



# Brunswick:

engagement commentary

Federated Hermes SDG Engagement Equity Fund  
Q3 2020

**Federated  
Hermes**   
International

[www.hermes-investment.com](http://www.hermes-investment.com)  
For professional investors only



## ENGAGEMENT COMMENTARY: Brunswick

A global leader in recreational marine products, producing marine engines, parts and accessories, and recreational boats.

Employs

**12,828**  
people



Operates in

**25**



countries and serves customers  
in over 170 countries

We hold Brunswick in our Federated Hermes SDG Engagement Equity Fund and detail below our engagements with the company.

### Investment case

Brunswick is comprised of three broadly equal segments: propulsion (Mercury engines), boats and parts and accessories, having offloaded its fitness business last year.

In recent years, there has been substantial investment in diversifying the business with the expansion of its parts and accessories division, thereby reducing the company's cyclical nature. However, with consumer discretionary spend facing headwinds, this reduced cyclical nature will soon be tested. To date, it has fared well as evidenced by Figure 1 – a stock price chart for the company starting from 16 March when President

Trump announced his 15-day plan to slow the spread of the coronavirus pandemic, which included the Federal government's recommended lockdown measures in the US.

Brunswick is a genuine market leader: one in every two boats is powered by its Mercury engine, while the group contains three of the top four most recognisable boat brands in the US. As such, it has the potential to continue raising standards industry-wide, such as fuel efficiency. In addition, by extending its commitment to sustainability across the group, it can realise further efficiencies and brand enhancements.

## Engagement timeline

### Completed objectives

- **Sustainability strategy (SDG 12):** Brunswick built on Mercury's long-standing sustainability strategy with its first enterprise-wide sustainability report published in 2020 and has now begun to replicate best practices across the wider group.
- **Decent pay and conditions (SDG 1 and 8):** the company has confirmed that at least a living wage is paid to all direct employees and employees of tier one suppliers.

### Open objectives

- **End-of-life recycling of fibreglass vessels (SDG 12 and 14):** we would like the company to establish an approach in partnership with value chain partners to enable collection and recycling of fibreglass boats.
- **Product development (SDG 7 and 14):** we want the company to develop engine and boat offerings that extend towards a more explicit green product suite.
- **Carbon reduction (SDG 7 and 13):** we would like to see the company build on its strong focus on energy efficiency and commit to a long-term plan for carbon neutral production.

We had a positive introductory meeting with management. Brunswick agrees that it needs to replicate the good work already in place at Mercury across the wider business.

The company confirms that it is establishing a group-wide sustainability plan.

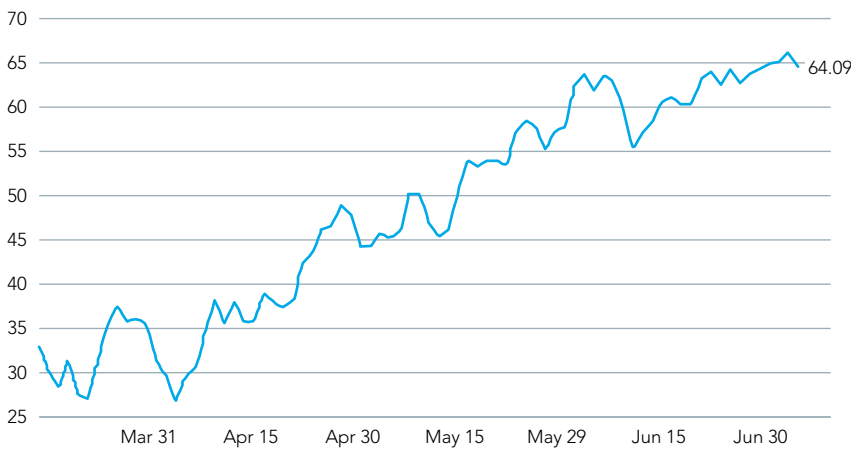


We visit the company's primary manufacturing facility and are impressed by its commitment to operating in a responsible and sustainable manner.

In a letter to the chief executive, we stress the importance of decent work practices in recruiting, retaining and motivating employees.



**Figure 1. Resilient despite Covid-19: Brunswick's share-price performance since 16 March**



Source: Bloomberg, as at 8 July 2020.

