
ESG RISK RATINGS

Corporate Governance Enhancements

Score Change Impact Analysis

May 2024



ESG Risk Ratings Enhancements | Impact Analysis

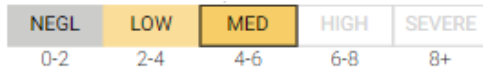
Background on the Enhanced Methodology

- » Morningstar Sustainalytics is rolling out a series of enhancements to our ESG Risk Ratings beginning on May 30, 2024. The enhancements:
 - Align the Corporate Governance baseline methodology with the ESG Risk Ratings methodology by replacing the previous Corporate Governance assessment with two standalone Material ESG Issues (MEIs), for Corporate Governance and Stakeholder Governance.
 - Create a new, dedicated Water MEI to reflect emerging water-related risks.
 - Enhance our existing Cyber Security and Data Privacy MEIs to reflect emerging risks.
- » Morningstar Sustainalytics offers comprehensive ESG Risk Ratings for more than 4,500 companies, all of which will receive new Corporate Governance and Stakeholder Governance assessments on May 30, 2024. The remaining core ESG Risk Ratings, which apply to about 12,500 issuers, do not include a Corporate Governance or Stakeholder Governance assessment, as the Core framework does not include MEIs.
- » To assist clients in their implementation of the methodology updates, we are providing a high-level impact analysis of score changes based on a sample of approximately 3,900 issuers.
- » To assess the impact of likely scoring changes, the impact analysis compares the Corporate Governance MEI scores and categories prior to the methodology changes with the expected sum of the new Corporate Governance and Stakeholder Governance MEIs under the new framework. Kindly note the sum is calculated solely for this impact analysis; the sum will not be displayed as a single data point in ESG Risk Ratings reports or data feeds.

ESG Risk Ratings Enhancements | Impact Analysis

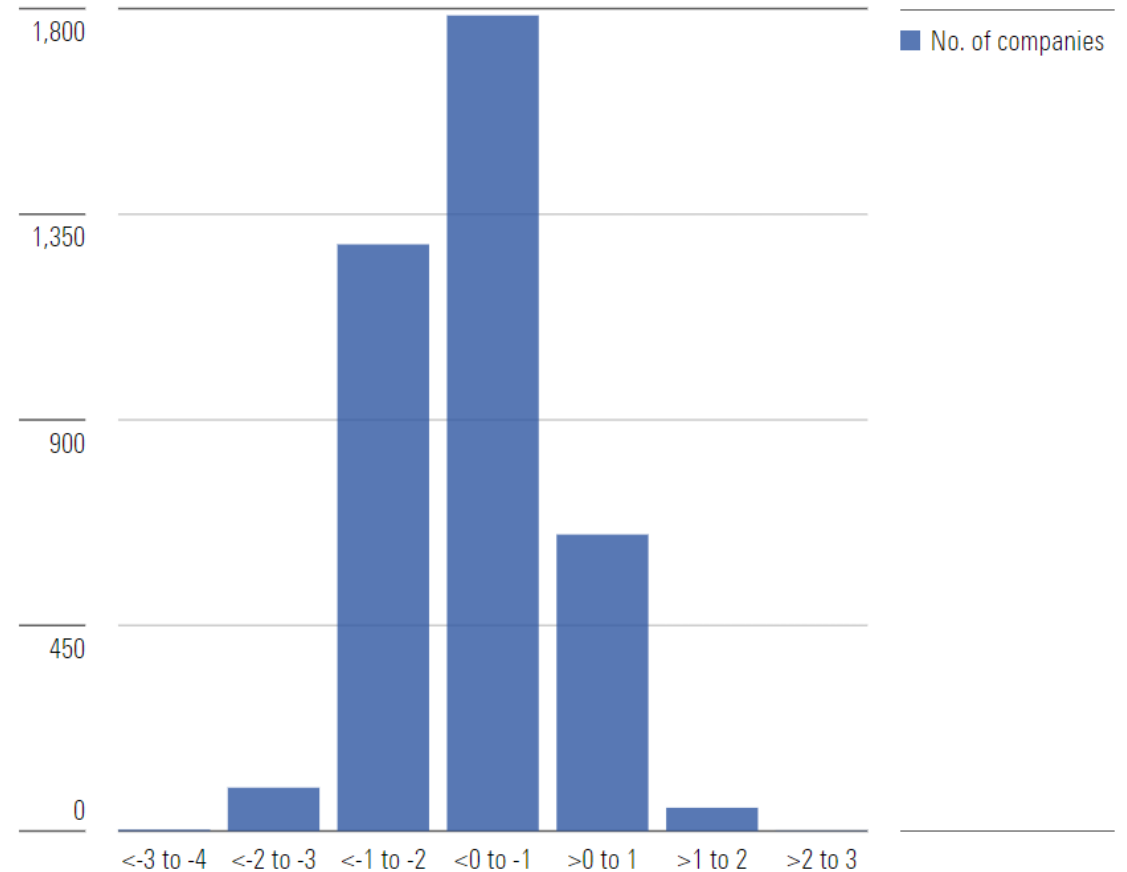
Most Sampled Issuers' Corporate Governance Scores Would Improve Under Enhanced Methodology

