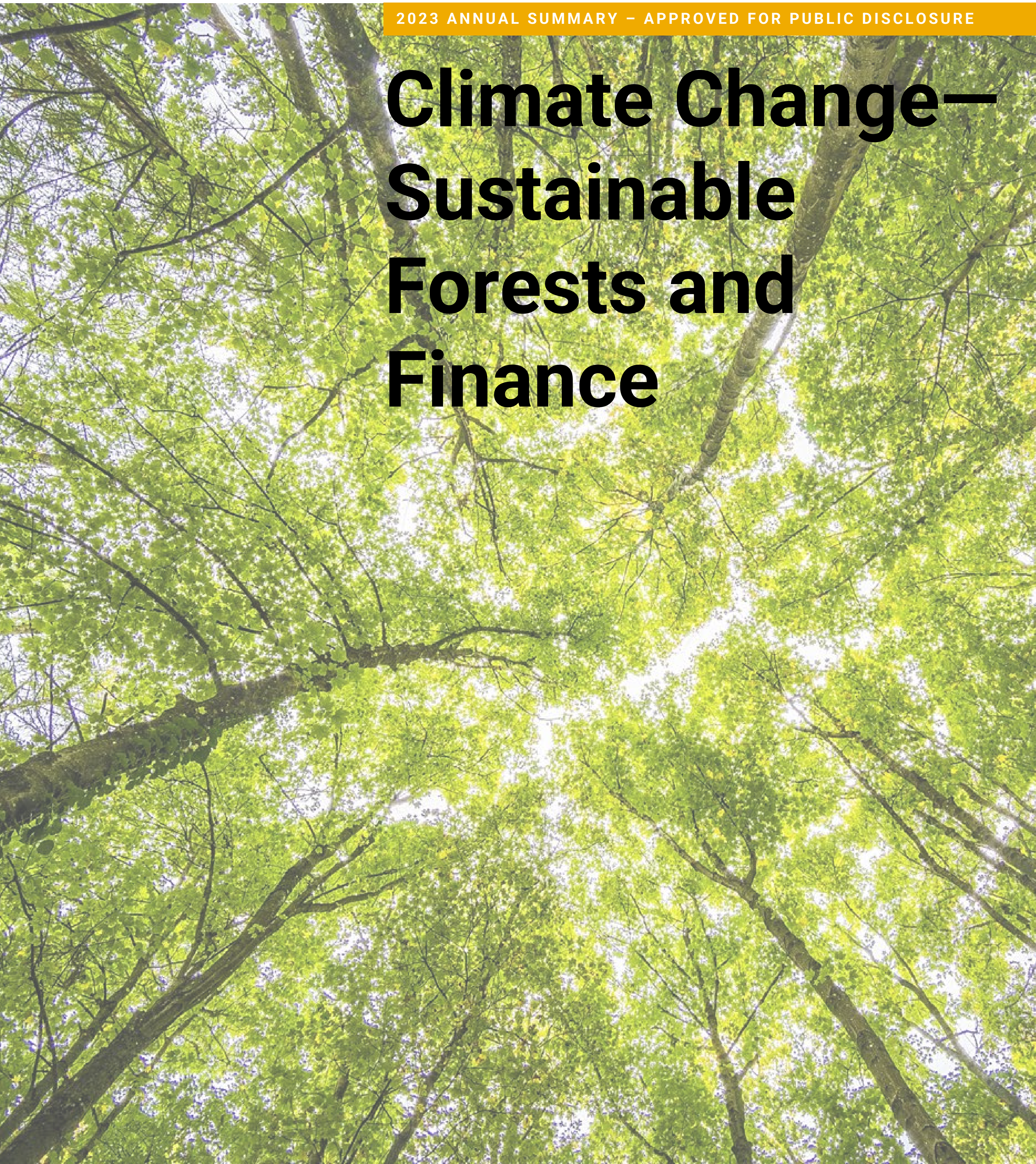
MORNINGSTAR | SUSTAINALYTICS

2023 ANNUAL SUMMARY – APPROVED FOR PUBLIC DISCLOSURE

Climate Change— Sustainable Forests and Finance



Climate Change—Sustainable Forests and Finance Thematic Engagement

"We are living through climate collapse in real-time – and the impact is devastating.