### Engagement focus summary

Our SDG-aligned engagements with Brunswick focus on:

1. Replicating Mercury's sustainability strategy across the wider group
2. Ensuring provision of decent pay and conditions
3. Developing solutions for end-of-life recycling of fiberglass vessels
4. Further 'green' product development
5. Aiming for carbon neutral production

We visit the company's headquarters to discuss progress and are pleased to hear that it is in the process of establishing a group-wide sustainability strategy.

Jun  
2019

The company's foundation is funding a pilot study in Rhode Island to investigate solutions for end-of-life disposal of fiberglass vessels.

We raise the issue of electrification and greener offerings with the chief executive. The company will soon showcase products that use Lion batteries to replace on-board diesel generators.

Jul  
2019

We meet the company and discuss its approach to human capital management.

The company confirms it is publishing its first enterprise-wide sustainability report in March.

Sep  
2019

We are encouraged that management acknowledge the growing salience of the issues associated with end-of-life recycling of fiberglass vessels as well as the heightened environmental concerns of younger generations and the implications this has for the development of product offerings.

The company is developing a methodology for measuring its in-use boat fleet emissions and is committed to not developing engines which are not more efficient than existing versions. On the topic of end-of-life management of fiberglass vessels, it is increasing funding this year to the Rhode Island recycling project.

Feb  
2020

We were reassured to hear that its analysis confirmed it pays all employees a living wage, as do its tier one suppliers. The group recognises that more can be done with respect to racial diversity and is mindful of not reversing diversity and inclusion efforts as the labour market loosens, recognising the long-term needs.

May  
2020

# The challenge – SDG 14

**Studies from Wisconsin University found that lakes with high boat traffic experience a higher growth of algae and kick up of sediment, affecting water quality and clarity.**

**Every year in the US an increasing number of recreational fiberglass boats reach their end of life without a sustainable option for disposal – many are abandoned on land or in coastal areas harming the natural ecosystem.**

## Theory of change

The company's manufacturing processes, while very vertically integrated, are nonetheless energy intensive. Its products are more energy-efficient than those of its peers, but still generate pollution when used and the fiberglass vessels it creates are difficult to recycle, re-use, or dispose of.

- **Scaling up positive direct operations impact:** the company's engine business has embraced resource-efficiency principles, showing the potential for the group to scale up these efforts. Equally, with a significant workforce and network of external suppliers, the company directly influences the quality of work and living standards of its employees and, through external contracts, people working in its supply chain. By replicating the sustainability reporting already undertaken by the engine business across the entire group, there is the potential to catalyse activity which in turn will reduce energy and material usage, while also improving the physical and financial wellbeing of thousands of individuals.
- **Green boating:** further innovations have the potential to reduce environmental impacts to a greater extent and raise standards across the industry.
- **Improving material efficiency:** incorporating end-of-life considerations into the company's product-development process and working with value-chain partners to develop recycling and/or other uses should embed circular-economy principles that can mitigate these problems.

## Further context and practice of change

Since inception of the strategy, we have had multiple interactions with Brunswick, including a number of meetings with the company's management team, a visit to its principal manufacturing facility and considered exercising of our voting rights. We have been impressed by the human-capital management and sustainability practices of specific divisions, notably the engine business Mercury Marine. Pleasingly, the company has extended these practices across the group and is taking a leadership position on important issues for the industry.



## Decent work

The group's main manufacturing facility is located in Wisconsin, away from larger conurbations but near many other manufacturers, thereby competing for limited labour while expanding capacity.

During a visit to the Mercury Marine manufacturing facility in Fond du Lac in May 2018, we were impressed by the notably high level of gender diversity on the floor and the reported low level of turnover. About one third of Mercury's workforce is female, thanks to its investments in assisted lifting equipment and robotics to support those working on the production line. This compares to female representation of about 28% at group level. These are practices that may now be replicated across the group. Across Brunswick, 19% of the workforce are "racially diverse" which is an area for future improvement as recognised by the company.



## Carbon neutral production

In 2017, the group initiated a programme to measure its energy consumption with the goal to understand trends and usage patterns enabling it to reduce its energy intensity and cost of operations over time. In 2019, the group's energy consumption of natural gas and electricity usage was 3% lower compared to 2018 levels. The company aims to reduce its GHG emissions over time by integrating more renewable energy sources.