- Morningstar Sustainalytics offers comprehensive ESG Risk Ratings for more than 4,500 companies, all of which will receive new Corporate Governance assessments as part of the methodology enhancements launching on May 30, 2024.
- Lower scores are better in Corporate Governance assessments, so companies with declining scores showed improvement – or lower risk – in their new assessments. This is the scoring range:



- An analysis of about 3,900 new Corporate Governance and Stakeholder Governance assessments were largely favorable.
 - About 3,200 issuers, or 82% of the sample issuers, saw a summed score of Corporate Governance and Stakeholder Governance improve by between zero and -4 points each.
 - About 700 issuers, or 18% of the issuers sampled, saw their scores decline between zero and +3 points.
- About 97% of the combined Corporate Governance and Stakeholder Governance scores were within 2 points of the companies' previous Corporate Governance scores.

Expected Corporate Governance Risk Ratings Score Impact Numerical Score Change Ranges by Issuer

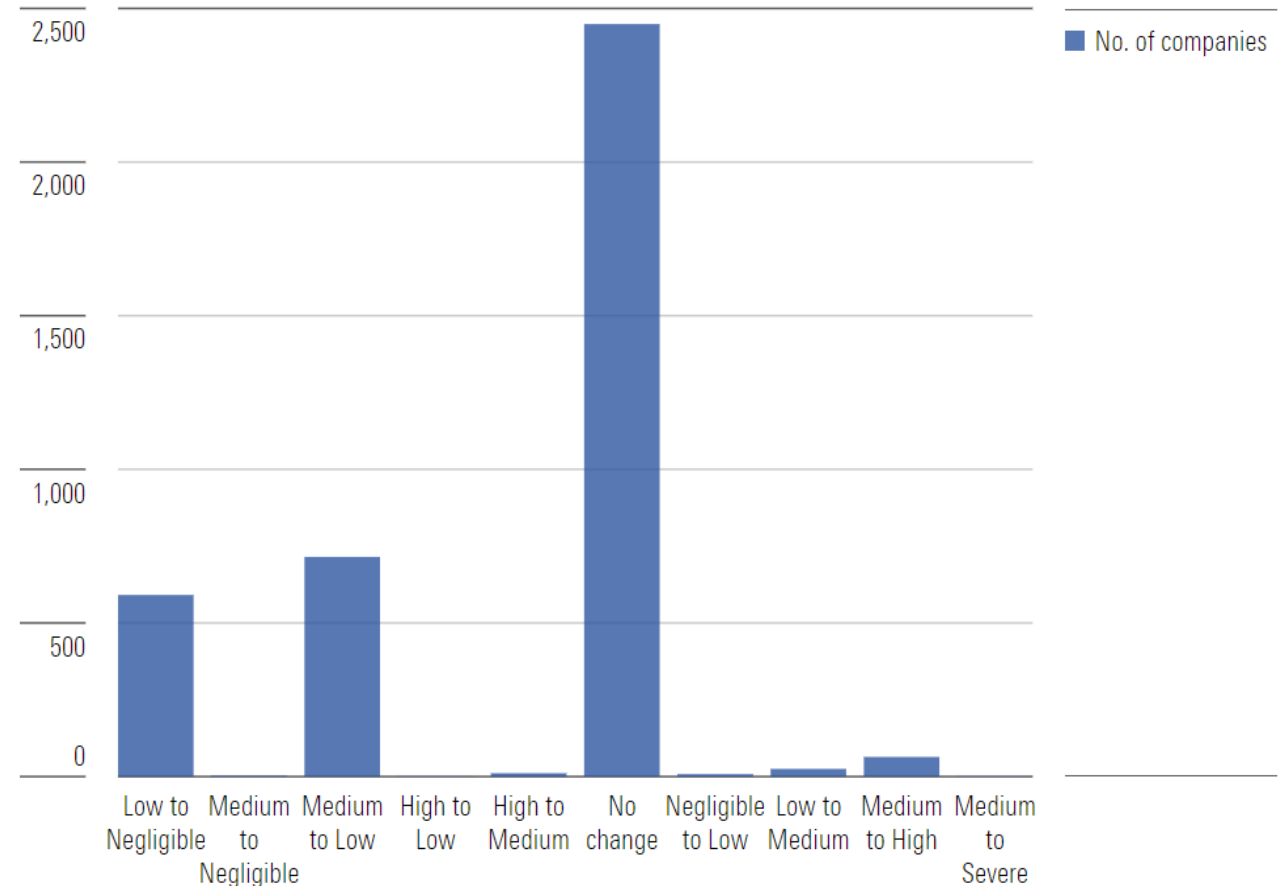


ESG Risk Ratings Enhancements | Impact Analysis

Most Sampled Issuers' Corporate Governance Risk Categories Would Be Unchanged

- Among the sample of about 3,900 companies earning comprehensive ESG Risk Ratings, 63% had combined Corporate Governance and Stakeholder Governance scores that would have mapped to the company's previous Corporate Governance Risk Ratings category. Material ESG Issue category names, from positive to negative are: Negligible, Low, Medium, High and Severe.
- 34% of issuers' new assessments (the sum of Corporate Governance and Stakeholder Governance) would map to an improved Corporate Governance category represented in the prior methodology.
- Similarly, less than 3% of issuers' new Corporate Governance categories deteriorated by at least one category.

Expected Corporate Governance Risk Ratings Category Impact Category Range Changes by Issuer



