Stewardship Report 2020

EOS at Federated Hermes

March 2021

Federated Hermes
EOS

www.hermes-investment.com
For professional investors only

Welcome to the EOS at Federated Hermes 2020 Stewardship Report[1].

[1] The statements, references to officers, practices and policies, and discussions in this report pertain to the EOS at Federated Hermes business, which is wholly owned by the international business of Federated Hermes. It does not refer to other businesses engaged in by the international business of Federated Hermes or Federated Hermes, Inc.

The investment industry can be a powerful force in building a better world – and at EOS at Federated Hermes, we believe active stewardship is the best way to achieve this.

As a service provider, we contribute to asset managers and asset owners fulfilling their duties of the UK Stewardship Code. Offering a shared service platform and a dedicated stewardship team, we pool our clients' assets to increase the influence we can have with companies. This leverage means we can have more meaningful impact on the issues of most importance to our clients. Wholly owned by the international business of Federated Hermes, we support the 2020 vision[2] for how investment management can achieve sustainable wealth creation through active stewardship of the businesses held by our clients.

Our heritage is rooted in responsibility. Since the creation of our firm when we were owned by the asset owners BT and Post Office pension funds, proper stewardship of assets representing the long-term interests of ultimate beneficiaries has always been key.

The global coronavirus pandemic dramatically changed the business landscape in 2020, as well as our own approach to engagement. With some exceptions, we have been impressed by the response of most companies to the challenges of the pandemic. In addition to our priority themes of climate change, human and labour rights, human capital management and board effectiveness, following the pandemic, we will focus on companies putting in place a business purpose and sustainable business model. There are many lessons for investor stewardship and tackling future sustainability challenges and at EOS, we are committed to serving our clients' interests.

Leon Kamhi
Chair, EOS at Federated Hermes and Head of Responsibility, International at Federated Hermes

Dr Hans-Christoph Hirt
Head of EOS, Federated Hermes

[2] https://www.hermes-investment.com/ukw/insight/stewardship/stewardship-the-2020-vision/

Executive summary

The new Code establishes a clear benchmark for stewardship as the responsible allcoation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

— UK Stewardship Code 2020, Financial Reporting Council

Our 2020 Stewardship Report explains our purpose and beliefs, how this manifests in our approach to stewardship and the outcomes of our activities in 2020. It outlines our engagement, voting recommendations, public policy, screening and advisory work carried out on behalf of our clients.

We have worked with over 1000 companies across the globe toaddress their key risks, challenges and opportunities, covering environmental, social, governance, strategy, risk and communication matters. Alongside this, we have continued to engage with policymakers, regulators and standard-setters to help improve market best practice.

We begin by setting out our purpose, our beliefs and our values that drive our strategy and business model. From this overarching structure flow our stewardship activities and how we contribute to building a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

In addition, monitoring outcomes is crucial to ensure that our approach is effective and achieving the desired results. This enables us to demonstrate to our clients that we are maintaining high standards and that stewardship has a tangible impact, as well as to identify means of continuous improvement.

We have taken a number of steps to ensure that this Stewardship Report is fair, balanced and understandable. We have aimed to communicate our successes, reflect on learnings from 2020 and explain the changes we will make in the coming year. Examples and case studies are provided throughout to demonstrate how our approach has worked in practice. We have also sought to make both this report and our reporting elsewhere understandable, providing explainers of key terms and acronyms where appropriate.

We welcome the updated and strengthened Stewardship Code in the UK, having provided significant input into the Financial Reporting Council's development and consultation process. It is a timely and necessary intervention to continue to raise awareness and performance on stewardship. We also welcome the emphasis placed on stewardship being at the heart of each signatory's business purpose, as well as the extension of the Code to global assets and asset classes beyond equities, as in our experience effective stewardship can be conducted in other asset classes, both public and private.

The international business of Federated Hermes reports separately under the Stewardship Code, which includes references to EOS activities.

Principle 1

Signatories' purpose, strategy and culture enable them to promote effective stewardship.

What is EOS and what is our purpose?

EOS at Federated Hermes is a leading stewardship service provider with a purpose to promote the long-term performance and fiduciary interests of its global institutional investor clients. Our engagement activities enable investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance (ESG) issues. Our services were created specifically to meet the needs of investors that have a strong commitment to stewardship, consistent with our vision to contribute to a more sustainable form of capitalism.

We achieve positive change on behalf of an international coalition of investors by pooling their assets together to exercise more effective stewardship. Our team, which we outline in more detail under Principle 2, has been strategically built to share this vision and embed our objective into our culture. We use a constructive, objectives-driven and continuous dialogue, developing engagement strategies specific to each company based on their individual circumstances. Our understanding is also informed by a range of research and our deep knowledge across themes, sectors and regions. We are committed to delivering holistic returns – outcomes that consider the impact our decisions have on society, the environment and the wider world.

Our origins, culture and values

EOS is wholly owned by the international business of Federated Hermes (which is majority owned by Federated Hermes, Inc), with the head of EOS reporting into the head of responsibility and the CEO of the international business of Federated Hermes. As a service provider, our report aims to highlight the extent of our contribution to asset managers and asset owners fulfilling their duties of the Code. Complementing this, is the reporting submission by the international business of Federated Hermes where we are referenced.

The international business of Federated Hermes was set up to manage the pension funds of BT and the Post Office in September 1983 and from day one we have engaged with companies: in 1983, our first chief executive Ralph Quartano admonished the Marks & Spencer board for the special loans it made available to directors. His message was clear: we were committed to serving the needs of our clients – who were effectively 400,000 beneficiaries, part of whose money we managed – and we understood that the investment decisions we made on their behalf helped to determine the shape of the future society in which they would live.

In 1996, prior to the creation of EOS, the international business of Federated Hermes set up a dedicated corporate governance team to engage with companies and advise on all aspects of corporate engagement and ESG policy development, research and analysis, voting and engagement. Then, in 2004, EOS was established in response to requests from pension funds that wanted to be more active owners of the companies they were invested in. These origins and our minority ownership by one of the UK's largest corporate pension schemes, BTPS, along with our partnerships with some of the world's leading institutions have provided us with deep-rooted values for the proper stewardship of assets to represent the long-term interests of ultimate beneficiaries, driving our purpose and our strategy. This insight into the long-term needs of pension fund clients means a culture of fiduciary responsibility is embedded at the heart of our organisation.

In 2018 Federated Investors acquired a 60% stake in Hermes Investment Management. On 3 February 2020 we rebranded as Federated Hermes, strengthening our position as a leader in active, responsible investing. We continue to stand for global, active, responsible investment management, building on Federated's strong fiduciary heritage and Hermes' long-standing reputation as a leader in ESG and sustainable investing. This is strengthened by our views set out in our Stewardship: the 2020 vision[3] publication from the international business of Federated Hermes, where we outline how active stewardship must sit at the heart of investment firms' activity, operations and purpose.

[3] https://www.hermes-investment.com/ukw/insight/stewardship/stewardship-the-2020-vision/

Federated
Fiduciary focus on client outcomes since 1955

Hermes
A pioneer of responsible investing since 1983

1955
Federated Investors, Inc. founded

1969
Federated launches the first fund to invest exclusively in US Government securities

1976
Federated creates the first institutional money-market fund and one of the first municipal bond funds

1983
Hermes' predecessor is established & starts engaging UK companies

2002
- Hermes explains what investors should expect of companies in its landmark *Responsible Ownership Principles*
- Hermes coins the term 'engagement' to help explain stewardship to international investors

2004
Hermes EOS is founded

2006
Hermes leads the drafting of the UN PRI and becomes a founding signatory

2010
Hermes signs the UK Stewardship code

2014
Responsibility Office in London is established

2015
Hermes creates what is now the Federated Hermes Pledge

2017
- Credit ESG-risk pricing model developed
- Hermes launches the Impact and SDG Engagement Equity strategies

2018
- Federated acquires Hermes
- Combined assets exceed US$500bn

2019
- SDG Engagement High Yield launched by Federated and Hermes
- Responsibility Office in Pittsburgh is established

2020
- Federated Hermes brand launched
- EOS passes US$1tn AUA
- Saker Nusseibeh, CEO – International, awarded a CBE for services to responsible business

Source: Federated Hermes, as at February 2021.

The Federated Hermes Pledge, established in 2015, compels us to put clients' interests first and to act responsibly. It is a clear expression of our values. It has been voluntarily signed by 99% of employees to date at the international business of Federated Hermes. The pledge is as follows:

I pledge to fulfill, to the best of my ability and judgement and in accordance with my role, this covenant:

- I will act ethically, responsibly and with integrity.
- I will put the interests of our clients first, consistent with our fiduciary responsibilities.
- I will encourage responsible behaviour in the firms in which we invest and on which we engage.
- I will act with consideration for our community and the environment both now and in the future. I will encourage others to do the same.
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society.
- I will treat my clients, my colleagues and all other stakeholders with dignity and respect and as I would wish to be treated.
- I will deal with our regulators in an open, co-operative and timely way.
- I will communicate clearly and honestly with all parties inside and outside our firm.
- I will manage conflicts of interest fairly between all parties.

Our fiduciary heritage and expertise in responsible investment ensure that our clients' interests come first. Under Principle 2, we outline our detailed recruitment process which helps to ensure that we continually evolve our team with members that are aligned with our culture.

Our business model

We offer a shared service model that provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. We work on behalf of long-term global investors who entrust us with the stewardship of over USD1.3tn[4] of assets invested in over 10,000 companies worldwide, working collectively in support of shared goals. Pooling of our clients' assets increases the influence we can have with companies and this increased leverage means we can have more meaningful impact on the issues of most importance to our clients collectively.

EOS engagement strategy

Our stewardship is focused on providing both improved long-term financial returns on investment as well as fostering better, more sustainable outcomes for society and the environment in which to spend that future – what we call holistic returns.

Our engagement is client-driven. We undertake a formal consultation process with clients to create a comprehensive forward-looking Engagement Plan, which is updated on an annual basis, which acts as a guide for our engagement activity. The Plan summarises the long-term outcomes we seek to achieve on behalf of our clients and covers a three-year period, as we plan our engagement objectives according to this timescale. The Plan is based on clients' long-term objectives and we consult with clients regularly to ensure we are covering the topics of most importance to them. Our clients come together to input to the Plan at our twice-yearly client meetings which have a recurring agenda slot where our thoughts for changes to and progress on the Plan are shared with an open floor.

We aim to strategically engage on the most financially material ESG risks. We select nearly 400 companies for our Engagement Plan[5] to focus our proactive engagement efforts by screening our clients' aggregate holdings looking at: holding size; materiality of risks/issues we identify through our screening; and feasibility of engagement. We also reactively engage with around 800 companies whether it be on voting or ad hoc issues, as well as those violating or are at risk of violating international norms that our screening tool identifies. We also cover this in more detail under Principle 2.

Our services

Engagement with companies is at the heart of what we do, but we offer an integrated approach to stewardship which also includes providing voting recommendations, portfolio screening, public policy and market best practice work and advisory services, as we believe effective stewardship is a combination of these tools to achieve positive change.

