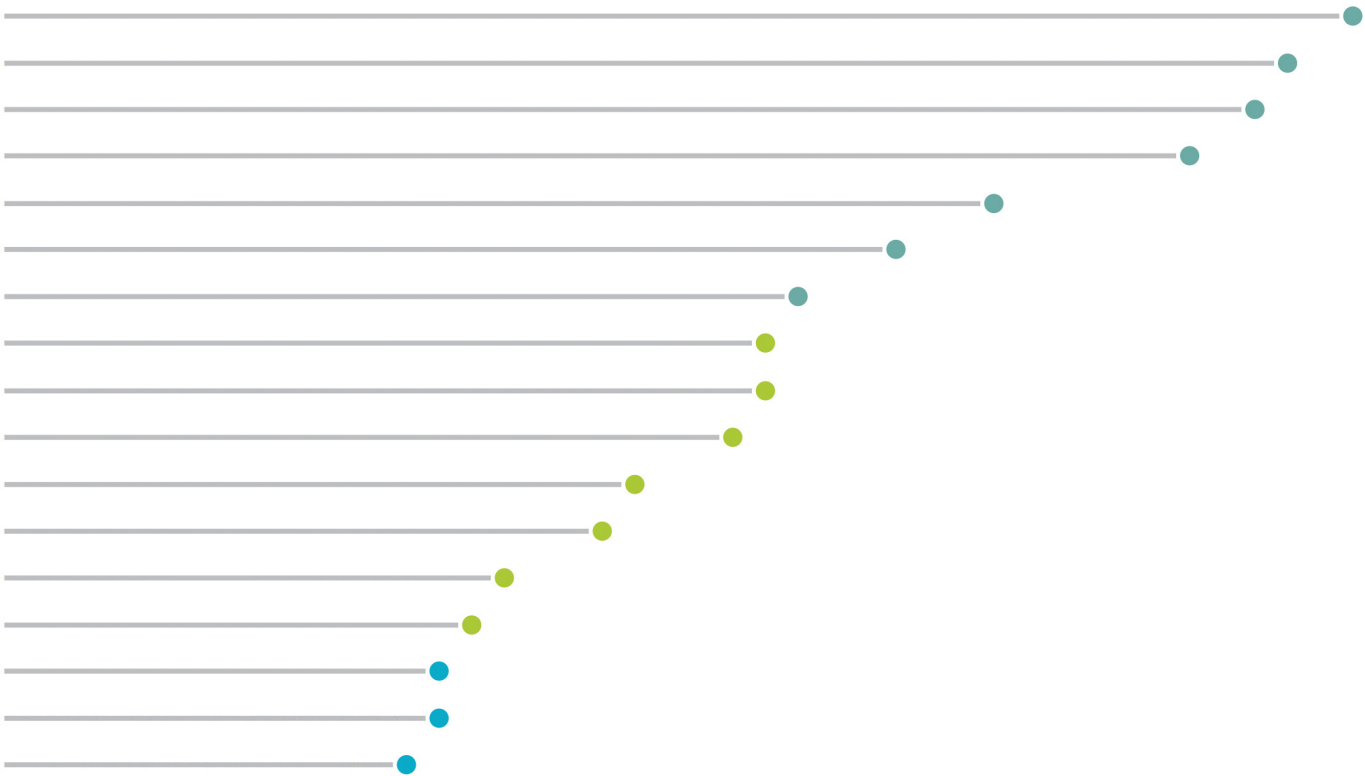


Material Risk Engagement

2026 Q1 Report



Material Risk Engagement promotes and protects long-term value by engaging with high-risk companies on financially-material ESG issues.

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This report summarizes the shareholder engagement activities that Morningstar Sustainalytics performed between January and March 2026. If there is no specific reference to date in graphs and tables, the data is presented as per end of the reporting period. The report has been produced in April 2026 and uses data for the quarter ending 31 March 2026. Version 1 was disseminated on 20 April 2026. 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

Morningstar Sustainalytics' Material Risk/Strategy & Risk Engagement engages with high-risk companies on the material ESG issues with the greatest levels of unmanaged risks. The purpose is to protect and develop long-term value in our clients' portfolio companies. Material Risk/Strategy & Risk is an engagement overlay of Sustainalytics' flagship product, ESG Risk Ratings.

The Stewardship team will engage with companies covered by the analyst driven component of Morningstar Sustainalytics' ESG Risk Ratings universe, powered by three Morningstar Indexes, which have an ESG Risk Ratings score of 30 or more. The ESG Risk Ratings score reflects the unmanaged ESG risk, so the higher the score, the more risk the company is exposed to.

The engagement is driven by constructive dialogue. The research from the ESG Risk Ratings and the Controversies research are leveraged to encourage companies to cover gaps in Material ESG Issues risk management. Engagement Response, Progress, Positive Developments, and Milestones are consistently tracked to measure commitment and capability to change in addition to the engagement activities conducted. When a company improves by bringing the ESG Risk Ratings score to below 28, the Material Risk/Strategy & Risk Engagement case will be considered resolved.



Quarter in Review



Paulina Segreto

Director, Stewardship

Morningstar Sustainalytics

Strong governance structures play a critical role in the effective identification, management, and mitigation of material ESG risks. Our Material Risk/Strategy & Risk engagement experience consistently indicates that companies with effective board oversight, clear accountability frameworks, and well-functioning internal reporting and escalation mechanisms are better positioned to anticipate emerging risks and respond in a timely and coordinated manner. In such cases, boards are able to provide meaningful challenge to management, oversee risk management processes, and support informed decision-making that contributes to long-term value preservation.

By contrast, weak governance arrangements, often characterized by limited board independence, insufficient oversight, and entrenched organizational practices, can impair a company's ability to manage material risks effectively. These weaknesses may result in delayed responses, inadequate remediation, and reduced transparency, increasing both financial and reputational risks for investors.

In Q1 2026, we therefore undertook a more detailed assessment of board effectiveness across a selection of Asia-Pacific countries, with a particular focus on Japan, where a relatively high proportion of our ongoing engagements are concentrated and governance reform continues to evolve. The assessment examined practical drivers of board effectiveness, including independence, expertise, and director commitment, with emphasis on how these elements operate in practice rather than as formal compliance measures.

