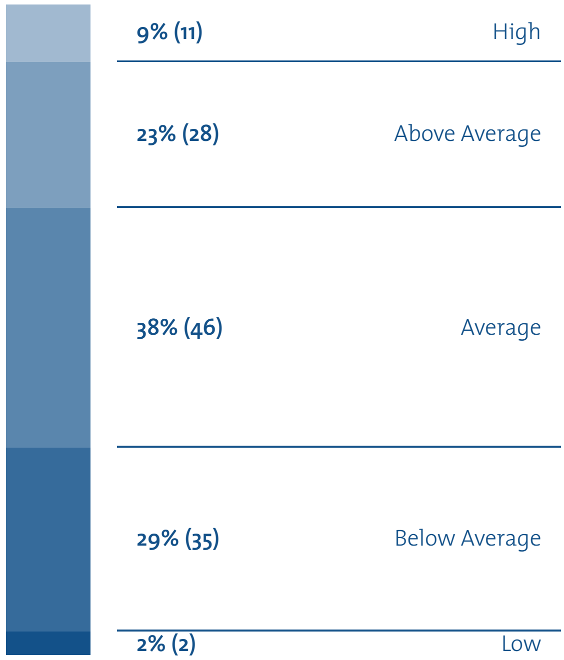
Engagement Performance

Performance describes the combined company Progress and Response.

Engagement Performance Assessment Update

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

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



Progress and Response Matrix

RESPONSE

PROGRESS

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

Engagement Milestones

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

50 Milestones
achieved in Q1 2025

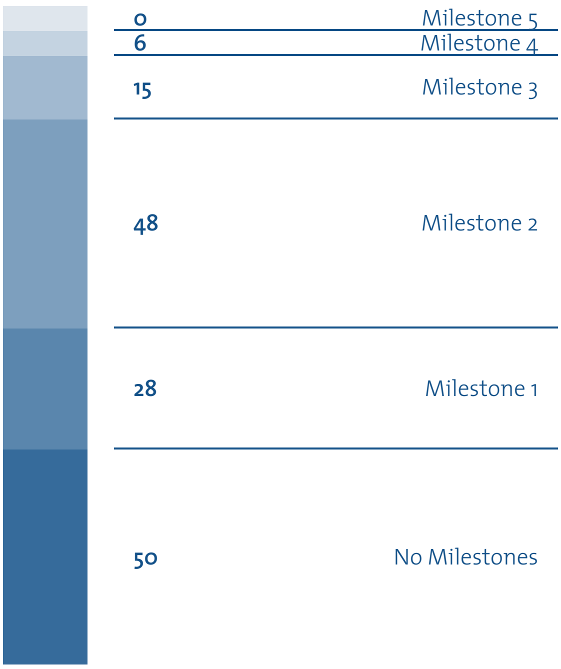
Milestones Framework

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.

Toyota Motor Corp.

ESG Risk Ratings Score

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

28.0

INDUSTRY:
Automobiles

COUNTRY:
Japan

ENGAGEMENT FOCUS:
Corporate Governance

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

Positive Development Highlights:

- Toyota Motors Corp. has disclosed the member of Sustainability Meeting where it consists of the Board of Directors.
- The company has conducted materiality assessment using a double materiality approach.
- It has increased the proportion of independent directors from 0.33% to 0.4%.
- Toyota Motors Corp. has incorporated ESG (sustainability) metrics into the Board's remuneration.

In the latest update of the ESG Risk Rating, Toyota Motor Corp.'s management score improved by 8.1 points, bringing the company into the medium risk category.

Low Performance Engagements

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

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

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

One piece equals three months.

COMPANY	COUNTRY	ISSUE	FOCUS AREA	PROGRESS	RESPONSE	TIME TRACKER
Amazon.com, Inc.	United States of America	Net Zero Transition	Themes	Poor	None	0-3
Daiichi Sankyo Co., Ltd.	Japan	Sustainability and Good Governance	Themes	Poor	Poor	0-3

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

Thematic Engagement Updates

Biodiversity & Natural Capital Stewardship Programme

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The Biodiversity and Natural Capital Stewardship Programme continues to engage with selected companies across the agricultural value chain through research, gap analysis and in-depth dialogue. From January to March 2025, we held 17 engagement meetings.

Our gap analysis indicates that companies are struggling to conduct comprehensive assessments of their biodiversity impacts and dependencies. This is largely due to the lack of robust methodologies, clarity on metrics, and tools for robust data collection. Despite emerging guidance like TNFD LEAP and SBTN, these are still new to companies and not comprehensively adopted. As a result, this has been a key area of focus in our engagements. We have undertaken training from the Science Based Targets Network and PRI Spring and collaborated with initiatives such as the World Benchmarking Alliance and FAIRR to deepen our understanding of relevant approaches and industry expectations, which inform our engagements on this topic.

We are also monitoring broader developments that may impact engagement and escalation strategies related to biodiversity. According to Morningstar Sustainalytics' ESG Voting Policy Overlay data, shareholder proposals addressing biodiversity and nature-related topics rose from 12 in 2023 to 33 in 2024.[1] These proposals demonstrated a powerful mechanism for amplifying investor expectations and driving change. However, recent guidance and remarks from the U.S. Securities and Exchange Commission (SEC) may introduce new barriers to shareholder engagement, raising questions about how these trends will evolve.[2]

This report provides Q1 data and statistics, highlighting Crédit Agricole SA's progress on its latest Group CSR Sector Policy on deforestation and ecosystem conversion, and outlines the next steps in our engagement with the company. Additionally, the article "Advancing Biodiversity – Key Focus Areas in 2025" explores emerging trends and outlines opportunities for companies and financial institutions.

Universe Changes

During this quarter, **DSM BV** case and all related information has now been transferred to **DSM-Firmenich AG**.

Looking Ahead

At the recently reconvened COP16 negotiations in Rome, notable progress was made on biodiversity finance, including agreement on a strategy to mobilize at least USD 200 billion per year by 2030 to help close the biodiversity finance gap and support implementation of the Global Biodiversity Framework.[3] The coming months will also be critical for ocean governance, with growing momentum to ratify the High Seas Treaty ahead of the UN Ocean Conference in June, ongoing negotiations to reduce harmful fisheries subsidies, and continued work to reach an agreement on the Global Plastics Treaty. Against this backdrop, our engagement team plans to attend the Blue Economy and Finance Forum in Q2, which will bring together investors, policymakers, and industry leaders to drive sustainable investment in the ocean economy.