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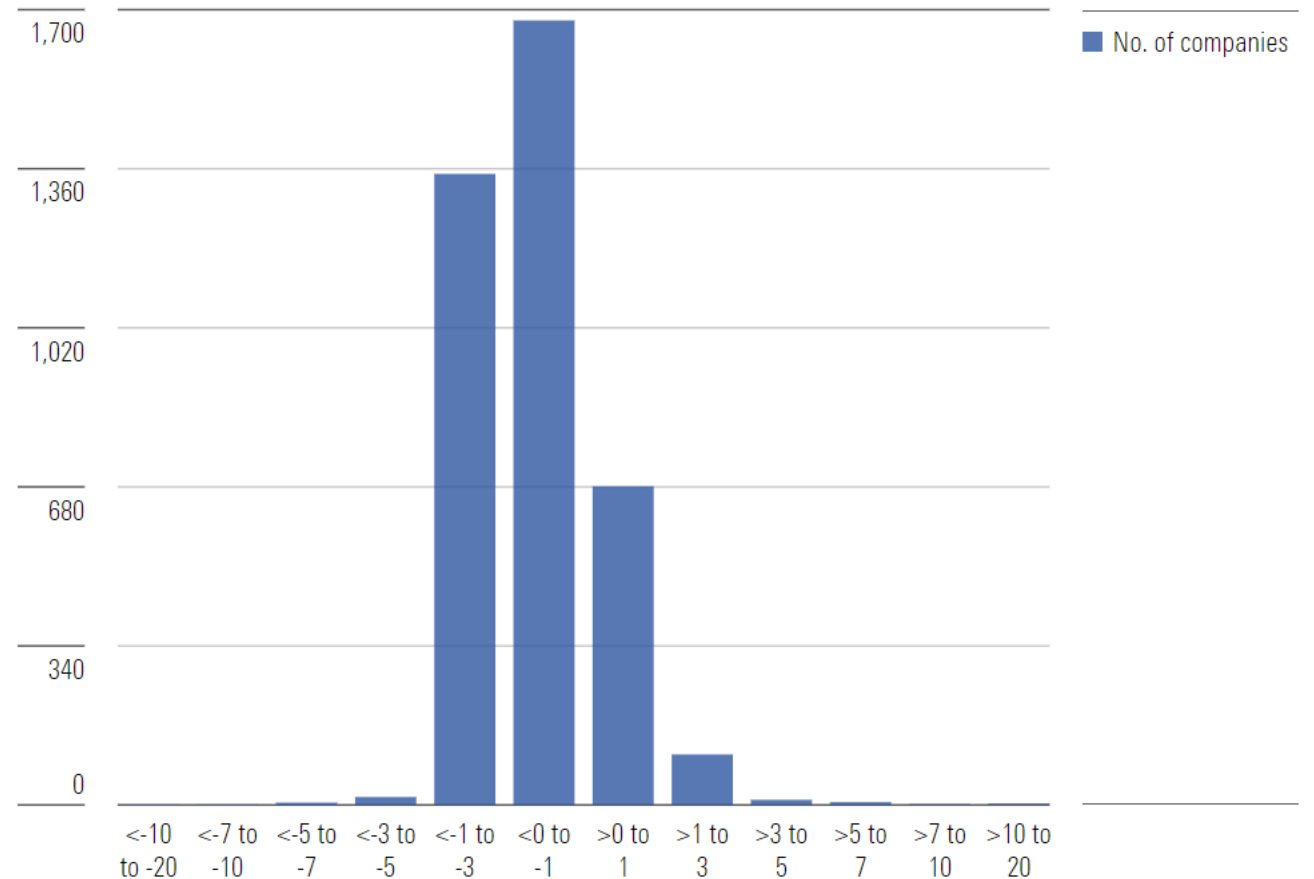
Most Issuers' Overall ESG Risk Ratings Scores Improve Under Enhanced Methodology

- Morningstar Sustainalytics offers comprehensive ESG Risk Ratings for more than 4,500 companies, all of which will receive new Corporate Governance assessments as part of the methodology enhancements launching on May 30, 2024.
- The sample data combines the new Corporate Governance and Stakeholder Governance assessments along with company score changes that stem from routine analytical updates, such as an annual review or a one-time beta score adjustment. The sample data shows that companies' overall Risk Ratings were largely unchanged after incorporating all updates.
- 99% of companies in the sample saw score changes of 3 points or fewer, either positively or negatively. This is the scoring scale for the ESG Risk Ratings:



- Most of the sample companies' scores improved with the latest updates: 78% of companies saw their scores improve, or move lower, by zero to -3 points.