Our analysis found that Australia leads on board effectiveness among the eight Asia-Pacific countries and markets analyzed, followed by Singapore and South Korea, while Japan ranked below these peers.

In particular, levels of board independence and expertise in Japan were lower than those observed in Australia and Singapore, indicating that there may be scope for further enhancement as the country continues to strengthen board effectiveness as a key pillar of its broader governance reforms.

These findings underscore the importance of continued engagement on the practical factors that support effective boards. Strengthening board independence, sharpening skills composition, and reinforcing accountability mechanisms will remain central to advancing corporate governance outcomes and supporting long-term sustainable value creation.

Looking Ahead

Building on the governance and risk-oversight themes highlighted during the quarter, we will continue to emphasize the importance of aligning corporate disclosure with material risks, embedding ESG considerations into governance frameworks, and strengthening organizational resilience amid heightened geopolitical and policy uncertainty. These priorities will remain central to our global engagement activities, reflecting their role in supporting effective risk oversight and long-term value creation. Recent developments in the Middle East reinforce the relevance of these priorities, as geopolitical tensions increasingly test corporate resilience, supply chain diversification, and strategic preparedness.

While it remains too early to assess the full implications of these developments, companies operating in impacted regions, as well as those indirectly exposed through supply chains, shipping routes, and broader economic linkages, are facing an increasingly complex risk environment. In this context, we will closely monitor macroeconomic and geopolitical developments and their impacts on operating conditions and corporate risk management practices worldwide, while continuing engagement on governance quality and resilience as key enablers of sustainable long-term performance.

Engagement Overview



308

engagements as of 31 March 2026

11

new engagements



675

companies engaged since March 2020



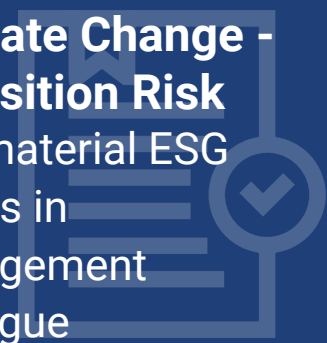
SDG 13 Climate Action

(63%) linked to engagement objectives

Asia / Pacific region with the largest number of engagements

Oil & Gas Producers and Utilities industries with the most engagements

Disclosure and Climate Change - Transition Risk top material ESG topics in engagement dialogue



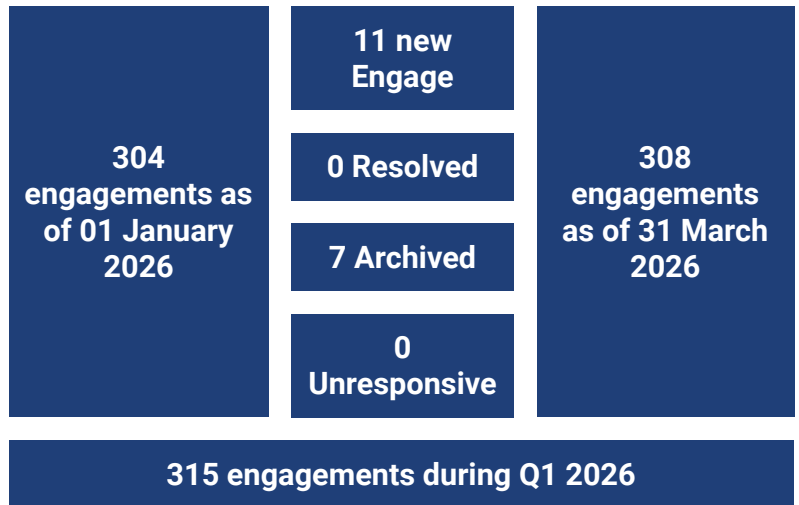
Engagement Status

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.

- Unresponsive** Unresponsive is the final step in the escalation for companies not responding to our engagement. At this final step, we have exhausted all other engagement tools.