Human Capital Management Stewardship Programme

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Samuel Recko
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Human Capital Management
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With a focus on companies that maintain workforces above 30,000 employees including multinationals, the Human Capital Management Stewardship Programme targets engagement with 50 issuers across varous markets. From 1 January to 31 March 2025, we held 26 meetings including introductory calls, which served to lay foundations for further engagement calls in the coming quarters.

As a result of recent developments within the US there has been a shift in dynamic throughout engagement on the topic. This has not come without its challenges and there is now a need for added sensitivity when engaging with US companies. We will continue to adapt appropriately as we further our understanding of impacts over the coming quarters.

The report features an article on this development, "Investors and Companies Face a new Paradigm," is an overview of the challenges companies and stakeholders now face, and the potential impact this has on our programme.

The report also presents a case study of **Nippon Telegraph & Telephone Corp.** that has a positive response to Japan's shrinking labour market. The company also informs us how this risk is being directly managed by the business' human capital management strategy.

Looking Ahead

We will press on with securing engagement calls in Q2, capturing the landscape as we go. We also intend to have in-person engagements over the course of the year. Additionally, we are in the process of planning a human capital management investor roundtable.

Human Rights Accelerator Theme Update

Introduction

The goal of the Human Rights Accelerator (HRA) Thematic Engagement is to encourage companies to set and implement effective human rights due diligence (HRDD) as per the United Nations Guiding Principles on Business and Human Rights (UNGP). Ultimately, the impact to be sought is to improve in the livelihood of workers, farmers and local communities directly involved in the focus sectors -- electronics, mining, and cocoa. To this end, companies will need to implement robust HRDD that considers the operating context and root causes of their salient human rights risks.

This final Human Rights Accelerator report covers the months from February 2022 to March 2025. This report provides an update on progress made to date with an overview of insights on KPIs. Input is also provided regarding sector-specific developments as well as challenges faced by companies. The UNPRI Advance Initiative was launched on 1 December 2022 and Morningstar Sustainalytics was selected to lead or collaborate on the following five engagements:[4]

- **AngloGold Ashanti Limited** (Co-Lead Investor)
- **Newmont Corporation** (Co-Lead Investor)
- **BHP Group Limited** (Collaborating Investor)
- **First Quantum Minerals** (Collaborating Investor)
- **Freeport-McMoRan Inc.** (Collaborating Investor)

Joining PRI Advance is an opportunity to have more scale and impact through collaboration with other investors. The complexity and scale of the human rights issues we engage companies on require multi- stakeholder collaboration. By coming together, investors get the opportunity to learn from each other and increase their leverage with the common goal of triggering greater alignment with the UNGPs —ultimately to prevent adverse impacts on people.

Update on Engagement Efforts

The HRA aimed to support companies in developing strong and effective human rights due diligence (HRDD) systems that uphold human rights and enhance the livelihoods of workers, farmers, and local communities that are involved in the global supply chain of businesses. By addressing the root causes of salient human rights risks, the HRA fostered meaningful and lasting change.

In today's rapidly evolving global landscape, resilience is essential for businesses navigating shifting regulations, societal expectations, and investor priorities. Companies must be able to adapt and refine their strategies accordingly. As such, the dialogues within the HRA evolved in response to regulatory developments and stakeholder consultations, ensuring relevance and impact.

Launched in 2022, the HRA began by engaging with companies, inviting them to participate in the engagement. The initial meetings were focused on establishing trust, fostering collaboration, and providing a clear overview of the HRA's objectives and processes. Through these interactions, companies were encouraged to take proactive steps toward integrating HRDD into their core business strategies.

The sustainability landscape has undergone a significant transformation since the beginning of HRA. The HRDD, once largely voluntary, has now become a regulatory requirement, driven by key EU legislation such as the Corporate Sustainability Due Diligence Directive (CSDDD) and the Corporate Sustainability Reporting Directive (CSRD). Additionally, the International Sustainability Standards Board (ISSB)'s initiative to standardize ESG indicators is helping create a more level playing field for businesses, enhancing transparency and comparability.

Against the backdrop of mandatory HRDD, companies are increasingly recognizing its alignment with their broader corporate objectives, making them more willing to implement robust HRDD systems. Beyond compliance, they are actively seeking insights from stakeholders —particularly investors—to understand expectations and identify ways to meet them effectively.

As the HRA supported companies in navigating their HRDD journey, we witnessed improved access to businesses and stronger engagement. This has resulted in tangible progress in corporate human rights initiatives, reinforcing the importance of integrating due diligence into long-term business strategies.

The table below summarizes the evolving business and human rights landscape (top row), and the engagement focuses of HRA in the last three years:

Year	2022 (Q2-Q4)	2023	2024	2025 (Q1)
Legal and societal development	• EU Commission proposed CSDDD • Growing pressure from the society to address forced labour, child labour and human rights abuses	• Continued legislative momentum • Increasing discussions in the society on supply chain transparency	• CSDDD entered into force in July • Growing expectations on meaningful engagement with local community • Raising concerns over grievance mechanisms	• CSDDD implementation started • Uncertainty due to political leadership shifts and regulatory changes • Increased concerns in the society on company reactions
HRA engagement focus	• HRA supported companies with updated information on the regulation development. • Provided support companies with useful resources on salient risk identification and prevention. • Encouraged companies to disclose their activities and impact on supply chain workers and farmers.	• HRA discussed traceability and transparency of supply chains. • Used queries to understand the company's efforts and strategies to prevent salient issues, including child labour and forced labour.	• HRA shared good practice examples and resources with companies on grievance mechanisms, living wages and stakeholder engagement. • Continued to encourage companies to increase transparency	• HRA organized a concluding webinar on operational grievance mechanisms, providing a platform to share knowledge and experience. • Inspired companies to focus on tracking and disclosing the impact of their human rights programmes

Engagement Insights

This section provides an overview of engagement efforts and company progress over the past three years.

KPI 1: Human Rights Due Diligence Governance:

All companies demonstrated progress in human rights board oversight. Most established clear internal governance structures that take responsibility for supply chain-related human rights issues. Internal systems are now in place to ensure that high-risk concerns are escalated to board executives for timely decision-making. Additionally, the majority of companies now link executive compensation to human rights performance, marking a significant shift compared to the early stages of the HRA.

