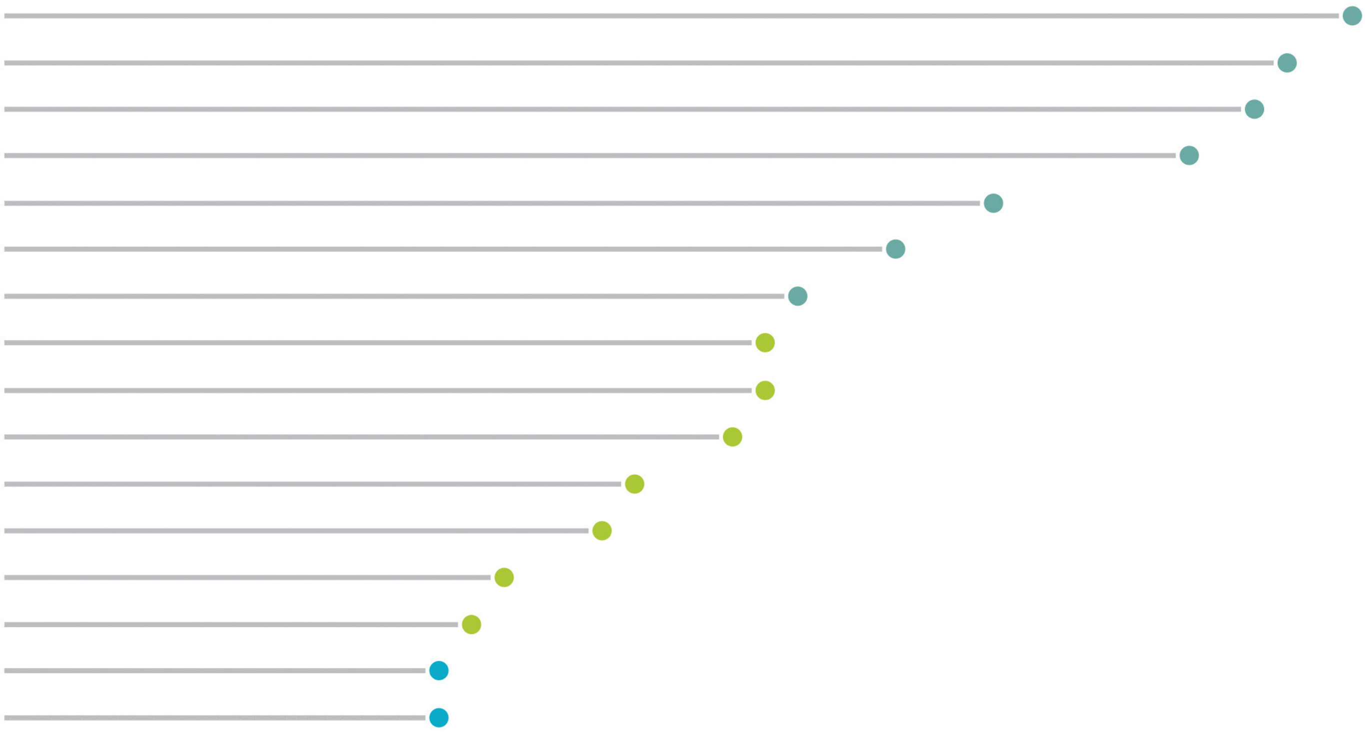
Global Standards Engagement
2023 Annual Report



Global Standards Engagement supports the management of reputational and regulatory risks by engaging with companies where incidents severely and systematically violate international standards to remediate the issue at hand and mitigate recurrence.

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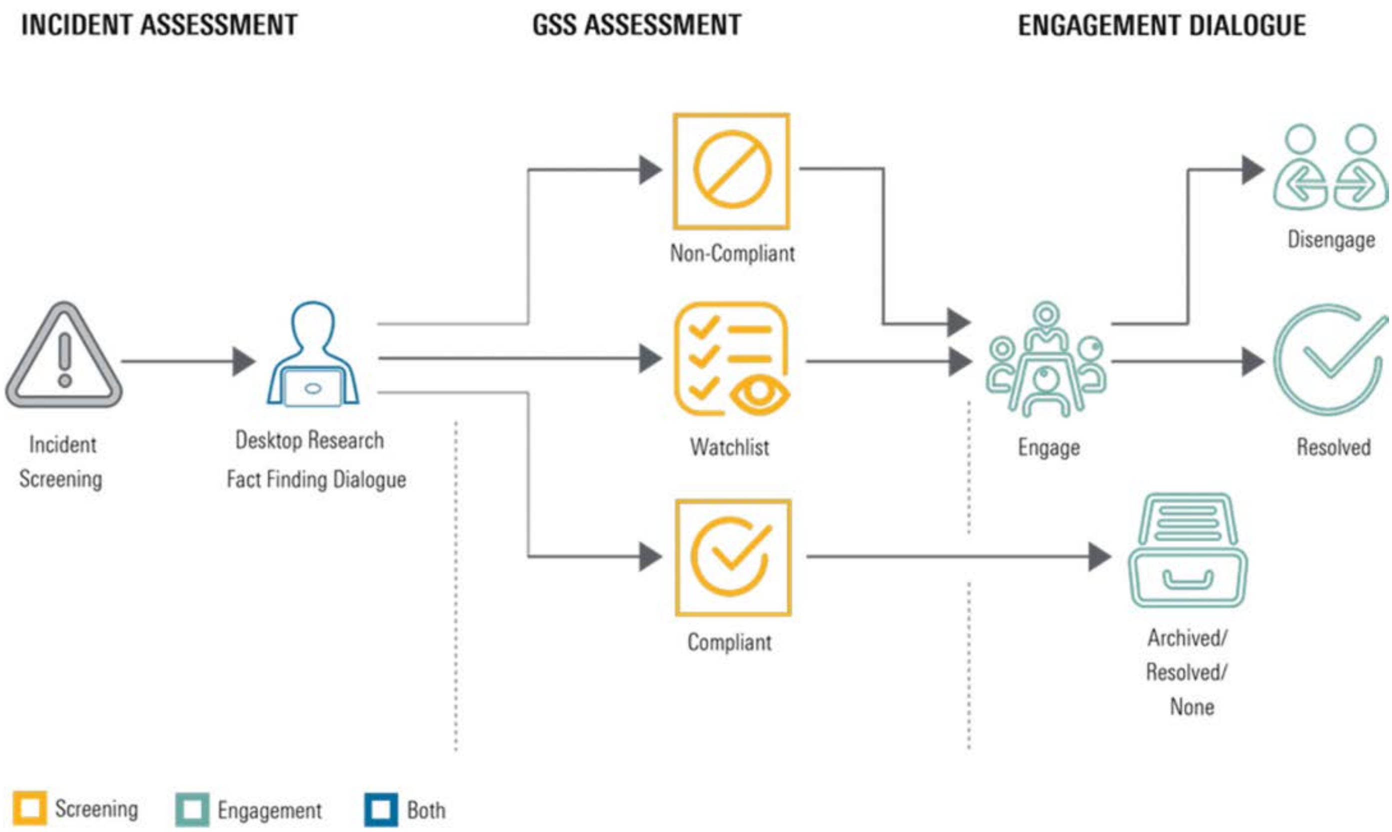
This report summarizes the shareholder engagement activities that Morningstar Sustainalytics performed on behalf of Union Bancaire Privée, UBP SA, during 2023. Use of and access to this information is limited to clients of Morningstar Sustainalytics and is subject to Morningstar Sustainalytics' legal terms and conditions.

Engagement Approach

Global Standards Engagement is an incident-driven engagement with focusing on companies that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals.

The engagement is based on a thorough and continuous assessment of the incident as well as the company's role in mitigating the related repercussions and recurrence.

The aim of Global Standards 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, in order to ensure that it has proper policies and programmes are in place to avoid future reoccurrences and improve its ESG disclosure. The Global Standards Engagement is based on our Global Standards Screening analysis of more than 25,000 companies. The engagement scope is global and spread across all sectors. Company size ranges from small to large cap.



Executive Summary

Paulina Segreto
Director and Product Manager
Global Standards Engagement

We are delighted to share Morningstar Sustainalytics' new 2023 annual report for Global Standards Engagement.

In a new format, this report provides an overview of statistics for engagement activities between January – December 2023 and presents several emerging ESG topics that we have identified in 2023 and expect to remain in focus in 2024.

Key Highlights from 2023

During 2023, our team worked on 171 engagements and closed the year with 142. 15 engagements were opened during the year and 9 were successfully resolved. More than 2,430 emails and phone calls have been exchanged, and 183 meetings have been conducted.

Besides resolved engagements, we achieved 57 milestones. In collaboration with the ESG Voting Policy Overlay team, we leveraged voting recommendations to escalate 8 engagements in an effort to move the dialogue and case toward resolution. For 9 engagements, we prepared and sent collaborative investor letters. We assigned 'Disengage' status to 5 of our engagements due to a lack of progress and response over a two-year period.

