ENGAGEMENT 360

Q3 2023 Report

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

Table of Contents

Stewardship Approach . . . 3

Executive Summary . . . 4

Stewardship Overview . . . 5

- Engagement Status . . . 6
- Engagement Type . . . 6
- Voting Insights and Recommendations . . . 6
- Industry Distribution . . . 7
- Home Country . . . 8
- Engagement Topics . . . 9
- Sustainable Development Goals – Mapping Engagements . . . 11

Engagement Results . . . 12

- Engagement Response . . . 13
- Engagement Progress . . . 13
- Engagements Resolved . . . 14
- Resolved - Johnson & Johnson . . . 15
- Resolved - MTN Group Ltd. . . . 16
- Resolved - Stryker Corp . . . 17
- Resolved - Uber Technologies, Inc. . . . 18
- Engagement Milestones . . . 19

Final Countdown to CSRD . . . 20

Navigating Quality Challenges in the Production of Medical Equipment . . . 24

The Road to Zero Deforestation: The EU Deforestation Regulation . . . 25

Plans for Next Quarter . . . 27

How to Generate Reports from Global Access . . . 28

Endnotes . . . 29

About Morningstar Sustainalytics . . . 30

This report summarizes the shareholder engagement activities that Morningstar Sustainalytics performed between July and September 2023.

Stewardship Approach

Engagement 360 is a holistic stewardship offering that helps the world's leading asset owners and managers promote and protect long-term shareholder value through consistent engagement outcomes. Engagement 360 addresses ESG risks as well as strives to create positive social and environmental outcomes.

ESG 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 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. The aim of the engagement is not only to verify how a company addresses the incident, but also to effectuate change in the company's policies and/or processes, to ensure that it has proper policies and programmes in place to avoid future reoccurrences as well as improve its ESG disclosure. Companies flagged as watchlist or non-compliant identified by Sustainalytics Global Standards Screening research are targeted for this engagement.

THEMES are SDG-aligned proactive engagements that enable investors to align interests in addressing specific systemic issues across the ESG spectrum. Thematic engagement's philosophy centres on systems change and has 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.

Sustainalytics' ESG Voting Policy Overlay provides vote recommendations that align to widely accepted ESG principles, sustainability objectives, ongoing corporate engagements and ESG issues most important to investors.

Executive Summary

Palle Ellemann
Director ESG Products,
Product Manager
Engagement 360

We are excited to share this report covering the third calendar quarter of 2023. The report will share highlights and insights and provide an overview of statistics for the stewardship activities conducted throughout the quarter.

The first part of the report summarizes key takeaways and looking ahead with plans for the next quarter. This is followed by full statistics on Engagement 360 together with case stories and thought-provoking articles to get behind the numbers.

Key Takeaways

During Q3 2023, the Sustainalytics Stewardship team has worked on 807 engagements, including 10 new engagements. More than 2,300 emails and phone calls have been exchanged and 155 meetings have been conducted. These efforts have resulted in 67 Milestones achieved and 7 engagements resolved.

This quarter, we put a spotlight on the mandatory ESG disclosure in Europe (CSRD) that promises to be a watershed moment with implications for companies both in Europe and beyond. Our article on the role of the CSRD within the global reporting standards ecosystem, offers insights into companies' compliance readiness, and discusses potential benefits for investors.

Quality challenges in the medical device industry was at the forefront this quarter and our in-house expert focusing on related incidents leveraged examples of an engagement to share insights and learnings.

As our Biodiversity engagement continues to establish its scope, we have now scaled to 50 active engagements throughout the agriculture value chain. Biodiversity is still an evolving issue, where we will have to dedicate significant resources in educating companies about the materiality of biodiversity and build the commitment to address the issue. It is a major step that the TNFD framework – Taskforce on Nature-Related Financial Disclosure – has been launched as well as the Nature Action 100, where we are working with clients to support their ambition in this.

This report also includes an article on the EU deforestation regulation and what financial institutions should know about deforestation and how stewardship plays a key role.

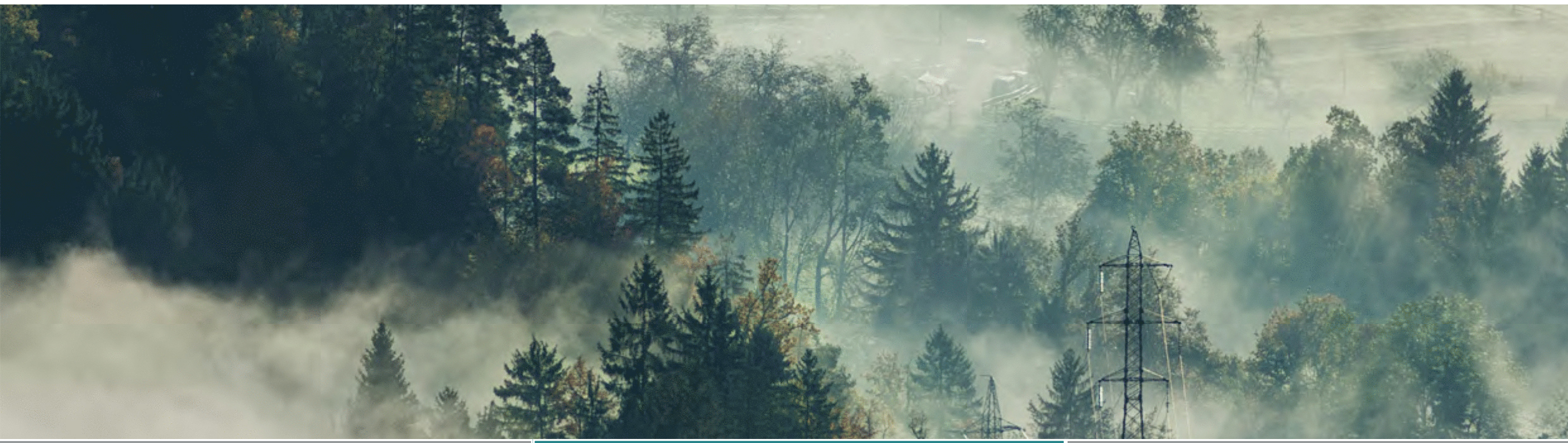
Looking Ahead

Net Zero Transition engagements will continue to increase in number of companies targeted with plenty of opportunity for clients actively participate.

The fourth quarter is a good time of the year to talk to engaged companies about forward-looking plans and influence annual reporting that many are already working on. In our work, we are “running the final sprint” to end 2023 with as many engagement ctivities as possible to capitalize on this opportunity.

Please watch out for product improvements announced in the Quarterly Client Communications and news and engagement opportunities on the Global Access platform and in the ongoing ommunications to clients.

Stewardship Overview



807
Active Engagements during Q3 2023.

10
New engagements have been initiated.

77
Vote recommendations have been delivered to clients.

FOOD
producers is the most engaged industry.

HIGHEST
number of engagements on a single market is the US.

Disclosure and Net Zero/Decarbonization
are the most engaged topics.

SDG 13 Climate Change
(51%) 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.
Disengage	Engagement is deemed unlikely to succeed.

771 Engagements as of 1 July.

10 New Engagements.

7 Resolved Engagements.

16 Archived Engagements.

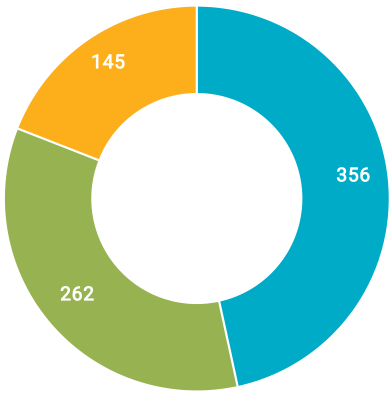
3 Disengaged Engagements.

763 Engagements as of 30 September.

In total 807 engagements during Q3.