Commitments and disclosure:

At the beginning of the HRA, several companies treated their human rights policies as internal documents and refrained from sharing them publicly. However, all participating companies have since committed to respecting human rights and have made their policies publicly accessible for scrutiny. Beyond their overarching human rights commitments, many companies now disclose specific policies detailing their approaches to preventing salient human rights risks, such as forced labour, child labour, and sexual harassment.

Operational-level grievance mechanisms:

One of the most significant and tangible improvements within the HRA's engaged companies is the development of operational-level grievance mechanisms (OLGMs). All companies now have grievance systems accessible to key users, including workers, farmers, and local communities. A growing number of companies have also made efforts to enhance the accessibility, transparency, and fairness of these mechanisms, ensuring they align with the effectiveness criteria outlined in the UN Guiding Principles on Business and Human Rights.

While the visible improvements are encouraging, it is important to emphasize that the majority of companies still need to make greater efforts to enhance their OLGMs. Several companies within the HRA have received only a limited number of reports from their OLGMs, underscoring the urgent need to build trust with rights holders.

KPI 2: Livelihood and living income

Supply chain transparency:

Supply chain transparency presents two key challenges: mapping the supply chain and being willing to disclose it. Solving the first would help to enhance traceability and improvement of the second would promote transparency.

In terms of traceability, many companies have made incremental improvements in traceability, although not all are prepared to disclose supplier information. These improvements include prioritizing the identification of high-risk suppliers, surveying first-tier suppliers to map their networks, and using financial flow data to trace and verify their business partners.

With regard to transparency, all cocoa companies disclose their first-tier suppliers on their respective websites, as well as some second-tier suppliers. Due to the complexity, evolving dynamics, and competitive concerns, increasing supply chain transparency in the electronics and mining industries continues to be a difficult task.

Livelihood and living income:

Living income is crucial and closely linked to farmers' livelihoods. Prior to the HRA, cocoa companies had been testing and implementing various programmes to support farmers in achieving a sustainable income. The HRA aimed to encourage these companies to track their impact and enhance disclosure.

Additionally, we challenged companies to identify and address the root causes of farmer poverty. We observed that cocoa companies now disclose more detailed information about their living income programmes, which enhances the credibility of their data.

KPI 3: Sector-specific indicators

Cocoa: child labour

Developed by the International Cocoa Initiative, the Child Labour Monitoring and Remediation Systems (CLMRS) is a method implemented by cocoa companies to combat child labour. Based on their specific circumstances, companies apply the method, report on a set of indicators, and follow a standardized process to address child labour issues. All cocoa companies report on the number of child labour cases they identify and remediate on an annual basis. They also recognize the important role of living income in eliminating and preventing child labour.

While industry-wide collaboration is essential in tackling child labour, it is important to acknowledge that child labour remains widespread in Côte d'Ivoire and Ghana. This issue is deeply rooted in poverty and poor access to education for children in these countries. Additionally, assessing and verifying the overall impact of company efforts continues to be challenging. This is partially due to the challenges in accurately estimating child labour incidences. Various factors complicate efforts to assess the scale of child labour, including the hidden nature of informal work, reluctance to report cases in surveys and barriers to accessing remote areas.

Electronics: living wage & child labour

In their own operations, the workforce of electronics companies is mostly unionized. Although union- busting incidents still exist, these companies have collective bargaining agreements and regularly negotiate with unions. Collective bargaining remains the most effective mechanism for living wages.

However, the situation in the electronics supply chain is markedly different. Unorganized labour predominates, with a lack of representation and unionization making it extremely difficult for workers to attain a living wage. Yet, electronics companies hold significant influence here—they can leverage their economic power to encourage and support suppliers to raise wages towards living standards.

While child labour is unlikely within the operations of major electronics companies or their first-tier suppliers, it remains prevalent upstream, in the mining of materials.[5,6,7]Although responsible sourcing of minerals is an industry-wide expectation, only a few companies have developed concrete strategies or demonstrated significant efforts in this area.

Mining: community engagement & Indigenous rights

For mining companies, meaningful engagement with local communities remains a significant challenge. Most companies within the HRA have developed comprehensive policies and procedures aimed at fostering dialogue with local communities, demonstrating concern for their livelihoods and respect for their rights. However, not all communities feel they have been appropriately consulted, and some have expressed disappointment regarding how companies have delivered on their commitments.

KPI 4: Joint collaboration and policy dialogue

Engagement with stakeholders:

All companies within the HRA demonstrated an increased willingness to engage with key stakeholders. The majority have identified the rights holders affected by their operations as their own employees, supply chain workers/farmers, and local communities. Additionally, investors, governments, and NGOs are recognised as important stakeholders for consultation and collaboration.

Some companies have established standardized approaches to regular stakeholder engagement and understand which stakeholders to engage with for specific initiatives. They actively collaborate with stakeholders on projects. Meanwhile, other companies conduct stakeholder dialogues on an ad-hoc basis, adapting their approach as needed.

Looking Ahead

While companies in the HRA have made progress in conducting human rights due diligence, there remains a lack of diverse approaches to identifying human rights violations. Most companies rely primarily on social audits to collect data from their supply chains. However, social audits often fail to detect severe human rights violations, such as forced and child labour.[8] Overreliance on social audits often paradoxically increases risks rather than mitigating them.

To strengthen risk assessment, we recommend that investors continue engaging with companies on the topic of risk identification, using multiple tools beyond audits. One effective approach is collaborating with local organizations and worker unions. Another crucial step is establishing fair and safe grievance mechanisms that ensure workers and communities can report violations without fear of retaliation. For companies with complex supply chains, a robust supply chain mapping process is a necessary foundation for effective monitoring.

Beyond improving supply chain oversight, investors can also encourage companies to reassess their own pricing and sourcing practices. While it is necessary to place responsibility on suppliers, companies must critically examine whether their own strategies create an environment that fosters ethical business practices for suppliers—such as paying living wages and living income.

Although meaningful engagement with rights holders may seem straightforward, it is often challenging. Companies typically find it easier to communicate with stakeholders who trust them and understand their circumstances. However, confronting criticism and negotiating with communities and individuals who have high expectations is an essential step toward genuine accountability. Investors can support companies by encouraging community mapping efforts to include all potentially impacted rights holders and direct communication with affected groups. Additionally, investors can evaluate corporate performance by listening to stakeholders firsthand, ensuring that companies are held to meaningful engagement efforts.