Apart from our regular dialogue and conference calls with the companies, we also organized special events for clients to participate in that offered deep dives into content, in the form of webinars and in-person meetings. In March, we organized a webinar with Vale attended by 21 investor clients and in the late fall, an online roundtable 'Culture in Mining: Why it's Important'. We also participated in panel discussions organized by institutional investors on the topic of the role of engagement in promoting human rights within investment practices and participated in the OECD Global Anti-Corruption & Integrity Forum in Paris. Learn more about our engagement activities in the 'Engagement Events' section of this report.

In addition, the Global Standards Engagement team participated in a number of ESG initiatives and consultations, including guidance for corporate culture reporting in response to a UK Financial Conduct Authority request and input on the EU Taxonomy for technical screening criteria, just to name two. One team member was appointed as a member of the Global Reporting Initiative (GRI) Banking Technical Committee in mid-2023 and is responsible for making recommendations to the GRI on how to enhance its guidance and standards for global banking.

Global Standards Engagement Focus and Addressing Recent Challenges

Concerns are mounting that the tipping points for climate change and biodiversity will soon be reached unless meaningful action is taken. Alongside this there are corresponding concerns that human rights gains are being reversed. Impacts to society from a rapidly changing climate and from compromised ecosystems will bring greater risks to protecting human rights. These key ESG issues present a concern to investors, regulators, civil society and businesses alike who seek to bring attention, clarity and focus to the measures necessary to mitigate the risk and reverse negative impacts.

In June 2023, we took into account the updated OECD Guidelines for Multinational Enterprises which 'reflects a decade of experience since their last review in 2011 and responds to urgent social, environmental, and technological priorities facing societies and businesses.[1] The update provides re-energized recommendations across key areas of climate change, biodiversity, technology, business integrity and supply chain due diligence, as well as updated implementation procedures for the National Contact Points for Responsible Business Conduct.

In tandem with upcoming European legislation, due diligence plays a big part in the revised Guidelines. Companies are required to assess risk and prevent harm to human rights, the climate and the environment in their global value chains. They should carry out risk-based due diligence to assess and address adverse environmental impacts and risk-based due diligence in relation to a company's products or services. This will have a material impact on understanding and responding to risks, improving the scope and content of our engagements.

The future changes in business operations and employer needs, including those responding to societal, environmental technological changes, as well as risks and opportunities linked to automation, digitalization, or just transition have also been added to the updated guide. These subjects are captured in some of our engagements and will become potentially new areas of focus for us as explored in more detail in the thought leadership pieces.

Looking Ahead

In 2024, our engagement activities will remain high. As some of our engagements are at advanced stages (Milestones 4 and 5), we expect to resolve several of them in the first half of 2024. As we are reviewing the updated OECD Guidelines, we will explore ways to strengthen our engagement efforts on issues linked to lobbying and climate.

We recognize the importance of bringing companies and institutional investors together to discuss emerging risks and share good practices within and across industries. We leverage the high client interest in our webinars and roundtables to engage with companies and will continue to invite our clients to join these events in 2024.

As always, clients are welcome and encouraged to participate in Morningstar Sustainalytics' engagement activities. You can follow our scheduled meetings in the calendar found on Global Access or via the Weekly Engagement Brief. For general questions or feedback regarding Global Standards Engagement, please email your client team or engagement.support@sustainalytics.com.

Engagement Overview

25

Engagements December 31, 2023

3

New engagements

30

Engagements throughout 2023

4

Engagements successfully resolved

0

Low performance engagements moved to 'Disengage'

United States and Canada Region with the largest number of engagements

Banks, Pharmaceuticals and Software & Services industries with most engagements

67% of engagements are related to 'S' within the Environmental, Social and Governance topics

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.

27 Engagements as of January 01, 2023

3 New Engagements

4 Resolved Engagements

1 Archived Engagements

0 Disengaged Engagements

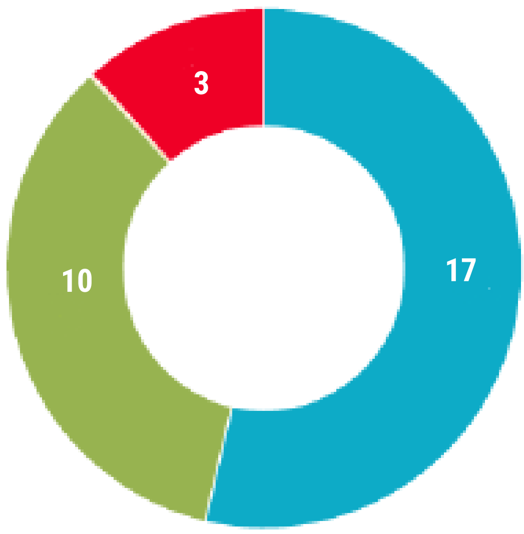
25 Engagements as of December 31, 2023

In total, 30 engagements during Year 2023

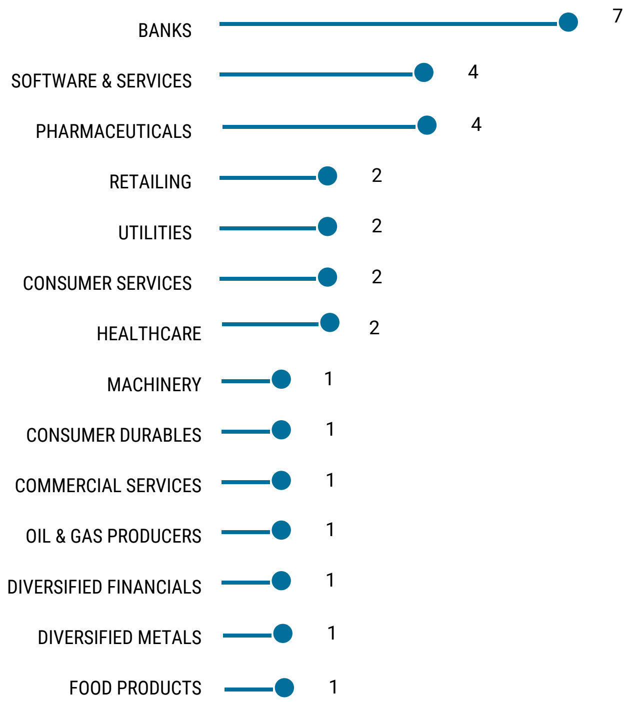
**Please note that one Engagement changed status to Associated following corporate action*

Engagements by Norm

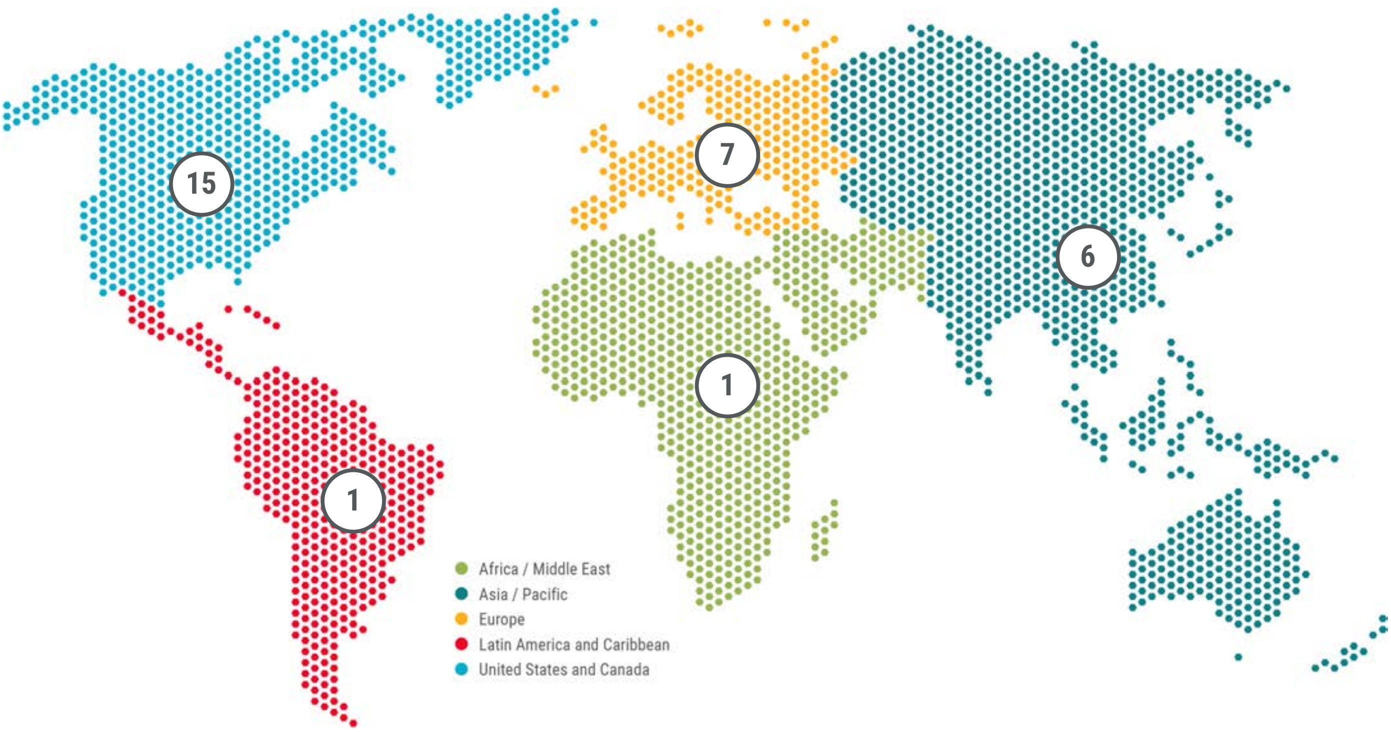
- Human Rights
- Business Ethics
- Labour Rights