## Green boating

Boat engines inherently produce pollution and therefore contribute to ocean acidification. Unfortunately, consumer preferences are shifting towards higher horse-powered engines exacerbating this challenge. For example, 300-horsepower engines now account for almost 25% of the boat engine market, while they were non-existent in 2006<sup>1</sup>. The group's engine business uses engines that are significantly lighter and more fuel-efficient than those produced by competitors. For example, its V6 and V8 engines are 35% quieter, experience 66% less vibration and are more than 60lbs lighter than its competitors. Further innovations, including electrification of onboard diesel generators and the like, have the potential to reduce boating's environmental impacts to a greater extent, thereby raising standards across the industry.

## End-of-life

Fiberglass vessels are typically dumped and then become navigational hazards with inherent pollutants – such as disintegrating plastic and paint fragments – entering the ecosystem. Recreational crafts that are at the end of their useful life need to be disposed of in a safe and environmentally responsible manner. Aluminium boats have inherent scrap value while fiberglass is increasingly prohibited from being sent to landfill. With more than 10m registered boats and 200,000 new ones sold annually, incorporating end-of-life considerations into the company's product-development process and working with value-chain partners to develop recycling and/or other uses should help embed circular-economy principles that can mitigate these problems.

<sup>1</sup> Brunswick, as at May 2020.

## Responding to the coronavirus

A large majority of the US hourly workforce was furloughed because production was halted for about a month due to the coronavirus pandemic. However, there have been very few layoffs and no broad reductions in the workforce. The group was extremely transparent about the length of its production suspension, which in many locations in the US coincided with state 'stay at home' orders. During the furlough, the group maintained all of its health and welfare benefits, continued wages until it was able to obtain state/federal unemployment, and, even before the furloughs, it allowed staff to take paid annual leave to handle personal or family issues-related to the coronavirus.

## Progress to date



### Decent work

- In May 2020, we received confirmation that the group has analysed its pay practices pertaining to both its direct employees and tier one suppliers and was able to confirm that it pays at least a living wage. The group now intends to extend this due diligence to its tier two and tier three suppliers.
- In 2018, the group was awarded 'Best eco-friendly company that is hiring now' by Glassdoor (a website where employees and former employees anonymously review companies and their management). Last year, it was recognised as one of the best employers for diversity by Forbes.
- It has creatively expanded its employee benefits package by, for example, including coverage for infertility treatments and implementing a paid parental leave program.



### Carbon neutral production

- In 2019, Mercury's Fond Du Lac facility received the Wisconsin Sustainable Business Council "Green Masters" designation for a ninth consecutive year – the program measures a broad range of sustainability issues including energy and water conservation, waste management, community outreach and education.
- In its 2020 enterprise-wide sustainability report, the group established the goal of transitioning to 50% of electricity to be derived from renewable sources by 2030.



### Green boating

- The group established a Sustainability Scorecard – an integral component of the process for new product development. Positive scores are awarded for how well a product promotes an engine's fuel economy and emissions controls and how well they contribute to the longevity of an engine.
- It is developing a methodology for monitoring and measuring its scope three emissions, including those associated with boat usage.

### End-of-life:

- Since 2018, the Brunswick Foundation has been supporting (with funding and people) the Rhode Island Fiberglass Vessel Recycling Pilot Project initiated by the Rhode Island Marine Trades Association. The project is exploring solutions for the sustainable disposal of fiberglass boats by dismantling and re-processing fiberglass hulls into alternative materials or as a potential high-energy alternative fuel source.
- The company is also exploring other, more value preserving, avenues including the scale potential offered by the wind turbine blade "trade out". The first generation of turbines are now being decommissioned and the cumulative blade waste through 2050 is estimated at about four million tons. Like fiberglass vessels, there are similar end-of-life challenges with respect to turbine blades, but the scale of material may support the economic viability of other solutions such as chemical recycling rather than simply burning for fuel. Brunswick will be increasing its presence and involvement with relevant initiatives.

This document does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments. The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.

## Next steps

**We are encouraged by the positive progress that Brunswick has made during the course of our engagements. Our focus going forward is to continue to engage constructively with management and, in so doing, encourage them to keep raising their ambitions. We remain particularly focused on developing options for more circular usage at the end-of-life for the fiberglass material in vessels, as well as further innovations to reduce the group's direct (production) and indirect (product usage) emissions impact.**



**For professional investors only.** This is a marketing communication. This document does not constitute a solicitation or offer to any person to buy or sell any related securities, financial instruments or products; nor does it constitute an offer to purchase securities to any person in the United States or to any US Person as such term is defined under the US Securities Exchange Act of 1933. It pays no regard to an individual's investment objectives or financial needs of any recipient. No action should be taken or omitted to be taken based on this document. Tax treatment depends on personal circumstances and may change. This document is not advice on legal, taxation or investment matters so investors must rely on their own examination of such matters or seek advice. Before making any investment (new or continuous), please consult a professional and/or investment adviser as to its suitability. All figures, unless otherwise indicated, are sourced from Federated Hermes. All performance includes reinvestment of dividends and other earnings.