While the HRA is set to conclude in Q1 2025, our commitment to supporting investors focused on human rights remains unchanged. We will continue our work through the Thematic Stewardship Programme: Human Rights & Transition, where we engage across 50 issuers initially. Additionally, we will maintain collaboration with the UNPRI Advance project.

Net Zero Transition Stewardship Programme

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From January to March 2025, our team conducted 19 engagement calls, reflecting a highly active start to the year. This report provides comprehensive data and statistics from Q1 2025, highlighting key engagements and milestones.

We had a promising initial call with **Shell Plc** to discuss their progress towards net zero emissions. Following this, we plan to arrange an engagement call with them in May 2025. Additionally, after an 18-month pause, **CMS Energy** has agreed to resume dialogue. We held an introductory call with the company at the end of March. Similarly, we conducted an introductory call with **Valero Energy Corp.** towards the end of Q1, following several attempts to establish dialogue throughout 2024. While CMS Energy has expressed openness to engaging with Sustainalytics on its net zero transition, Valero Energy remains reserved, indicating that more effort will be required to engage them in this dialogue.

Additionally, the article "Navigating Roadblocks: Ongoing Challenges to Achieving Net Zero" explores the various obstacles that companies and governments face in their efforts to reduce carbon emissions, focusing on the latest developments and their potential impacts.

Looking Ahead

The focus of the second quarter will be on strengthening company dialogues. We expect a dynamic Q2 in terms of the number of engagement calls. In May we will hold a webinar about GHG emissions reduction target setting in the US Utility Sector.

Investors and Companies Face a New Paradigm

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At material size a company's workforce becomes an asset that demands its own strategy and complementary risk management. For many investors, Diversity, Equity and Inclusion (DEI) has long been among human capital management considerations for investee companies. This is not only to affirm investment philosophy[9] but also to better understand if issuers' recruitment strategies are suited to the markets in which they operate.[10] With new mandates, it now seems that investors might have to do without this insight when assessing US issuers.

Background

The stage was set long before January 2025, when federal contractors and grantees were mandated to abandon all DEI related activities, with the rest of the private sector being urged to do the same.

DEI has found itself frequenting company ballots for some seasons now, with impassioned activist investors sending out their champion proposals to battle at AGMs. Spare a thought for Deere & Co,[11] who at this year's AGM faced two opposing DEI related shareholder proposals. The National Legal and Policy Center, a Conservative think tank, seeking a report on racial and gender hiring statistics, with intention to deemphasize DEI, while prolific shareholder activist John Chevedden – hoping to prompt re-evaluation of curtailing of DEI commitments – asked the company to conduct a civil rights audit. The ballot is a perfect illustration of the combative environment companies currently navigate, while they balance public sentiment, business strategy and now executive action.

Investor Reaction

At AGMs, investors have so far soundly rejected anti-DEI proposals. At the time of writing, shareholders at Apple, Deere & Co and Costco voted upward of 97% against these.[12] It should be noted that these proposals were all filed prior to the executive order.

These outcomes reflect the investor belief that diversity in the workforce and at board level can support positive company performance.[13] In turn, dismantling underlying programmes – which are often linked to robust recruitment strategies – could be viewed as inauspicious. However, investors will now also need to consider that changes in the law of the land may mean that US investee companies will feel that this decision has been taken out of their hands.

Company Reaction

Some companies were swift to acquiesce to new federal expectations; Meta, Walmart, Amazon and Target, just a few that issued expeditious press releases announcing removal or curtailing of DEI related activities. The spotlight is now especially bright on those companies with federal contracts. Will they choose to shore up current and future government income or will they protect existing DEI commitments? In our own correspondence with US issuers since 20 January, we have not only noted a reticence on DEI but also on human capital management in general. This suggests a period of overcompliance, as companies wait to better understand interpretation and enforcement of new mandates.

Outlook

We are very early in this new state of play, and attention will be in on how new legislation will play out in practice. At this time, it will become necessary to understand the new stresses companies face and to make appropriate adjustments.

Despite this challenging environment, the Human Capital Management Stewardship Programme will continue pushing for engagement with US companies. Our expectation for issuers to be able to explain and evidence strategy pertaining to their workforce, remains. Of the 50 companies targeted in the Human Capital Management Stewardship Programme, 17 (34%) are US companies, with at least five (10%) being recipients of federal contracts or grants. These are not negligible numbers, and the target will be to record dialogue with a majority of these issuers. Our intention is to create an engagement environment that is considerate of the current context but continues to probe workforce health and deliver appropriate insights to investors.

From Challenges to Change – Identifying Gaps to Progress Corporate Respect for Human Rights

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With the launch of the new Human Rights and Transition Stewardship Programme, we have a strong opportunity to learn from prior engagement experience on Morningstar Sustainalytics Human Rights Accelerator Thematic Engagement. We have an opportunity to learn from both improvements made and identified gaps, in corporate implementation of the United Nations Global Principles (UNGPs). Going forward, we will focus on closing such gaps in our new engagement endeavor. Since gaps identified are not sector specific, they apply well beyond the mining sector. Below, we discuss both improvements and gaps from the Human Rights Accelerator and conclude by explaining how we will seek to progress from there, modeled in our Human Rights and Transition Theory of Change.

The Good News First

Learning from prior engagement we identified that significant improvements have been achieved by engaged companies in three key areas: governance structure, executive compensation, and grievance mechanisms. Firstly, clear reporting lines for human rights issues have been established. Several companies have implemented specific structures within the board or at the executive management level to report matters related to human rights risks. Secondly, there has been notable progress in disclosing the link between executive compensation and the company's performance in respecting human rights. Lastly, companies have enhanced the accessibility of grievance channels and improved the transparency of their mechanisms. These developments demonstrate adherence to commitments under the UNGPs and continuous efforts towards alignment with these principles.

Salient Risks Are Left Unmanaged

While most companies have established human rights policies in line with international standards, few disclose specific policies related to their salient risks. Looking at the renewable energy supply chain, such human rights risks may include, but not be limited to, forced labour, child labour, infringements of community rights (including Indigenous peoples' rights), exploitation, security and human rights risks, human rights and conflict related risks, unsafe working conditions, hazardous waste and the risks to the right to health. This policy gap also becomes evident in the human rights due diligence processes, where the same salient risks are not analyzed for mitigative practices. Generally, companies have a lot to improve with regards to proactively managing their most salient human rights risks and disclosing KPIs or goals to demonstrate how they intend to progress further. Another aspect of this is that the full downstream value chain is often not included in corporate human rights risk assessments, although it may often be the case that the first tier of raw material extraction is where the most salient human rights risks are found.