Industry Distribution



Engagements by Headquarter Location



E, S and G Overview

E, S and G Overview

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

Engagement Topics

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

ENGAGEMENT TOPICS	ENGAGEMENTS
Business Ethics, Bribery and Corruption	12
Human Rights	8
Labour Rights	6
Product Quality and Safety	6
Data Privacy and Security	4
Accounting and Taxation	3
Community Relations	2
Marketing Practices	2
Natural Resource Use	1
Occupational Health and Safety	1
Weapons	1
ESG Governance	1
Disclosure	1

Sustainable Development Goals – Mapping Engagements

All engagements 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 engagements.

1 No Poverty	0%	10 Reduced Inequality	0%
2 Zero Hunger	0%	11 Sustainable Cities and Communities	7%
3 Good Health and Well-Being	17%	12 Responsible Consumption and Production	17%
4 Quality Education	0%	13 Climate Action	3%
5 Gender Equality	0%	14 Life Below Water	0%
6 Clean Water and Sanitation	0%	15 Life on Land	0%
7 Affordable and Clean Energy	0%	16 Peace and Justice, Strong Institutions	57%
8 Decent Work and Economic Growth	17%	17 Partnerships to Achieve the Goal	0%
9 Industry, Innovation and Infrastructure	3%		

Engagement Activities and Results

34
Meetings, including 1 in-person meeting

479
Emails and phone calls exchanged

4
Engagements resolved

50%
Engagements with standard progress

13
Milestones achieved

37%
Engagements with good or excellent response

4%
of engagements with performance assessed as low

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:

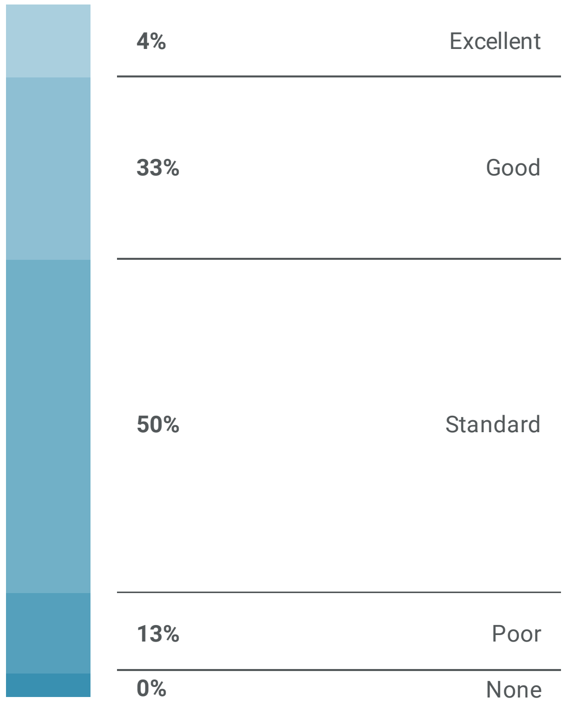
Excellent The company has adopted a proactive approach and addressed the issues related to the change objective.

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

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

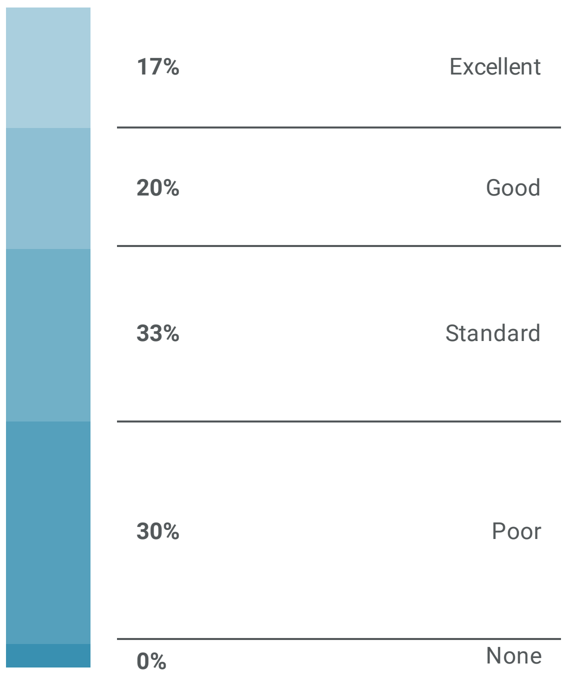
Excellent The company is proactive in communicating around the issues related to the change objective.

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.

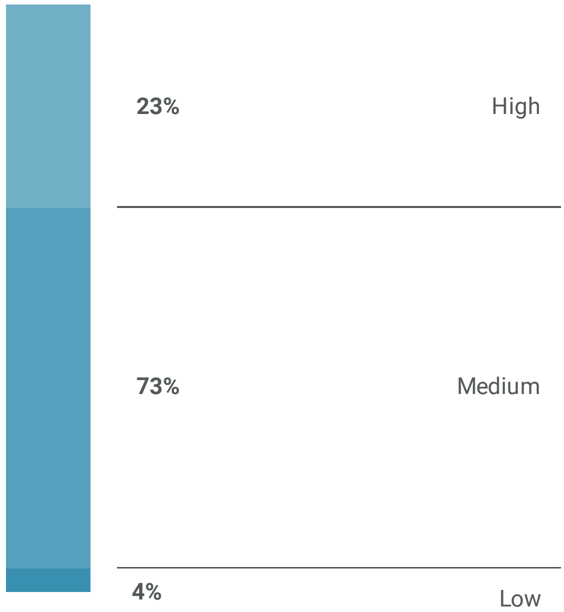
None The company has not responded to the inquiries.



Engagement Performance

The indicator describes the combined company progress and response Performance.

High	Good or excellent Response in combination with good or excellent Progress.
Medium	Standard level of Response and Progress.
Poor	Poor or no Response in combination with poor or no Progress.



Engagement Milestones

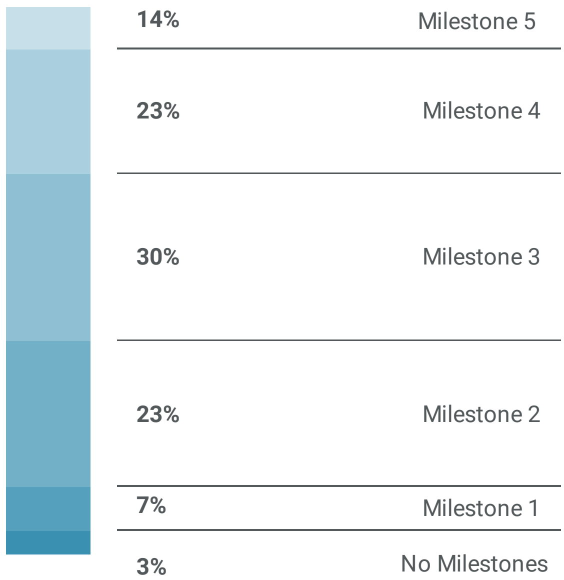
Milestones are our five-stage tracking of progress in achieving the engagement objective.

13
milestones achieved
year 2023

Milestone Framework Structure

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	ESG risk management and strategy established.
Milestone 1	Acknowledge of issue(s) and commitment to mitigation.

Engagements by Highest Milestone Achieved



Quarterly Overview of Engagement Activities and Results

	Q1	Q2	Q3	Q4	FULL YEAR
Emails/Phone Calls Exchanged	123	150	125	81	479
Meetings Conducted	4	11	9	10	34
Milestones Achieved	2	2	4	5	13
Engagements Resolved	0	0	1	3	4

Engagements Resolved

COMPANY	COUNTRY	INDUSTRY	ISSUE	QUARTER
Barclays PLC	United Kingdom	Banks	Business Ethics	Q4
BRF SA	Brazil	Food Products	Consumer Interests - Human Rights	Q4
Rio Tinto Ltd.	Australia	Diversified Metals	Community Relations - Indigenous Peoples	Q4
Johnson & Johnson	United States	Pharmaceuticals	Quality and Safety - Human Rights	Q3

Resolved - Barclays PLC

Engagement Since: May 30, 2019

INDUSTRY:
Banks

BASE LOCATION:
United Kingdom

ISSUE:
Business Ethics
Over the last few years, Barclays PLC was implicated in significant allegations of business ethics - related misconduct.