Federated Hermes Investment Funds plc ("FHIF") is an open-ended investment company with variable capital and with segregated liability between its sub-funds (each, a "Fund"). FHIF is incorporated in Ireland and authorised by the Central Bank of Ireland ("CBI"). FHIF appoints Hermes Fund Managers Ireland Limited ("HFMI") as its management company. HFMI is authorised and regulated by the CBI.

Further information on investment products and any associated risks can be found in the relevant Fund's Key Investor Information Document ("KIID"), the prospectus and any supplements, the articles of association and the annual and semi-annual reports. In the case of any inconsistency between the descriptions or terms in this document and the prospectus, the prospectus shall prevail. These documents are available free of charge (i) at the office of the Administrator, Northern Trust International Fund Administration Services (Ireland) Limited, Georges Court, 54- 62 Townsend Street, Dublin 2, Ireland. Tel (+ 353) 1 434 5002 / Fax (+ 353) 1 531 8595; (ii) at <https://www.hermes-investment.com/ie/>; (iii) at the office of its representative in Switzerland (ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich [www.acolin.ch](http://www.acolin.ch)). The paying agent in Switzerland is NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, P.O. Box, CH-8024 Zurich.

Issued and approved by Hermes Fund Managers Ireland Limited ("HFMI") which is authorised and regulated by the Central Bank of Ireland. Registered address: The Wilde, 53 Merrion Square, Dublin 2, Ireland. HFMI appoints Hermes Investment Management Limited ("HIML") to undertake distribution activities in respect of the Fund in certain jurisdictions. HIML is authorised and regulated by the Financial Conduct Authority. Registered address: Sixth Floor, 150 Cheapside, London EC2V 6ET. Telephone calls will be recorded for training and monitoring purposes. Potential investors in the United Kingdom are advised that compensation may not be available under the United Kingdom Financial Services Compensation Scheme.

**In Singapore:** This document and the information contained herein shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives a Federated Hermes Investment Funds Public Limited Company prospectus, as supplemented with the global supplement, the relevant fund supplement, and the relevant Singapore supplement (the "prospectus"), describing the offering and the related subscription agreement. In the case of any inconsistency between the descriptions or terms in this document and the prospectus, the prospectus shall control. Securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. For the avoidance of doubt, this document has not been prepared for delivery to and review by persons to whom any offer of units in a scheme is to be made so as to assist them in making an investment decision. This document and the information contained herein shall not constitute part of any information memorandum. Without prejudice to anything contained herein, neither this document nor any copy of it may be taken or transmitted into any country where the distribution or dissemination is prohibited. This document is being furnished on a confidential basis and solely for information and may not be reproduced, disclosed, or distributed to any other person. This document has not been reviewed by the Monetary Authority of Singapore.

**In Spain:** The information contained herein refers to a sub-fund (the "Sub-Fund") of Federated Hermes Investment Funds plc (the "Company"), a collective investment scheme duly registered with the Spanish Securities Market Commission ("CNMV") under number 1394, the website [www.cnmv.es](http://www.cnmv.es) may be consulted for an updated list of authorised distributors of the Company in Spain (the "Spanish Distributors"). This document only contains brief information on the Sub-Fund and does not disclose all of the risks and other significant aspects relevant to a potential investment in the Sub-Fund. Any investment decision must be based solely on the basis of careful consideration and understanding of all information contained in the Company's latest prospectus, key investor information document ("KIID") and the latest half-yearly and audited yearly reports. The Spanish Distributors must provide to each investor, prior to that investor subscribing for shares of a Sub-Fund, a copy the KIID translated into Spanish, and the latest published financial report. All mandatory official documentation shall be available through the Spanish Distributors, in hard copy or by electronic means, and also available upon request. It is advisable to obtain further information and request professional advice before making an investment decision.

## Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

For more information, visit [www.hermes-investment.com](http://www.hermes-investment.com) or connect with us on social media:

