

15 April 2020

Dear Chair, dear CEO,

Stewardship during and after the pandemic

The Covid-19 pandemic is a public health crisis. It is also a major threat to economic sustainability, businesses and individual households. Its impact on many, if not most of, our ultimate clients - beneficiaries of pension and insurance funds who are also, members of the workforce and citizens - is unprecedented in modern times. The world will not be the same again - or at least, it should not be.

The experience during this crisis supports our long-held belief that stakeholders and a social licence to operate are fundamental to long-term value creation:

Stakeholder focus and long-term value creation: as stewards, acting on behalf of these beneficiaries, we care about the prospects of the companies we and our clients invest in and will support them in their efforts to protect and generate value sustainably over the long-term. This means acting in the interests of the most important stakeholders, including the workforce, suppliers and customers, and to consider the needs of society more widely, as the current crisis demonstrates.

We believe that companies who pay closest attention to their stakeholders, which includes giving full support to the efforts of governments and wider society, will be the strongest coming through the Covid-19 crisis. This approach will also optimise the opportunity for sustainable wealth creation in the future and holistic returns for beneficiaries.

Social licence to operate and corporate purpose: all businesses are likely directly or indirectly to benefit from government action to support the economy. The Covid-19 crisis therefore highlights that all businesses need to have, and maintain, a social licence to operate which is underpinned by a corporate purpose centred on being sustainable and creating long-term value for its stakeholders, including shareholders.

Moreover, companies need to be better prepared for rapid crisis responses. This crisis demonstrates the need and, in many cases, the willingness of government and society to act rapidly in response to an acute or emerging crisis. Business and governments will need to learn from and comprehensively act on the lessons from this crisis, not only for future pandemics, but for other known risks, such as the climate crisis – an emergency that requires far greater planning, resolve and commitment than we have seen so far in addressing the Coronavirus pandemic in most countries.

For our dialogue with you during and after the pandemic this means the following:

1. Immediate focus of engagement: resilience and stakeholders

We aim to be a constructive voice with companies at this unprecedented time. We will focus our immediate engagement, primarily, on helping you navigate this crisis. We will also use it as an opportunity to deepen our relationships with you as we continue to engage on wider sustainability priorities, including climate change. The focus of our dialogue is therefore on operational and financial resilience of companies and, critically, their treatment of the workforce, suppliers and customers. We expect companies to:

- ensure the safety and wellbeing of their workforce and find ways to continue its employment, seeking government support as appropriate.
- treat their suppliers fairly, serve their customers and support the efforts of governments and wider society in dealing with Covid-19 crisis.

Focusing on these key stakeholders, and wider societal needs, will secure their social licence to operate and set them up for long-term value creation post-crisis.

2. Voting policies during the Covid-19 crisis

At this time of crisis, we have modified our voting policies for this year's shareholder meeting season.

- **Dividends:** We urge companies to strengthen their balance sheets and act in their long-term interest when making capital allocation decisions, including dividend pay-outs. In markets where there is a vote on dividends, we will support companies that are prudent as they navigate the immediate financial impact of the pandemic.
- **Board elections:** Companies facing unprecedented challenges require strong and stable leadership. In certain cases, we will therefore be more flexible around the re-election of key directors to avoid unplanned disruption to board composition at this critical time.
- **Remuneration:** Management remuneration should be appropriately aligned with the experience of the wider workforce and society and adjusted taking a company's circumstances into consideration.
- **Climate change:** We will not change our approach to shareholder proposals seeking to encourage action to address the climate crisis.

3. Post-crisis engagement priorities: corporate purpose, sustainability-focused risk management and stakeholder relations

We look forward to supporting companies in a reassessment of their business purpose - on which their social licence to operate depends – together with governance and operations post-crisis. We believe that sustainability-focused risk management, along with operational and financial resilience, which is underpinned by a new approach to stakeholder relations, will be particularly relevant to this agenda:

- **Sustainability-focused risk management** requires more effective work on sustainability risks, including pandemics, which should not be unforeseen events. Companies need to be prepared for government interventions in response to crises that can dramatically impact upon the way they can conduct business particularly if within a short time frame.
- **Operational resilience** requires strong relationships with the workforce and the ability, supported by structured mechanisms, to manage through a crisis without losing valuable experience and skills and causing human hardship. Companies must also reassess the resilience of their global supply chains, with a focus on the risks of just-in-time sourcing, dependencies on individual countries or regions and the cost-benefits of local sourcing.
- **Financial resilience:** in light of the experience in recent weeks, companies must re-evaluate the strength of their balance sheets, capital allocation decisions and their ability to raise finance during and after a crisis.

The world will not be the same again – or at least, it should not be. We look forward to working with you on a more sustainable form of capitalism during this unprecedented time and post-crisis.

Dr Hans-Christoph Hirt, Executive Director, Head of EOS, Federated Hermes

The views and opinions contained herein are those of the author and may not necessarily represent views expressed or reflected in other Federated Hermes communications, strategies or products.