

# Thematic Stewardship Programmes

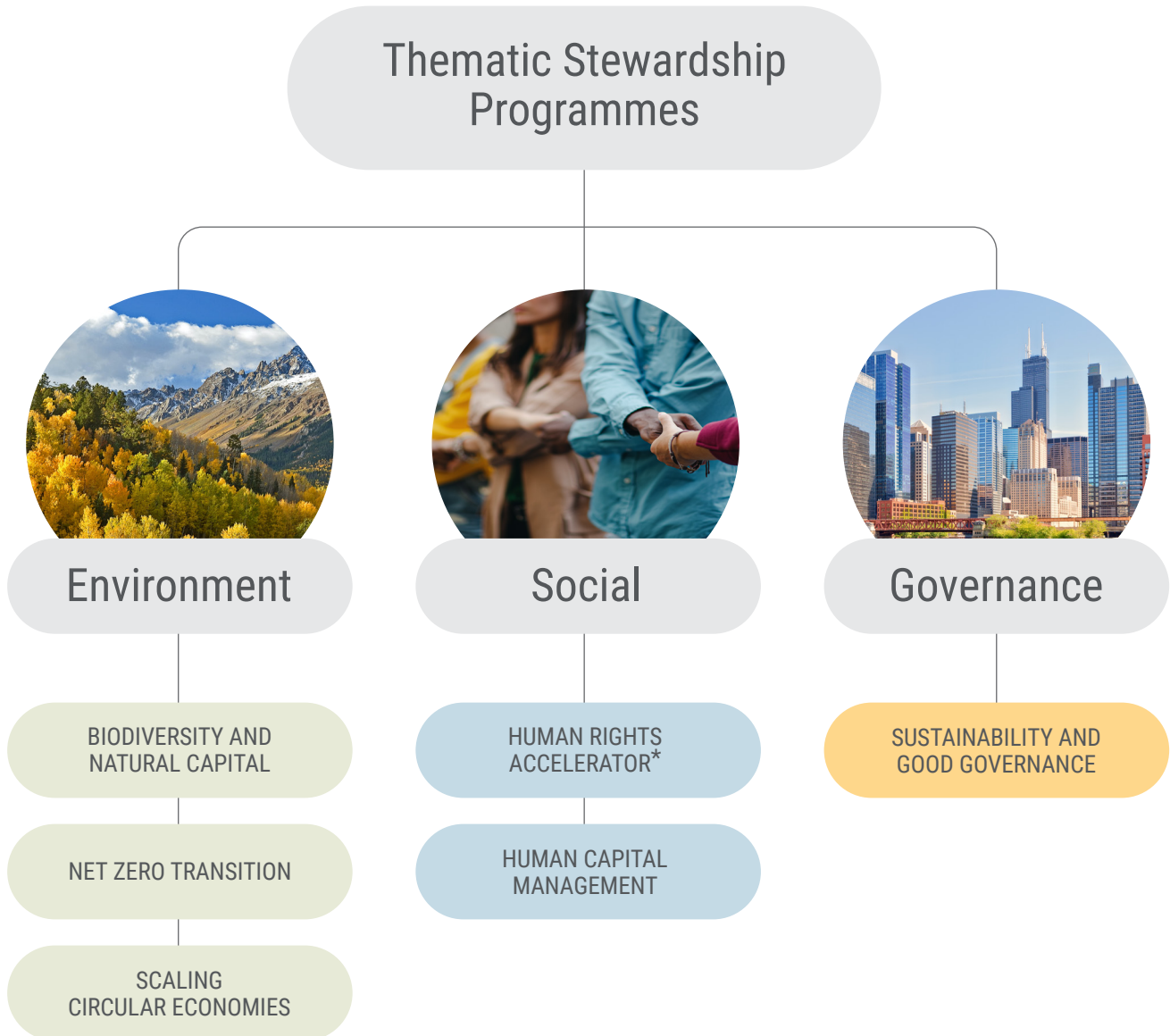
Morningstar Sustainalytics' Thematic Stewardship Programmes protect and promote long-term enterprise value by proactively engaging with companies up and down the value chain as well as industry stakeholders to mitigate systemic risks and maximize opportunities.

The programmes are built to conduct constructive and change-focused activities to address ESG themes material to investors, taking a systems approach that incorporates key actors across topics, and leverages internal teams and research.

**Sustainalytics' Stewardship Services is where ESG insights become action.** Our solutions include engagement and ESG voting recommendations, providing a framework, support and direction for investors to integrate ESG at every stage of the investment lifecycle. Constructive dialogue with an aligned voting approach are effective drivers to enact broad and meaningful change.

# Introducing Sustainalytics' Thematic Stewardship Programmes

Sustainalytics leads six Thematic Stewardship Programmes across the environmental, social, and governance context



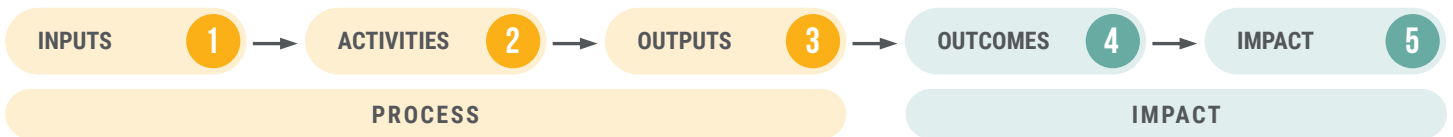
\*Morningstar Sustainalytics' Human Rights Accelerator thematic engagement will serve as the Human Rights offering through its completion in H1 2025.

# Our Thematic Stewardship Approach

## Programme Measurement and Management

### Theory of Change

Theory of Change is a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. Employing a theory of change provides Sustainability with a process-related blueprint for evaluation with measurable indicators of success identified in alignment with accepted best practice.



### Outcome Assessment

The Outcome Assessment provides a structured approach to measuring engagement progress. It consists of five best practices integral to ensuring a company is addressing an issue. The five addressed areas in the Outcome Assessment are: Governance, Risk and Impact Assessment, Strategy and Integration, Targets and Results, and Transparency and Accountability. Engagements' Progress Pathways assess the degree to which an issuer is responsive and active over the course of an engagement dialogue. Progress is assessed on a five-point scale from none to excellent, and qualitatively assessed by dedicated engagement managers according to a defined criteria.

#### Governance

**Best practice definition:** The board oversees the company's management of nature-related risks and opportunities. Performance is reviewed annually, and the board ensures sufficient expertise and resources are allocated to the issue. There are clear reporting lines from operations to the board level, and the remuneration of senior executives is linked to performance on relevant targets.

The company has not made significant progress towards the outcome.
The company has recognized biodiversity and natural capital as material risks and/or opportunities for its business.
The board or subcommittees oversee the company's strategy and progress towards relevant targets.
The board or subcommittees has relevant expertise to address nature-related risks and opportunities.
The remuneration of senior executives is linked to progress towards relevant targets.
The company has met expectations on the outcome.

#### Targets and Results

**Best practice definition:** The company has developed relevant performance targets and metrics for its material nature-related impacts, risk and opportunities while demonstrating positive progress towards these. Targets must be Specific, Measurable, Achievable, Relevant and Time-bound (SMART) and, when possible, follow recognized methodologies such as those developed by the Science-Based Targets Network (SBTN).

The company has not made significant progress towards the outcome.
The company has set basic targets associated with some material impacts, risks and/or opportunities.
The company has set targets for its most material impacts, risks and/or opportunities, but the targets are misaligned with global conventions.
The company has set targets for its material impacts, risks and opportunities that are aligned with global conventions.
The company shows an overall indication of positive progress towards targets.
The company has met expectations on the outcome.

## Milestones

Milestones track the big picture of whether an engagement is moving toward a resolved status in five steps, where complete implementation of all aspects of the strategy marks the resolution of any engagement dialogue.

### Milestone Framework Structure

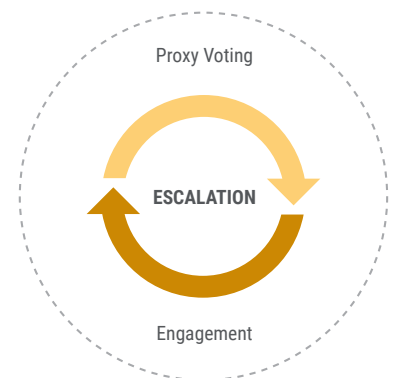


## Toolbox

Sustainalytics’ Thematic Stewardship Programmes engage in constructive dialogue with issuers to listen and gain an understanding of the company’s approach, forming relationships and building trust. Our toolbox approach is constantly innovating and includes many activities, such as conference calls, field trips, multistakeholder roundtables, and participatory webinars to influence change. This leads to effectively communicating investors’ perspectives and supporting efforts advocating sustainable transformations of companies through fact-finding questions, encouraging best practices, providing suggested actions and opportunities for positive impact.

## Escalation

Constructive dialogue is our first and always preferred engagement tool. Still, if an issuer is unresponsive to dialogue outreach or is not making significant progress, the Sustainalytics team can escalate the engagement. This approach aims to mount investor concerns via a series of steps to encourage an open and transparent exchange. Persistent unwillingness to engage will result in an engagement status update in the company profile to inform investors of this stalled engagement.



## Client Consultation and Participation

A client-consultation and feedback process takes place annually. This assesses the need for updates including adjustments to progress pathways, companies, or topics. Inputs include analyses of the market, investor feedback, and internal stakeholder input. Any changes to the programmes will then be communicated in the programme outlook included in the annual report distributed in the first quarter of each year.

The additionality that our engagement conversations can create is directly enhanced by the level of investor participation on the calls. Our engagements are intended to create change beyond what would already happen with existing company-level planning. Investor participation is crucial to push the targeted outcomes of the engagement forward. Investors are welcome to join engagement calls held with willing companies, participate in roundtables, and sign on to investor letters organized to support the engagements.

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## Reporting

Quarterly and annual reports are provided for each programme, and ongoing data is integrated into data deliverables and Sustainalytics' proprietary web-based platform, Global Access.

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## Use Cases

### ACTIVE OWNERSHIP

Direct engagement on material ESG risks and opportunities. Suppress any perception of greenwashing with demonstrated ESG stewardship activities and outcomes.

### COMPLIANCE

Fulfill stewardship commitments or external mandates and regulations.

### IMPACT

Create impact and assess comparable information provided on company developments and engagement outcomes over a wide time horizon.

### STAKEHOLDER RELATIONS AND REPORTING

Demonstrative insights and material for investors' stakeholder communications.

### PORTFOLIO MANAGEMENT

Leverage engagements to assess company readiness and make corresponding investment decisions to maximize long-term value creation.

# Related Research and Solutions

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## Sustainalytics Stewardship Services

Morningstar Sustainalytics stewardship services are holistically designed to protect and promote long-term value creation, enhance ESG performance, comply with regulations and key initiatives, mitigate greenwashing, influence change and stay ahead of the curve by addressing the risks and opportunities of today and tomorrow.

### Global Standards Engagement

Remediate and mitigate violations of international norms and standards.

- Manage corporate reputational risks and demonstrate investor action.
- Overlay to **Global Standards Screening** research.

### Material Risk Engagement

Protect and promote long-term value.

- Proactively engage with high and severe-risk companies to mitigate material ESG risk.
- Overlay to **ESG Risk Ratings** research.

### ESG Voting Overlay

Sustainability and ESG lens to complement traditional voting policies.

- Align research, engagement and voting.

### Engagement 360

Holistic approach to address compliance, risk and impact.

- Maximum coverage and transparency.

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Related Solutions:

## Impact Solutions

Morningstar Sustainalytics' impact solutions provide signals to consistently assess the environmental and social impact of investee companies for both positive contributions and negative detractions based on an impact framework developed by Sustainalytics and aligned to generally accepted approaches including the UN Sustainable Development Goals. Sustainalytics' suite of impact solutions informs and influences all Thematic Stewardship Programmes. The long-term ambition is to have a feedback loop whereby datapoints within the impact solutions are traced through Thematic Programmes.

## Climate Solutions

Morningstar Sustainalytics' Climate Solutions suite of products empower investors to identify, assess and manage climate-related investment risks and opportunities. Its Low Carbon Transition Rating provides a forward-looking assessment of a company's current alignment to a net zero pathway. The Low Carbon Transition Rating informs and supports Sustainalytics' Net Zero Transition Programme company selection, company-level engagement strategy and tracking progress leveraging select indicators included in the Low Carbon Transition Rating.

## 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](http://www.sustainalytics.com).



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