This year has seen communities around the world pounded by fires, floods, and searing temperatures.

Record global heating should send shivers down the spines of world leaders.

We must also go further and faster in protecting people from climate chaos."

From: United Nations Secretary-General António Guterres' message during the launch of the World Meteorological Organization's State of Climate report in November 2023 (Excerpt from Reuters Sustainable Switch)

The most recent United Nations Climate Change Conference, COP28, concluded in December 2023 with the release of the first-ever Global Stocktake. The report expresses serious concern that the impacts of climate change are rapidly accelerating and emphasizes the need for urgent actions to address the climate crisis in this critical decade to limit the global temperature increase to 1.5 °C. The Global Stocktake also acknowledges the interlinked global crises of climate and biodiversity loss and underlines the vital importance of protecting, conserving, restoring and sustainably using nature and ecosystems. Enhanced efforts towards halting and reversing deforestation and forest degradation by 2030 are also noted in the report to mitigate climate change and conserve nature.

In-line with the above recommendations to achieve the Paris Agreement, Sustainalytics' Climate Change—Sustainable Forests and Finance Thematic Engagement aims to address climate-related risks and advocate for emissions reduction across the global food systems. The theme targets companies across the agriculture value chain, from the high-risk commodity sector to its major customers and financiers. Throughout the past year of engagement, the dialogues focused on companies' management of decarbonization which should be science-based and aligned with a 1.5 °C pathway or beyond. In addition, companies should integrate their nature-related risks and forestry commitments into risk management, strategic planning, and disclosure.

Developments in 2023

Some positive developments with implications for agricultural value chain companies continued to unfold throughout 2023, reflecting the growing importance of the climate and nature nexus for investors and stakeholders. For example, the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) final recommendations on 18 September, will undoubtedly support companies' nature-related risk assessment and management to ultimately contribute to the Global Biodiversity Framework. In June, the International Sustainability Standards Board (ISSB) released two standards on sustainability disclosure, one on sustainability-related financial information and one on climate-related disclosure, which align with the recommendation of the Taskforce on Climate-related Financial Disclosures (TCFD). The two ISSB standards are considered the global baseline for sustainability reporting requirements and aim to provide investors and other stakeholders with high-quality, decision-useful, and comparable information. In the European landscape, the June approval of the Directive on Corporate Sustainability Due Diligence (CSDDD) facilitates effective environmental and climate protection by mandating due diligence and the implementation of climate transition plans. Meanwhile, the Organisation for Economic Co-operation and Development (OECD) refreshed its Guidelines for Multinational Enterprises on Responsible Business Conduct with recommendations on climate change and biodiversity aspects for enterprises to align with internationally agreed-upon goals based on the best available science. Finally, the EU Deforestation Regulation (EUDR) entered into force in June, which requires companies to ensure that their products and supply chains do not contribute to deforestation, forest degradation, or human rights violations. These positive developments provide not only guidance and direction for companies to act in an informed and concerted manner, but also opportunities for investors to encourage companies to work to provide further granularity in their ESG approaches and to set higher standards to advance companies' performance and drive meaningful changes across industry sectors and continents.

Engagement Update

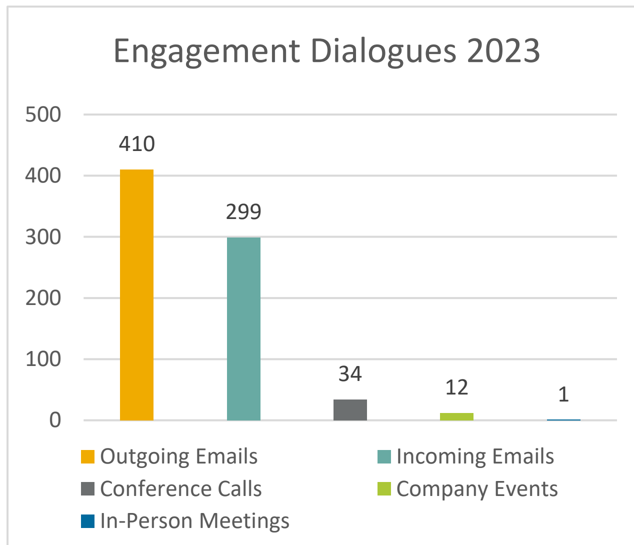


FIGURE 1 - ENGAGEMENT DIALOGUE IN 2023

There are 22 companies in the three sectors (financiers, mid-value chain companies, and end-of-value chain companies) in the Climate Change—Sustainable Forests and Finance Thematic Engagement and most are active participants. As we are two-thirds of the way through this three-year engagement theme, companies are more prepared for dialogue with investors on not only their climate strategies but also their approach toward net zero commitment and natural resource management. In 2023, Sustainalytics conducted 35 engagement meetings (including 1 in-person meeting), 410 outgoing emails, 299 incoming emails, and joined 12 company events such as Annual General Meetings (AGM) and webinars. In this thematic engagement, Sustainalytics has identified companies' performance and disclosure gaps against the expectations set out in the engagement Key Performance Indicators (KPIs). There are positive outcomes related to the company's public disclosure that we observed in 2023: two companies published their CDP responses on their websites thanks to Sustainalytics recommendations. These actions show that companies are willing to make changes considering Sustainalytics's recommendations, and there is potential for more positive outcomes in the future engagement dialogues.

Globally, we observed the increasing trend of climate-related shareholder resolutions in 2023. Sustainalytics joined the AGM of four of the companies engaged in this theme this year. Interestingly, several resolutions requested transparency regarding the company's lobbying activities and positions, which aligns with our engagement asks, particularly in the banking sector. Lobbying is one of the most powerful tools for the banking sector to push for Paris Agreement-aligned commitments across trade unions and other associations; however, most banks are not leveraging the tool and might accidentally support opposite ideas financially. Therefore, our engagement will continue focusing on the company's lobbying activities and disclosure in 2024. In Japan, we saw an unprecedented number of climate resolutions for big corporate groups as shareholders requested companies to have a clear pathway to achieving net zero by 2050, in line with Japan's commitment to be a carbon-neutral country. This trend also empowers our engagement dialogues with two Japanese companies in the theme.

Company Performance

Throughout the engagement, Sustainalytics assesses engaged companies on 5 key performance indicators (KPIs) that cover: Disclosure and Governance; Strategy and Targets; Practical Mitigation and Forests; Physical Risk – Value Chain Management; and, Natural Resource Management. Aggregately, companies continue to score the highest for KPI 1 focusing on disclosure and governance across the three targeted sectors, as seen in figure 2. This is predominantly driven by more rigorous climate disclosure regulations across various jurisdictions including the UK, Japan, Hong Kong and Singapore. The US Securities and Exchange Commission (SEC) is also finalizing a Climate Disclosure Rule and many American companies have improved their disclosure and climate governance structure in anticipation. A challenging KPI for companies is KPI 5 regarding natural resource management. This is especially true for end value chain companies and financials because of their complex value chains and portfolios respectively. Nevertheless, with the finalization of the TNFD framework and the development of SBTN guidelines, companies now have a better structures and tools to assess risk and manage nature topics, such as water, biodiversity, and land.

For KPI 2, on strategy and targets, six out of the seven banks we engage with have already joined net zero initiatives, so we continue seeing improvement in their sector coverage. A year after the release of the SBTi Forest, Land and Agriculture (FLAG) guidance, 14 companies we engage with across soft commodity and end-value-chain sectors have started assessing how to adapt or renew their climate targets based on the new guidance, and our engagement dialogue will continue to monitor the progress. For KPI 3 on practical mitigation and forests, the commodity companies perform the strongest as they usually have stronger forestry management mechanisms in place. For KPI 4 focusing on physical risk, financiers have higher scores as most of them have analyzed physical risk exposure across sectors and locations and the potential financial impacts.

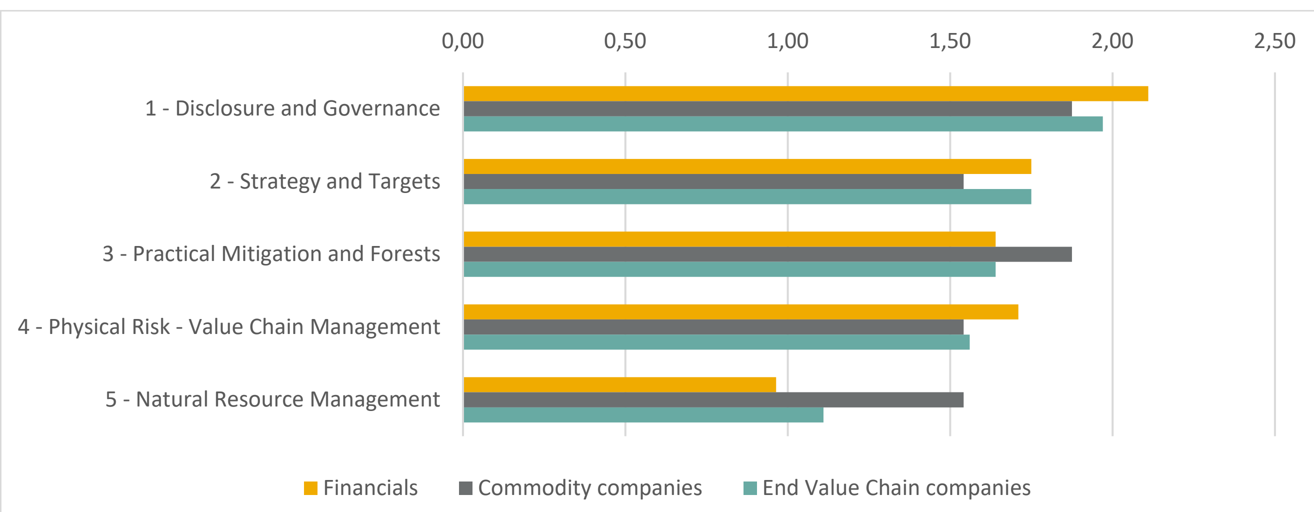


FIGURE 2 - AVERAGE SCORES PER SECTOR IN VALUE CHAIN

Case Study

The Agriculture Sector Roadmap to 1.5°C is a joint initiative launched at COP 27 in 2022 together with 14 of the world's largest agricultural trading and processing companies with three identified key pillars:

1. Sectoral and individual company action to reduce emissions from land use change.
2. Companies will play a key role in supporting the transition to forest positive land use management and commodity production.
3. Companies will strive to break down barriers and drive sector transformation through dialogue and collaboration with governments, other value chain actors and the finance sector.

After one year of the initiative, participant companies reported some progress during COP28. The roadmap has facilitated individual companies to set commitments, it has also accelerated collaborations across sectors, especially for pillars 2 and 3. Some common trends are also observed across different commodity sectors. For example, in the soy sector, the approach is centered on engaging with farmers and indirect suppliers to support them with advancing sustainable agriculture techniques and incentives to protect land and critical ecosystems. In the palm oil sector, the collaboration focuses on continually engaging suppliers, especially independent smallholders to ensure the inclusion and implementation of broader protection efforts. The cattle sector has also enhanced its supply chain monitoring mechanism intending to gain a better understanding beyond Amazon biome and direct suppliers.

Several companies we engage with also participate in the Agriculture Sector Roadmap to 1.5°C initiative. The example below highlights how the initiative adds value to companies' decarbonization strategies. This palm oil company had not been advancing in its climate roadmap and only committed to reporting the minimum based on the local jurisdiction's regulations throughout our engagement dialogue in the past years. However, thanks to the company's participation in the initiative, the company has become outspoken about its ongoing activities with smallholders to meet Roundtable on Sustainable Palm Oil (RSPO) certification and its preservation work in sensitive ecosystems. These activities will certainly support the company in finalizing its climate roadmap and set more tangible pathways to achieve decarbonization and forest preservation.

To tackle emissions from land use change, collaboration with peers to increase traceability and enhance supply chain management is key. The Agriculture Sector Roadmap to 1.5°C is a good example of bringing key industry players together to deal with mutual challenges and raise the bar on practices across each commodity sector for better land use management. Only by doing so can we ensure a more sustainable agriculture production system and ultimately limit the global warming to 1.5 °C.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG data, research, and ratings firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 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 information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider material sustainability factors in policies, practices, and capital projects. Morningstar Sustainalytics has analysts around the world with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.

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