*EOS only provides voting recommendations.

[4] Source: Federated Hermes as at 31 December 2020. Our clients together manage approximately $4.5tn assets as of 1 May 2020.
[5] https://www.hermes-investment.com/ukw/wp-content/uploads/2021/01/eos-engagement-plan-2021-2023-public.pdf

Ensuring our strategy and culture enable us to promote effective stewardship

EOS' engagement strategy and culture to promote effective stewardship as a service provider is actioned primarily through its Engagement Plan which is formulated through consultation with clients – exemplifying the Federated Hermes Pledge which compels us to put clients' interests first. We consult clients about their priorities and the most material issues on which we need to engage companies. The Plan helps us stay on track and ensures our efforts are focused where they can have the most impact.

We have developed a number of tools to track our engagement and progress at companies, including our four-stage milestone system which we cover in detail under Principle 2. Our robust management of conflicts of interest, explained in detailed under Principle 3, is another example of actions we have taken in the form of processes which support our engagement strategy and culture and enable us to take effective stewardship action.

In an industry where greater focus and awareness at the asset owner and beneficiary level has prompted a push for more transparency around engagements, clients of EOS are able to use the Plan to demonstrate that the engagement we carry out on their behalf is with companies and on themes chosen in a systematic way. This is paramount in demonstrating how we contribute to asset managers and asset owners fulfilling their duties under the Code. It also speaks to our shared service business model and strategy to achieve positive change on behalf of an international coalition of investors – strengthening our collegiate culture, empowering us to strive for change at companies on behalf our clients with collective assets under advice of $1.3tn.

Our long-established heritage gives us enhanced credibility to develop trusted relationships with companies – many of our relationships have been developed over many years. We combine this with our work in building a diverse team with a wealth of experience and skills sets, outlined in detail under Principle 2.

We have put our engagement service at the heart of our stewardship service as we believe we can best promote stewardship by tying our engagement insights into our entire service offering to achieve positive change. When speaking with prospective clients, understanding that this is central to our strategy and that we have a deep-rooted culture is central to allowing them to select us as service provider with aligned long-term approaches.

An assessment of how effective we have been in serving the best interests of our clients

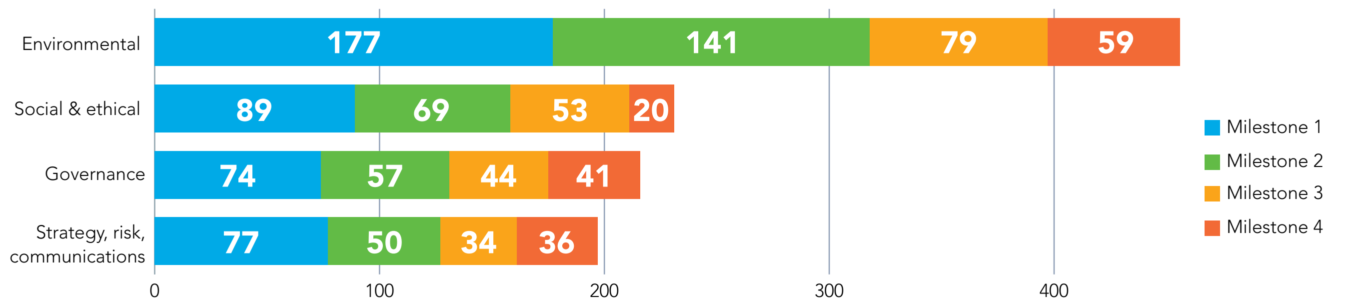
Overview of our service for clients during 2020

Throughout this report we seek to demonstrate the outcomes of our stewardship in the best interests of our clients. We believe that as an integral part of investing for the long term, this delivers sustainable growth and helps build a better world. The table and graphic below demonstrates that during 2020, we engaged with 1,245 companies, covering 3,942 identified objectives or issues, and 738 objectives advanced by at least one milestone within our engagement programme on behalf of our clients.

In 2020 we also made 52 public policy consultation responses or proactive equivalent such as a letter (and held 173 discussions with relevant regulators and stakeholders).

We believe this progress is industry-leading but we are continuously looking to improve year on year. We have a number of governance structures and processes in place which help us in the assessment of serving the best interests of our clients, which we explain in more detail under Principle 2.

	# of companies engaged	# of issues and objectives engaged	# of objectives engaged	# of objectives completed
Engagement programme	378	2014	913	139
Other companies	867	1950	338	16
Grand Total	**1245**	**3964**	**1251**	**155**



Using reporting and case studies as an assessment of our effectiveness in serving our clients

Under Principle 5, we outline the range of qualitative and quantitative reporting we provide our clients with. This includes our company case studies on our engagements which we publish on the EOS insights page[6] of our website – in 2020 we published 22 long-form case studies and a number of additional summary versions in our other reporting. Our comprehensive process around case study development means that key members of our leadership team are reviewers and once happy, we always send our drafts to the companies to request a fact-check, verifying the engagement impact we have described and adding credibility to the stewardship outcomes we are achieving on behalf of our clients. We believe our case studies are one of our best ways of demonstrating our impact. The EOS insights page of the website, as well as our Library[7] page provide examples of our other public reporting on how we have been serving the best interests of our clients.

Although we provide our clients with this public reporting, we recognise that clients have varying needs with regard to how they are required to report on outcomes and communicate with their beneficiaries and stakeholders. We have set up a dedicated client focus group which allows us to discuss changes with a select number of clients who represent the client base and think about ways to continually evolve this in their best interests.

The following summary versions of our case studies demonstrate some of the impact we have had with companies during the year and the engagement during previous years which has led to the achievements on behalf our clients.

In 2020 we published

22

long-form case studies

We always send our drafts to the companies to request a fact-check

and we have set up a dedicated client focus group which allows us to discuss changes

CASE STUDY: ENVIRONMENTAL

Repsol

Climate strategy and reporting

Our engagement on climate action began in 2013 with the joint CEO and chair and other senior executives to discuss Repsol's sustainability strategy. From 2015 through 2019 we focussed on five key aspects of climate action: scenario analysis and the disclosure of resilience to Paris-aligned decarbonisation, the alignment of strategy and targets with the goals of the Paris Agreement, internal carbon price assumptions and their use in investment decisions, the disclosure of a carbon intensity indicator and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). At its 2017 Sustainability Day, we welcomed Repsol's commitment to start using a single internal carbon price across the group. In 2018, we welcomed its strategic update, which set a path to climate transition by capping production and committing significant capex to low-carbon business. Since its 2018 integrated management reporting the company has disclosed a carbon intensity indicator for the energy it supplies, and a goal to reduce this intensity in line with the International Energy Agency's Paris-aligned Sustainable Development Scenario. In December 2019 Repsol became the first oil and gas company to commit to a net-zero goal, supported by a decarbonisation pathway with interim targets. In 2020, together with our co-lead for the company under Climate Action 100+, we submitted a statement to the company's annual meeting. We congratulated the company on its net-zero commitment and asked whether the current oil price situation and pandemic would have a material impact on the climate strategy – we were reassured to hear the company reaffirm its commitment. The engagement between EOS, the broader Climate Action 100+ engagement group and the company continues to advance and now has a focus on implementation of the net-zero pathway. Read the case study in full.[8]

[6] https://www.hermes-investment.com/ukw/stewardship/eos-insights/
[7] https://www.hermes-investment.com/ukw/stewardship/eos-library/
[8] https://www.hermes-investment.com/ukw/eos-insight/eos/repsol-case-study/

CASE STUDY: SOCIAL

PetroChina

Bribery and corruption

In 2013, the Central Commission for Discipline Inspection in China announced that executives at PetroChina were under investigation for serious violations of discipline. In 2014, EOS met five of PetroChina's senior executives on the need to strengthen sustainability management, including anti-bribery and corruption compliance practices. Later that year we met the president and embarked on a two-day site visit, reiterating our concerns. In 2015 we presented our concerns and recommended practices to the chair of the supervisory committee and over 20 senior executives. Later that year the company established a four-pillar compliance management mechanism covering prevention, control, supervision and accountability. It also developed its own: punishment regulations for management's violations and non-compliance; compliance management measures; and material supplier management measures. Between 2016 and 2018 we met with the assistant board secretary, head of sustainability and senior executives from compliance departments to press for improvements based on the compliance mechanism established, and to make progress in disclosures.

In 2017, the company reiterated its resource extraction disclosure commitment through continued involvement in the Extractive Industries Transparency Initiative, the Organisation for Economic Co-operation and Development and G20's Base Erosion and Profit Shifting initiative, in addition to increased disclosure of its tax policies. In 2018, the company further improved its anti-bribery and corruption efforts by developing a joint surveillance information system across business areas and disclosed the number of complaints handled for the first time. In 2019 the company confirmed that no further bribery or corruption scandals have been reported. We continue to engage to improve other material ESG issues, primarily as co-lead of the collaborative engagement initiative, Climate Action 100+. Read the case study in full.[9]

CASE STUDY: GOVERNANCE

Nintendo

Board diversity and board independence

EOS began engaging with Nintendo on gender diversity on its board in 2016 and on board independence in 2017 with the head of legal and company secretary, meeting eight times between 2016 and 2020. The board composed only of men of Japanese nationality. Although it has progressed board independence from a 100% insider board in 2013 to 33% since 2016, there remains room for improvement. Our concern was accentuated by the fact that the company did not have a nomination committee, adding opacity to the nomination process. We encouraged the company to carry out an independent board evaluation and strengthen the search for female candidates.

Following our engagement, Nintendo carried out its first self-evaluation of the board in 2016 and promised to consider an external board evaluation. The company is working towards strengthening its talent management programme to establish a pipeline of senior female executives, which it expects to take 10 years from 2017. Following our vote against the president at the 2019 annual shareholder meeting and further engagement later in the year to accelerate change in board composition, the company announced that it is establishing a nomination advisory committee in January 2020 – three out of the five directors are outside directors. In May 2020, the company also announced that it will appoint a woman to the board for the first time. We are pleased with the appointment and encouraged the company to improve disclosure of the nomination process and to publish the Terms of Reference of the nomination advisory committee so that investors can better understand the company's working objectives and accountability towards selecting board members, given that it has traditionally relied on the president to nominate candidates. We continue to engage as our expectations for diversity of a board go beyond appointment of one female director. Read the case study in full.[10]

[9] https://www.hermes-investment.com/ukw/eos-insight/eos/petrochina-case-study/
[10] https://www.hermes-investment.com/ukw/eos-insight/eos/nintendo-case-study/

CASE STUDY: STRATEGY, RISK AND COMMUNICATION

Alphabet
Responsible use of AI

In April 2018 we began engaging with Alphabet on how its technologies manage the prioritised content of Google Search and on YouTube, to avoid human rights concerns arising through the application of artificial intelligence (AI). We encouraged the company to go beyond publishing AI principles, to demonstrate how the principles are being applied. After multiple touchpoints we stepped up our engagement, including writing to the chair of the board, asking for further disclosure on content governance and recommending a feedback system in its AI ecosystem to ensure that technology deployment is subject to robust product design and impact assessment throughout the value chain. At the 2019 annual shareholder meeting, in addition to supporting one of the shareholder proposals aimed at better addressing societal risks, we voiced our concerns relating to AI governance directly to the executives and board.

With regard to our request for demonstration of how the AI principles are being applied, in January 2019 the company published a 30-page white paper on AI governance, covering five areas where stakeholder collaboration is needed. In January and February 2019, YouTube took a series of actions to improve transparency and accountability. Since 2019, the company has made improvements to tools to measure fairness, transparency and explicability of AI which also helped satisfy our request. It has also improved stakeholder engagement and communications with regard to how AI social impact is assessed and measured. In November 2020, Alphabet changed its audit committee to become an audit and compliance committee (ACC). The ACC's charter now includes sustainability, data privacy and civil and human rights risks as items which must be reviewed by it – becoming closer to meeting our request for enhanced board oversight. We continue to engage with the company through a human rights lens to encourage board accountability over the responsible use of AI. Read the case study in full.[11]

Client focus themes

We analysed our client survey results in 2019, in addition to the feedback we received through our other client touchpoints which informed us of which engagement themes were a priority to focus our efforts on. For 2020 this meant we focused on climate change, human rights, human capital management and board effectiveness. Following a preference for these themes being reiterated in the 2020 survey results, we continue to focus on these in 2021. In addition, following the pandemic, we will focus on companies putting in place a business purpose and sustainable business model, identified on page 4 of our Engagement Plan.

For 2020 this we focused on climate change, human rights, human capital management and board effectiveness.

External evaluation

Supporting our credibility in serving the best interests of our clients is the A rating from the Real Impact Tracker; A+ rating from the Principles for Responsible Investment; and the A+ InfluenceMap Climate Engagement score for the international business of Federated Hermes which recognises EOS activity.

Building on this, is literature on stewardship which demonstrates that there are direct financial benefits for investors when engagement occurs at the right level and with the appropriate resources. A few years ago, we shared our engagement data with an international team around Professor Andreas Hoepner from University College Dublin. The authors formulated a very simple – in this case paraphrased – research question: *What effect do engagements by EOS have on the riskiness of targeted companies?* The study revealed that companies that are successfully engaged by EOS exhibit a lower risk profile, particularly when environmental issues are tackled. We published our summary of the study on our website[12]. Prior to this, back in 2017 a research team around Professor Wolff at the University of Göttingen also documented a link between interpersonal communication and the engagement success of EOS[13]. Results found that: personal interaction with companies is an important driver of success; chair meetings are especially important for successful governance engagements; and contact with C-level executives should be accompanied with meeting the chair or company secretary.

[11] https://www.hermes-investment.com/ukw/eos-insight/eos/alphabet-case-study/
[12] https://www.hermes-investment.com/ukw/eos-insight/eos/shareholderengagementresearch/
[13] Wolff, M. and L. Jacobey (2017). Talk is not cheap – Talk is not cheap – The role of interpersonal communication as a success factor of engagements on ESG matters. Research Report. Available at: https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/09/Hermes-EOS-Research-Report-Sep-17.pdf

We also undertook an evaluation exercise in 2019 with the help of an external consultant to understand from our clients, and the market more broadly, what was valued about the EOS service – what makes it unique and what is important to investors when assessing a stewardship provider. Through this process, which involved competitor analysis, tender feedback and one-to-one meetings with the consultant, we identified that our clients most value the client focus of our engagement and the structured process around the way we approach it.

This then prompted us to redefine what this client focus amounts to and we identified that we have many distinct touchpoints that are focused on our clients, enabling us to capture feedback and consider their engagement priorities. Having these multiple touchpoints allows us to constantly re-evaluate our work in the best interest of clients. We highlight some of these touchpoints in more detail under Principle 5 but central to this is updating our client-led Engagement Plan on an annual basis, which outlines our objectives for a three-year period to be carried out on behalf of and in agreement with clients. The Plan incorporates our clients' common and specific objectives, building on their feedback and input, changes in the market and regulatory environment in different countries and sectors.

For the past few years, results from our annual survey and feedback for the future of the Engagement Plan have seen a consistent majority of clients respond to say they that prefer our engagement to remain at a broadly similar level of intensity, on a similar amount of companies. However, we recognise that the industry is fast-paced and our client priorities can change quickly so adapting our reporting to meet these needs is one of our biggest challenges and an area which we continue to prioritise seeking their views on. All of our clients from our 2020 survey responded to say they were either very satisfied or satisfied with their overall relationship with EOS.

Principle 2

Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

How our governance structures and processes have enabled oversight and accountability for promoting effective stewardship

EOS is a limited company wholly owned by the international business of Federated Hermes (which is majority owned by Federated Hermes, Inc). Its activities and direction are overseen by a legal board, comprising members of the international business of Federated Hermes' executive committee, which is responsible for all significant matters relating to the overall management of the business, the chair of EOS at Federated Hermes, and head of EOS at Federated Hermes.

EOS is part of the Federated Hermes governance committee which is accountable to and reports to the CEO. It is a formal oversight committee responsible for overseeing the formulation and delivery of the Federated Hermes engagement and voting policy for all equity funds, as well as the services provided by EOS. Its members are the head of responsibility (chair), head of investment, head of EOS, head of client relationship management and strategic risk and compliance director.

Day-to-day operations

Day-to-day operations are managed by the EOS functional heads team, consisting of four directors within the EOS team – the head of EOS, the head of stewardship, the director of client service and business development, and the director of business management.

We have an engagement management committee which considers engagement quality, continuity and coverage in the interests of clients. Our engagers also hold engagement clinics to confirm our engagement is focused on the right objectives and issues and to review the proposed approach to engagement. In addition to engagement clinics, an annual review of objectives also takes place.

Client-integrated governance

EOS hosts client-only meetings approximately twice a year where we put together a packed agenda to increase knowledge and best practice thinking about stewardship – whether it be through opportunity for Q&A, workshops or networking. Our thoughts for changes to our Engagement Plan, as well as updates on progress are shared so that clients can feed into the direction of our engagement. We also have client representatives which act as a voice for the wider client base. They provide guidance on matters such as EOS' coverage of sectors, themes and markets and its engagement approach.

We have also established a formal feedback loop for clients, which ties all of our structures and processes together, to ensure we remain a client-driven stewardship service provider.

Ensuring quality and accuracy for effective stewardship

Quality engagement through trusted relationships at the most senior levels

A lot of our engagements are longer term efforts and we carry out a continuous dialogue with companies. Our engagement team conducts thorough research and assessment into each company to ensure the nature of our engagement is accurate and allows us to carefully build quality, trusting relationships with these companies on our clients' behalf.

Our heritage which has been developed over a number of years, described in detail under Principle 1, also supports the quality of our services. The depth and breadth of our resource reflects our philosophy that stewardship activities require an integrated and skilled approach. Our voting recommendations in particular are made following extensive research and input from our research partners.

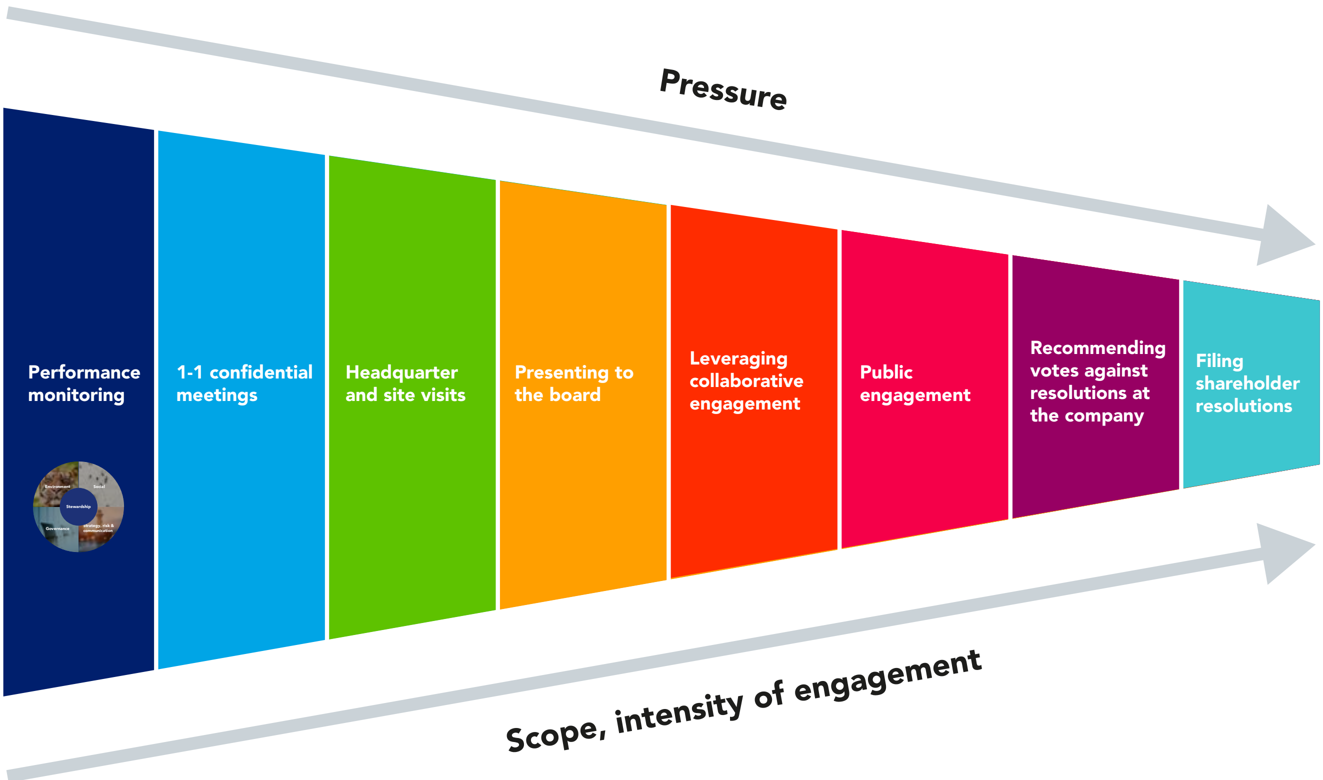
Effective engagement that delivers value, demands a specific skill set that goes far beyond written activity or interaction with lower-level company representatives. Change is brought about by access at board level gained by engagement professionals who have industry or professional experience, gravitas and specialist skills to challenge senior decision makers. We believe that to create the most change, engagement needs to be focused on board-level and executive staff. As a result, our engagement with companies typically involves a number of face-to-face meetings with board members, primarily the chair, lead independent director and chairs of board committees, as well as executives.

This approach to promote effective stewardship is also supported by literature on stewardship which suggests that engagement is most effective if it occurs at the right level and with the appropriate resources. Under Principle 1, we mentioned how we shared our engagement data with academics which revealed that companies that are successfully engaged by EOS exhibit a lower risk profile, particularly when environmental issues are tackled, as well as another study from back in 2017 which found that: personal interaction with companies is an important driver of success; chair meetings are especially important for successful governance engagements; and contact with C-level executives should be accompanied with meeting the chair or company secretary.

Escalating our engagement at the appropriate time

While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines which could undermine the trust that would otherwise exist between a company and its owners. As a result, we generally prefer to conduct engagement privately, rather than taking a public route when seeking change at companies. In our experience, working constructively with boards and management in private is the most effective way to achieve positive change as it allows us to build trusted relationships with companies, which results in more open and frank discussions. It also acts as a protection to our clients so that their positions will not be misrepresented in the media, allowing us to contribute to them fulfilling their duties under the Code in a responsible way.

However, on occasion where we are unable to achieve success by using our usual methods of conversations behind closed doors, we may escalate our engagement by choosing to speak publicly at the company's annual shareholder meeting for example – to garner additional support from investors or other shareholder representatives and add further pressure. When doing so, we would normally notify a company in advance. We may also recommend voting against a resolution or management/the board at a company's shareholder meeting – we consider this choice carefully as we only want to use this technique if our usual engagement has consistently stalled and we are not confident that the company is taking any action to address our concerns. Given the assets we represent, this sends a strong signal to the company and can help progress our dialogue with it. Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings or collaborating with others to co-file shareholder resolutions when necessary. We identify the following engagement tools at our disposal to escalate engagement over time. The graphic demonstrates how different tools are selected as the scope or intensity of the engagement increases in tandem with pressure for change on the company.



CASE STUDY

Centrica

This summary example demonstrates the esclation of our engagment over a number of years, using a selction of engagement tools and the changes the company has made.

EOS has engaged with Centrica since 2010 on its response to climate change. We stepped up engagement in 2016, speaking at its annual shareholder meeting (AGM), requesting that the company set ambitious carbon reduction targets for customer emissions and seek to regain its coveted A grade under the CDP rating system. We continued to welcome progress whilst requesting further action and disclosure at the AGMs in 2017, 2018 and 2019. After the 2016 AGM, we met the group head of environment, head of corporate affairs and company secretary. In 2017, we met with the chair and in 2018 EOS was appointed lead coordinator of investors at Centrica as part of the Climate Action 100+.

Key changes began in 2017, when the company gained third party assurance on its reported carbon reductions from its customers. In January 2019 the company gained an A grade in the CDP ranking, a Level 4 rating under the Transition Pathway Initiative and in April 2019 it published its 2030 Responsible Business Ambitions. This report included a target to enable the reduction of its customers' emissions by 25% below 2015 levels. In its 2018 Annual Report, the company confirmed its commitment to report in increasing alignment with the TCFD. In July 2019 the company explicitly integrated the low-carbon transition into its corporate purpose. We continue to engage on achieving net-zero emissions from heat and power, in line with the goals of the Paris Agreement, the role the company can play in the transition and the required actions of other stakeholders. Read the case study in full.[14]

Resourcing our stewardship service

Our organisation and team

EOS has one of the largest stewardship resources of any fund manager in the world. We also have additional resource to draw upon from the responsibility office of the international business of Federated Hermes and others within the firm, a number of whom have had direct engagement experience having previously worked within EOS. There are policies, processes and controls in place to ensure the management of conflicts of interest.

We believe the recruitment and selection of the right people is central to the company's continued success, as they are our most important asset. At the heart of our organisation is an effective recruitment and selection process that helps to ensure that we employ people who can add value to the company and who will fit in well with the culture of the business and existing team members. Our human resources division, as well as all departments across the wider business, work to the following defined set of key values which guide the entire recruitment process:

- Recruitment is driven by business need
- Selection decisions are made on merit
- Recruitment processes are rigorous and fair
- All recruitment is based upon a job description and person specification; and
- All recruitment processes including advertising and testing must comply with our equal opportunities policy.

Our team's seniority, experience, qualifications, training and diversity

EOS undertakes a skills gap analysis of the wider team with reference to the thematic and sectoral issues we cover, to ensure we have the right mix of professionals who can best represent EOS and our clients' views in our engagement with companies. We have intentionally built a diverse team[15] of experienced and international professionals who have the expertise, language skills and cultural knowledge to work to deliver real beneficial change at companies. Our engagement team draws on a number of skill sets, with our senior engagers coming from a range of backgrounds including, but not limited to:

- Banking
- Law
- Sciences
- Climate change
- Academia
- Accountancy
- Corporate governance
- Corporate strategy

[14] https://www.hermes-investment.com/ukw/eos-insight/eos/centrica
[15] https://www.hermes-investment.com/ukw/stewardship/eos-team/

The combination of our ability to engage in the local language and an understanding of local culture and business practice are critical to the success of our engagement work. Within our team we have nationals from a range of countries and fluency in a number of different languages. The team's skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards. Intervention at senior management and board director level should be carried out by individuals with the right skills, experience and credibility.

Our engagement professionals are divided into designated teams covering themes, sectors and regions. This ensures we have experts who can educate the wider team on developments and best practice in their respective areas. Each engager is responsible for engagement, voting recommendations and ESG analysis, focusing on the combination of regions, sectors and themes to which they have been appointed.

Our team is based in the UK and the US – London staff cover engagement in Europe, Asia and emerging markets and our Pittsburgh staff cover engagement in North America. Our professionals travel to undertake engagements in person where possible at company headquarters. We also have a number of senior advisers who provide us with additional resource and expertise to complement our work in specific some local markets including Japan, The Netherlands and UK.

Our investment in systems, processes, research and analysis supporting each of our services

Engagement

Our engagement team considers the materiality of an issue to a company and how likely the issue is going to introduce risk or cause damage. Materiality can sometimes be quantified, for example should a portion of a company's revenues disappear due to the forced closure of an operation or a large fine be imposed. On other occasions, the materiality of the issue will be more around the reputational impact or the sustainability of the business as a whole, which is much less directly quantifiable but just as important to address. It also considers the feasibility of achieving success when assessing engagement candidates.

In order to understand this, a certain amount of research on the company is necessary. There is no hard and fast rule to this, however from this research we must have a clear idea of the case for engagement and what the engagement objectives and other issues we will want to address with the company should be. Resources for research could include records from previous calls/meetings with the company, information from research providers, sector/country/theme team consultation or information from our proxy adviser for example.

How do we prioritise and seek change?

Our process for prioritising our engagement intensity is based on materiality of identified risks. We categorise our Engagement Plan companies using a tier system which defines the minimum number of interactions we expect to have with a company during a year. This then allows us to set objectives that are SMART (specific, measurable, achievable, realistic, timebound) – measurable change we are seeking a company to achieve. An objective is regularly reviewed until the company has implemented the change requested or it is discontinued. An objective may be discontinued if, for example, it is no longer feasible or material. We may engage with a company on multiple objectives at any one time. Each objective relates to a single theme and sub-theme.

Our four-stage milestone system, outlined in the graphic below, allows us to track the progress of the changes we are seeking. Progress is assessed regularly and evaluated against the original engagement proposal. It was developed in response to client feedback where clients wanted to us to be able to demonstrate the impact of our engagement more succinctly and therefore effective stewardship on their behalf.

We have an online engagement management system which allows us to accurately record, track and report on our engagement work. It also ensures that the history of our engagement, which provides important context, is available for any member of the team who may be new to leading a company engagement, to ensure continuity.

Voting recommendations

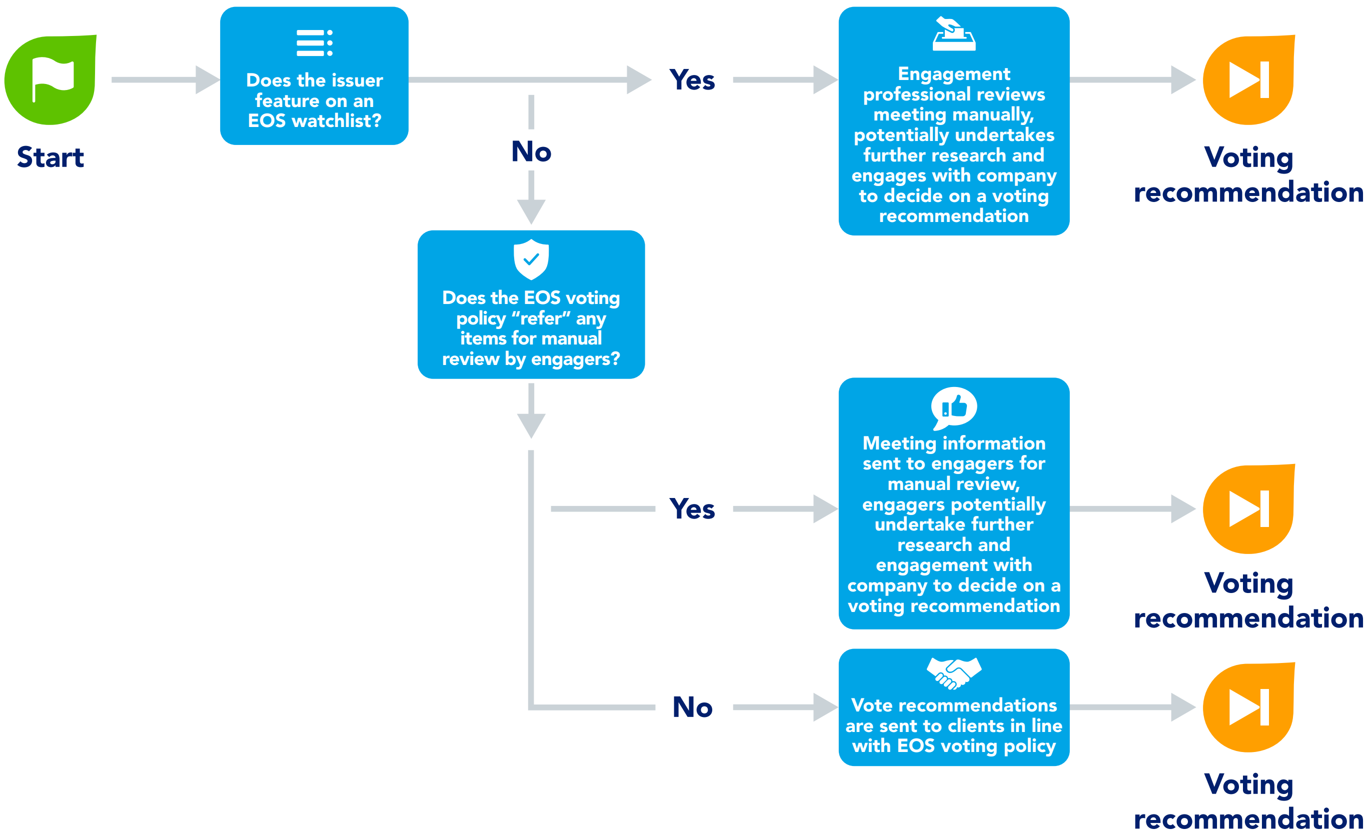
EOS offers voting recommendations for company meetings on behalf of its proxy voting clients. EOS' Global Voting Guidelines[16] (Guidelines) inform our recommendations. The Guidelines explicitly reference ESG factors and aim to harness voting rights as an asset to be deployed in support of achieving engagement outcomes. Our Guidelines are informed by a hierarchy of externally- and internally-developed global and regional best practice guidelines; principally, our EOS-developed 22 regional corporate governance principles (Principles).[17] We also have nearly 50 country-level policies. These set out our fundamental expectations of companies in which our clients invest, including regarding business strategy, communications, financial structure, governance and the management of social and environmental risks.

[16] https://www.hermes-investment.com/ukw/wp-content/uploads/2021/02/fheos-corporate-global-voting-guidelines-2021.pdf
[17] https://www.hermes-investment.com/ukw/stewardship/eos-library/

The Principles articulate the EOS house position on key ESG issues and are informed by relevant external local market standards. For example, this includes best practice national corporate governance codes, as well as international sources including the Organisation for Economic Co-operation and Development Principles for Corporate Governance and the collective views of our clients, which are expressed more fully in our Engagement Plan. Our Guidelines seek to outline how our expectations translate into specific voting policies on issues put to shareholder votes at annual and extraordinary meetings. Given the significant variation across markets, the Guidelines do not seek to provide an exhaustive list of EOS' policies on all voting matters but rather, set out our broad position on a number of key topics with global applicability.

Our voting recommendation services are provided in collaboration with Institutional Shareholder Services Inc (ISS). This allows us to provide a complete, end-to-end solution, using the ISS ProxyExchange voting platform and offer research on all companies that we provide voting recommendations for, which is around 10,000 per year. EOS is able to access ISS and custom EOS research and vote recommendations, perform proxy voting actions, and generate reports of key voting activity, all from this single integrated platform.

We endeavour to engage around the vote with all companies on our watchlist, comprising around 1,000 companies, including all of those in the engagement programme (around 400), where we are considering recommending a vote against. We will also engage to identify any further relevant information that might inform our voting recommendation, as well as having regular conversations with in-house and external asset managers about the reasons for their views on particular votes. The integration of engagement with our process around our voting recommendations is a powerful tool to achieve engagement outcomes. The diagram below outlines our voting research and decision-making process.



EOS considers itself as required to adhere to the regulatory requirements for proxy advisers, more information on our code of conduct and how we have followed it can be found in our Best Practice Principles for Providers of Shareholder Voting Research & Analysis – Compliance Statement.[18]

Public policy work

We engage on public policy and market best practice with the aim to protect and enhance value for our clients by improving shareholder rights and shaping the wider regulatory framework in which investment and stewardship take place. This is achieved through engagements and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties. It also includes participating in public consultations – our clients have the opportunity to endorse and co-sign our written responses through our process of sharing our drafts with them ahead of submission.

Public policy and market best practice interactions are recorded in our engagement management system against the relevant third-party institution that we are in contact with. We have introduced public policy and market best practice objectives to better monitor the success of our work in this area. Examples of our public policy work can be found under Principle 4.

[18] https://www.hermes-investment.com/ukw/wp-content/uploads/2020/12/eos-corporate-bpp-compliance-statement-12-2020.pdf

Screening service

Our optional screening service tool helps our clients to fulfil their stewardship obligations by monitoring their portfolios to regularly identify companies that are in breach of, or near to breaching, international norms and standards, including:

- United Nations Global Compact (UNGC) Principles
- Organisation of Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- UN Guiding Principles (UNGPs) on Business and Human Rights

as well as relevant involvement in controversial weapons.

Since this is part of our integrated service offering, the key benefit to clients is that the screening information is provided in combination with our insight from engagement. We have set up our screening tool to provide information to clients on a quarterly basis enabling them to highlight risks in their portfolio, review company responses and improvements and feed this information into their exclusion processes. In addition, screening can also be useful to consider companies for re-inclusion such as those that have responded to our engagement and are showing improvement. As insight from engagement conducted in relation to screening can be viewed in our client portal, this work benefits all clients and not just those who take the screening service.

Advisory

Our optional advisory services help our clients to meet stewardship regulations and work with them to develop their responsible ownership policies, drawing on our extensive expertise and proprietary tools to advance their stewardship strategies. Often this involves EOS drawing upon its processes and relationships with the responsibility office of the international business of Federated Hermes.

The responsibility office acts as the conscience of the business, holding all colleagues to account for executing on the firm's mission of delivering sustainable wealth creation for investors. It supports, monitors and holds its investment teams and EOS accountable for the integration of engagement and ESG factors into investment strategies and engagement activity respectively.

Engagement insight

Our screening tool identifies companies that violate or are at risk of violating commonly accepted international norms and standards, including:

- UNGC Principles
- OECD Guidelines for Multinational Enterprises
- UNGPs on Business and Human Rights
- as well as relevant involvement in controversial weapons

Engagement insight

The close links between EOS and the responsibility office, are reflected in the joint sourcing of ESG and impact research for fund managers and engagers; the development of tools and reports which integrate fundamental, ESG and stewardship information for fund managers, engagers and our clients; and richer and more informed engagement through fund manager / engager interaction. Clients are provided with enhanced ESG insight in the form of:

- **Better informed, holistic engagement strategy**
- **Enriched client reporting**
- **Greater leverage and industry voice**
- **Access to increased resources and infrastructure**
- **Policy and integration advisory**

Incentivisation

Through pay awards we look to ensure that those aspirations we articulate in our Pledge are reinforced. Our Pledge, created in 2015, expresses the commitment of each of us individually to always put the interests of our clients and their beneficiaries at the heart of what we do, including the management of conflicts of interest fairly between all parties. As such, we have a set of behaviours innate to our culture that contribute to the success of the business; every employee has a responsibility to act in a way that upholds these core behaviours through their day-to-day activities. This is considered as part of the performance management process and is a factor in each individual's incentive plan: all staff, including the CEO, are judged equally on their behaviours and on their technical performance. Ultimately, to achieve our objectives we look to create a thoughtful environment where orthodoxies are challenged in the way that we engage and in the way that we work.

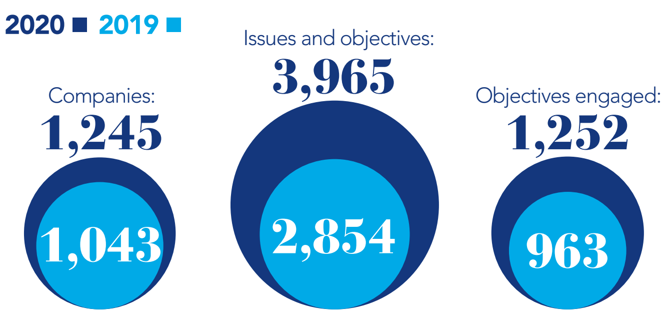
Ensuring that our fees are appropriate for the services provided

We operate a cost-sharing model, so our clients benefit from collective economies of scale. The costs of the relevant activities are shared as fairly as possible among all clients. We have a pricing framework and a pricing governance group which reviews any pricing decisions to ensure that our fees are appropriate for our services. We are aiming for best in class value on behalf of our clients, growth and scaling our offering, so we reinvest heavily into the quality of our services.

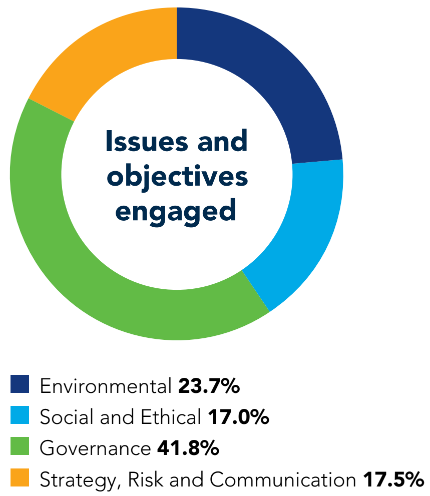
The effectiveness of our governance structures and processes in supporting our clients' stewardship

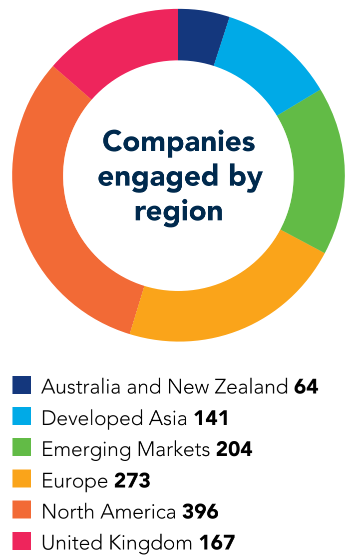
Our governance structures and processes outlined earlier are a result of work in practice and evolution over time of our considerable heritage outlined in Principle 1. We believe that we have a good balance of internal governance structures and processes, as well as structures to integrate external client input to support effective stewardship. The following charts demonstrate that we grew our number of engagements in 2020, compared with 2019, which would signal that our governance structures and processes in supporting our clients continue to be effective.

Number of engagements:



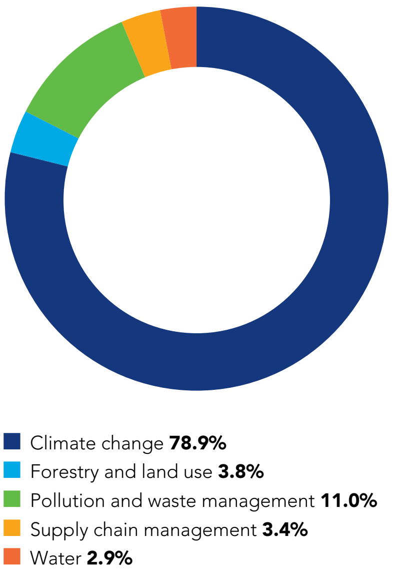
Principle 1 outlined our headline engagement progress during 2020. In addition, the following charts demonstrate that our structures and approach are considerate of our global client base with differing priorities, outlining a breakdown of our engagement according to theme and region during 2020.



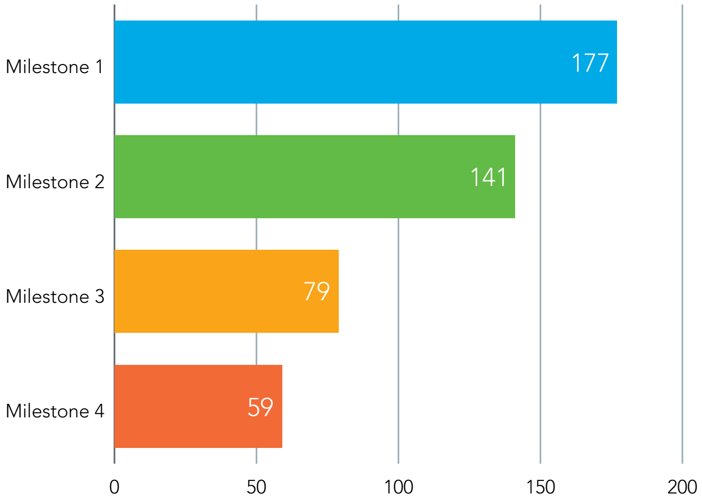


Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously. A summary of some the key issues on which we engaged in 2020 is shown below – the effectiveness of our governance structures and processes is similarly demonstrated through the milestone progress made against each of our environmental, social, governance or strategy, risk and communication objectives.

Environmental topics comprised 24% of our engagements in 2020.

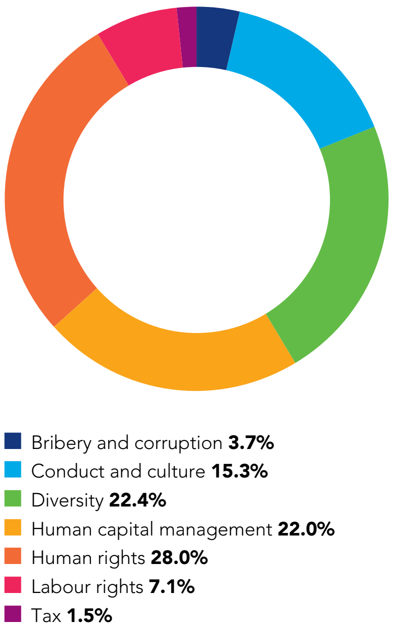


Progress against environmental objectives

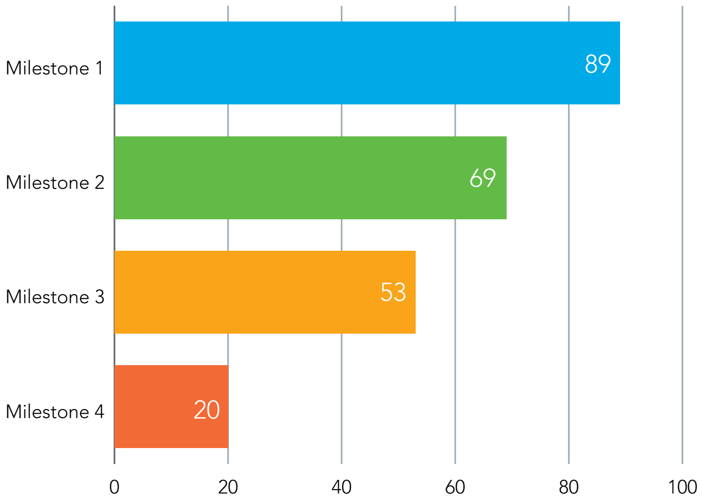


Source: EOS data

Social and ethical topics comprised 17% of our engagements in 2020.

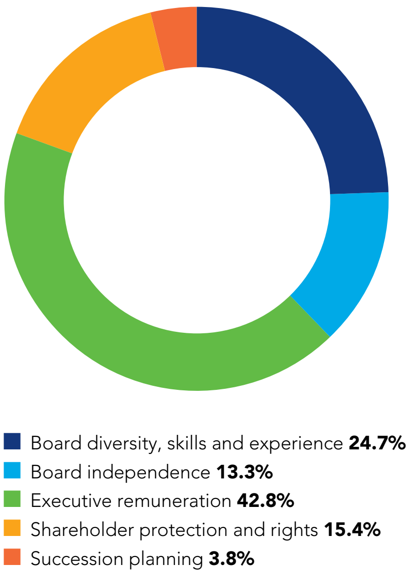


Progress against social and ethical objectives

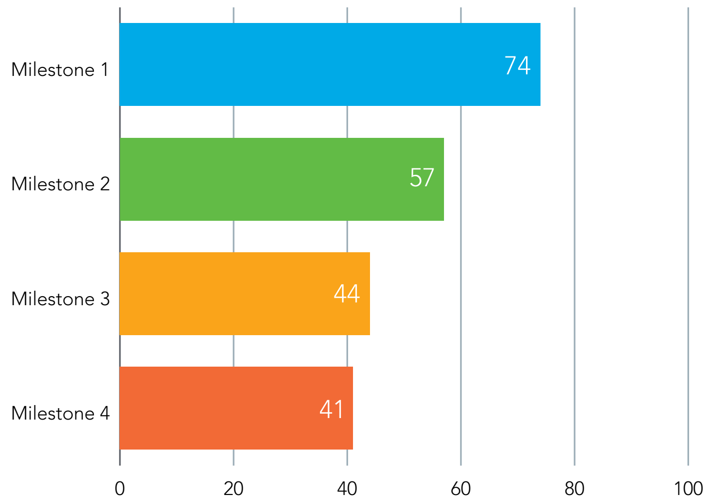


Source: EOS data

Governance topics comprised 42% of our engagements in 2020.

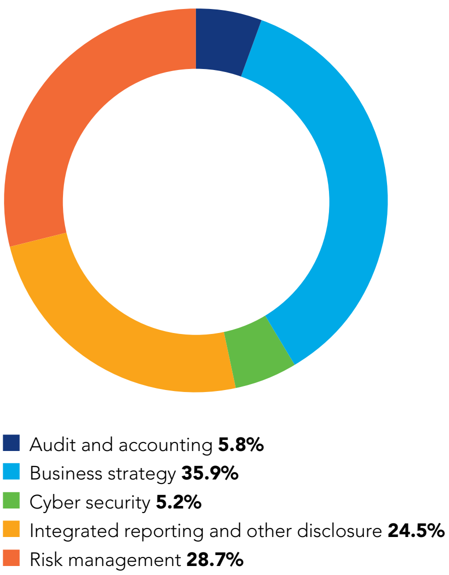


Progress against governance objectives

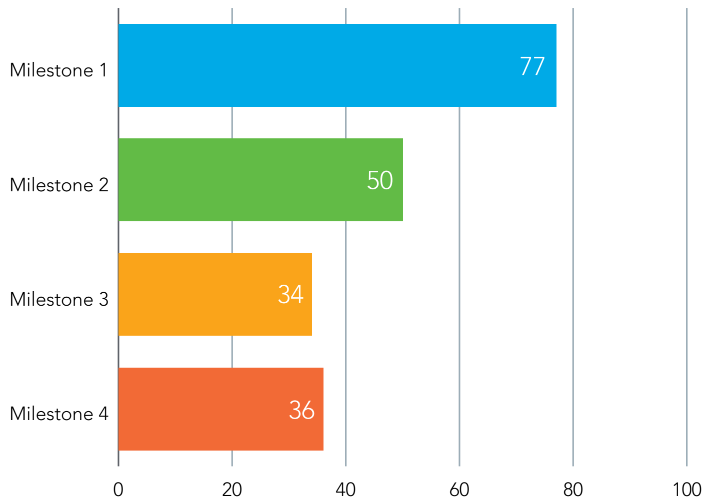


Source: EOS data

Strategy, risk and communication topics comprised 17% of our engagements in 2020.



Progress against strategy, risk and communication objectives



Source: EOS data

EOS recognises that timely communication is key for our clients to manage their own responsible investment activities and communicate the effectiveness of our stewardship service with their beneficiaries and stakeholders. We provide clients with a range of qualitative and quantitative reporting which enables them to do this, which we explain in more detail under Principle 5. Part of this reporting is our case studies which are included throughout the report – as well as specific environmental, social, governance and strategy, risk and communication examples already included in Principle 1.

Often our clients are our best ambassadors and refer like-minded prospects to the business. Clients tell us that our client centricity and the client touchpoints we have setup up for clients to provide their views and feedback (covered in more detail under Principle 5) are key to the success.

How we can make improvements

The structures and processes that we have detailed earlier on, allow us to pause for thought and make improvements to continuously support our clients' stewardship. Our formal client feedback loop is central to ensuring that consideration of clients remains integrated into any changes we make. This is also closely tied with Principle 5 where we provide more detail on the internal and external reviews and assurances we have to support continuous improvement.

As we operate a shared service model, our approach to engagement must continue to consider the aggregate holdings of our clients in a company; materiality of risks/issues we identify through our screening; and feasibility of engagement – for the benefit of the entire client base. Clients have told us about their needs and ambitions for new and sophisticated ways in which we can better communicate the progress of our stewardship work. In 2020 we were able to take this challenge on as a new extensive project to redevelop the abilities of our client portal. We were able to use our client working group to closely align its development and we are looking forward to further feedback following the new portal going live this year.

We are always looking at ways to evolve our reporting suite for clients, in response to their feedback. Our internal reporting and governance group considers this feedback and the considerations have also been fed into our process for the development of the new client portal in particular. In response to this we have helped our clients consider how they can best meet evolving stewardship obligations in different markets, including by adapting our reporting offering to provide them with specific guidance documents.

Another example of where we have provided our clients with more clarity, is on understanding our rationale for discontinuing objectives by providing explanation according to a range of scenarios. Explaining scenarios where engagement has stalled because engagement is moving slowly or a company refuses to make change is challenging due to the majority of our engagement being carried out behind closed doors and our relationship for future engagement with a company. We welcome suggestions from our clients on how to improve our reporting on discontinued objectives and provide the following anonymised case study examples.

CASE STUDY

Board effectiveness – imaging solutions company

Ahead of the 2014 annual shareholder meeting of a Japanese imaging solutions company, the company appointed its first independent directors to the board. However, we raised our concern about the lack of wider diversity as the board consisted solely of male Japanese directors, particularly for a company operating on such a global scale. In response, the company described its efforts to promote women to senior positions, highlighted the appointment of non-Japanese senior executives and indicated that it expected to appoint foreign nationals to the board in the near future. We highlighted the issue in subsequent meetings and calls over following years.

In 2018, the company acknowledged the importance of introducing diverse views, yet said it would not necessarily prioritise female or foreign candidates in director nomination. At the 2019 shareholder meeting, we recommended voting against the chair due to a lack of gender diversity on the board. In further engagement we were disappointed at a lack of progress and again in 2020, we recommended voting against the chair for a lack of improvement. In our view, the lack of progress reflects the need for wider refreshment of the board and deeper issues of a lack of cultural diversity both at board level and across the company. Although engagement on this topic has stalled, the influential, long-serving chair continues to hold the CEO role despite having stepped down as president so we are engaging on his succession planning.

CASE STUDY

Separation of CEO and independent chair – multinational pharmaceutical company

In a meeting with the company secretary of a multinational pharmaceutical company in June 2018, we asked whether the company was considering appointing a separate CEO and chair, a structure that we support and was called for in two consecutive years' of shareholder proposals, each receiving around 25% support. While the company was unwilling to make specific commitments, it did suggest it would be a consideration.

In a meeting later that year, we questioned the reasoning of the company behind making the retiring CEO, the executive chair of the company. We welcomed the division of responsibility at the top of the company but asked whether running the board required an executive chair as it should not be a full-time job. We engaged on both the rationale for making the retiring CEO the executive chair of the company and on the need for a permanent, independent chair to be appointed. We questioned what controls were in place to stop the executive chair interfering with the incoming CEO's review of strategy and operations. We encouraged the company to address these issues in its proxy statement.