Trust-Based Stakeholder Engagement Is Missing

During consultations with local stakeholders, a notable practice-outcome gap was identified. An illustrative example from the mining sector can shed insights into this gap. Mining companies have comprehensive policies and procedures aimed at engaging with local communities and showing respect for their rights. However, they still face significant criticism from rights holders. Communities and other stakeholders often report that the companies' promises are not fully implemented. This highlights that the measures taken to implement policies are ineffective and reveals a significant lack of trust-based communication with stakeholders, and perhaps also a lack of understanding and inclusion of community needs and expectations.

Grievance Mechanisms Risk Missing the Mark

Related to the above, and despite improvements in the implementation of grievance mechanisms over the past years, most companies still struggle to gain the trust of intended users and to provide fair and easy access to remedies. The UNGPs provides clear guidelines on criteria for effective grievance mechanisms, which should be legitimate, accessible, predictable, equitable, transparent, rights-compatible and a process of continuous learning. For most companies, there are still lots of improvements needed to meet the criteria and thereby improve the level of trust from the intended users of grievance mechanisms. Without trust, grievance mechanisms risk missing the mark by not being used as a way to address serious concerns and prevent recurrence.

Vague Commitments and Practices on the Respect of Indigenous Peoples

Finally, a recurring challenge is corporate respect of Indigenous peoples' rights to Free, Prior and Informed Consent (when affected by corporate operations). Policy commitments from companies are generally vague on this matter. In practice, this results in an uncertainty on the level of efforts by companies to come to an agreement with relevant Indigenous peoples', and uncertainty on what would happen to planned operations, if such an agreement is not in place.

The above gaps will be included in our engagements with individual companies, building on each company's existing commitments and practices, and by sharing best practice materials. Moreover, we will continue to arrange peer-learning sessions, such as the webinar on grievance mechanisms we held end of March. We will seek to track corporate progress specifically on the identified gaps and continuously adapt our engagement efforts to improve them.

The focus on engagement to closing the above-mentioned gaps, and our means to do so (including collaboration with investor coalitions) are modeled below in our Human Rights and Transition Theory of Change.

Figure 1. Human Rights and Transition Stewardship Programme Theory of Change

Industrial-Scale Decarbonization in the EU: Stewardship Field Notes From Germany, France and Spain

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Key Insights:

- EU companies face structural barriers to their decarbonization efforts, including those related to EU subsidies, high interest rates, lack of customer commitment, and lack of manufacturing capacity.

- Despite these obstacles, the companies engaged with on this trip, such as **BASF**, **Iberdrola**, **Air Liquide**, and **Acerinox**, have remained committed to their net zero ambitions -- investing in low-carbon technologies and projects, engaging with policymakers, and strategically positioning themselves within low-carbon value chains.

- Bold and coordinated action from policymakers, industry leaders, and investors is needed to address these challenges, if the goal of a sustainable and resilient energy system in the EU is to be achieved.

As the EU's energy transition continues, addressing climate change has evolved to become both an engineering and financial challenge, with energy security and geopolitical factors also in the mix. Coordinated action from EU policymakers, a long-term strategy, and investment from industry and investors will be needed to secure resilient supply chains and accelerate decarbonization.

Unfortunately, things have turned in the opposite direction. In 2024, many high-emitting companies across the EU scaled back or delayed deadlines for achieving carbon reduction targets through 2030. Many early-stage projects intended to scale low-carbon technologies commercially (e.g., green hydrogen, carbon capture, and biofuels) were scrapped, despite strong interest in these solutions. Morningstar Sustainalytics' Stewardship Team were keen to get to the bottom of what was going on in the region. So last November, we embarked on a field trip to learn how EU industry leaders were navigating the complex challenges of the energy transition.

Spanning Germany, France, and Spain, we engaged with utilities, chemicals, steel, industrial gases, and construction companies, to understand their decarbonization strategies and see the energy transition in action. Highlights included a tour of BASF's e-furnace technology at the Ludwigshafen chemical park in Germany and Iberdrola's industrial-scale green hydrogen plant in the Spanish city of Puertollano, which supports green ammonia production. Both facilities focus on replacing often imported fossil fuels in industrial-scale applications with domestically produced clean alternatives.

Staying Committed to Net Zero in Turbulent Times

- **EU Subsidies:** EU subsidies primarily aim to increase the availability of low-carbon technologies and products but fail to sufficiently lower prices or offer incentives that make them attractive for businesses. As a result, both commercial and individual customers remain reluctant to pay a premium for green products, limiting demand.
- **High Interest Rates:** Persistently high interest rates in major EU economies and inflation have increased borrowing and production costs, driving up prices of critical raw materials for the energy transition, such as lithium, cobalt, and nickel.
- **Lack of Customer Commitment:** Many low-carbon projects, particularly green hydrogen, lack customer commitment, which prevents industrial companies from making final investment decisions.
- **Manufacturing Capacity:** The EU's lack of manufacturing capacity for critical components, equipment, and machinery has been starkly exposed by China's near-total dominance in key low-carbon and renewable technology supply chains.

Despite these obstacles, the companies we engaged with, such as BASF, Iberdrola, Air Liquide, and Acerinox, have remained committed to their net zero ambitions. They are investing in low-carbon technologies and projects, engaging with policymakers, and strategically positioning themselves within low-carbon value chains as markets mature. For example, following the 2024 US election results, Iberdrola reaffirmed its commitment to expanding renewable energy projects in the US, demonstrating resilience amid global uncertainties.

The Road Ahead to Accelerate the Energy Transition in Europe

The EU is at a critical juncture in its energy transition to meet its global climate commitments. And the urgency is higher than ever. Today, climate action is not just about cutting carbon emissions, but also about ensuring the EU's energy security and resilience. The EU has long relied on energy imports, but now it is stepping up with policies and funding to accelerate the large-scale deployment of decarbonization technologies.[14]

For example, renewable energy sources and energy storage systems strengthen energy security by reducing dependence on imports and are less affected by geopolitical disruptions. The Russia-Ukraine war and China's dominance in critical clean energy supply chains have exposed vulnerabilities in the EU's energy system, elevating the urgency of climate action from an energy security perspective even further.