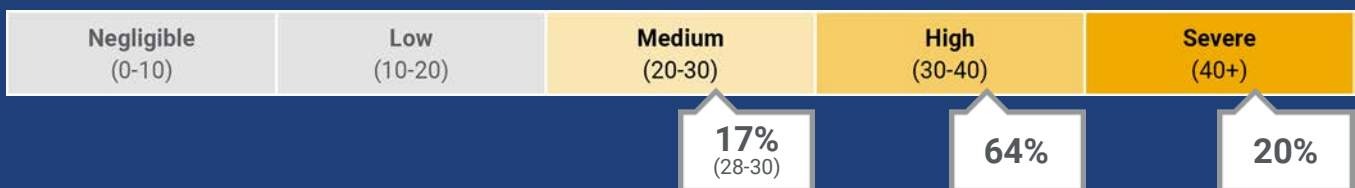


On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

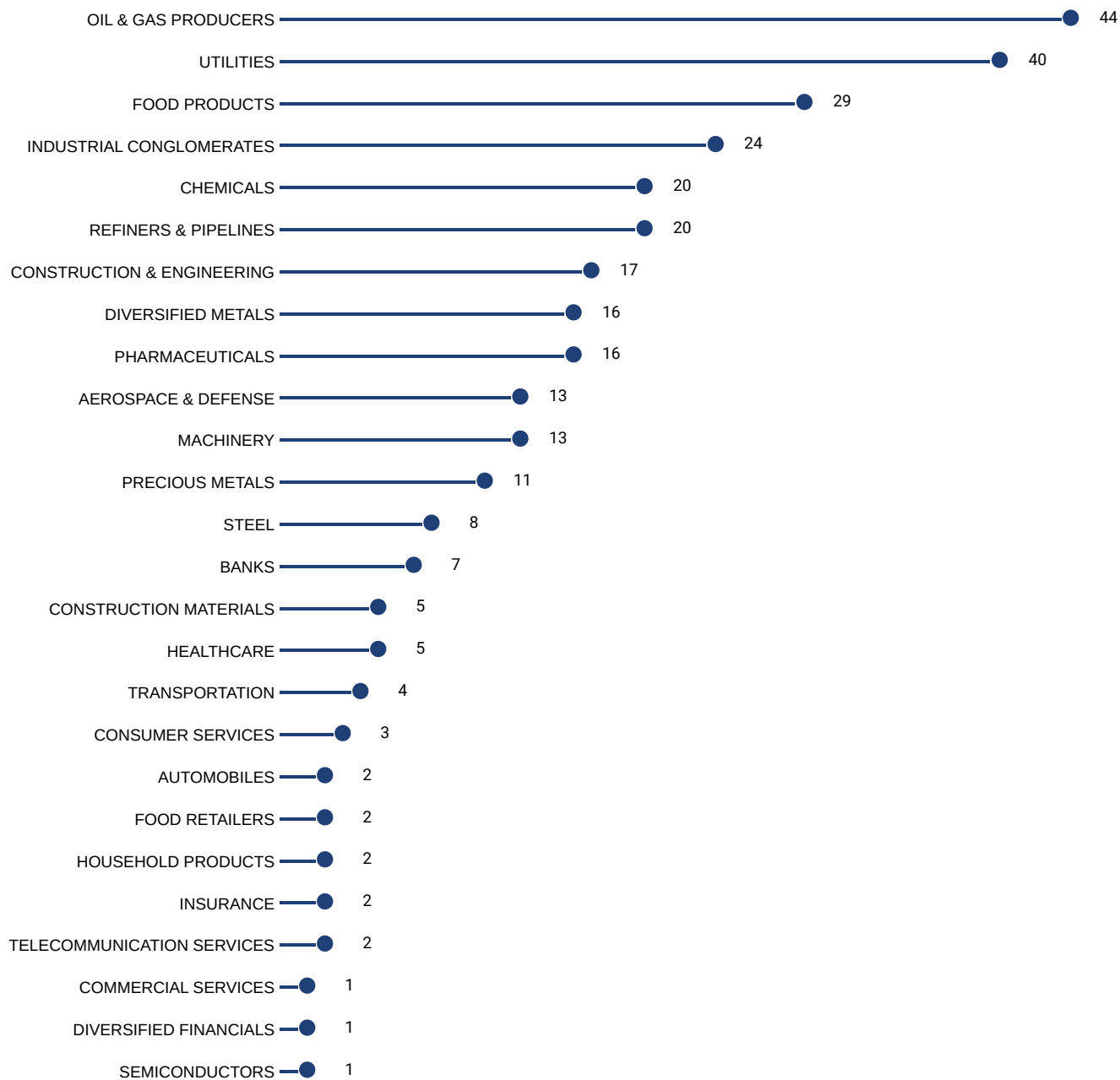
Active Engagements by ESG Risk Ratings Categories



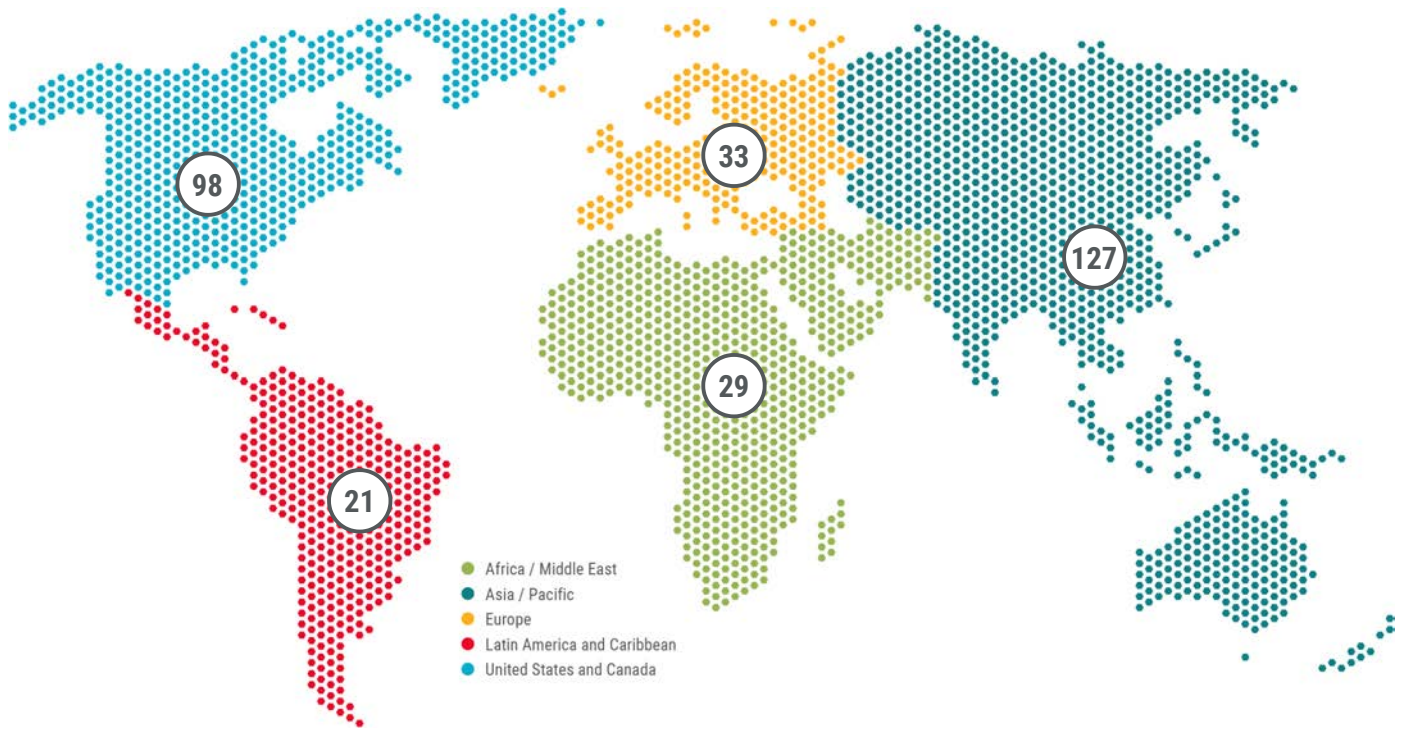
Active Engagements by ESG Risk Ratings Categories



Industry Distribution



Engagements by Headquarter Location

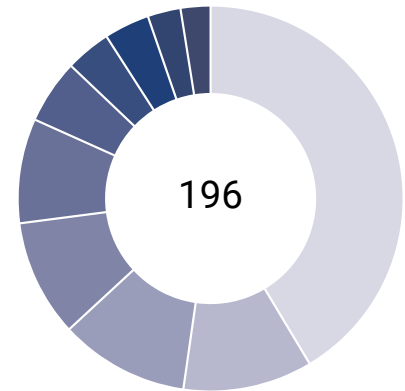


Engagement Topics

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

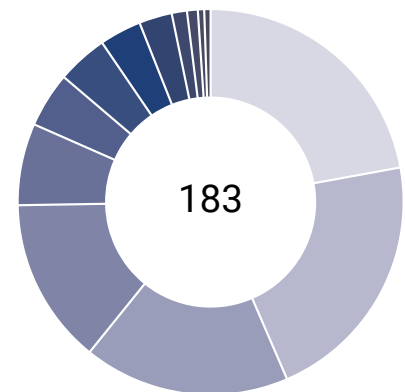
Environmental

- CLIMATE CHANGE - TRANSITION RISK (158)
- AIR POLLUTANT EMISSIONS (41)
- WASTE MANAGEMENT (41)
- WATER SECURITY (37)
- WATER QUALITY (33)
- LAND POLLUTION AND SPILLS (20)
- BIODIVERSITY (14)
- NATURAL RESOURCE USE (14)
- CIRCULAR ECONOMY (10)
- DEFORESTATION (9)



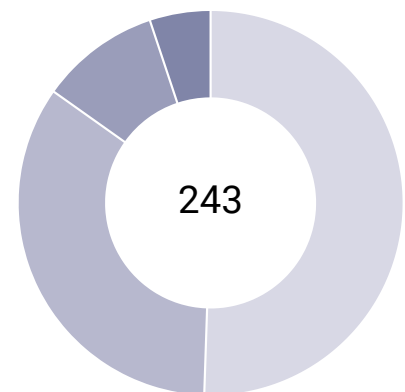
Social

- PRODUCT QUALITY AND SAFETY (59)
- COMMUNITY RELATIONS (57)
- OCCUPATIONAL HEALTH AND SAFETY (46)
- HUMAN CAPITAL (37)
- HUMAN RIGHTS (18)
- DATA PRIVACY AND SECURITY (12)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (11)
- INDIGENOUS PEOPLE (9)
- MARKETING PRACTICES (7)
- JUST TRANSITION (3)
- LABOUR RIGHTS (2)
- HIGH-RISK TERRITORIES (1)
- WEAPONS (1)



Governance

- DISCLOSURE (183)
- ESG GOVERNANCE (124)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (36)
- BOARD COMPOSITION (18)



Note: Each engagement case may address multiple ESG topics. The numbers in parentheses indicate how many engagements include that specific topic. The total in the chart reflects the count of engagements with an Environmental, Social, or Governance focus. While a single engagement may span multiple ESG pillars, it is counted only once in the total. However, there is no limit to the number of topics an engagement can cover, so the topic counts will not sum to the total per pillar.

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 engagement.

1 No Poverty	0%	10 Reduced Inequality	2%
2 Zero Hunger	1%	11 Sustainable Cities and Communities	23%
3 Good Health and Well-Being	15%	12 Responsible Consumption & Production	47%
4 Quality Education	0%	13 Climate Action	63%
5 Gender Equality	2%	14 Life Below Water	1%
6 Clean Water and Sanitation	8%	15 Life on Land	6%
7 Affordable and Clean Energy	21%	16 Peace & Justice, Strong Institutions	52%
8 Decent Work and Economic Growth	21%	17 Partnerships to Achieve the Goal	1%
9 Industry, Innovation & Infrastructure	12%		

Case Study: JFE Holdings, Inc.

Material Risk/Strategy & Risk Engagement - Engagement Since: August 2021



Industry: **Steel**

Country: **Japan**

ESG Risk Rating: **32.0**

JFE Holdings is a Japan-based company engaged in the manufacture and sale of steel and related products. Through its subsidiaries, it operates across iron and steel production, engineering services, and trading activities.

Progress: **Standard** | Response: **Good** | Latest Milestone: **3**

Engagement Update

Since engagement began, JFE Holdings has demonstrated a constructive and responsive approach, with five engagement calls held to date. The most recent engagement in March 2026 focused on ESG governance, materiality and the three most material risk areas where management gaps were identified. Discussions covered corporate governance, carbon-related risks, and other material ESG risks.

Focus Area

While JFE Holdings has made notable progress in corporate governance, further enhancements, such as introducing the separation of the Chair and President roles and non-misconduct-based clawback provisions, would improve accountability. Given the carbon-intensive nature of its operations, carbon risk management remains a key focus area, where further improvements were identified during engagement discussions.

Engagement Outcomes

JFE Holdings has demonstrated measurable progress in corporate governance over the past four years. Engagement has addressed board composition and effectiveness, including gender diversity, the integration of non-financial metrics into remuneration, and the proportion of independent directors. As a result, independent director representation increased, female board representation improved, and environmental and social metrics were incorporated into board remuneration.

Insights & Outlook

While JFE Holdings has established frameworks and targets under its 2025 carbon neutrality roadmap, CO₂ emissions data is not yet fully aligned with the GHG Protocol. Given the company's carbon-intensive profile, greater transparency is encouraged, including scope 2 emissions disclosure using both market- and location-based methodologies as well as continued transparency on progress and any near-term adjustments to its roadmap amid evolving uncertainties in the external environment.

Engagement Results



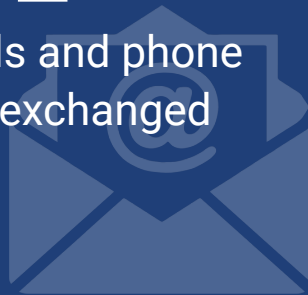
57

meetings



812

emails and phone calls exchanged



0

engagements Resolved



100

Milestones achieved

167

Positive Developments



36%

of engagements with Excellent or Good Response

52%

of engagements with Standard Progress

Engagement Progress

Progress reflects the pace and scope of changes towards the engagement objective that the company is making, assessed on a five-point scale.