CHANGE OBJECTIVE
Barclays PLC should ensure on-going implementation of whistle-blower policies as mandated by regulators, as well as relevant international organizations and global banking industry best-practices. The company should also implement best practices regarding whistle-blower protections and procedures.

Engagement Outcomes

- The company retained an outside third-party to conduct a full review of its whistleblower policies, programmes, processes and controls.
- Afterward, it implemented strong whistleblower policies, independent grievance mechanisms, and good reporting on grievance mechanism statistics.
- The company significantly strengthened corporate governance of whistleblowing matters.
- It has taken various steps to reinforce a corporate culture that prioritizes ethical conduct and a compliance culture.

Conclusion: Since Barclays has implemented comprehensive measures to ensure that whistleblower treatment is appropriate, and no recent whistleblower incidents have occurred, Morningstar Sustainalytics decided to resolve the case.

Resolved - BRF S.A.

Engagement Since: May 30, 2019

INDUSTRY:
Food Products

BASE LOCATION:
Brazil

ISSUE:
Consumer Interests - Human Rights

Since 2017, BRF S.A. has faced allegations of distributing contaminated meat products and bribing health inspectors to conceal the wrongdoing.

CHANGE OBJECTIVE

BRF S.A. should ensure that the failure to meet food safety standards due to a bribery scheme has been investigated thoroughly and that its food quality and safety policies and management systems are properly implemented, monitored and reported.

Engagement Outcomes

- The company has improved its food safety and product quality performance.
- It has updated relevant policies and food safety and quality remain material topics in its sustainability strategy.
- Food safety and quality issues are supported by an executive committee and incentivized with targets for senior management.

Conclusion: Due to comprehensive measures taken by the company to address the food safety and product quality issues, Morningstar Sustainalytics decided to resolve the case.

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 - Rio Tinto Ltd.

Engagement Since: November 27, 2020

INDUSTRY:
Diversified Metals

BASE LOCATION:
Australia

ISSUE:
Community Relations - Indigenous Peoples

In 2020, Rio Tinto Ltd. was involved in destroying an Aboriginal heritage site of high archaeological and cultural value in Australia. The company was also involved in other community relations controversies in several countries.

CHANGE OBJECTIVE

Rio Tinto Ltd. should agree on a compensation package with the Puutu Kunti Kurrama and Pinikura (PKKP), the Traditional Owners of the destroyed rock-shelters. The company should ensure that it rebuilds community relations with the PKKP. It should also ensure that its community relations teams are fully integrated into its operations.

Engagement Outcomes

- Rio Tinto Ltd. has agreed on a compensation package with the PKKP, the Traditional Owners of the lands on which the company operates and completed the physical rehabilitation of the destroyed rock shelters.
- It established suitable community relations mechanisms across all its operations and to maintain the relationship on which the consent is based.
- The company's heritage and community relations teams have become fully integrated into its operations to ensure integrated decision-making process.

Conclusion: Since the company repaired the damage, re-established free, prior and informed consent with the local Aboriginal people as well as included heritage in its risk management systems and mine production decision-making, Morningstar Sustainalytics decided to resolve the case.

Low Performance Engagements

The following is a list of low performance engage companies which have Poor or No Response in combination with Poor or No **Progress.**

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 investor letters or letter 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.

Next to each low performance case, you can also find a **Low Performance Time Tracker** which illustrates the time elapsed.

COMPANY	COUNTRY	ISSUE	PROGRESS	RESPONSE	PERFORMANCE TIME TRACKER One piece equals three months.
McDonald's Corp.	United States	Labour Rights	Poor	Poor	18-21

Engagement Status Updates

The following is an overview of all engagement status updates from January 1 to December 31, 2023

New Engage

COMPANY	COUNTRY	ISSUE	RELATED COMPANY	QUARTER
TotalEnergies SE	France	Controversial Project(s) - Human Rights and Environmental Impacts	None	Q4
UBS Group AG	Switzerland	Business Ethics	Credit Suisse Group AG	Q3
Cencora, Inc.	United States	Consumer Interests - Human Rights	None	Q1

New Archived

COMPANY	COUNTRY	ISSUE	PREVIOUS ENGAGEMENT STATUS	RELATED COMPANY	QUARTER
Motorola Solutions, Inc.	United States	Society - Human Rights	Disengage	None	Q1

New Engagements - Details

TOTALENERGIES SE

Norm Area:
Human Rights

Incident Location:
Tanzania

Issue:
Controversial Project(s) - Human Rights and Environmental Impacts

Incident Summary:
TotalEnergies SE (Total) is the major shareholder in two oil and gas projects in East Africa that have been the subject of controversy over social and environmental concerns. Total's Tilenga and East African Crude Oil Pipeline (EACOP) projects are both part of Uganda's Lake Albert Development Project, which aims to develop the oil and gas resources of the Lake Albert area. The Tilenga project involves drilling 419 wells in Uganda, some of which are located in a national park, while the EACOP project will transport crude oil across Tanzania to the Indian Ocean through the world's longest heated pipeline. The projects have faced significant opposition from activist groups, which claim that Total's land acquisition programmes will displace local communities and affect their livelihoods and have raised concerns about human rights violations and fair compensation. In July 2023, Human Rights Watch (HRW), an international NGO, published a report stating that the projects have caused the loss of land and livelihoods for local communities. The report is based on over 90 interviews conducted by HRW in early 2023, including with 75 displaced families in five of the affected districts of Uganda. The controversy over the projects led to a landmark lawsuit filed by six NGOs against Total in 2019 in Paris, based on France's duty of vigilance law, which requires companies to prevent serious violations of human rights, health, safety, and the environment in their foreign operations. Several governments, international organizations and banks have expressed concerns about Total's involvement in the EACOP project, and some banks have withdrawn their funding primarily due to climate concerns. Total has maintained that it is taking necessary mitigation measures and compensating eligible local communities. The company began commercial drilling of Tilenga in July 2023 and plans to start production in 2025.

Change Objective:
The company should conduct human rights due diligence and engage with stakeholders constructively to eliminate or mitigate land and livelihood loss, provide remedy where required, and to ensure that the project has social license. The company should conduct environmental and social impact assessments across the development route, acting on all recommendations and to international best practice.

UBS GROUP AG

Norm Area:
Business Ethics

Incident Location:
Switzerland

Issue:
Business Ethics

Incident Summary:
Credit Suisse Group (CS), which was acquired by UBS Group in June 2023, has been accused of involvement in multiple business ethics-related controversies over the past decade. Since the bank pleaded guilty in a tax evasion case in 2014 and paid USD 2.8 bn to several US regulators, it has remained under regulatory scrutiny for market manipulation, money laundering, bribery, insufficient due diligence and fraud. In September 2018, the Swiss Financial Market Supervisory Authority (FINMA) identified deficiencies in CS's anti-money laundering process and appointed an independent third party to monitor the implementation of new measures aimed at strengthening its compliance process. In December 2020, the US Federal Reserve ordered CS to improve its anti-money laundering policies and to create a plan to improve its monitoring of improper activities. In addition, CS employees were involved in a USD 2 bn debt scandal in Mozambique. US prosecutors stated that, between 2013 and 2016, Mozambican state-owned companies borrowed more than USD 2 bn through loans guaranteed by the government and arranged by CS and two other banks. Three now-former CS employees have pleaded guilty to receiving bribes to arrange loans and laundering money from illegal activities. In October 2021, CS was fined USD 475 mn by US and UK regulators for deceiving investors. The bank further agreed to forgive USD 200 mn of Mozambique's outstanding debt. Separately, in March 2021, CS came under scrutiny for its business relationship with corporate clients, Greensill Capital and Archegos Capital, both of which collapsed. There are ongoing investigations into the bank's relationship with the firms. In June 2022, CS was fined USD 22 mn for having lax controls that allowed a drug ring to launder money through the bank. Furthermore, in October 2022, CS agreed to pay USD 234 mn to settle a French criminal probe into allegations that the bank helped clients hide undeclared funds between 2005 and 2012.

Change Objective:
UBS should implement a robust risk management system, have accountable risk governance, drive improvements in risk culture and have a strong compliance function company-wide, including across its subsidiaries. UBS should also establish a robust AML programme.

CENCORA, INC.