Bold and coordinated action from policymakers, industry leaders, and investors is needed to address these challenges. We believe the following important step would be needed from each group.

1. Policymakers would need to implement additional incentives to stimulate demand for low-carbon technologies such as electric vehicles. Clear mandates and supportive policies, like putting a real price on carbon, will also drive adoption, encourage investments, and mature markets.
2. Despite current economic headwinds, industry leaders need to prioritize long-term investments in resilient supply chains and viable low-carbon technologies such as EU-wide green hydrogen infrastructure and biofuel hubs. Collaboration with policymakers and value chain partnerships can further unlock the full potential of decarbonization technologies.
3. Investors need to prioritize transition finance to accelerate decarbonization in high-emitting sectors, enabling systemic change and ensuring no industry is left behind on the path to net zero.

Each group has a critical role to play if the goal of a sustainable and resilient energy system in the EU is to be achieved.

Figure 1: Iberdrola visit.

Advancing Biodiversity – Key Focus Areas in 2025

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Practitioners are increasingly recognizing the complexity of nature and the importance of prioritizing actions based on key impacts and dependencies. In our engagements we are seeing a shift from risk management and mitigation to exploring opportunities for action. For instance, approaches such as regenerative agriculture and circular economy are gaining traction as effective ways to address biodiversity loss. At the same time, a growing number of investors are exploring nature-financing opportunities to accelerate the transition to a nature-positive future. In this article, we highlight some key topics that have garnered significant attention in recent years and how we address them in our engagement activities.

Opportunities for Action

Zero Deforestation and Land Conversion:

Land-use and climate change remain among the greatest threats to biodiversity. Research predicts these pressures contribute to around 37.9% of species loss in vertebrate communities.[15] Addressing deforestation is vital, as forests are home to more than 80% of terrestrial biodiversity and are the second-largest storehouse of carbon. This remains a core focus of our stewardship programme, through engagements with issuers, such as **Minerva SA**, where our focus is on addressing nature-related risk assessment to better understand its impact and dependency hotspots.

Targets such as eliminating deforestation and conversion by 2025 recommended by the Accountability Framework initiative and the Science-Based Target initiative (SBTi) are ambitious but necessary. Without halting deforestation by 2025 the 1.5-degree pathway cannot be met.[16] Although many companies are still far from reaching these goals, various investor initiatives are collaboratively tackling these challenges, including the Principles for Responsible Investment (PRI) Spring, in which the stewardship programme participates, to halt deforestation through responsible political engagement in high-risks geographies.

Ocean Governance:

Overexploitation is the second-largest driver of biodiversity loss after land-use change.[17] While oceans cover over 70% of the Earth's surface, nearly 90% of global fish stocks are fully exploited or overfished, and sound regulations for sustainable ocean use remain scarce.[18] We are addressing this driver of biodiversity loss in our dialogue with **Nissui Corp.**, one of the largest seafood companies. A key focus of our engagement is encouraging the company to enhance traceability of its marine resources to mitigate the risk of overexploiting fish stocks.

The upcoming UN Ocean Conference (UNOC3) in Nice, France in June 2025, will play a foundational role in ocean governance through the anticipated Nice Ocean Agreement, which aims to guide government actions with science-based solutions.[19] Additionally, the Science-Based Targets Network (SBTN) has now released guidance for science-based targets for seafood value chains, helping companies reduce negative impacts on marine ecosystems and enhance their resilience. These developments will impact on our engagement providing new frameworks for issuers to look to as they may set relevant strategies. By participating in the SBTN Corporate Engagement Programme and the SBTN Working Group, Morningstar Sustainalytics seeks to further inform the Biodiversity and Natural Capital Stewardship Programmme and encourage corporations in advancing nature target setting.

Advancing Regenerative Agriculture:

Regenerative agriculture addresses a variety of challenges, including emissions reduction, soil degradation, resource use efficiency and biodiversity loss. However, accelerated adoption is needed to cover 40% of global cropland by 2030 to align with the 1.5-degree pathway.[20]

To ensure its commercial viability, actions include establishing common metrics for environmental outcomes, offering incentives linked to these outcomes, supporting farmers with transition costs, fostering supportive regulatory environments, and developing sourcing mechanisms to share transition costs across value chains.[21] Companies across the agricultural value chain are actively discussing roles and responsibilities to advance regenerative agriculture. For example, our engagement targets **PepsiCo, Inc.** and **Archer-Daniels-Midland Co.** (ADM) are collaborating closely to significantly expand regenerative agriculture across their shared supply chains, aiming to reach up to 2 million acres by 2030.[22] This momentum will undoubtedly continue across agricultural sector in 2025.

Accelerating Financing for Biodiversity:

The financial sector plays a critical role in achieving the Global Biodiversity Framework (GBF), particularly Target 19, which calls for mobilizing USD 200 billion annually for biodiversity by 2030. At COP16 in October 2024, nature finance was a prominent topic, with the establishment of the Cali Fund underscoring the importance of financial flows to conserve biodiversity and encourage its sustainable use. The resumed COP16 in late February 2025 also concluded with a new finance roadmap, urging countries to fulfill the GBF Target 19 by mobilizing USD 200 billion per year from all sources.

Leading financial institutions are also exploring biodiversity-related financing opportunities. For instance, **JPMorgan Chase & Co.** is investigating innovative investment solutions, **Bank of America Corp.** is increasing private finance for nature-positive investments, and Goldman Sachs, alongside other banks, aims to unlock USD 100 billion in climate and nature finance.[23] Navigating biodiversity solutions, sustainable investment schemes, and evolving regulations will remain critical for responsible investors in 2025.

Looking Ahead

2025 is a pivotal year for corporate sustainability practitioners. Besides the Corporate Sustainability Reporting Directive (CSRD) requirements, over 500 organizations have signed on as TNFD adopters, committing to publicly disclose nature-related information aligned with TNFD recommendations for fiscal years 2024 or 2025. These developments will drive continuous improvement in corporate nature-related disclosures and actions.

The Biodiversity and Natural Capital Stewardship Programme remains committed to supporting companies through this evolving landscape and these topics mentioned above will be addressed in our one-on-one engagement dialogues across our engagement portfolio to ensure companies' approaches are aligned with the latest science and best practices.

Navigating the Roadblocks: The Ongoing Challenges to Achieving Net Zero

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The new US administration has introduced a new perspective on how the United States' political leadership views climate change. First, the new president issued an Executive Order on the Paris Agreement withdrawal hours after taking office.[24] Second, the new administration pledged to expand domestic fossil fuel production. Under the "drill, baby, drill" motto, the new administration views oil and gas as central to America's global strength, therefore championing the construction of pipelines like Keystone XL and Dakota Access.[25] Third, the new administration promised to roll back environmental regulation in more extreme terms than previous.[26] Lastly, the new administration showed a strong stance against climate science.[27] This was evident in the administration's move to appoint climate change skeptics to key positions and attempt to censor reports on climate change.[28] For example, in February 2025, it requested all United States government scientists working on a vital global climate report to stop their work immediately.[29]

Certain companies have postponed, scaled down, or faced difficulties implementing plans to achieve their net zero targets. **Equinor ASA** has decided to reduce its investments in renewable energy and low-carbon solutions by 50% for the next few years.[30] According to the company, this decision aims to boost returns for shareholders and adapt to the uneven pace of the energy transition.[31] The company stated that inflation, interest rates, supply chain issues, and regulatory uncertainty influenced this move. Since Equinor ASA is an engaged company, this move directly endangers the fulfillment of the change objective of witnessing proof of accelerating the adoption of key mitigation technologies for decarbonization.

French energy company **Engie SA** has postponed its green hydrogen projects by five years, moving its target from 2030 to 2035. This delay is due to slower-than-expected progress in the industry and challenges in setting up the right conditions for investment. The company had initially aimed to build about 4GW of green hydrogen projects by 2030, but the market for renewable hydrogen and its derivatives is emerging more slowly than anticipated. Engie SA's decision could potentially influence their efforts to establish a comprehensive plan for investments in low-carbon infrastructure over the next five years.[32]

Toyota Motor Corp. has encountered delays in achieving certain objectives. For example, the company has delayed its plans to start electric vehicle production in North America from 2025 to early 2026 due to slower sales and design changes.[33,34]

However, despite the difficulties, some companies are still pursuing their net zero pathways. **Yara International ASA** has opened Europe's largest green hydrogen facility at Herøya Industrial Park in Norway. This facility produces hydrogen through water electrolysis using renewable energy, replacing natural gas as feedstock.[35]

In 2024, **Iberdrola SA** made significant strides by investing a record EUR 17 billion, which boosted its net profit to EUR 5.6 billion. The company also announced an ambitious EUR 41 billion investment plan for 2024-2026, focusing on electrification, renewable technologies, and grid improvements.[36]

A.P. Møller-Mærsk A/S has been actively adding new ships to its fleet, including several dual fuel methanol vessels, as part of its commitment to achieving net zero emissions by 2040. In 2024, the company added seven green fleet ships and plans to add 17 green fleet ships between 2025 and 2027.[37]

Following the United States' retreat from its climate commitments, China and the European Union have promised to remain committed to the global fight against climate change. China reiterated its goal to achieve carbon neutrality by 2060 and continues to support international climate initiatives.[38] Meanwhile, the European Union maintains its commitment to climate neutrality by 2050, as outlined in the European Green Deal.[39]

Climate Action 100+, a global investor initiative, has transitioned to Phase 2 as of June 2023. This new phase, which will run until 2030, signifies a shift from focusing primarily on corporate climate-related disclosures to implementing comprehensive climate transition plans. Phase 2 aims to inspire a global scale-up in active ownership, enhance investor participation, and improve engagement strategies to drive substantial and measurable climate action.[40]

The global climate for net zero sends mixed signals. Carbon dioxide emissions from fossil fuels hit a new historic peak in 2024.[41] The United Kingdom shut down its last coal power station in September 2024, while in the European Union, the proportion of electricity generated from coal, oil, and gas reached a record low in early 2024.[42] Renewable energy sources like wind and solar are expanding rapidly, with prices dropping significantly over the past decade. For many countries, renewable energy is now the most cost-effective option for power generation.[43] China is projected to contribute over half of the global increase in renewable capacity by 2030. The number of electric vehicles is rising swiftly, particularly in China. However, adoption rates vary widely between countries.[44] Deforestation in Brazil's Amazon decreased significantly in 2023, but the world is still far from meeting the 2030 target to halt deforestation.[45]

Factors such as technological limitations, high costs, and slow policy implementation challenge achieving net zero emissions. Despite these hurdles, net zero remains crucial for mitigating climate change and ensuring a sustainable future. While companies face significant obstacles, their increasing investment in innovative technologies and sustainable practices offers hope for overcoming these challenges and reducing their emission in cost-efficient and scalable manners.

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Engage List

Company Name	Issue	Focus Area	Progress	Response	Milestone	Engage Since
A.P. Møller-Mærsk A/S (Denmark, 2023)	Net Zero Transition	Themes	Standard	Poor	2	2023
Abbott Laboratories (United States of America, 2024)	Human Capital Management	Themes	Standard	None	3	2024
Accor SA (France, 2024)	Human Capital Management	Themes			0	2024
Alphabet, Inc. (United States of America, 2023)	Net Zero Transition	Themes	Good	Poor	2	2023
Amazon.com, Inc. (United States of America, 2023)	Net Zero Transition	Themes	Poor	None	2	2023
Apple, Inc. (United States of America, 2023)	Net Zero Transition	Themes	None	Standard	2	2023
AT&T, Inc. (United States of America, 2024)	Human Capital Management	Themes			0	2024
Banco do Brasil SA (Brazil, 2022)	Biodiversity and Natural Capital	Themes	Standard	Good	0	2022
Bank of America Corp. (United States of America, 2022)	Biodiversity and Natural Capital	Themes	Standard	Good	0	2022
Carrefour SA (France, 2022)	Biodiversity and Natural Capital	Themes	Good	Good	2	2022
Compass Group Plc (United Kingdom, 2024)	Human Capital Management	Themes			2	2024
Costco Wholesale Corp. (United States of America, 2024)	Human Capital Management	Themes	Standard	Poor	1	2024
Crédit Agricole SA (France, 2022)	Biodiversity and Natural Capital	Themes	Good	Good	1	2022
CVS Health Corp. (United States of America, 2024)	Human Capital Management	Themes	Standard	Standard	2	2024
DBS Group Holdings Ltd. (Singapore, 2022)	Biodiversity and Natural Capital	Themes	Standard	Standard	0	2022
Deere & Co. (United States of America, 2022)	Biodiversity and Natural Capital	Themes	Standard	Standard	0	2022
Deutsche Post AG (Germany, 2024)	Human Capital Management	Themes	Standard	Standard	2	2024

Company Name	Issue	Focus Area	Progress	Response	Milestone	Engage Since
Deutsche Telekom AG (Germany, 2024)	Human Capital Management	Themes	Standard	Standard	2	2024
EDP-Energias de Portugal SA (Portugal, 2023)	Net Zero Transition	Themes	Standard	Standard	2	2023
Enel SpA (Italy, 2023)	Net Zero Transition	Themes	Standard	Poor	2	2023
ENGIE SA (France, 2023)	Net Zero Transition	Themes	Standard	Standard	2	2023
EssilorLuxottica SA (France, 2024)	Human Capital Management	Themes	Standard	Poor	1	2024
Fresenius Medical Care AG (Germany, 2024)	Human Capital Management	Themes	Standard	Poor	1	2024
Fresenius SE & Co. KGaA (Germany, 2024)	Human Capital Management	Themes	Standard	Standard	1	2024
Fujitsu Ltd. (Japan, 2024)	Human Capital Management	Themes			0	2024
George Weston Ltd. (Canada, 2024)	Human Capital Management	Themes			0	2024
Infosys Ltd. (India, 2024)	Human Capital Management	Themes	Standard	Standard	2	2024
ING Groep NV (Netherlands, 2022)	Biodiversity and Natural Capital	Themes	Good	Standard	1	2022
JPMorgan Chase & Co. (United States of America, 2022)	Biodiversity and Natural Capital	Themes	Standard	Standard	0	2022
Koninklijke Ahold Delhaize NV (Netherlands, 2022)	Biodiversity and Natural Capital	Themes	Standard	Good	0	2022
Kühne + Nagel International AG (Switzerland, 2024)	Human Capital Management	Themes	Standard	Standard	0	2024
L'Oréal SA (France, 2024)	Human Capital Management	Themes	Standard	Poor	4	2024
Linde Plc (United Kingdom, 2023)	Net Zero Transition	Themes	Standard	Poor	1	2023
Lowe's Companies, Inc. (United States of America, 2024)	Human Capital Management	Themes	Standard	None	1	2024
Marriott International, Inc. (United States of America, 2024)	Human Capital Management	Themes			0	2024
Microsoft Corp. (United States of America, 2023)	Net Zero Transition	Themes	None	Standard	1	2023

Company Name	Issue	Focus Area	Progress	Response	Milestone	Engage Since
Mowi ASA (Norway, 2022)	Biodiversity and Natural Capital	Themes	Good	Standard	3	2022
Nestlé SA (Switzerland, 2022)	Biodiversity and Natural Capital	Themes	Good	Good	2	2022
Nestlé SA (Switzerland, 2022)	Human Rights Accelerator	Themes	Good	Good	4	2022
Newmont Corp. (United States of America, 2022)	Human Rights Accelerator	Themes	Standard	Standard	2	2022
NextEra Energy, Inc. (United States of America, 2023)	Net Zero Transition	Themes	Standard	Excellent	1	2023
Nippon Telegraph & Telephone Corp. (Japan, 2024)	Human Capital Management	Themes	Good	Good	1	2024
Procter & Gamble Co. (United States of America, 2022)	Biodiversity and Natural Capital	Themes	Good	Good	1	2022
Public Service Enterprise Group, Inc. (United States of America, 2023)	Net Zero Transition	Themes	Standard	Standard	1	2023
Rio Tinto Ltd. (Australia, 2023)	Net Zero Transition	Themes	Good	Standard	2	2023
RWE AG (Germany, 2023)	Net Zero Transition	Themes	Standard	Good	2	2023
Samsung Electronics Co., Ltd. (South Korea, 2023)	Net Zero Transition	Themes	None	Standard	2	2023
Samsung Electronics Co., Ltd. (South Korea, 2022)	Human Rights Accelerator	Themes	Standard	Standard	3	2022
Sony Group Corp. (Japan, 2022)	Human Rights Accelerator	Themes	Standard	Standard	2	2022
Sumitomo Mitsui Financial Group, Inc. (Japan, 2022)	Biodiversity and Natural Capital	Themes	Standard	Good	1	2022
T-Mobile US, Inc. (United States of America, 2024)	Human Capital Management	Themes	Standard	Poor	2	2024
Taiwan Semiconductor Manufacturing Co., Ltd. (Taiwan, 2023)	Net Zero Transition	Themes	Standard	Standard	2	2023
Taiwan Semiconductor Manufacturing Co., Ltd. (Taiwan, 2022)	Human Rights Accelerator	Themes	Standard	Standard	2	2022
Target Corp. (United States of America, 2024)	Human Capital Management	Themes			0	2024
Telefónica SA (Spain, 2024)	Human Capital Management	Themes	Good	Good	0	2024

Company Name	Issue	Focus Area	Progress	Response	Milestone	Engage Since
The Home Depot, Inc. (United States of America, 2024)	Human Capital Management	Themes	Standard	Poor	2	2024
The Walt Disney Co. (United States of America, 2024)	Human Capital Management	Themes			0	2024
Unilever Plc (United Kingdom, 2024)	Human Capital Management	Themes			0	2024
United Parcel Service, Inc. (United States of America, 2023)	Net Zero Transition	Themes	Poor	Standard	1	2023
UnitedHealth Group, Inc. (United States of America, 2024)	Human Capital Management	Themes	Standard	Good	2	2024
Vodafone Group Plc (United Kingdom, 2024)	Human Capital Management	Themes	Good	Good	3	2024
Wal-Mart de México SAB de CV (Mexico, 2024)	Human Capital Management	Themes	Standard	Good	2	2024
Walgreens Boots Alliance, Inc. (United States of America, 2024)	Human Capital Management	Themes			2	2024
Waste Management, Inc. (United States of America, 2023)	Net Zero Transition	Themes	Good	Good	2	2023
Woolworths Group Ltd. (Australia, 2022)	Biodiversity and Natural Capital	Themes	Good	Good	2	2022
Yum! Brands, Inc. (United States of America, 2022)	Biodiversity and Natural Capital	Themes	Standard	Standard	0	2022