Expected ESG Risk Ratings Score Impact Numerical Score Change Ranges by Issuer

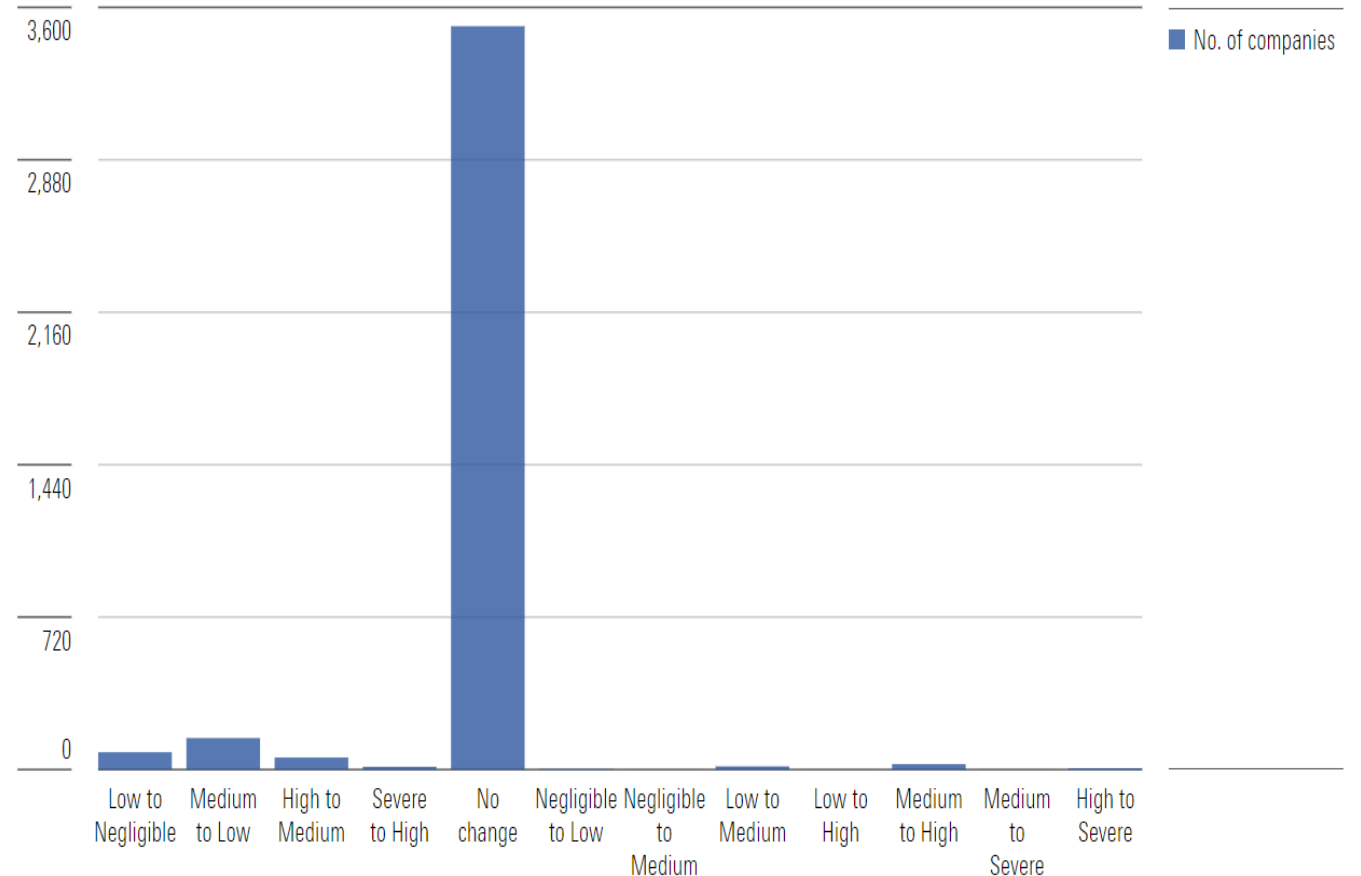


ESG Risk Ratings Enhancements | Impact Analysis

Most Issuers' ESG Risk Ratings Categories Are Unchanged Under Enhanced Methodology

- Among the nearly 3,900 sample companies earning comprehensive ESG Risk Ratings, 91% had no change to their overall Risk Ratings categories when compared with the previous values.
- About 8% of issuers in the sample saw their overall Risk Ratings categories improve – where risk declines – by at least one category.
- About 1.5% of the sampled issuers' overall Risk Ratings categories worsened by at least one category.
- Fewer than 30 of the sampled issuers' Risk Ratings categories deteriorated from Low or Medium to High or Severe.

Expected ESG Risk Ratings Category Impact Category Range Changes by Issuer



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