Norm Area:
Human Rights

Incident Location:
United States

Issue:
Consumer Interests - Human Rights

Incident Summary:
Cencora, previously AmerisourceBergen, one of the largest distributors of pharmaceuticals in the US, has faced allegations that it contributed to widespread opioid addiction in the US by failing to report on suspicious opioid orders (e.g. unusual in size, frequency or pattern, or raising other concerns, such as the legitimacy of a customer's business practices). In December 2022, the US Department of Justice (DOJ) filed a civil complaint alleging that Cencora and two of its subsidiaries, AmerisourceBergen Drug Corp. (ABDC) and Integrated Commercialization Solutions (ICS), have violated the US Controlled Substances Act from 2014 through the present by failing to report "at least hundreds of thousands" of suspicious orders of controlled substances, including opioids, to the US Drug Enforcement Administration (DEA). The DOJ cited examples of five pharmacies for which the three companies were reportedly aware of significant "red flags", indicating a diversion of prescription drugs to illicit markets. According to the DOJ, the companies continued to distribute drugs to those pharmacies for years and reported few suspicious orders to the DEA. The complaint also alleges that Cencora relied on "deeply inadequate", both in design and implementation, internal systems to identify suspicious orders. According to the DOJ, its complaint is separate from the USD 6.4 billion settlement agreement reached by Cencora with US states and territories in February 2022 to resolve over 3,300 lawsuits. The lawsuits alleged that the company failed to report suspiciously high orders of opioids. Cencora states in its Q1 2023 quarterly report that as of 31 December 2022, the settlement (which became effective in April 2022) included 48 of 49 eligible states and all five eligible US territories. Also, it covers 99% of the population in the eligible political subdivisions (municipalities and counties) within the states and territories that settled. Alabama is not part of the global settlement.

Change Objective:
Cencora should ensure that there are robust governance, compliance, and risk management systems in place. These should address marketing practices, the disclosure of risks from its products, and ethical business practices such as, demonstrated enhancements to anti-diversion systems, and compliance with regulatory requirements.

Engagement Statuses

Engage This status flags incidents by Global Standards Screening (companies assed as Watchlist or Non-Compliant), such as companies with systematic incidents or an isolated incident that has severe consequences in relation to the environment or society, where we set objectives and dialogue with the companies to remediate the issue and mitigate re-occurence.

Resolved This status flags engagements which are concluded and the company has achieved the engagement objective.

Disengage This status flags a company where engagement is not considered viable. This status can be a result of low performance, financial distress, company purpose/industy and/or company ownership.

Low Performance: Companies showing poor or no progress and/or poor or no response from the company within a period of two years after the start of the engagement;

Business Model: Companies whose business models rely on activities where engagement would likely be not fruitful (such as involvement in controversial weapons or State-Owned Enterprises complicit in human rights abuses);

Financial Distress: Companies classified as non-engageable due to no or limited publicly traded securities or under significant distress.

Associated This status flags when the company or engagement is related to another, where engagement will take place with the parent company and/or the company involved in the incident.

Archived This status flags engagements which are concluded but the chnage objective has not been achieved. This often results from a lack of sufficient progress, in combination with either the absence of new incidents or a lack of resouces confirming ongoing company involvement in the controversies.

Operating in Conflict Settings: Should Companies Responsibly Exit or Remain?

Joe Attwood
Associate Director
Stewardship

In August 2023, the United Nations Office for the High Commissioner on Human Rights (UNOHCR) published a guidance note discussing issues businesses should consider when proposing to remain in or exit from challenging country contexts (this being defined as a country in conflict or one where the regulatory system is such that human rights abuses are more likely to be at risk of occurring). Similarly in June the OECD published updated guidance[2] with specific reference to responsible engagement and disengagement relating to companies operating in conflict settings. With the conflict in Europe as well as in the Middle East, there is a heightened focus on the activities of businesses and whether they are knowingly or not contributing to human rights violations. The content of the guidance note was discussed at one of the sessions at the Forum for Business and Human Rights earlier this year with some interesting perspectives from two of the speakers, perspectives that largely align with our own as we progress with engagements in this area.

In effect to responsibly remain or to exit, exiting being either to remove operations from a country or to break with a business relationship, a company must understand whether by doing so it is causing or contributing to human rights violations. To achieve this with the clarity as required in the UN Guiding Principles, it needs to be operating a human rights due diligence. If the due diligence identifies impacts, then the company should take actions to prevent and to give remedy to those who have suffered. For challenging contexts this due diligence should be enhanced with the provision of conflict sensitivity assessments to provide input that informs of the dynamics that have created or are contributing to the conflict, providing increased contextual assessments to better inform decisions. This is to prevent accidental harm being caused by, for example, providing resource to armed militia through the provision of security arrangements or through the payment of royalties to regimes accused of human rights violations.

Discussions within the Forum for Business and Human Rights recommended that any business planning to do business in a challenging environment should plan its exit strategy alongside its entry strategy. This makes good sense. An exit strategy would be a living document, informed like any credible risk register with new information as it becomes relevant, as the context changes. Ideally it would incorporate the views of stakeholders including workers both within the business and within the supply chain to ensure that potential negative impacts and risks can be identified and responded to. If assets are to remain an exit strategy would identify who to transfer these to, favouring those organizations who can exhibit responsible behaviours. Selling to the highest bidder runs counter to the expectations of responsibility as rights are often overlooked as profits are maximized.

For investors, a similar level of oversight should be applied to assess and avoid the potential negative impacts of disinvestment. Effective stewardship that includes disinvestment as the final option is likely to be more effective than simply walking away. This becomes especially relevant where the business has chosen to remain and the investment is essential to keep it viable, therefore providing employment and security. Responsible remaining demands high levels of transparency from businesses to ensure that stakeholders remain credibly informed of how the business is responding to the challenges and ensuring that it is not complicit in human rights violations. The UN Guiding Principles make it clear that without this transparency and where complicity is suspected the business must take the consequences.

Within our engagements we are seeing business activities across the spectrum of expectations for responsible practice. POSCO, a South Korean conglomerate, has operations in Myanmar and has decided to 'responsibly remain', citing that the welfare of their staff, and their continued employment, is one of their priorities. Constructive and meaningful engagement with the company has focused on the delivery of human rights due diligence, the first for the company. The learning from this activity is significant to the company, not only allowing ensuring it can deliver on its commitments but that it also recognizes the need for increased resourcing, both internally and using consultants to deliver an effective response.

Again, this reflects comments made at the Forum that observations of company readiness and capacity to be able to respond to a worsening operating environment are generally low. Awareness of what actually is an enhanced human rights due diligence, from our own experience, is also very low. However, the desire to 'do the right thing' is notable, and whilst some companies are less proactive than others, they are all reassuringly listening and responding to the call for greater awareness and responsibility, whether they are exiting or remaining.

AI is Changing the World of Work: What Does This Mean for Workers Rights?

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Manager
Stewardship

The hype surrounding Artificial Intelligence (AI) has reached its zenith in recent years, accompanied by a heightened awareness of its potential impact on humanity. While much of the discourse has focused on the risks AI poses to all human beings, particularly in relation to product risks, this article seeks to explore a relatively less-discussed aspect: the influence of AI on the workforce.

To delve into the question of AI impact on workers, we need to examine what AI is and understand how it will change the world of work. The general consensus is that AI is a technology that utilizes machine-based systems to perform tasks that the human mind can, in principle, accomplish. Technology, including AI, is not an isolated entity. The success of any technology relies on sufficient knowledge of the tech and an understanding of the social, political and economic operational environment.

AI comes in various forms based on capabilities and functionalities. One type that has recently gained much attention in the media is generative AI. Generative AI can learn from extensive data sets to produce content like text, images, and music. It can even generate program codes based on prompts. Generative AI finds numerous applications in business. For instance, in the manufacturing sector, it can aid in innovating new products, enhancing product quality, and preventing equipment failures.

In the face of AI reshaping the workplace, the spotlight falls on the crucial issue of workers' rights. As AI's automation and machine learning capabilities lead to job displacement, the primary concern becomes the need for a fair transition for affected workers. Job security takes centre stage, necessitating a careful balance between AI implementation and human oversight to prevent biased decision-making.

Generative AI is likely to complement some jobs and industries rather than replace them, where automation exposure is low. However, the International Labour Organisation (ILO) suggests that the impact of generative AI will be more pronounced in high-income countries than in low-income ones. Additionally, the number of female workers expected to be affected by AI is projected to be double that of their male counterparts, owing to women's predominant employment in clerical work.

Certain sectors, including food and beverage, textile and garment, and electronics products, are less susceptible to automation due to the nature of their work, which involves transforming raw materials into finished goods. These processes necessitate human skills such as precision and craftsmanship, which are not easily replaceable by generative AI in the near future.

While it is true that automation may not fully replace jobs in manufacturing, it does not mean that workers in these sectors are immune to its effects. The impact can vary depending on the specific application of AI. For example, if AI surveillance technology is used in the workplace, it could potentially infringe on employees' privacy and could facilitate retaliation. Similarly, employing biased AI for performance evaluations could exacerbate issues of discrimination and inequality in promotions and compensation.