Excellent	The company has adopted a proactive approach and addressed the issues related to the change objective.		4% (10)	Excellent
Good	The company has taken sufficient measures to address the issues related to the change objective.		27% (76)	Good
Standard	The company has undertaken a number of measures to address the issues related to the change objective.		52% (146)	Standard
Poor	The company has indicated willingness to addressing the issues related to the change objective, but no measures have been taken yet.		15% (43)	Poor
None	The company has not made any progress against the engagement objective.		3% (8)	None

Engagement Response

Response reflects the company’s willingness to engagement dialogue with investors, assessed on a five-point scale.

Excellent	The company is proactive in communicating around the issues related to the change objective.		9% (26)	Excellent
Good	The company addresses all the issues related to the change objective.		27% (76)	Good
Standard	The company provides responses to some of the issues related to the change objective.		31% (89)	Standard
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.		13% (36)	Poor
None	The company has not responded to the inquiries.		20% (56)	None

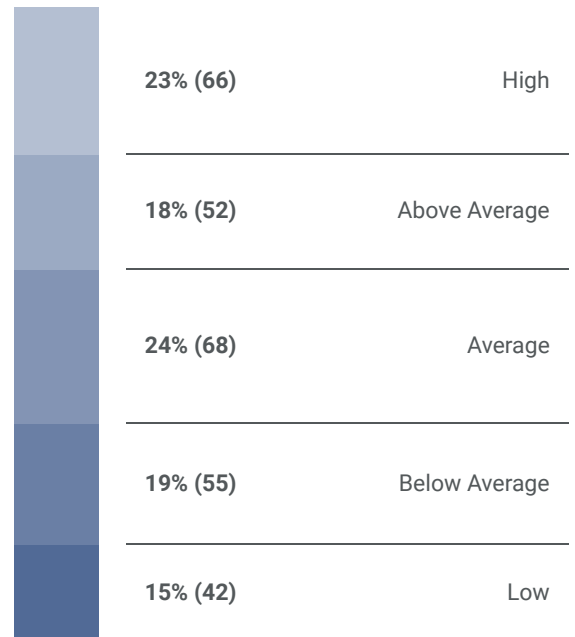
Engagement Performance

Performance describes the combined company Progress and Response.

Engagement Performance Assessment Update

We have five tiers to offer a nuanced understanding, the tiers are: Low, Below Average, Average, Above Average, and High.

The Progress and Response matrix below is used to determine performance.



Progress and Response Matrix

		RESPONSE				
		EXCELLENT	GOOD	STANDARD	POOR	NONE
PROGRESS	EXCELLENT	High	High	Above Average	Average	Average
	GOOD	High	High	Above Average	Average	Average
	STANDARD	Above Average	Above Average	Average	Below Average	Below Average
	POOR	Average	Average	Below Average	Low	Low
	NONE	Average	Average	Below Average	Low	Low

Engagement Milestones

Milestones are our five-stage tracking system used in achieving the engagement objective.

**100 Milestones
achieved in Q1 2026**

Milestones Framework

- Resolved** Case successfully closed.

- 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** Issuer establishes a strategy to address the issue.

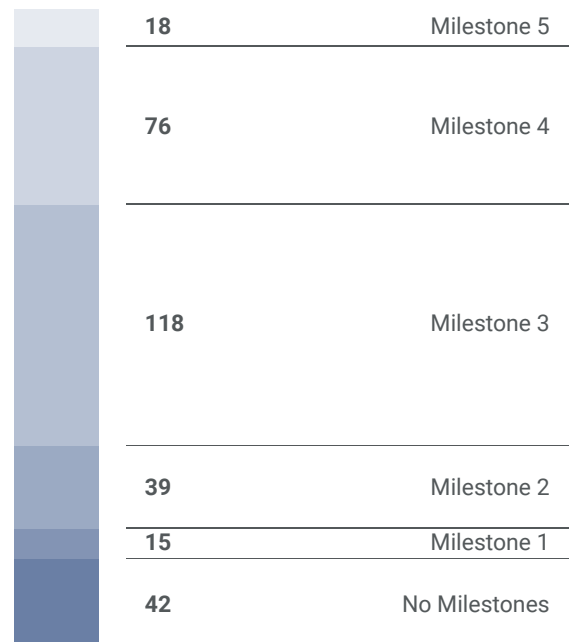
- Milestone 1** Acknowledge of issue(s) and commitment to mitigation.

YTD Highest Milestone Achieved (Resolved)



Note: Cumulative year to date resolved cases.

Highest Milestone Achieved (Engage)



Note: Milestone distribution of ongoing Engage cases at the end of the reporting period.
















Low Performance Engagements

The following list displays Low Performance companies with Poor or None Progress in combination with Poor or None Response.







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 investors letters or letters to the company's board, will take place. After two years, the case will be reviewed and an Unresponsive status can be selected to reflect all other engagement options have been ineffective.

For each Low Performance case, there is a **Low Performance Time Tracker** which illustrates the time elapsed.

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
Canadian Natural Resources Ltd.	Canada	Focus on Carbon Products and Services		<div style="text-align: right; font-size: small;">One piece equals three months.</div>
Chevron Corp.	United States	Focus on Carbon Products and Services		
Coca-Cola Consolidated, Inc.	United States	Focus on E&S Impact of Products and Services		
Eneva SA	Brazil	Focus on Carbon and Emissions, Effluents and Waste		
EQT Corp.	United States	Focus on Carbon and Community Relations		
Kikkoman Corp.	Japan	Focus on Product Governance		
Masimo Corp.	United States	Focus on Risk Assessment and ESG Disclosure	Investor Letter, Voting Recommendations	
Mesaieed Petrochemical Holding Co. QSC	Qatar	Focus on Risk Assessment and ESG Disclosure		
PPB Group Bhd.	Malaysia	Focus on Land Use and Biodiversity Supply Chain		
SABIC Agri-Nutrients Co.	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure		
Südzucker AG	Germany	Focus on Carbon and Resource Use		

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
One piece equals three months.				
The Middleby Corp.	United States	Focus on Occupational Health and Safety and Emissions, Effluents and Waste		 0-3
Viking Holdings Ltd. (Bermuda)	Bermuda	Focus on Product Governance		 0-3
Blue Owl Capital, Inc.	United States	Focus on Product Governance		 3-6
Industries of Qatar Co.	Qatar	Focus on Risk Assessment and ESG Disclosure		 3-6
Occidental Petroleum Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste		 3-6
Reliance Industries Ltd.	India	Focus on Risk Assessment and ESG Disclosure		 3-6
Zoomlion Heavy Industry Science & Technology Co., Ltd.	China	Focus on Carbon and Product Governance	Director Letter	 3-6
DraftKings, Inc.	United States	Focus on Business Ethics	Director Letter	 6-9
ARC Resources Ltd.	Canada	Focus on Emissions, Effluents and Waste	Director Letter	 9-12
Encompass Health Corp.	United States	Focus on Product Governance and Emissions, Effluents and Waste	Director Letter	 9-12
Athabasca Oil Corp.	Canada	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	 12-15
Baytex Energy Corp.	Canada	Focus on Risk Assessment and ESG Disclosure	Director Letter	 12-15
HF Sinclair Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	 12-15

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
ORION Corp.	South Korea	Focus on Product Governance	Director Letter, Investor Letter, Voting Recommendations	<p>One piece equals three months.</p> <p>12-15</p>
Yunnan Baiyao Group Co., Ltd.	China	Focus on Product Governance	Director Letter, Investor Letter, Voting Recommendations	<p>12-15</p>
Zhangzhou Pientzehuang Pharmaceutical Co., Ltd.	China	Focus on Risk Assessment and Corporate Governance	Director Letter, Investor Letter	<p>12-15</p>
China State Construction Engineering Corp. Ltd.	China	Focus on Risk Assessment	Director Letter	<p>15-18</p>
EOG Resources, Inc.	United States	Focus on Emissions, Effluents and Waste	Director Letter	<p>15-18</p>
General Dynamics Corp.	United States	Focus on Risk Assessment and ESG Disclosure	Director Letter	<p>15-18</p>
Saudi Industrial Investment Group	Saudi Arabia	Focus on Risk Assessment and ESG Disclosure	Director Letter, Investor Letter	<p>15-18</p>
Saudi Kayan Petrochemical Co.	Saudi Arabia	Focus on Emissions, Effluents and Waste and Community Relations	Director Letter, Investor Letter	<p>15-18</p>
Whitecap Resources, Inc.	Canada	Focus on ESG Disclosure	Director Letter	<p>15-18</p>
Targa Resources Corp.	United States	Focus on Emissions, Effluents and Waste and Community Relations	Director Letter, Investor Letter	<p>18-21</p>
Suncor Energy, Inc.	Canada	Focus on ESG Disclosure	Director Letter	<p>21-24</p>
China Petroleum & Chemical Corp.	China	Focus on Carbon and Emissions, Effluents and Waste	Director Letter, Investor Letter	<p>Above 24</p>

COMPANY	COUNTRY	ISSUE	ESCALATION ACTIVITIES	TIME TRACKER
Exxon Mobil Corp.	United States	Focus on Carbon and Emissions, Effluents and Waste	Director Letter	One piece equals three months.  Above 24
Grupo Carso SAB de CV	Mexico	Focus on Risk Assessment and ESG Disclosure	Director Letter, Voting Recommendations	 Above 24
GS Holdings Corp.	South Korea	Focus on Carbon Own Operations	Director Letter, Investor Letter, Voting Recommendations	 Above 24
Hindustan Petroleum Corp. Ltd.	India	Focus on Carbon and Community Relations	Director Letter, Investor Letter	 Above 24
National Industrialization Co.	Saudi Arabia	Focus on Emissions, Effluents and Waste and Land Use and Biodiversity		 Above 24
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	China	Focus on Product Governance	Director Letter, Voting Recommendations	 Above 24

Morningstar Sustainalytics does not provide investment advice; the decision of investment or exclusion lies solely with investors. Morningstar Sustainalytics provides insights, information, and services, and it remains the client's sole responsibility and decision to manage their portfolio. Morningstar Sustainalytics' Stewardship clients benefit from engagement activities, such as participating in company meetings, webinars, and roundtable events. Investor clients are also provided with insights and data stemming from those activities.

Engagement Status Updates

The following is an overview of all engagement status updates from 1 January to 31 March 2026.

New Engage

COMPANY	COUNTRY	ISSUE
Banpu Public Co. Ltd.	Thailand	Focus on Emissions, Effluents and Waste and Resource Use
Celsius Holdings, Inc.	United States	Focus on Product Governance
CPFL Energia SA	Brazil	Focus on Product Governance
Genesis Minerals Ltd.	Australia	Focus on Carbon and Resource Use
Ithaca Energy Plc	United Kingdom	Focus on Corporate Governance and Carbon Products and Services
K92 Mining, Inc.	Canada	Focus on Emissions, Effluents and Waste
North Atlantic Energies	France	Focus on Corporate Governance and Carbon Products and Services
Seabridge Gold, Inc.	Canada	Focus on Occupational Health and Safety
Thai Oil Public Co. Ltd.	Thailand	Focus on Emissions, Effluents and Waste
Vår Energi ASA	Norway	Focus on Carbon and Emissions, Effluents and Waste
YTL Power International Bhd.	Malaysia	Focus on Carbon and Emissions, Effluents and Waste

New Archived

COMPANY	COUNTRY	ISSUE	PREVIOUS STATUS
China State Construction International Holdings Ltd.	Hong Kong	Focus on Occupational Health and Safety and Human Capital	Engage
Formosa Petrochemical Corp.	Taiwan	Focus on Carbon Own Operations	Engage
Jinko Solar Co., Ltd.	China	Focus on Corporate Governance and Human Rights	Engage
Kellanova	United States	Focus on Product Governance	Engage
MicroPort Scientific Corp.	China	Focus on Risk Assessment and Corporate Governance	Engage
Parkland Corp.	Canada	Focus on Carbon and Emissions, Effluents and Waste	Engage
UBE Corp.	Japan	Focus on Carbon Own Operations	Engage

Board Effectiveness: How Japan Compares to Leading Asia-Pacific Region



Wakako Mizuta

Manager, Stewardship
Material Risk/Strategy & Risk
Engagement
Morningstar Sustainalytics

Japan's Corporate Governance Code was introduced in 2015, and a third round of revisions is expected mid-2026.¹ While the code and relevant initiatives have contributed to progress in corporate governance reforms, there is a growing demand for more substantive reform, going beyond compliance.² Against this backdrop, the upcoming revisions including the Code and related frameworks aim to foster an institutional environment that enhances "board effectiveness," one of the key pillars of Japan's broader governance reforms.

In the context of Japan's governance reforms, strengthening board effectiveness broadly refers to enhancing the board's decision-making and oversight capabilities to support sustainable corporate value. This places particular focus on practical mechanisms, such as board secretariat functions, that facilitate effective interactions between boards and management. Accordingly, further improving the structures that underpin board effectiveness has become a practical cornerstone of Japan's reform agenda.

This article offers a comparative analysis of Japanese company board effectiveness relative to leading Asia-Pacific companies, focusing on the factors that underpin effective boards. Based on this comparison, the analysis highlights areas where Japanese boards could further improve effectiveness. Notably, while the Japanese Corporate Governance Code emerged from a global movement to institutionalize corporate accountability, largely shaped by practices in the US and Europe, the Asia-Pacific region provides a relevant benchmark given that key regional economies face governance reform pressures that differ in nature but are shaped by some common market- and institution-driven dynamics.

What is Board Effectiveness?

Most international corporate governance codes place the corporate board at the heart of good governance. While no single definition emerges, there is broad convergence on what matters in practice: providing strategic guidance, overseeing management, and ensuring accountability. For example, the G20/OECD Principles of Corporate Governance outline key board responsibilities – from overseeing risk management and compliance to setting strategic direction and monitoring management.³ Similarly, the UK Corporate Governance Code states that "a successful company is led by an effective and entrepreneurial board" that promotes long-term sustainable success.⁴ Principle 1 of the International Corporate Governance Network's Global Governance Principles states that "The board should promote the long-term best interests of the company by acting...for the benefit of shareholders, while having regard to relevant stakeholders."⁵

Taken together, these frameworks suggest that board effectiveness is best understood as the board's capability to move beyond formal structures and fulfill its essential responsibilities in a way that drives corporate value creation.

Why does board effectiveness matter for investors? The reason is straightforward: boards represent the company and shareholders' interests through the effective monitoring and oversight of company management. Strong board leadership and accountable management protect against downside risks while driving long-term, sustainable corporate value.

Board Effectiveness in Japan and the Asia-Pacific Region

There are various indicators and approaches for assessing the effectiveness of a board of directors, and cross-company comparisons require multiple perspectives. However, we have determined that boards can be compared against a few key dimensions.

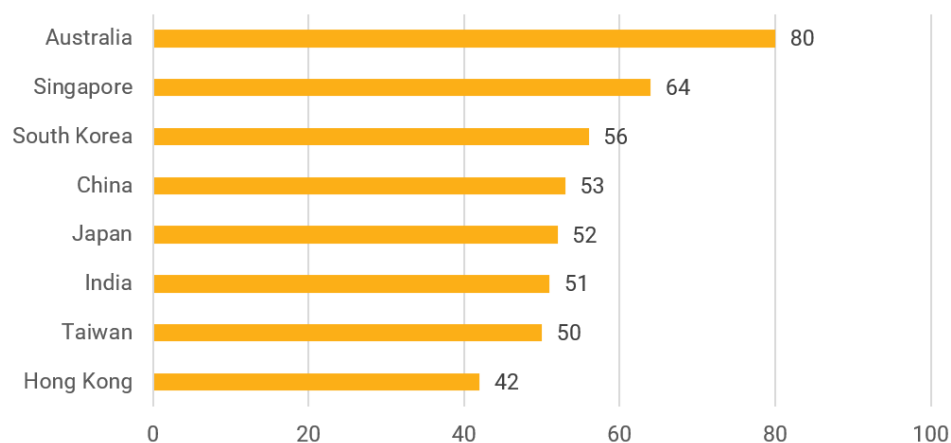
To benchmark Japanese company board effectiveness, we considered how they compared with a large number of companies across the Asia-Pacific region which have been analyzed by Morningstar Sustainalytics' "Board Effectiveness" Risk Rating indicator. This indicator is a key component of the ESG Risk Rating's Corporate Governance analysis and evaluates a board's effectiveness based on three important criteria – independence, expertise, and commitment – scoring each from 0 to 100 in 25-point increments.

To begin our analysis, the average company score for each country and region evaluated was calculated. Given the uneven coverage across jurisdictions, countries with a small number of companies covered by the rating were excluded.⁶ The analysis was therefore conducted focusing on the eight major countries and regions.

The results of the analysis show the following ranking from highest to lowest: Australia, Singapore, South Korea, China, Japan, India, Taiwan, and Hong Kong. See Figure 1. Based on this ranking, Australia leads in board effectiveness with an average score of 80. Singapore and South Korea follow with 64 and 56, respectively. Japan places fifth, with an average board effectiveness indicator score of 52, positioning it mid-way among peers in the Asia region ranking.

While the analysis reflects multiple factors, Japan's outcome may be partly attributed to the country's comparatively later adoption of its governance framework, including the Corporate Governance Code which was introduced more than a decade after similar frameworks in leading countries – highlighting the importance of examining the underlying drivers of board effectiveness in greater detail.⁷

Figure 1 Ranking of Board Effectiveness Average Scores by ESG Risk Rating in Japan and the Asia-Pacific Region



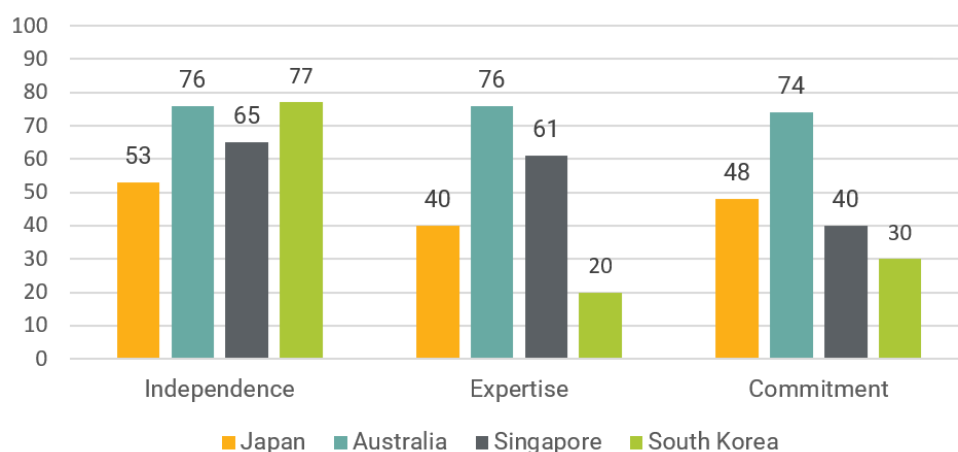
Source: Morningstar Sustainalytics' ESG Risk Rating Data. Data as of February 2026. For informational purposes only.

Component-Level Board Effectiveness: Japan and Leading Asia-Pacific Countries

To obtain a more detailed understanding of board effectiveness in Japan and the broader Asia-Pacific region (Australia, Singapore, South Korea), the analysis focuses on the individual components – independence, expertise, and commitment – underlying the ESG Risk Ratings' assessment of board effectiveness. As the ESG Risk Rating does not disclose scores for each criterion, other relevant corporate governance indicators within the rating were used.⁸

- **Independence** was assessed through indicators on the presence of independent directors on the board and key committees.
- **Expertise** was examined through indicators capturing whether the board has an appropriate mix of executive and non executive experience.
- **Commitment** was examined through compensation related indicators tied to short , medium , and long-term incentive schemes, reflecting directors' dedication to long-term objectives.

Based on these indicators, average scores were calculated for each country to derive a more granular picture of board effectiveness, focusing on Australia, Singapore, South Korea, and Japan (see Figure 2).

Figure 2 Component-Level Board Effectiveness: Japan and Leading APAC Countries

Source: Morningstar Sustainalytics' ESG Risk Rating Data. Data as of February 2026. For informational purposes only.

Figure 2 shows Japan's position on each of the three key components of board effectiveness, relative to Australia, Singapore, and South Korea; the leading markets in the Asia-Pacific region as determined in Figure 1. Australian companies' aggregate scores are consistently high across independence, expertise, and commitment. Singapore also demonstrates relatively high levels of independence and expertise; however, incentive structures that may reflect director commitment tend to be comparatively restrained. South Korea shows a different pattern: independence remains high, but expertise and commitment are the lowest among the comparison group.

Focusing on Japan, which ranks fifth in the board-effectiveness indicator evaluated for Figure 1, levels of independence and expertise remain lower than those observed in Australia and Singapore, indicating that there may be scope for further enhancement. In contrast, remuneration practices appear stronger than those of companies in Singapore and South Korea, though still below those of Australia. Although Japan's governance framework outlines expectations regarding independence, a diverse mix of board skills, and incentive structures for directors, the results suggest that challenges may remain in the effective implementation of these elements.

Taken together, these comparisons indicate that strengthening independence and expertise could represent an important opportunity for improving the overall effectiveness of Japanese boards relative to regional leaders.

Conclusion

Board effectiveness can be assessed through a wide range of indicators and methodological approaches. While there are similarities in the economic and market contexts across Asia-Pacific countries and regions, material differences limit the comparability of assessments based solely on a narrow set of indicators. Nonetheless, indicator based analysis provides a valuable benchmark for evaluating whether corporate governance frameworks and code revisions are positioned to support stronger board effectiveness.

To complement this analysis, Morningstar Sustainalytics' Stewardship team seeks to deepen dialogue through our Strategy & Risk Engagement Service. Engagement adds important qualitative depth to the Risk Rating methodology by enabling a more contextual assessment of board effectiveness, taking into account each company's overall governance profile.

Through ongoing engagement with Japanese companies, our discussions consider how boards assess their own effectiveness in practice as well as the broader governance factors that underpin board effectiveness, such as director independence, board skills composition, and remuneration structures. In these dialogues, we delve into board effectiveness assessments, for example, how the processes work, key findings from these assessments, identification of areas for improvement, and the level of transparency in related discussions. This allows us to understand the specific actions companies are taking, the level of detail they disclose, and the direction in which their governance practices are evolving. Considering all this information holistically, we identify both common strengths and gaps across companies and provide insights into where boards may benefit from further development to enhance effectiveness and align with global best practices.

Taken together, the combination of indicator based benchmarking and engagement insights provides a more comprehensive perspective on board effectiveness in general. Building on this analysis, engagement efforts will continue with a focus on the key factors that support stronger board effectiveness, with the aim of contributing to further improvements in corporate governance overall.

Endnotes

- 1 Financial Services Agency, The Japanese Government, 2025, The Expert Panel on the Revision of the Corporate Governance Code, February 10, 2026. https://www.fsa.go.jp/en/refer/councils/revision_corporategovernance/index.html.
- 2 Financial Services Agency, The Japanese Government, 2025, Action Programme for Corporate Governance Reform 2025, February 10, 2026, https://www.fsa.go.jp/en/refer/councils/follow-up/statements_8.pdf.
- 3 OECD. 2023, G20/OECD Principles of Corporate Governance 2023, February 10, 2026, https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/09/g20-oecd-principles-of-corporate-governance-2023_60836fcb/ed750b30-en.pdf.
- 4 The Financial Reporting Council, 2024, UK Corporate Governance Code, February 10, 2026, https://media.frc.org.uk/documents/UK_Corporate_Governance_Code_2024_a2hmQmY.pdf.
- 5 ICGN Global Governance Principles: <https://www.icgn.org/sites/default/files/2022-04/ICGN%20Global%20Governance%20Principles%202021.pdf>
- 6 Note: A small number indicates that fewer than 50 companies are covered by Morningstar Sustainalytics' ESG Risk Rating.
- 7 Note: the first corporate governance codes were introduced in Australia in 2003, in Singapore in 2001, and in South Korea in 1999.
- 8 Note: For independence, the indicators are Board Independence, Remuneration Committee Independence, and Nominating Committee Independence. For expertise, the indicators are Board Executive Experience and Board Non-Executive Experience. In addition, for commitment, both the Long-Term Incentive Programme and Short-Term Incentive Programme are examined.

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