In Q2 2019 we had a call with the company ahead of its annual shareholder meeting where we explained that we recommended support for a resolution requiring an independent chair, in line with our policy and our ongoing engagement. By September 2019, the company confirmed its intention for the new CEO to take on the joint role of CEO and chair, and this took effect from 1 January 2020. Although this removed the potential conflicts and surplus costs of having the former CEO as interim chair, we were unable to secure the appointment of an independent chair and, as such, discontinued this objective. We continue to press for wider changes to market practice in this specific regional market, where the appointment of joint CEO/chairs after retaining the former CEO as an interim chair, remains common.

Principle 3

Signatories identify and manage conflicts of interest and put the best interests of clients first.

Our conflicts policy – seeking to put the interests of clients first and minimise or avoid conflicts of interest when client interests diverge from each other

The international business of Federated Hermes' public Conflicts of Interest Policy[19] sets out our commitment to act professionally at all times. We commit to keeping the best interests of our clients and their beneficiaries in mind and to take appropriate steps to identify circumstances that may give rise to conflicts of interest that entail a risk of damage to our clients' interests. It includes examples of conflicts of interest – such as the receipt of confidential information, conflicts of interest between clients, personal conflicts and conflicts between our business and clients – and the appropriate procedures we have established to manage any conflicts of interest identified and to prevent damage to client interests.

We also have a specific Stewardship Conflicts of Interest Policy[20]. We acknowledge our position as a fiduciary for our clients and their beneficiaries and seek always to act in their best interests. Accordingly, we take all reasonable steps to identify actual or potential conflicts of interest. We also maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.

We have summarised key aspects of our policy below. In addition, we have identified a set of conflicts of interest that may to arise in connection with engagement activities and have put in place controls to manage such instances.

Potential conflicts of interest

Ownership

- Federated Hermes, Inc and BTPS are major shareholders of the international business of Federated Hermes, of which EOS is part of. EOS has a clear policy to carry out any engagement with BT Plc and Federated Hermes, Inc in the same way as with any other company. Responsibility would reside with a senior member of the stewardship team, not the relationship director.
- EOS is fully owned by the international business of Federated Hermes and the head of EOS reports into the head of responsibility and the CEO of the international business. Any conflict which may arise between clients of the EOS service and other clients of the international business of Federated Hermes will be addressed in a similar way to conflicts between any of our clients.

Clients and prospects

EOS provides services not only to the international business of Federated Hermes; Federated Hermes, Inc; and BTPS but also to institutional investors, including pension funds sponsored by corporations, governments and other organisations. These services include voting recommendations and engagement with companies in which the international business of Federated Hermes' clients are equity shareholders and/or bond investors. As a result, the following real or perceived conflicts may arise:

- We may engage with or provide voting recommendations for the shares of a company which is the sponsor of one of our pension fund clients – such as BT plc – or is a company within the same group as one of our clients or prospects.
- We may engage with a government or government body that is the sponsor or associate of the sponsor of one of our clients or prospects.
- We may engage with a company which is a tenant of international business of Federated Hermes Real Estate division's property investments.
- We may engage with a company which has a strong commercial relationship, including as a service provider, with the international business of Federated Hermes and/or with clients or prospects.
- We may provide a voting recommendation for a corporate transaction, the outcome of which would benefit one client or prospect more than another.
- We may engage with a company where certain clients or prospects are equity holders and others are bond holders.
- We may hold meetings with companies for the dual purpose of delivering both fund management services as part of the international business of Federated Hermes, as well as engagement services.
- We may otherwise act on behalf of clients who have differing interests in the outcome of our activities.

Individuals

At the individual level, engagers may have a personal relationship with senior staff members in a company in the EOS engagement programme or personally own the securities of that company.

[19] https://www.hermes-investment.com/ukw/wp-content/uploads/2020/07/hermes_conflicts_of_interest_policy_2020.pdf
[20] https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf

Managing and monitoring conflicts: a singular focus

In all our activities, we seek to promote the long-term value and success of the companies in which our clients invest. As such, we engage with market regulators and other actors to influence public policy and regulation to enable this outcome.

Stewardship activities are exercised with the aim of influencing the company's behaviour. However, these activities are not carried out with the intention to obtain non-public information, nor is information obtained intended to manipulate the market.

In the case that material non-public information is obtained through stewardship activities, our compliance department is informed, and an information barrier is created for 'insiders' until the information is publicly disseminated. During the application of the information barrier, stewardship professionals are not allowed to act upon or share the non-public material information. The EOS engagement management system requires that engagement professionals certify that they have either not received any inside information whilst conducting each engagement interaction or that they have received inside information and followed the applicable compliance procedure.

While we welcome client input and suggestions for engagement, all of our engagements are selected and pursued on the basis of an objective assessment of the severity of the problems faced by the companies engaged or the opportunities available to them, the likely effect of public policy and regulation and the likelihood of success in achieving value-enhancing change or mitigating value-destroying change. We give due regard to the value of the company to our clients and the value at risk given the issues in question.

In our voting recommendations and engagements with companies which are the sponsors of (or in the same group as) our clients, we are careful to protect and pursue the interests of all of our clients by seeking to enhance or protect the long-term value of the companies concerned. In the first instance, we make clear to all pension-fund clients with corporate sponsors that we will treat their sponsoring parent or associated companies in the same way as any other company. In addition, we ensure that in such situations the relevant client relationship director or manager within the international business of Federated Hermes, including EOS, is not leading the engagement or making the voting recommendation to clients. This same approach would hold true with respect to any engagement with a company with whom we, our owners or our clients have a strong commercial relationship, including suppliers. If we become aware of potential conflicts, they are disclosed if necessary, to the companies to enable them to be managed effectively.

Engagement activities and the generation of voting recommendations in relation to BT plc or Federated Hermes, Inc are delegated to a senior member of the EOS team and relevant investment team members, not the client relationship manager or director.

Members of the international business of Federated Hermes investment teams have separate processes and management but are encouraged to join engagement meetings with stewardship colleagues and discuss the implementation of our voting policies. EOS' external clients are also invited to state whether they wish to join upcoming engagement meetings on a sustainable and appropriate basis. The engagement objectives are set out and the voting recommendations made and provided by EOS in line with the international business of Federated Hermes' Responsible Ownership Principles[21] (or, where agreed, client-specific policies). EOS engagers and the international business of Federated Hermes' investment teams occasionally hold joint engagement meetings with companies at which EOS' external clients are not present. While carrying out joint engagements may mean that investment teams have access to non-inside information before it is disseminated to stewardship clients, we believe the benefits to the client body of these joint meetings is substantial. In particular, it produces an enhanced engagement process that focuses on the relevant and material ESG risks and results in a better appreciation of ESG risk in investment decisions.

We have well-established, publicly disclosed voting principles. Based on these and the judgements reached through engagement with individual companies, we provide voting recommendations to our third-party stewardship voting clients. There may be occasions where one of our third-party clients seeks to influence the voting advice we give to other institutional clients. In such circumstances there would be director-level involvement and an objective judgement reached based upon what we believe to be in the best long-term interest of our clients as a body. All third-party clients retain full discretion over their final voting decision.

Clients and internal investment teams in the international business of Federated Hermes may at times have different immediate interests in the outcome of certain corporate activities, most notably in the result of a takeover bid involving two public companies. In addressing such situations, we are open with clients about the conflict and disclose it where practically possible.

As in other cases, we consider through our company engagements and voting recommendations not so much the financial effect of a deal for any one client, and more the long-term value that could be created or is at risk of being destroyed for our client body.

For the investment teams in the international business of Federated Hermes, the voting recommendation provided by EOS will inform their assessment. However, they will make their final judgement independently with a view to their fiduciary obligations to their clients. On the rare occasion that the investment team and EOS disagree on the appropriate voting action, the matter is logged and escalated for consensus to be reached at director level. It is expected that votes cast by the international business of Federated Hermes would be consistent with the voting recommendations that EOS provides to its clients other than in limited circumstances. In such cases the rationale for divergence will be documented.

Review of conflicts of interest

In addition to the broader measures set out above, staff members must flag to their line managers any potential conflict of interest they recognise with a company they are engaging with. We also have policies that seek to avoid any potential conflicts for individual staff members that arise from engagements with companies in which individuals have personal investments or some material personal relationship with a relevant individual. Where a staff member has a personal connection with a company, he or she is required to make this known and is not involved in any relevant engagement activities.

Recording and escalation

We maintain a register of instances of conflicts as they arise. In those limited circumstances where a conflict over our approach to voting recommendations (aside from that directed by EOS third-party client-specific policies) or engagement arises which is not able to be resolved in the manner set out above, the matter is referred to an escalation group which reports to an independent sub-committee of the board of the international business of Federated Hermes. The escalation group is comprised of the heads of investment, responsibility, client relations, compliance and EOS. The group is guided by our mission to deliver long-term holistic returns, our published Responsible Ownership Principles, voting policies and other appropriate industry-endorsed guidance. If there is no majority view in the group, the CEO will make a final decision. All such instances would be documented and reported to the risk and compliance committee, which is an independent sub-committee of the board of the international business of Federated Hermes.

[21] https://www.hermes-investment.com/wp-content/uploads/2018/10/final-responsible-ownership-principles-2018.pdf

Annual review

We review our Stewardship Conflicts of Interest Policy annually to ensure it adequately reflects the types of conflicts that may arise so that we can ensure that they are appropriately managed and as far as possible mitigated. The Policy is publicly available on our website.

How we have identified and managed any instances in which conflicts have arisen as a result of client interests

Our policy on conflicts may be best understood by considering its impact in practice. The EOS conflicts of interest register contains a description of the conflict, what mitigation procedure and controls have been put in place, whether it was then reported to the escalation group if necessary and any follow up actions and conclusions. It is reviewed by senior management on a regular basis.

The following are some examples of conflicts that arose as a result of client interests which we identified and managed in 2020:

- **Conflict due to client holdings:** A company we engage with sought to acquire another company, in which one of our clients had a large shareholding as well as an indirect ownership interest in an associated entity that exerts significant influence over the company to be acquired. We had to make a voting recommendation for two other clients on whether to approve the transaction or not. We sent a client alert to the two voting clients, asking that they review our recommendation and highlighting the potential conflict. This potential conflict was escalated to the head of EOS and head of client service to resolve.
- **Conflict due to client shareholder proposal:** One of our clients filed a shareholder proposal, asking a company to report in line with the recommendations of the TCFD. Given our relationship with the client and our focus on tackling climate change, we raised this as a potential conflict and decided to escalate the issue to two other senior engagers. The discussions allowed us to fairly recommend voting for the proposal as it aligned very well with our expectations of companies in relation to TCFD reporting.