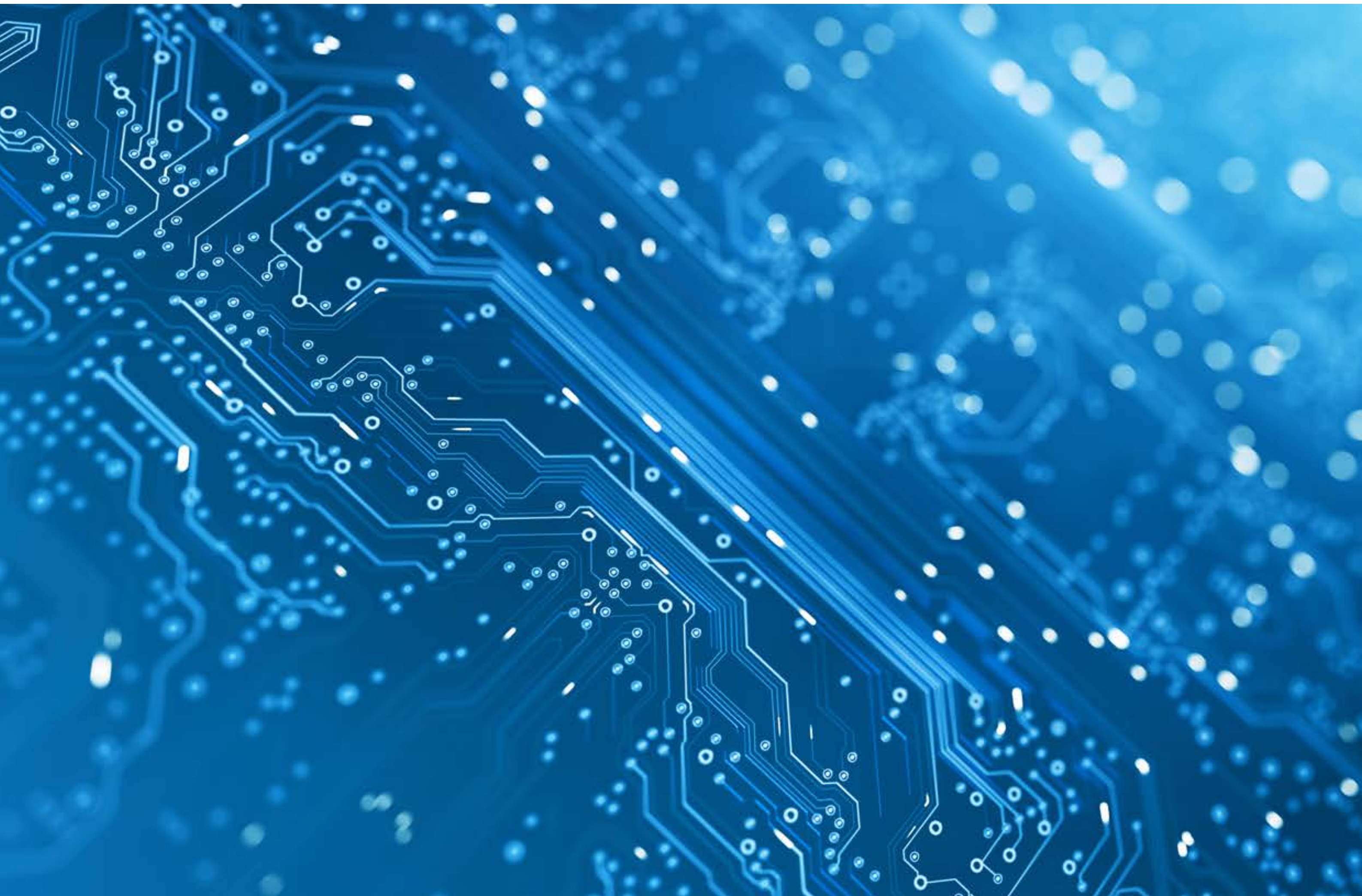
Reflecting on historical examples, such as the Industrial Revolution, unveils pertinent insights into the challenges and opportunities tied to technological shifts. Much like the disruptions of traditional roles during that era, the introduction of AI prompts a call for proactive measures to address the socio-economic impacts on the workforce. Collaborative efforts among policymakers, businesses, and worker representatives are essential, mirroring historical approaches that evolved workers' rights during significant technological changes.

The lens of accountability becomes critical as AI systems make decisions impacting workers. Striking a balance between human intervention and AI autonomy is paramount to ensure fair and just outcomes. Collaboration among stakeholders remains key to achieving this balance, prompting the need to update labour laws, establish guidelines for AI implementation, and foster ongoing dialogue that centres on protecting and enhancing workers' rights.

It is clear that AI poses both a benefit and a risk to society. As legislation races to catch up with the applications of the technology the focus will be on ensuring responsible application from companies requiring scrutiny from investors and from our own engagements.

Many companies prioritize disclosing AI-related risks concerning their products and services, often neglecting reports on AI's impact within their own workplace. For instance, a company we are currently engaging with has publicly shared its policy on responsible AI. The company disclosed that it applies AI in its retail stores, which saved operational costs. However, there is a lack of information on how AI applications have affected employees in terms of job loss, income, working hours, and job satisfaction.

In light of this, we believe that investors and Sustainalytics play a crucial role. By encouraging companies during our engagement to disclose data on how AI has influenced the lives of their employees, we can foster transparency. While the forthcoming EU AI Act addresses high-risk applications, the rapidly evolving nature of AI implies that risks can change swiftly. It is imperative for us and investors to advocate for increased transparency among companies in their approaches, allowing civil society and regulatory bodies to maintain effective oversight.



Social Media and Online Platforms: Focus on Content Moderation and Online Safety for Children

Matthew Barg
Associate Director
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The breadth and depth of opportunities for children to interact online—social media platforms, video sharing and streaming platforms, gaming platforms, education platforms, messaging and communication apps, and more—proliferates and can be expected to continue to do so, as can the exposure of children to digital media. A survey of screen time by teens and tweens in the U.S. found that screen use by this cohort increased by 17% from 2019 to 2021, a faster rate than in previous years.[3] Estimates suggest that one in three children, globally, is a user of the internet.[4] The International Telecommunication Union (ITU) publishes data showing that, across all geographies, the percentage of youth (those aged 15 to 24) using the internet outpaces all other age groups.

The dialogue over risks, impacts, and responsibilities matters. The United Nations Convention on the Rights of the Child (CRC) recognizes the right of children to protection from exploitation and harmful influences. The CRC extends this expectation to include the digital environment. In October 2023, 41 U.S. state attorneys general filed suit against Meta claiming its social media platforms—Facebook and Instagram—were creating a youth mental health crisis.[5] The lawsuit claims that Meta intentionally undermined young users' safety because of profit motives. In November 2023, a court allowed a lawsuit filed by school divisions in the U.S. to proceed against Meta, ByteDance, Alphabet, and Snapchat (alleging their social platforms have adverse mental health effects on children).[6]

Platforms hold a key responsibility in managing impacts of their products. However, considering the abundance of opportunities for children to be online it is impossible to point to a single company as solely responsible. In December 2023, Instagram (i.e., Meta) launched a campaign declaring its interest in work with U.S. congress on federal legislation that would give parents approval rights on app downloads for children under 16-years of age. In the campaign, Meta pushed responsibility for app download oversight towards app platforms (e.g., Google and Apple) and pandered to the challenge parents experience in making decisions regarding their children's online life. The campaign could be seen as a response to the lawsuits and as an effort to apportion accountability to other stakeholders.

It often feels as though regulators are playing catch-up with platforms however there are indications that they are responding, as are non-governmental stakeholders. As of September 2023, the UK Online Safety Bill had passed final readings and was awaiting passage into law. In the US, the Children's Online Privacy Protection Act (COPPA) is in place to impose requirements on Internet service providers serving children under 13 years of age. The U.S. surgeon general has also stated that social media may pose a health risk to children.[7] Recently China announced a severe limitation on the amount of time children can game on line to, claiming that on line games are 'spiritual opium'.[8] Civil society is also active in defining the issue and providing insight that can inform standards. The Global Kids Online network looks at the impact, positive and negative, that the internet and online technologies has on children and has published research on the issue.[9] The DQ Institute publishes its Child Online Safety Index through which it aims to provide insight to support policies that keep kids safe online.[10] There are growing calls from across society for a better understanding of the link between internet access and child mental health and there is an expectation that companies need to do more. ESG investors have their own role to play. Setting expectations of companies—whether via direct engagement to understand and drive better policies and practices, or via incorporation of child online safety criteria and consideration of corporate governance and reputational risks into investment decisions—is a prime activity. The investor community should also support advocacy and awareness initiatives, push for transparency and industry standards, and collaborate with other investors and stakeholders towards collective action on child online safety challenges.

Engagement Events

Roundtable on Culture and Compliance In Mining

Morningstar Sustainalytics strongly advocates addressing corporate culture as a key element in any transformation plan to address material ESG issues and in the last three years, the Global Standards Engagement team organized annual corporate culture–focused roundtables with sector specific groups. Discussions about conduct and culture were held in 2021 and 2022 with the bank sector where we brought international banks and institutional investors together to discuss why corporate culture matters and to share best practices on culture is at the foundation of responsible conduct, ethical decision-making and risk management. What Morningstar Sustainalytics' roundtable illustrated was that poor culture can lead to poor outcomes and material impacts for customers, stakeholders and communities.

Continuing with the theme of corporate culture and wanting to see whether the key lessons from the Banking Roundtables was applicable to other sectors, Morningstar Sustainalytics hosted an online roundtable discussion in November 2023 on the topics of corporate culture, ethics & compliance, and values in the mining sector. The roundtable involved the following engaged companies where we explored how they are applying "culture and compliance", as key drivers to improve performance in their material ESG issues:

- Glencore (Bribery & Corruption)
- Harmony (Health & Safety)
- Rio Tinto (Community Relations)
- Vedanta (Community Relations)

These companies are commended for acknowledging their shortcomings against international norms (particularly the UN Global Compact, UN Guiding Principles on Business and Human and the OECD Guidelines for Multinational Enterprises) and industry standards (such as the International Council on Mining and Metals principles and performance expectations). The Roundtable featured brief presentations by the engaged companies on their respective corporate journeys to achieve compliance with the norms and standards and initiatives for embedding an ethical culture. The companies and participating investors shared their perspectives and insights on some of the governance challenges and practices that promotes a compliance focused and values-based culture.

Some key takeaways from the Roundtable include:

- **Develop a clear plan and roadmap for transformational change:** Two of the companies presented on how they have designed their culture change plans containing an implementation roadmap and framework for transformation (of governance structures, responsibilities, risk management, policies and procedures, training, monitoring, compliance, audit and performance incentives) delivered positive results.
- **Leaders should function as role models for change:** One of the company's presented how their CEO and executive team have annual performance indicators for going to mining sites and meeting workers to talk about desired behaviours, values and ethics, and through these actions set the tone for the foundations of the corporate culture.
- **Assess and measure change:** One of the companies presented on how its compliance program was initiated with a baseline assessment, where levels of workplace culture and compliance was assessed, a vision of the ideal culture formulated and gap analysis undertaken to identify areas to strengthen and create key performance indicators to measure improvements.
- **Develop a compelling story that drives change:** Culture is hard to grasp and communicate and what one company found was that using stories and cartoons was a great way to get employees engaged in discussions about culture change. Through a bottom-up staff engagement process, compelling stories of change was gathered from across the company, and these stories were illustrated as cartoons to convey what the current culture was and what needs to transform and also how the future will look like in vivid visual language.

For previous corporate culture—focused roundtables with multi-stakeholder groups, please refer to blog posts on www.sustainalytics.com (Correlation of Business Ethics and Corporate Culture—5 Lessons from the Banking Industry[11] and Banks Embrace Corporate Culture as Change Agent[12]).

Knowledge Sharing: Human Rights in Investment Practices

In August 2023, Morningstar Sustainalytics' Associate Director, Stewardship, Nigel Rossouw, discussed the role of engagement in promoting human rights at a knowledge-sharing session in Cape Town for Old Mutual Alternative Investments' employees.

Nigel spoke about how engagement as part of an active ownership strategy is key in dealing with contentious issues in contentious sectors. Pointing to an example of engagement in combination with voting, in sectors such as oil and gas and mining to secure Human Rights commitments, have proved particularly effective.

Nigel's key takeaway message: investors should embed consideration of human rights throughout the investment lifecycle. This can be accomplished by prioritizing opportunities for engagement and maximizing investor leverage to facilitate and incentivize respect for human rights.

OECD Global Anti-Corruption & Integrity Forum

The Organization for Economic Co-operation and Development (OECD) held its 11th Global Anti-Corruption & Integrity Forum in Paris from 24-25 May 2023. Morningstar Sustainalytics' Nigel Rossouw, Associate Director of Stewardship Services, attended the forum with an aim to purposefully incorporate the multilateralism provided by the OECD into the work the Global Standards Engagement team does on business ethics controversies. The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct is a key document that the GSE team uses during engagement to hold companies accountable and drive improved performance towards international best practice. The OECD has updated those guidelines and launched its 2023 version.

The theme of the OECD Forum was "Action to Impact: Working together to strengthen integrity and fight corruption." The focus was on the public sector and business ethics and responsible business conduct, and there was a special spotlight on corruption and its impact on human rights.

Sessions in which Morningstar Sustainalytics actively participated included:

- Strengthening the partnership between the public and private sectors to combat corruption;
- Data analytics for assessing fraud and corruption;
- Corruption in critical mineral supply chains;
- Incentivising integrity in infrastructure;
- Due diligence in anticorruption and human rights;
- Developing effective whistleblowing systems.

Speakers at the forum, such as the OECD Secretary-General, the President of Costa Rica, and the US Department of State's Global Coordinator for Anti-Corruption, emphasized that governments have a responsibility to protect internationally recognized fundamental rights and to improve the functioning of markets through good governance and fair regulations. Other speakers, such as the Chair of Transparency International, and the President of Microsoft, spoke about the need for companies to adopt responsible business practices and emphasized that transparency is a precondition for monitoring and scrutiny.

Morningstar Sustainalytics' participation at the OECD Forum provided the Global Standards Engagement team an opportunity to verify that its internal engagement framework effectively covers all the measures for business integrity to combat corruption, which includes:

- Policies prohibiting corruption;
- Code of conduct;
- Ethics and compliance programmes;
- Oversight and leadership by the board of directors;
- Clear lines of responsibility at the executive team level;
- Business principles for ethics and integrity;
- Financial, accounting and procurement controls;
- Compliance officers with direct reporting lines to the board of directors;
- Information-technology safeguards;
- Monitoring and auditing.

OECD Global Anti-Corruption & Integrity Forum (cont.)

Some key takeaways for Morningstar Sustainalytics to incorporate in its engagement include:

- Recognizing that corruption is a global issue and not something that can be effectively addressed by companies alone; there is a need for business to participate in collective action and multi-stakeholder anti-bribery and corruption initiatives.
- All companies require anti-bribery and corruption intervention, a cultural transformation and a network approach, because corruption exists in social networks and the entire network needs to be the recipient of anti-bribery and corruption measures.
- The "tone from the top" is critical for companies in order to effectively mitigate risks related to fraud, corruption and unethical behaviour.

We note that the approach that we have adopted to engagement not only conforms to the expectations set by the OECD in developing mitigation strategies to address corruption, but it actually goes one step further by recommending that companies implement preventative measures to effect systemic cultural change.

GRI Banking Sector Standard Technical Committee

In August 2023, GRI appointed Angela Flaemrich, Associate Director, Stewardship Services at Morningstar Sustainalytics, as one of 13 members of the multi-stakeholder GRI Banking Sector Standard Technical Committee.

She will advise and make recommendations over the next year on how to enhance GRI reporting and disclosure guidance for the global banking sector. She will identify sector-specific contextual matters in relation to sustainable development, likely material topics, instruments for alignment as well as the corresponding impacts and disclosures.

The Standard for Banking aims to cover a wide range of topics, including potential anti-corruption, data privacy, human rights, and climate change—that banks are involved with through their own operations as well as their financing and lending activities. The sector standard is one of the first of 40 GRI sector standards planned over the next few years.

The principal criterion for selecting members was relevant knowledge and experience of a broad range of sustainability issues for the financial services sector. In Stewardship Services, Angela specializes in covering Global Standards Engagements with banks, partnering with the world's leading asset owners and asset managers to foster constructive dialogues with global banks to achieve strong ESG engagement outcomes. Previously, she led the Financial Services Research team at Sustainalytics and was responsible for overseeing the issuance of ESG Risk Ratings on financial services companies worldwide. She brings deep subject matter expertise on business ethics issues for the sector (anti-money laundering, bribery & corruption prevention, whistleblower mechanisms, antitrust, fraud, and consumer rights), product governance and ESG integration.

Webinar with Vale

At the end of March 2023, we organized an interactive webinar with Vale attended by 21 investor clients.

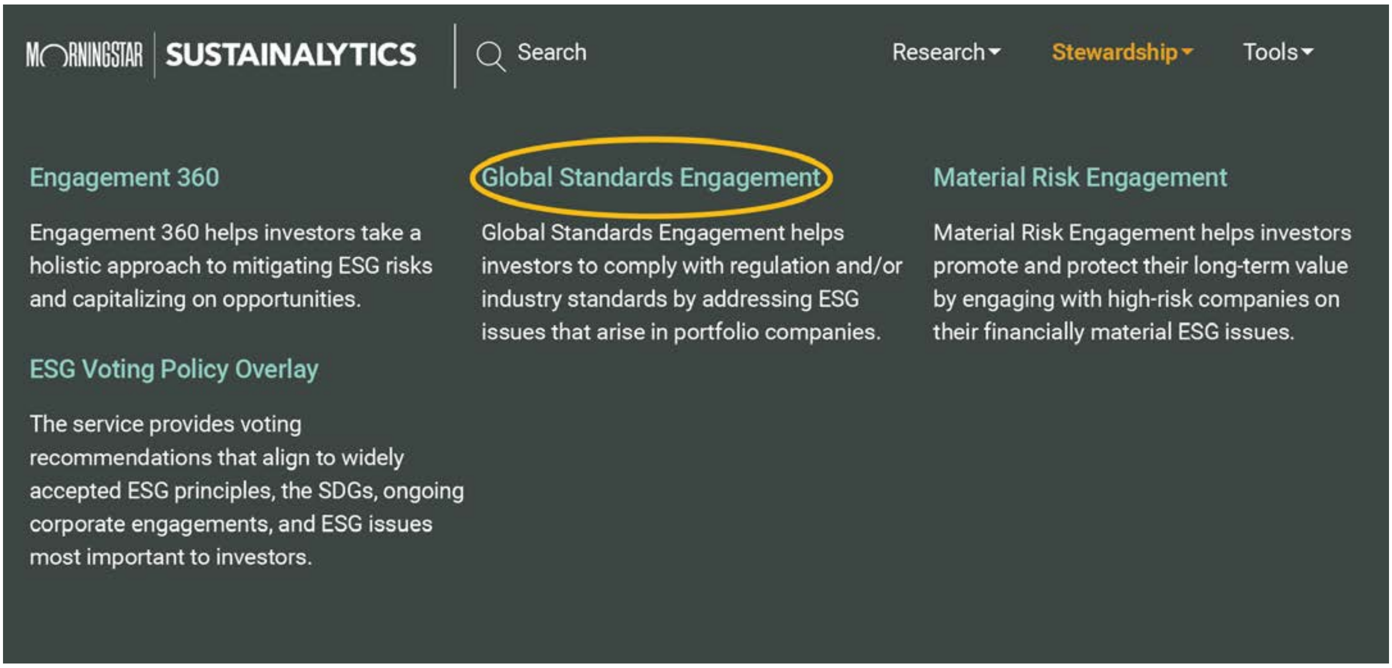
The webinar focused on the status and progress with the 2019 Brumadinho tailings dam collapse reparations process. Clients expressed their expectations that substantial work still needs to be undertaken to mitigate the environmental damage, support livelihoods restoration and re-build community trust.

Vale's Directors of Reparation and Territorial Development gave a comprehensive overview of how 58% of the 10-year Reparation Agreement (covering social, environmental, economic and infrastructure development) has been implemented and that dam safety initiatives are on track to achieve 100% compliance with the "Global Industry Standard for Tailings Management" by the end of 2023. In addition, water and sediment quality of the affected rivers have returned to pre-incident levels.

This Morningstar Sustainalytics' webinar enabled significant progress towards the engagement objectives by ensuring sharing of a broad scope of comprehensive data in a single engagement event.

How to Generate Reports from Global Access

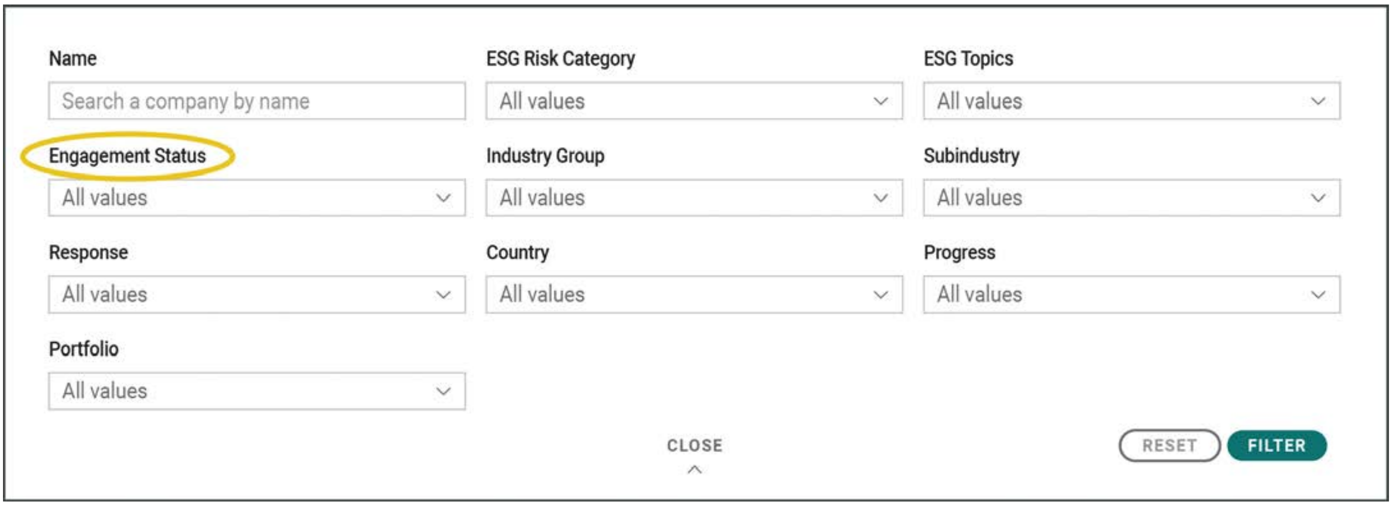
Clients have the opportunity to generate reports on their own through the online platform Global Access .



On the Global Standards Engagement landing page, scroll down to the search section to search for a specific company or filter by various criteria, including Norm, ESG topics, industry group, country, response, and progress .

Reports can be generated for an individual portfolio if a portfolio has been uploaded to the user's account in the Portfolios section under the Tools tab . Once a portfolio is uploaded, it is available under the Portfolio filter in the search section, in addition to other standard research universes .

To see the number of engagements in a portfolio, select Engage under the Engagement Status and the portfolio under Portfolio . This will produce a report that includes multiple data points for the companies selected.



Endnotes

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UBP in Brief

Union Bancaire Privée (UBP) was founded in 1969 by Edgar de Picciotto, whose vision from the outset was to offer investors an astute and innovative wealth management service. Today, we continue to apply our forward-looking vision, our entrepreneurial spirit and our leading investment expertise to offer our clients significant added value and performance over the long term.
We focus on the one activity we excel at – wealth management for private and institutional clients. Our energy and resources are dedicated to constantly expanding our expertise in this field. We are proud to attract and foster outstanding talent among our teams, in order to offer a service of the highest calibre.
All the divisions of our Bank serve each other. Our integrated business model ensures an exceptionally efficient and agile spread of skills and knowledge. Our business is built on a strong commitment to sharing our know-how and exchanging ideas with our clients.

We build solutions around your views and your needs. Our aim is to provide constant, in-depth guidance, and to empower you to directly influence your wealth management strategies. This approach enables us to deliver the bespoke investment solutions upon which our success is founded.

Fast-moving and visionary

UBP has grown, in just a few decades, to be recognised among our peers as a stable, reliable and successful private bank with an unmatched talent for entrepreneurship and vision.
Today, UBP stands among the leaders in the field of wealth management in Switzerland. It continues to expand both in its home market and abroad, consistently stepping up its private banking activities and reinforcing its asset management capabilities. In the last six years, the Bank has acquired the international private banking divisions of Royal Bank of Scotland (Coutts) and Lloyds, as well as the Swiss subsidiary of the ABN AMRO group.

With the acquisition of Coutts, UBP has made its mark in Asia. We have also set up a leading asset management team in China, UBP Investment Management (Shanghai) Ltd.

In addition, the Bank has joined forces with several leading companies around the globe – such as Partners Group, SEB, AJO, Adams, Portland Hill Capital and Noah – to be able to offer specific expertise to our clients.

Solid and well-established

With assets under management of CHF 126.8 billion as at the end of December 2018 and a professional, global workforce of around 1,781 people, Union Bancaire Privée is a major player in Switzerland's wealth-management industry.

Headquartered in Geneva, the Bank has over twenty locations in key economic and financial hubs worldwide, enabling it to combine global expertise with local know-how.

The Bank sets itself apart with its financial robustness, which is thanks to careful risk management and conservative balance sheet oversight. With a Tier 1 ratio of 26.6% – well above the regulatory requirements –, UBP ranks among the most strongly capitalised Swiss banks.

In January 2019 the rating agency Moody's assigned UBP a long-term deposit rating of Aa2 with stable outlook. This high-grade rating is an endorsement of UBP's ongoing solidity.

Agile and robust

The size and the structure of our organisation enable prompt and fully informed decision-making. We continuously demonstrate our ability to act quickly and seize opportunities, and this agility benefits not only our clients, but also serves our own vision for growth.

We manage our business carefully, keeping the Bank financially sound. The strategic and far-sighted choices we make allow us to keep growing, as we firmly believe in the future of our wealth management business, regardless of any dramatic shifts in the financial industry.

About Morningstar Sustainalytics and Contacts

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.

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

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