Engagement Type

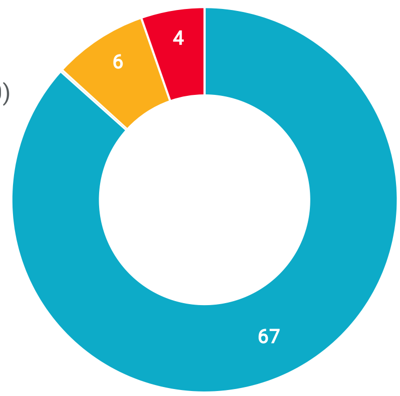
- Strategy and Risk
- Themes
- Incidents



- Strategy and Risk is engaging on unmanaged risk as determined by Sustainalytics ESG Risk Rating.
- Themes are engaging on systemic ESG issues and leverage multiple Sustainalytics research.
- Incidents are engaging on major incidents identified by the Sustainalytics Global Standards Screening.

Voting Insights and Recommendations

- Sustainability
- Engagement Escalation (0)
- Climate Governance
- Research Triggered



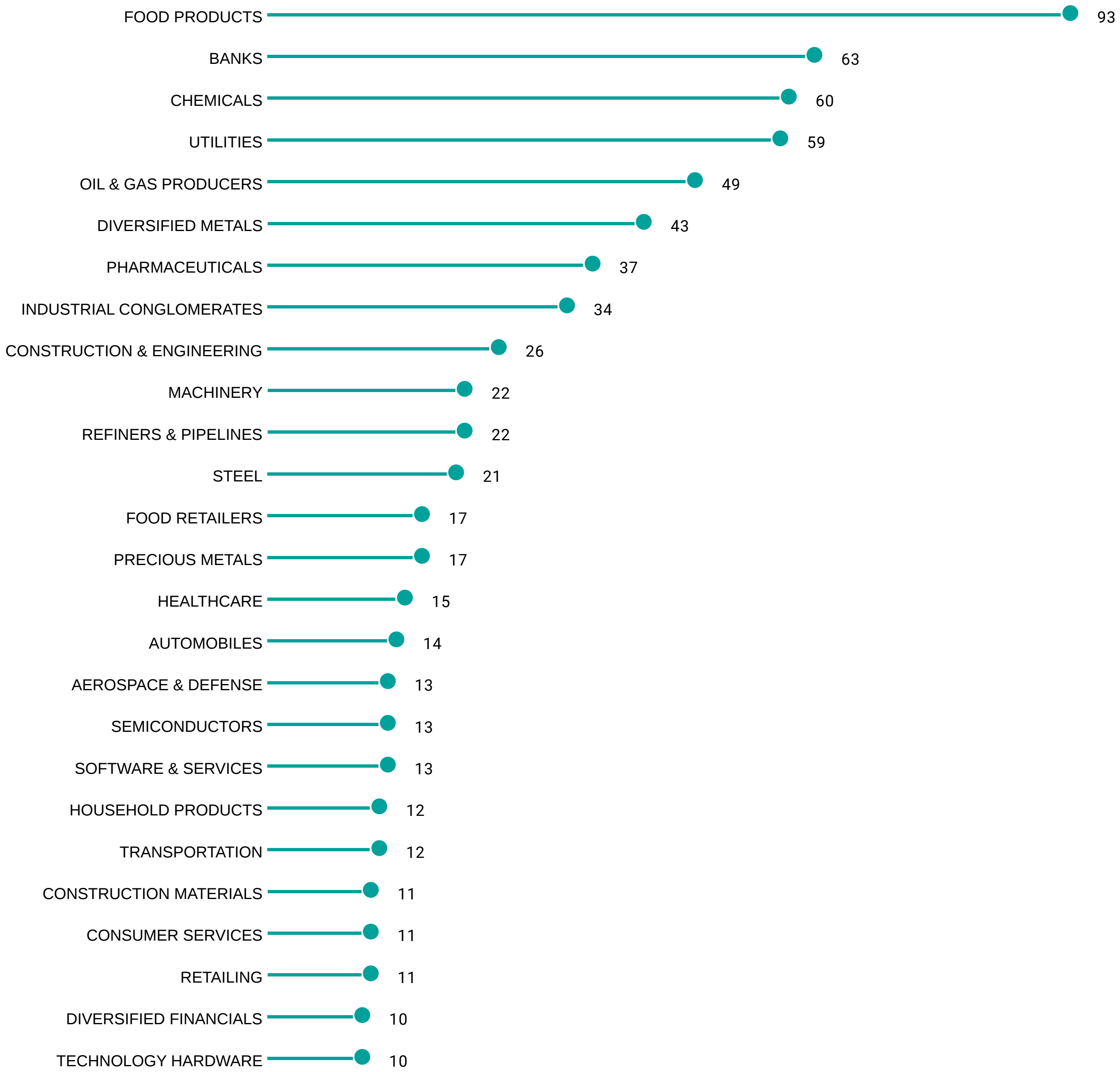
Triggers for Vote Recommendations

Vote recommendations can be triggered by four different reasons.

Sustainability	ESG-relation resolutions
Engagement Escalation	poor performance in engagements
Climate Governance	misalignment between executive performance metrics and decarbonization targets
Research	poor performance in climate change risk management and DEI (Diversity, Equity and Inclusion)

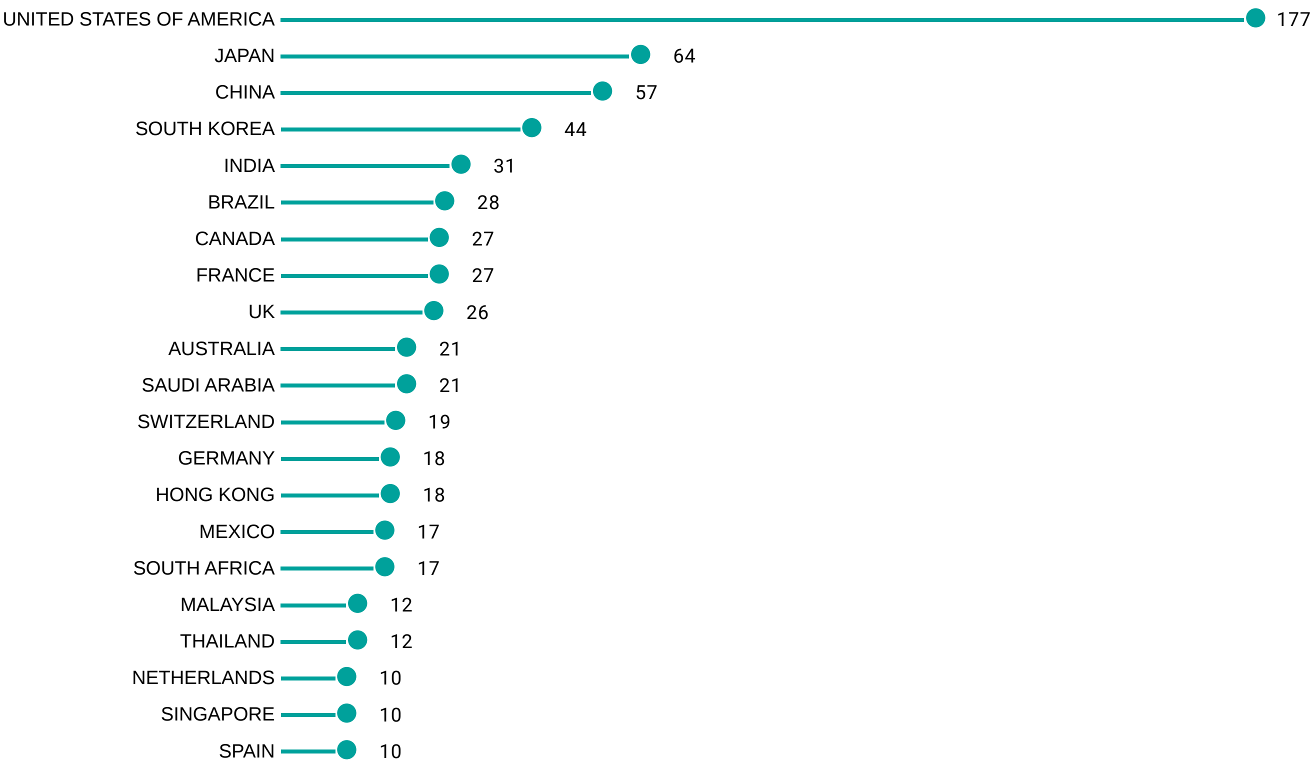
Industry Distribution

(Industries included with a minimum of 10 engagements)



Home Country

(Countries included with a minimum of 10 engagements)



Engagement Topics

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

ENGAGEMENT TOPICS	ENGAGEMENTS
Disclosure	265
Net Zero Decarbonization	182
ESG Governance	175
Water and Marine Ecosystems	163
Human Rights	130
Community Relations	113
Deforestation	109
Climate Change	101
Business Ethics, Bribery and Corruption	100
Labour Rights	99
Biodiversity	96
Product Quality and Safety	93
Land Pollution and Spills	81
Human Capital	80
Board Compensation	71
Occupational Health and Safety	68
Child Labour	52
Diversity, Equity and Inclusion (DEI)	47

Engagement Topics Cont.

ENGAGEMENT TOPICS	ENGAGEMENTS
Shareholders Rights	41
Indigenous People	40
Forced Labour	35
Accounting and Taxation	33
Waste Management	32
Natural Resource Use	29
Data Privacy and Security	21
Circular Economy	20
Just Transition	18
Marketing Practices	13
Weapons	6
High-Risk Territories	4
Sanctions	3
Air Pollutant Emissions	1
Competitions	1

*As of 26 October 2023.

Sustainable Development Goals – Mapping Engagements

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

1 No Poverty	6%
2 Zero Hunger	11%
3 Good Health and Well-Being	21%
4 Quality Education	5%
5 Gender Equality	9%
6 Clean Water and Sanitation	14%
7 Affordable and Clean Energy	18%
8 Decent Work and Economic Growth	29%
9 Industry, Innovation and Infrastructure	18%
10 Reduced Inequality	12%
11 Sustainable Cities and Communities	12%
12 Responsible Consumption and Production	48%
13 Climate Action	52%
14 Life Below Water	12%
15 Life on Land	18%
16 Peace and Justice, Strong Institutions	41%
17 Partnerships to Achieve the Goal	9%

Engagement Results

155
Meetings conducted in Q3, 4 in person.

2379
Emails/phone calls exchanged.

7
Engagements have been resolved.

67
Milestones achieved in Q3. More than half of the engagements (53%) are not further than Milestone 2 (out of 5).

8%
Companies not responding to the engagement dialogue has been reduced to 8% of all engagements.

49%
About half of the engagements show standard progress.

33%
Of the engagements show good or excellent progress.

Engagement Response

We rate the company response to the engagement dialogue and willingness to engage with investors on a five-point scale:

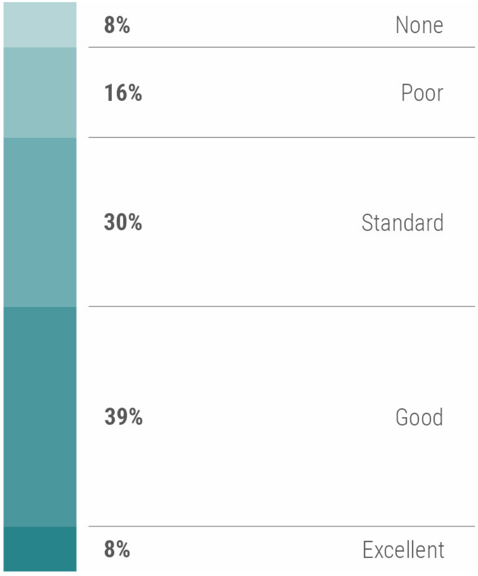
None the company has not responded to the inquiries

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.

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

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

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



Engagement Progress

The rating of Progress reflects the pace and scope of changes towards the engagement objective that the company is making. We rate progress according to a five-point scale:

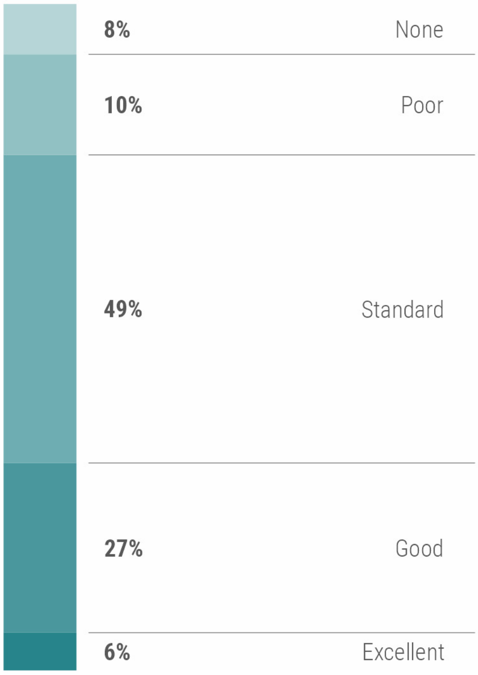
None the company has not made any progress against the engagement objective.

Poor the company has indicated willingness to addressing the issues related to the change objective, but no measures have been taken yet.

Standard the company has undertaken a number of measures to address the issues related to the change objective.

Good the company has taken sufficient measures to address the issues related to the change objective.

Excellent the company has adopted a proactive approach and addressed the issues related to the change objective.



Engagements Resolved

Company	Country	Industry	Issue
AMP Ltd.	Australia	Diversified Financials	Consumer Interests - Business Ethics
Johnson & Johnson	United States of America	Pharmaceuticals	Quality and Safety - Human Rights
MTN Group Ltd.	South Africa	Telecommunication Services	Focus on Data Privacy and Security
Otsuka Holdings Co. Ltd	Japan	Pharmaceuticals	Focus on ESG Disclosure
Stryker Corp	United States of America	Healthcare	Quality and Safety - Human Rights
Tata Motors ltd.	India	Automobiles	Focus on Carbon Products and Services
Uber Technologies Inc.	United States of America	Software & Services	Focus on Business Ethics

Resolved - Johnson & Johnson

Engagement Since: June 07, 2018

INDUSTRY:
Pharmaceuticals

BASE LOCATION:
United States

ISSUE:
Quality and Safety - Human Rights

Johnson & Johnson has been involved in repeated issues related to the quality and safety risks of several of its medical devices, medicines, and other products.

CHANGE OBJECTIVE

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

Engagement Outcomes

- Effective quality control can be evidenced through reduced FDA activity against the company and subsequent product recalls.
- The company has mostly resolved its product controversies.
- The company favours regular internal audits to monitor the effectiveness of its quality management system, complemented with external regulator-led audits.
- The decision to discontinue talc-based products eliminates any potential future issues relating to its safe use.

Conclusion: Considering improvements in product quality and safety management and a lack of any new severe product quality and safety issues over the past few years, Morningstar Sustainalytics decided to resolve the case.

Resolved - MTN Group Ltd.

ESG Risk Ratings Score

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

26.1

INDUSTRY:
Telecommunication Services

BASE LOCATION:
South Africa

ENGAGEMENT FOCUS:
Data Privacy and Security
Society - Human Rights (Controversy)
Business Ethics

RATIONALE FOR RESOLVED STATUS:
MTN Group Ltd. has improved their ESG Risk Rating score to below 28.

Positive Development Highlights:

- MTN published information on the results of its digital human rights impact assessment in its 2022 sustainability report and transparency report. Among other follow-on actions, MTN developed a DHRIA toolkit for each of its operational countries, including training. It also stated a focus on capacity building and stakeholder engagement.
- MTN contracted a third-party to conduct a digital human rights impact assessment and has committed to disclosing reasonable results of that process.
- MTN implemented clear human rights due diligence (HRDD) practices, including a commitment to perform HRDD on exit or entry into operational regions.
- MTN now routinely publishes a transparency report providing insight on government data and service requests made in its operating regions.

In the latest update of the ESG Risk Rating, MTN's management score improved by 7.5 points, bringing the company into the medium risk category and below the 28-point threshold for engagement.

Resolved - Stryker Corp

Engagement Since: May 30, 2019

INDUSTRY:
Healthcare

BASE LOCATION:
United States

ISSUE:
Quality and Safety - Human Rights

Stryker has been involved in several controversies related to product quality and safety.

CHANGE OBJECTIVE

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

Engagement Outcomes

- Throughout the four years of engagement the company has shown considerable improvements in the level of meaningful disclosure, culminating in a dedicated quality website.
- While the company responded to queries with strong technical responses, it also provided additional assurances that its quality system was effective through compliance and certification with international standards (ISO).
- The effectiveness of the company's refreshed approach to quality is seen through reduced numbers of the US Food and Drug Administration interventions.

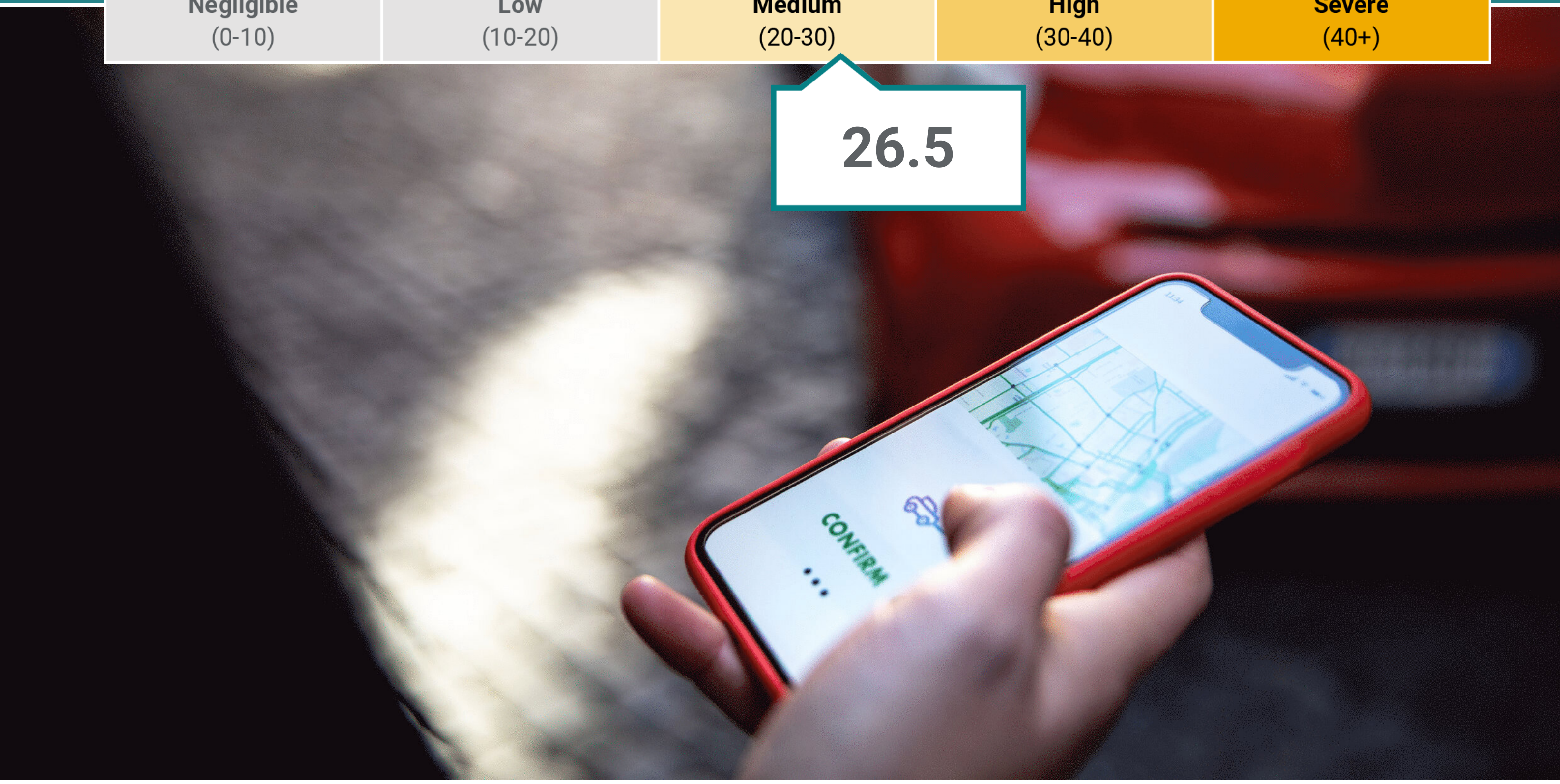
Conclusion: Considering improvements in product quality and safety management and the lack of any new severe product quality and safety issues over the past few years, Morningstar Sustainalytics decided to resolve the case.

Resolved - Uber Technologies, Inc.

ESG Risk Ratings Score

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

26.5



INDUSTRY:
Software and Services

BASE LOCATION:
United States of America

ENGAGEMENT FOCUS:
Data Privacy and Security
Human Capital
Business Ethics

RATIONALE FOR RESOLVED STATUS:
Uber has improved their ESG Risk Rating score to below 28.

Positive Development Highlights:

- Uber began publication of an annual Diversity and Inclusion report in 2020, which evolved into its People and Culture report in 2022, providing more transparency on this aspect of its human capital management strategy.
- Uber has improved its privacy disclosures and, in 2021, published a human rights policy that also captures privacy (in addition to its privacy policy).
- At the end of 2020, Uber's committee charters were updated to include specific reference to ESG issues, i.e., data privacy was added to the Audit Committee charter, the Compensation Committee charter added human capital, retention, diversity, culture, talent, recruitment, and employee engagement, and the Nominating and Governance committee charter now added reference to ESG, political activities and environmental sustainability.
- The company released its inaugural ESG report in Autumn 2020 that included a materiality matrix that was developed with stakeholder input and included privacy as a key issue.

In the latest update of the ESG Risk Rating, Uber's management score improved by 5.4 points, bringing the company into the medium risk category and below the 28-point threshold for engagement.

Engagement Milestones

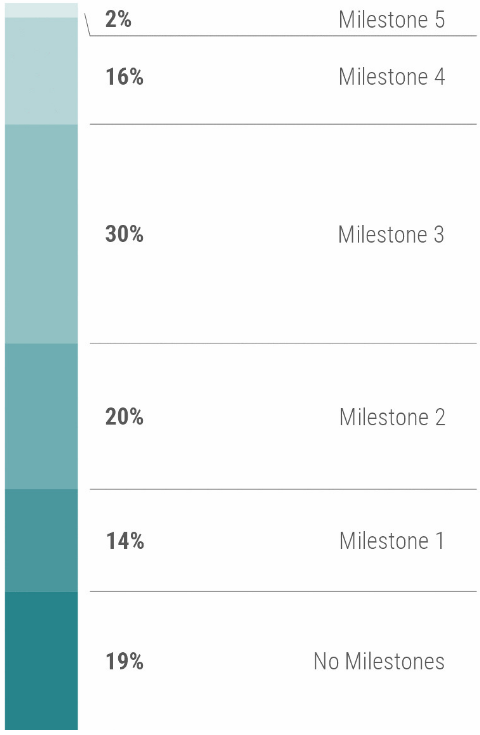
Milestones are our five-stage tracking of progress in achieving the engagement objective.

67
milestones achieved
in Q3 2023

Milestone Framework Structure

Milestone 1	Acknowledgement of issue(s) and commitment to mitigation.
Milestone 2	ESG risk management and strategy established.
Milestone 3	Strategy is well formed and has moved into early stages of implementation.
Milestone 4	Implementation of strategy has advanced meaningfully, and related issuer disclosure maturing.
Milestone 5	Change objective is considered fulfilled.

Engagements by Highest Milestone Achieved



Marta Mancheva
Manager, Engagement Services

Final Countdown to CSRD

Mandatory ESG disclosure builds momentum in Europe and beyond

In the ever-evolving landscape of mandatory corporate sustainability reporting, the implementation of the European Union (EU) Corporate Sustainability Reporting Directive (CSRD) promises to be a watershed moment with implications for companies both in Europe and beyond. The CSRD is set to take effect on January 1, 2024, and will impact approximately 50,000 companies within the EU, representing 75% of EU companies' turnover, along with an estimated 10,000 or more companies worldwide. This article focuses on the role of the CSRD within the global reporting standards ecosystem, offers insights into companies' compliance readiness, and discusses potential benefits for investors.

CSRD to Replace the EU Non-Financial Reporting Directive (NFRD)

Adopted by the European Commission (EC) in November 2022, the CSRD[i] replaces the preceding Non-Financial Reporting Directive (NFRD), which required over 11,000 large EU companies to disclose Environmental, Social, and Governance (ESG) information. The CSRD significantly broadens the scope of companies subject to mandatory sustainability reporting with estimates indicating that approximately 50,000 companies in the EU, equivalent to 75% of EU companies' turnover, will be impacted. As the CSRD incorporates a value chain perspective, its effects are likely to extend to suppliers not directly covered by the directive. Such companies, while not in the immediate scope of the regulation, will still be required to provide CSRD-aligned information to EU business partners.

Key Objectives of CSRD

- Expands and standardizes the existing rules on non-financial reporting and seeks to increase the comparability of data.
- Introduces a mandatory audit and assurance requirement to ensure the reliability of data and to mitigate risks of greenwashing and/or double accounting.
- Requires information to be reported in XHTML format and digitally tagged to feed into the European single access point.

Scope of Application[ii]

- EU companies (including EU subsidiaries of non-EU parent companies) that exceed at least two of the following thresholds:
  - more than 250 employees
  - a turnover of more than €40 million
  - total assets of €20 million
- Businesses listed on an EU-regulated market, irrespective of whether the issuer is established in the EU or a non-EU country. This includes listed small and medium-size enterprises (SMEs).
- Non-EU entities with annual EU-generated revenues above €150 million and which also have either a large or a listed EU subsidiary or a significant EU branch (generating €40 million in revenues).

In July 2023, the EC adopted the first set of European Sustainability Reporting Standards[iii] (ESRS). CSRD and ESRS are closely interlinked, but they serve different purposes. While CSRD sets the legal framework of the reporting directive, the ESRS establish common guidelines for the disclosure of ESG information and serve as the foundation for auditors to provide credible assurance. The standards are designed to offer clarity and assist businesses in effectively communicating and managing their sustainability performance, with the ultimate goal of improving access to sustainable finance. Additionally, the common standards aim to reduce reporting costs in the medium to long term and alleviate the reporting burden on companies.

ESRS Fact Sheet

ESRS 1 ("General Requirements")

These are general disclosure principles, but they do not, in themselves, set specific disclosure requirements. Serving as the basis for sustainability disclosure, the concept of double materiality necessitates the identification and management of all ESG issues that pose a business risk or have an external impact on people and the environment, whether positive or negative. Companies must conduct a thorough, externally assured double materiality assessment to ensure they have diligently identified all ESG topics relevant to their business model and activities.

ESRS 2 ("General Disclosures")

The standard specifies mandatory reporting rules to be applied irrespective of the sustainability topic disclosed. Disclosure is subject to a double materiality assessment. This means that the company must report material information and may omit the information that is not relevant ("material").

Phased approach

- Financial years starting 1 January 2024: Companies that are already subject to NFRD are mandated to publish first CSRD-aligned reports in 2025.
- Financial years starting 1 January 2025: In-scope large companies that have not been subject to NFRD are mandated to publish first CSRD-aligned reports in 2026.
- Financial years starting 1 January 2026: CSRD will be rolled out to listed SMEs with the option to defer until financial year 2028.
- Financial years starting 1 January 2028: In-scope non-EU entities are required to comply with CSRD in 2029.

Interaction with Other EU Regulations

Sustainable finance stands as the cornerstone of the EC's strategy for achieving the European Green Deal and fulfilling the EU's commitments to climate and sustainability. The Sustainable Finance Action Plan (EU Action Plan) represents a major policy objective that promotes and facilitates sustainable investment flows across the EU. Two of the pillars of the EU Action Plan[iv] consist of the EU Taxonomy classification system, which identifies economic activities that contribute to the EU's climate and environmental objectives, and disclosure rules for investors (Sustainable Finance Disclosure Regulation or SFDR) and companies (CSRD). One of the objectives of CSRD is to provide standardized, reliable, comparable, and granular data to various capital market participants, enabling them to fulfill their own reporting obligations under SFDR. Furthermore, under Article 8 of the EU Taxonomy Regulation[v], NFRD in-scope entities were required to report on their Taxonomy alignment. With CSRD expanding the scope to include more companies, this will result in an increased number of businesses seeking Taxonomy alignment in the future.

In addition, as both the CSRD and the Corporate Sustainability Due Diligence Directive[vi] (CSDDD) are aligned with the objectives of the EU Green Deal, these two pieces of legislation are complementary and closely linked. The CSDDD mandates that large companies (1) conduct due diligence to identify and address adverse human rights and environmental impacts within their value chains and (2) present climate plans aligned with the Paris Agreement. The CSRD will complement the forthcoming CSDDD by addressing the public disclosure aspect of due diligence obligations for companies subject to both regulations.

Interoperability with Global Reporting Standards

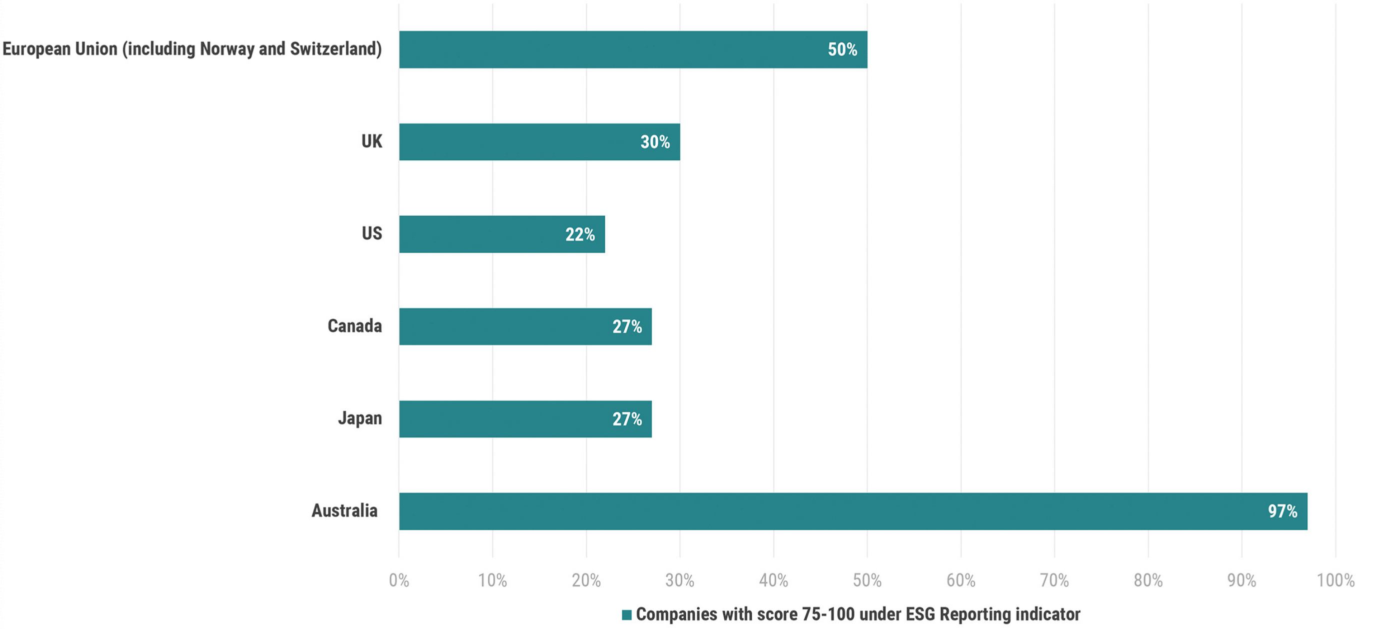
The EC[vii] has successfully aligned the ESRS with global standard-setting bodies such as the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB). The GRI serves as a significant reference point, and many of the ESRS reporting requirements draw inspiration from the GRI Standards. In September 2023, the European Financial Reporting Advisory Group (EFRAG) and GRI issued a joint statement[viii] confirming the high level of interoperability achieved between the ESRS and the GRI Standards, assuring that existing GRI reporters will be well prepared to comply with the ESRS.

The ESRS and the first two ISSB standards, released in June 2023, have been developed in parallel. Despite ISSB's focus on financial materiality, companies obligated to report under ESRS for climate change will largely provide the same information as those using the ISSB standard for climate-related disclosures. Additionally, the widely acknowledged standard for climate change-related disclosures developed by the Task Force on Climate-Related Financial Disclosures (TCFD) is fully integrated in ESRS.

Company Preparedness

Given the high level of interoperability between ESRS and GRI, evaluating company reporting practices can provide insights into corporate preparedness for the ESRS. In particular, current GRI reporters are expected to be better positioned to comply with the ESRS. The ESG100 Report 2023[ix], which evaluates the largest 100 listed Nordic companies, reveals significant gaps in company readiness for the ESRS. On average, companies within the ESG100 reported only 54% of the ESRS disclosures that were tested.

Sustainalytics data indicates a similar trend with companies from the EU and other regions potentially affected by the CSRD, showing a wide range of readiness levels. Half of EU-domiciled companies included in Sustainalytics' Ratings universe[x] are assessed as strong performers in ESG reporting aligned with international sustainability reporting standards, such as the GRI Standards. For comparison, in jurisdictions outside the EU, Australian issuers signal very high reporting readiness, whereas US companies exhibit the least preparedness (see Figure 1 below). The data underscores a notable variation in the ESRS readiness levels of companies. The EU exhibits a mix of strong and potentially less prepared reporters, while Australia stands out for its robust reporting practices aligned with established standards. In contrast, businesses domiciled in the US, UK, Canada, and Japan appear to have significant disclosure gaps, which will require considerable efforts to achieve compliance readiness in the coming years, if they are impacted by the CSRD.



The ESG Reporting indicator is assessed based on how companies report their ESG information. Best practice methods include annual reporting of material ESG information in the form of an integrated report or a standalone ESG report written in accordance with international sustainability reporting standards, such as the GRI Standards. Lower weighting is given to companies that report on philanthropic and sponsorship activities, or that provide only a general overview of ESG issues.

Source: Morningstar Sustainalytics. The data for this analysis was retrieved on October 1, 2023, from Sustainalytics Ratings Universe. For informational purposes only.

With the ESRS set to take effect on January 1, 2024, companies are compelled to act swiftly and address reporting gaps. Conducting a comprehensive double materiality assessment aligned with ESRS and obtaining buy-in from senior executives are critical initial steps. Furthermore, achieving disclosure readiness will require investments in credible ESG data management systems to meet the assurance requirement.

CSRD Uptake: The Investor Perspective

Access to reliable, comparable data has long challenged investors within sustainable finance. A 2020 white paper[xi] by Danske Bank, for instance, revealed that less than one-third of ESG data reported by investee companies was both useful and financially material. Welcomed by investors, ESRS aligns data points with the reporting needs of financial market participants, benchmark administrators, and financial institutions under the SFDR, the Benchmark Regulation (BMR), and specific disclosure requirements within the Capital Requirements Regulation (CRR). While CSRD addresses data access, high quality ESG information may not be immediately available. The ESRS digital taxonomy is being developed for easier data extraction and comparability, but it will take time.

Investors not only seek useful and material data on social and environmental impacts and due diligence plans to meet disclosure requirements, but to also enhance credibility in sustainable investments, and direct sufficient capital toward sustainable activities. The EC's decision to make climate change subject to company materiality assessments, rather than a topic for mandatory disclosure, has drawn criticism as investors depend on such data for SFDR, BMR, and CRR compliance.

The CSRD is expected to have a substantial impact on the reporting of standardized sustainability information that extends beyond the EU. There are indications signaling significant reporting gaps among corporations in the EU and other jurisdictions affected by the CSRD. Businesses will benefit from taking swift action to achieve readiness for ESRS-compliant reporting, viewing it not merely as a compliance burden but as an opportunity to develop more sustainable business models. From an investor's perspective, CSRD reporting will enable financial market participants to better prepare for meeting disclosure obligations under the EU Action Plan on Sustainable Finance. Despite concerns regarding the mandatory disclosure scope and the usability of ESRS-compliant data, the implementation of CSRD represents a major milestone in EU and global harmonization efforts. Greater access to quality ESG data, could potentially accelerate the transition to a sustainable economy.

Navigating Quality Challenges in the Production of Medical Equipment

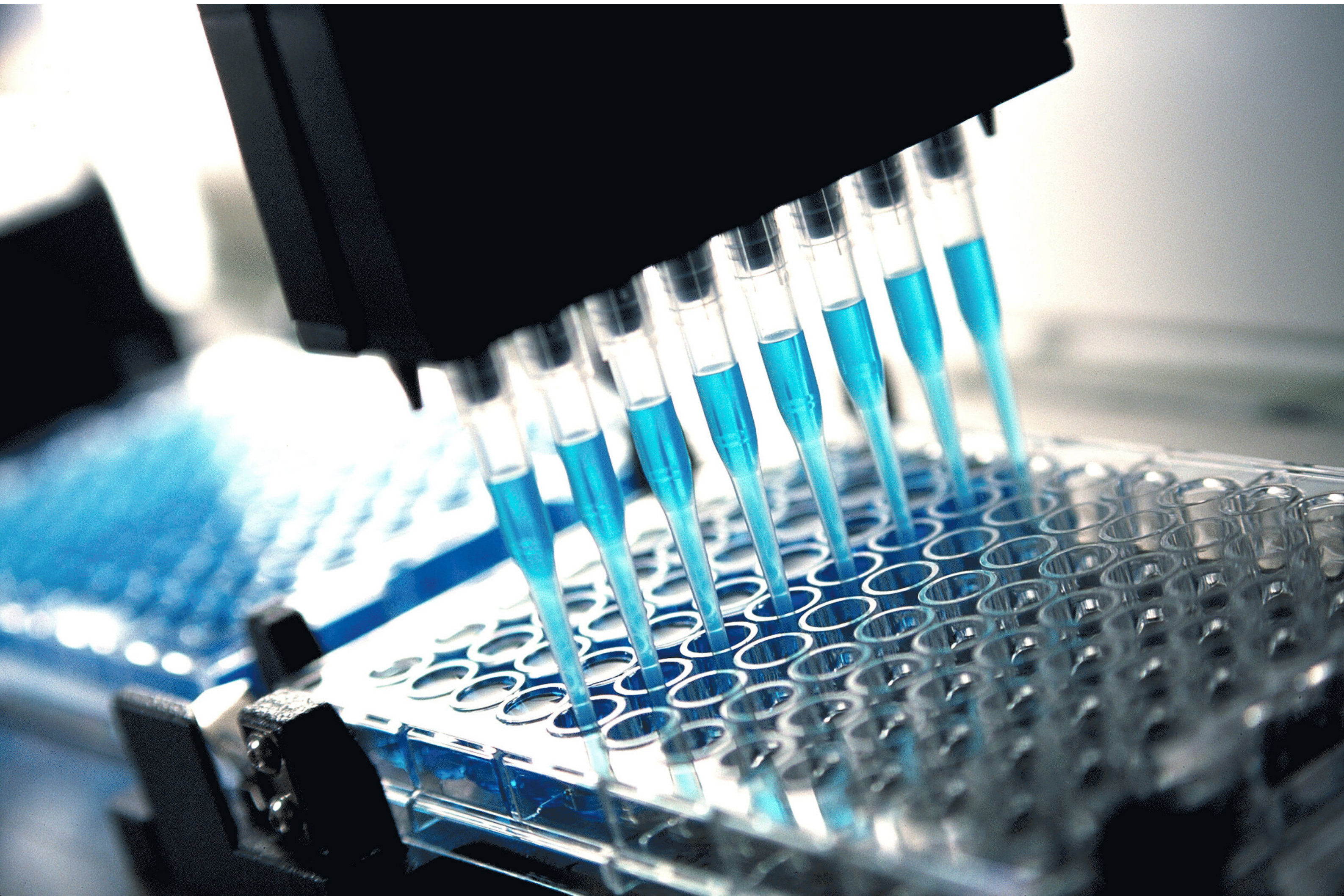
When healthcare providers and institutions make purchasing decisions based on accurate information, patient care is enhanced, and potential harm is minimized.

An effective Quality Management System (QMS) is crucial to ensure that products aresafe, reliable, and meet regulatory requirements. Engagements with the companies focused on several key aspects of their QMS governance through delivery-focused processes, document management, and system auditing -- internally and externally.

Very specific to the medical equipment sector are the mechanisms to support robust post-market surveillance, gathering feedback for review and potential modifications to be made and the product re-released. Additionally, the issue of ethics was also discussed with a view to ensuring that robust mechanisms were developed to prevent the marketing of faulty products.

Ethical marketing ensures that medical equipment is promoted and sold with transparency and accuracy. When healthcare providers and institutions make purchasing decisions based on accurate information, patient care is enhanced, and potential harm isminimized. This trust in the marketing process is vital, especially when dealing with life-saving or critical equipment where the consequences of misinformation or manipulationcan be dire. Medical equipment must meet stringent regulatory standards to ensure its effectiveness and safety. Ethical marketing practices involve accurately representing a product’s capabilities and limitations and providing appropriate training and support to healthcare professionals who use the equipment.

These standards not only safeguard patients but also foster long-term relationships between manufacturers and healthcare providers, as they rely on each other to deliver quality care. Ultimately, ethical marketing in the medical equipment industry serves as a moral compass, guiding decisions impacting human lives and well-being and upholding the industry’s commitment to the highest patient care and safety standards.



The Road to Zero Deforestation: The EU Deforestation Regulation

What financial institutions should know about deforestation

Forests provide extensive resources and essential services. Forests are home to over 80% of terrestrial biodiversity and more than 25% of the global population's livelihoods depend on forests.[xii] However, research has shown that two-thirds of original rainforests are either gone or degraded, and agricultural expansion has always been the key driver of land conversion.[xiii] Although the focus on preventing deforestation started decades ago, forest loss continues today. Despite the global visions from the UN Strategic Plan for Forests in 2017 and the Glasgow Leaders' Declaration on Forests and Land Use at COP 26, the world is still far from achieving zero deforestation.

Financial institutions are uniquely placed to influence commodity-driven deforestation and land conversion through their financing activities. As an example, a recent report estimates that a Dutch bank's financing activities to Brazilian high-forest-risk sectors (e.g., beef, soy, pulp and paper) in the period of 2000-2022, had cost society EUR 66 billion (up to EUR 458.8 billion), despite merely EUR 0.7 billion in profits for the bank[xiv.] Although, actual costs are not calculated in balance sheets but rather externalized to society. Portfolio construction with strong risk assessments and robust deforestation and land conversion strategies could not only preserve forests and associated ecosystem services but ultimately protect global economic wealth.

The EU deforestation regulation and the role of engagement

The new European Union regulation on deforestation-free products (EUDR) adopted on June 29,2023, is seen as a groundbreaking deal to halt deforestation. Companies will be required to conduct extensive due diligence on the value chain to ensure products sourced from the seven target commodities, including soy, beef, palm oil, wood, cocoa, coffee and rubber are not sourced from areas of recent (post 31 December 2020) deforestation[xv]. Companies failing to comply with EUDR may result in fines of up to 4% of the company's EU turnover, temporary exclusion from public procurement processes, and prohibition from trading in the EU[xvi]. According to the Sustainalytics ESG Risk Ratings assessment, 21% of high-impact companies have an adequate deforestation policy and only 11% have strong policies in place (see Figure 1). To comply withthe EUDR, that applies from 30 December 2024, most high-impact commodity companies must strengthen their forestry-related commitments in order to eliminate the potential for financial loss. From our engagements with producers of high-impact commodities, there are two key triggers for pursuing deforestation-free products: 1) demands from downstream companies and 2) regulatory enforcement. For the former, engaging with the full agricultural value chain becomes an important tool for investors to address deforestation in their portfolios. For the latter, the EUDR undoubtedly will shape the supply chain practices. It does not just impact smaller-scale companies with fewer resources to diversify their commodity sourcing and ensure their supply chain due diligence, but also bigger players in the value chain with complicated supply chains to sort out. Consequently, it becomes important to provide engaged companies with best practices and accelerate their transition processes to mitigate such transition risk within investors' portfolios.

Deforestation of High-Impact Companies

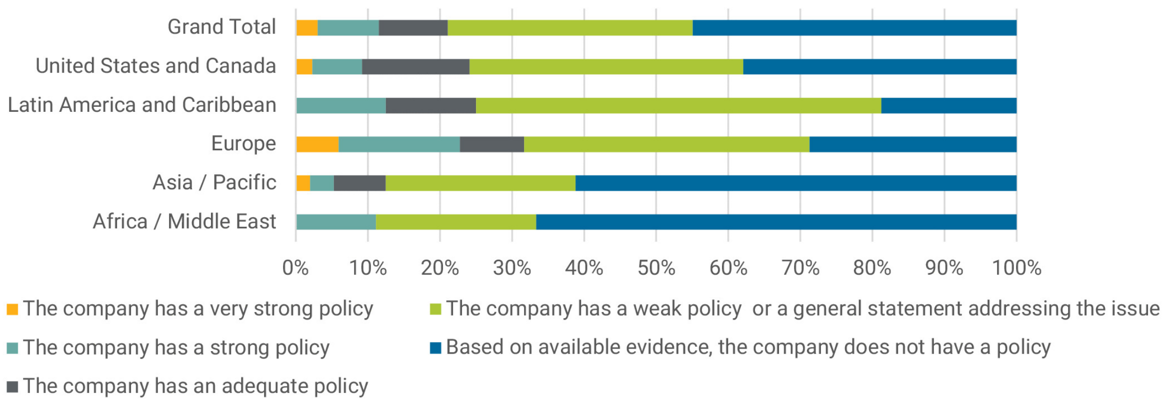


Figure 1. Morningstar Sustainalytics Assessment of High-Impact Companies and their Deforestation Policy (Source: Morningstar Sustainalytics. The data for this analysis was retrieved on 30 August 2023 from Sustainalytics' Ratings+ Universe and includes 365 companies from the following industries: Food Products, Food Retailers, Consumer Services, Consumer Durables, Household Products and Retailing. For informational purposes only.)

What investors can do to tackle deforestation?

To systematically tackle deforestation across investors' portfolios, there are four key steps for investors to consider:

1. **Assessing** socio-environmental risks to gain an understanding of exposure to deforestation and conversion through financing activities.
2. **Committing** to halt deforestation by setting a strong and effective policy. Some aspects to consider while forming a policy: what are the key challenges and opportunities for each commodity and how to form commodity-specific policy, how to monitor clients'/holdings' operations, the financing activities covered in the policy, metrics to measure the policy's effectiveness and how to report on the progress.
3. **Engaging** with clients and holdings is also necessary to reinforce the message of thei mportance of zero deforestation and ensure portfolios are compliant with requirements and expectations.
4. **Monitoring** the progress and disclosing the results accordingly. It is important to showcase investor ambition and commitment to this topic and hold clients and holdings to account for their deforestation risk.

In the Biodiversity and Natural Capital programme, Morningstar Sustainalytics engages with issuers to identify their nature-related impact and dependency hot spots and encourages the implementation of robust policies and management practices to halt deforestation and land conversion. Through continuous dialogue with companies, we support investors in monitoring progress and ultimately the aim to reduce deforestation and related biodiversity and nature risks across investors' portfolios.

During Q4, Morningstar Sustainalytics will continue to focus on the capacity building that has been central to this year's engagement. We will build on our established momentum with issuers to better understand their willingness to address comprehensive risk management and establish roadmaps addressing biodiversity and natural capital topics.

To support this, we will also continue our dialogue with those organizations we can refer issuers to once they are ready to take that step. With the **final launch of the TNFD recommendations** taking place in September 2023, we expect to see some initial support from early adopters and uptake from engagement targets. While, as part of the Science-Based Targets Network (SBTN) working group on corporate engagement programme alongside several stakeholders, we will seek to play a role in raising awareness and having a broad reach. Furthermore, we will continue our dialogue with Nature Action 100 to pursue synergies between the initiative and the Biodiversity and Natural Capital Stewardship Programme.

More information on the programme, including progress on individual cases, can be found in **Global Access**.

Plans for Next Quarter

Q4 is a good time of the year to talk about forward-looking plans with the companies and influence the annual reporting that many of them are already preparing. So, we are prioritizing to have many meetings during this quarter.

The Net Zero Transition engagements will continue to increase in number of companies engaged and there will be plenty of opportunities for clients to join engagement meetings on net zero transition. The plan is to add another 50 engagements within this programme during Q4 2023.

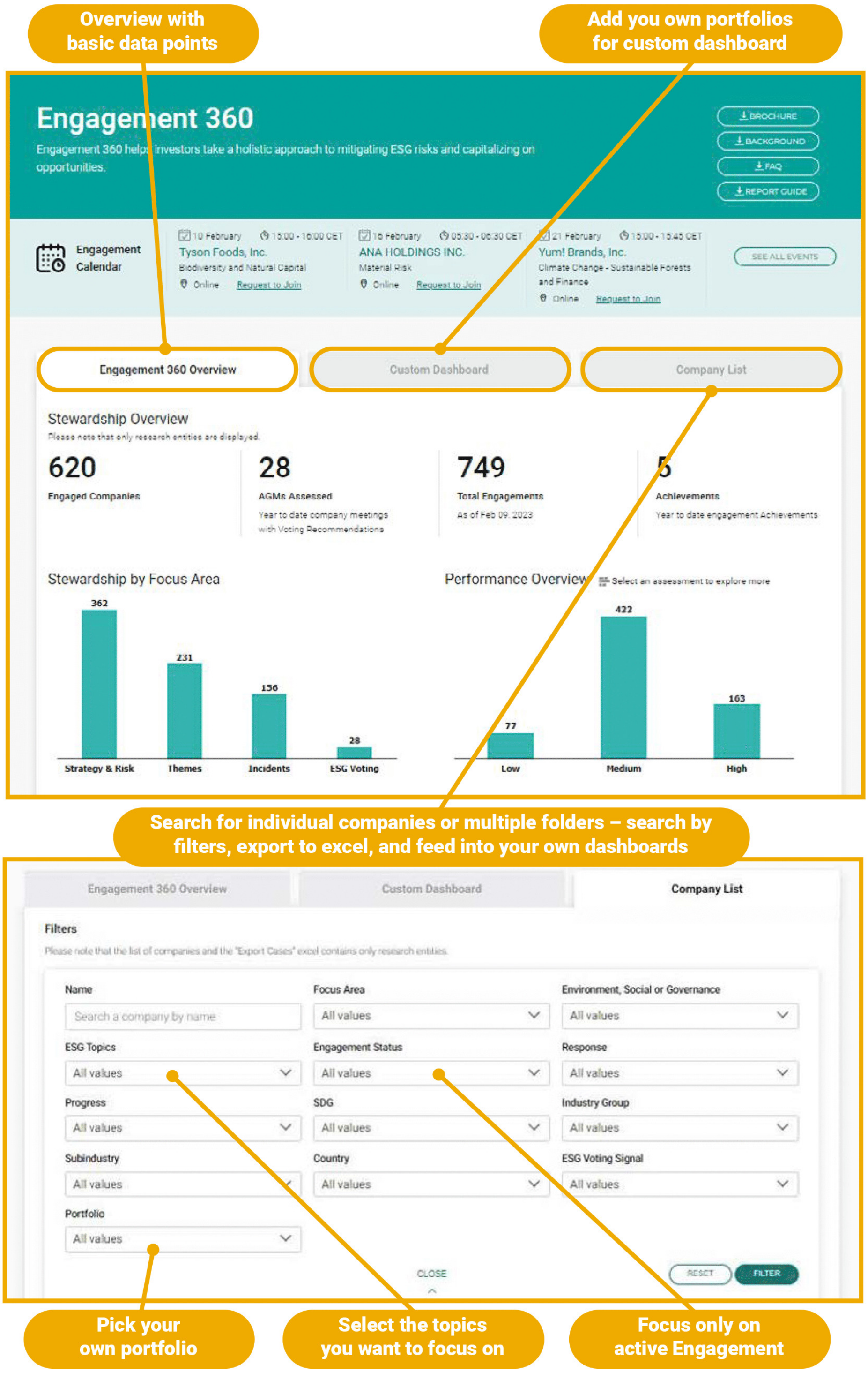
During Q4, we will also be adding an extra ESG Topic to water to provide more accurate searchability on water-related cases, covering Water Security and Water Quality.

Please watch out for product improvements announced in the Quarterly Client Communications and news and engagement opportunities on the Global Access platform and in the ongoing communications to clients.

How to Generate Reports from Global Access

Clients have the opportunity to generate reports on their own through the online platform Global Access. Engagement 360 clients have access to all services and all engagements and vote recommendations on the platform. The platform also allows users to filter by portfolio, and export to an Excel file.

The starting point is the Engagement 360 landing page.



Endnotes

i https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464

ii https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

iii https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-European-sustainability-reporting-standards-first-set_en

iv https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_3194

v https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32020R0852

vi https://commission.europa.eu/publications/proposal-directive-corporate-sustainability-due-diligence-and-annex_en

vii https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

viii https://efrag.org/news/public-444/EFRAG-GRI-Joint-statement-of-interoperability-?AspxAutoDetectCookieSupport=1

ix https://6669040.fs1.hubspotusercontent-na1.net/hubfs/6669040/PositionGreen_ESG100report2023.pdf?xutm_campaign=ESG100&utm_medium=email&_hsmi=273331805&_hsenc=p2ANqtz-9MDJosxzrH5zpCASXoyRcDMP9pv9cPKryUlHs5RA1a_jW2748PltoF2sCj-qVcNjgXNzSh-BkqDih6ENM73eX7lEqXBQN1HDOxJys7tSTxWo5qF6k&utm_content=273331805&utm_source=hs_automation
The analysis is based on the most recent environmental, social and governance reporting data from the leading 100 publicly listed companies in Denmark, Sweden and Norway (300 companies in total).

x The Morningstar Sustainalytics Ratings universe comprises approximately 5,000 large and medium market cap investable issuers in developed and emerging markets. The data for this analysis was retrieved on September 21, 2023, from Sustainalytics' Ratings Universe. For informational purposes only.

xi https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/5/in-search-of-quality-esg-data---an-investment-view-on-corporate-sustainability-disclosures.pdf?rev=2560aff2dc3f4a6eb85db2b9d863443a

xii "WHY FORESTS ARE SO IMPORTANT" WWF, Accessed August 31, 2023.
https://wwf.panda.org/discover/our_focus/forests_practice/importance_forests/.

xiii Krogh, Anders. "Only a third of the tropical rainforest remains intact" Rainforest Foundation Norway. Accessed August 30, 2023.
https://www.regnskog.no/en/news/only-half-of-the-worlds-rainforests-remains-intact.

xiv Rijk, Gerard; Warmerdam, Ward; Kuepper, Barbara. "€ 0.7 billion in profits, € 66 billion in damages - Rabobank's destructive financing of deforestation in Brazil" Profundo Research & Advice. July 5, 2023.
https://www.greenpeace.org/static/planet4-netherlands-stateless/2023/07/e70522ebprofundo_rabobank-brazil-final-july2023.pdf

xv "The EU Deforestation Regulation (EUDR): What You Need to Know" Resilinc, August 1, 2023.
https://www.resilinc.com/blog/eu-deforestation-regulation-eudr/

xvi Forwood, Genevra; Connellan, Clare; Killick, James; Nordin, Sara. "10 key things to know about the new EU Deforestation Regulation" White & Case. July 21, 2023.
https://www.whitecase.com/insight-alert/10-keythings-know-about-new-eu-deforestation-regulation

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. With 16 offices globally, Sustainalytics has more than 1,600 staff members, including more than 800 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com..

Do you have any questions regarding our Stewardship Services?
Contact us today to connect with our team of experts.

Learn more at www.sustainalytics.com. or email at engagement.support@sustainalytics.com

Europe:

Amsterdam (+31) 20 205 00 00
Copenhagen (+45) 32 72 52 81
London (+44) 20 3514 3123
Frankfurt (+49) 69 3329 6555
Paris (+33) 1 184880642
Stockholm (+46) 8 505 323 33

Americas:

Boston (+1) 617 603 3321
New York (+1) 212 500 6468
Toronto (+1) 416 861 0403

Asia Pacific:

Sydney (+61) 2 8320 9436
Tokyo (+81) 3 4510 7979