Examples of how we have addressed actual or potential conflicts

The following are some examples of actual or potential stewardship conflicts which we identified and managed in 2020:

- **Conflict due to a personal relationship with company:** We had an engagement meeting set up with an independent non-executive director (INED) at a company (company A). The INED was a CFO of another company (company B), which until recently, employed one of the EOS engagement team members who was due to take part in the engagement meeting. We raised this as a conflict because it may have risked appearing that our EOS engagement team member in question was engaging with the CFO while having been an employee quite recently. We therefore decided that the EOS engagement team member would not join the meeting, to avoid any conflict of interest.
- **Conflict in relation to an initial voting recommendation difference with an investment team of the international business of Federated Hermes:** Our voting guidelines indicated that we supported the remuneration report for a company. This voting recommendation was escalated to another team member and EOS' head of stewardship. After discussions between EOS engagers and an engager based in an investment teams of the international business of Federated Hermes, we took into account additional context regarding the company's debt position and poor treatment of workers during the coronavirus crisis and decided to recommend voting against the remuneration report.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

How we have identified and responded to market-wide and systemic risks

Selecting our engagement themes for 2021-23

EOS focuses its stewardship on the issues with the greatest potential for long-term positive outcomes for investors and their beneficiaries. Generally, EOS' work is embodied in a response to systemic risks but interlinked to this are market-wide risks it must consider. The full taxonomy below identifies 12 key themes and 36 related sub-themes for engagement which could be considered systemic risks. This breadth of coverage across the whole programme is necessary to reflect the diversity of issues in our global Engagement Plan which covers all regions and sectors, including those which are most material to the individual companies.

The selection of these themes is developed using a structured horizon scanning exercise which takes into account: extensive formal and informal feedback from our clients from our many touchpoints (including an annual survey, one-to-one meetings and sharing of draft plans); an external scan of industry issues; as well as internal input from a survey. This ensures that we continue to identify key themes and risks to address which reflect our clients' priorities and those in wider society as part of our fiduciary duty.

Engagement themes for 2021-23

Looking further into the detail, our work maintains focus on the most material themes, reflective of our client priorities and what we identify as having the greatest systemic risk. Specific environmental and social outcomes that we seek include:

Climate change: ensuring company strategies and actions are aligned to the goals of the Paris Agreement to limit climate change to well below 2°C and, ideally to 1.5°C.

Natural resources: building a circular economy to achieve sustainable levels of consumption to ensure affordable access to food, clean water and critical natural resources, while protecting biodiversity.

Pollution: controlling pollution of air, land and water to below harmful levels for humans and other living organisms.

Human rights: respecting all human rights linked to a company's operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty

Human capital and labour rights: improving human capital and safeguarding labour rights to achieve a healthy, skilled and productive workforce inclusive of the full diversity of wider society, in the context of rapid technological disruption.

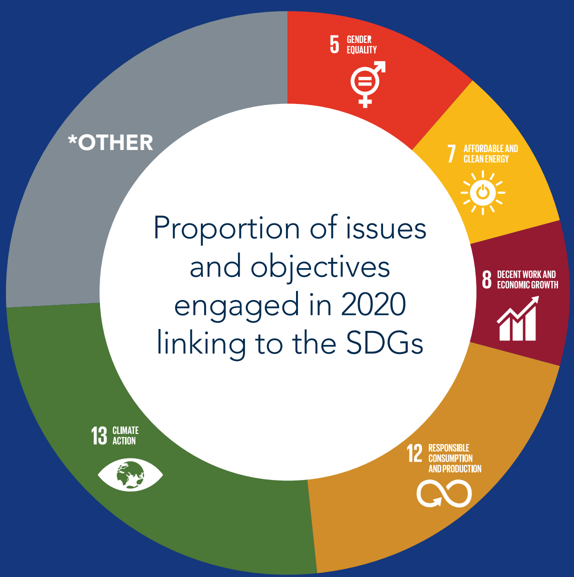
Conduct, culture and ethics: developing a corporate culture that puts customers first and treats material stakeholders fairly to help build a stronger, fairer and more equal society.

To enable delivery of these outcomes, we seek robust governance and management by companies of the most material long-term drivers of wealth creation, from both a company value and societal outcome perspective, including:

- **Corporate governance** – encompassing effective boards composed of primarily independent individuals representing the diversity of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying strictly no more than is necessary; and the establishment and protection of all material shareholder rights
- **Strategy, risk and communications** – the clear articulation of a company's purpose in order to deliver long-term value to all stakeholders, supported by a sustainable business model and strategy that addresses the needs of its different stakeholders; robust risk management practices to protect long-term value; and transparent, timely disclosures of reliable information sufficient for investors and wider stakeholders to make informed decisions on long-term investment.

Alignment to the SDGs

In addition, the United Nations (UN) identified systemic risks and developed these into 17 Sustainable Development Goals (SDGs), adopted in 2015 as a global call to end poverty, protect the planet and ensure that everyone enjoys peace and prosperity by 2030. Our view is that the long-term success of businesses and the success of the SDGs are inextricably linked. We believe that all of our engagement work is aligned to the delivery of the SDGs either directly or indirectly, enhancing our response to systemic risks. The chart below illustrates the number of engagement objectives and issues on which we have engaged in the last year, which we believe are directly linked to an SDG (noting that one objective may directly link to more than one SDG).



1,849 of the issues and objectives engaged in 2020 were linked to one or more of the SDGs

* This represents the proportion of issues and objectives assigned to the remaining SDGs.

1 No poverty
2 Zero Hunger
3 Good health and well-being
4 Quality Education
5 Gender equality
6 Clean water and sanitation
7 Affordable and clean energy
8 Decent work and economic growth
9 Industry, innovation and infrastructure
10 Reduced inequalities
11 Sustainable cities and communities
12 Responsible consumption and production
13 Climate action
14 Life below water
15 Life on land
16 Peace, justice and strong institutions
17 Partnerships for the goals

A spotlight on our approach to climate change

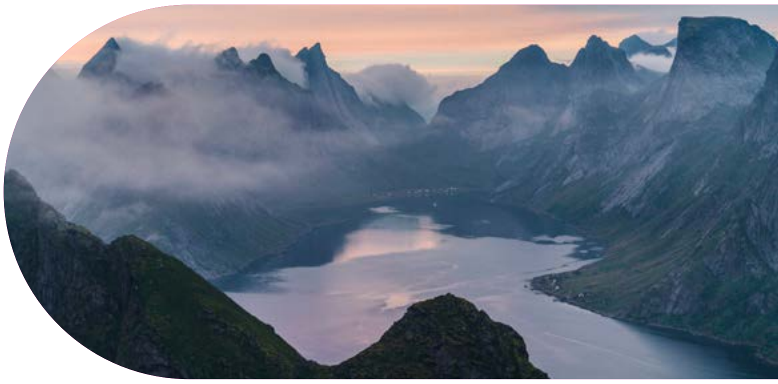
Climate change continues to be the biggest single issue of concern for long-term investors as a systemic risk – we therefore consider it our duty for this theme to remain as a focus area of our engagement. The long-term outcomes we seek from our engagement are for all companies to have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050. In the near-term, we seek a range of objectives including: development of a strategy consistent with the goals of the Paris Agreement, including that each new material capex investment is consistent with the Paris goals; science-based emissions reduction targets for Scope 1 and 2 emissions and Scope 3 emissions (where a methodology exists, or the equivalent ambition); a public policy position supportive of the Paris goals and alignment of both direct and indirect lobbying activity by member industry associations; board oversight and understanding of climate risks and opportunities; and adoption and implementation of the TCFD recommendations.

We complement this approach through supporting the Climate Action 100+ (CA100+) investor collaboration or applying escalated engagement techniques, including raising issues at annual shareholder meetings and supporting shareholder resolutions which support positive change. We also support effective policy making aligned to the goals of the Paris Agreement, including support of net-zero greenhouse gas reduction targets by national governments.

Our response to the Covid-19 pandemic

Although pandemic risk was identified by many companies as a low-likelihood, high-impact event, Covid-19 demonstrated that businesses were not prepared for the scale of government interventions, including national lockdowns, which devastated economies. The Covid-19 pandemic became the significant backdrop to much of our engagement in 2020, starting perhaps as what could be considered a market-wide risk and evolving into a systemic one. In April we responded by sending an open letter to the chairs and CEOs of the companies in our engagement programme, explaining that our dialogue during and after the pandemic would focus on business resilience and stakeholders. We outlined how we expected companies to ensure the safety and wellbeing of their workforces. We also wanted them to treat their suppliers fairly, serve their customers and support the efforts of governments and society in dealing with Covid-19.

For the 2020 voting season, we developed new voting guidelines and were supportive of virtual shareholder meetings – as long as these were temporary and had appropriate safeguards for shareholder rights. The move to virtual meetings allowed us to intervene at a record number, "attending" 22 versus nine in 2019. Our more nuanced approach to voting recommendations included taking a more supportive stance on director re-election in more marginal cases of low board diversity, so as not to remove key directors at a time of crisis.



Working with other stakeholders to promote continued improvement of the functioning of financial markets

Working with other stakeholders to promote continued improvement of the functioning of financial markets, aligned with the themes identified in our Engagement Plan, involves public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties. The following are a selection of some of our highlights from 2020:

- We had a number of meetings with the Financial Services Agency (FSA), Japan Exchange, the Ministry of Economy, Trade and Industry (METI) and the Ministry of Environment. We highlighted our concerns about governance issues, including board effectiveness and cross-shareholdings, as well as climate change and Japan's energy policy. We also worked closely with the Asian Corporate Governance Association (ACGA), the International Corporate Governance Network (ICGN) and Asia Investor Group on Climate Change (AIGCC), among others, to enforce our messages.
- As part of our continued objective to influence best practice for executive remuneration in Germany we participated in a working group on best practice guidelines for simpler and more sustainability-focused management board remuneration. We co-initiated and worked with the group to develop guidelines in 2018 which are now being updated.
- We submitted a written response to the consultation on revisions to Spain's Good Governance Code. We welcomed the extension of the minimum representation of either gender on the board to 40%, but encouraged a broader set of guidance and initiatives to support systemic change, in particular greater female representation in senior management. We also provided input on the role of the audit committee and on remuneration policy good practice.
- We responded to the Hong Kong Stock Exchange's consultation on corporate weighted voting rights (CWVR), questioning the appropriateness of their introduction. Investors have increasingly voiced concerns about the entrenchment of risks and the lack of accountability under the individual WVR structure. We also spoke to over 70 representatives from asset management, city authorities and stock exchanges from Shenzhen and the UK on best practice approaches to stewardship at the Shenzhen-UK ESG roundtable.

- We wrote to the Ministry of Justice in Germany to give our views on its emergency law on virtual annual meetings. In particular, we urged a return to offering investors the chance to attend in person once the public health risk was sufficiently reduced.
- We joined the Council of Institutional Investors and many other institutional investors in opposing the US Securities and Exchange Commission (SEC)'s proposed changes to proxy advisor rules. Our letter to the SEC was cited five times in the issuance of the final rules. Along with our letter, we also met with the SEC about the proposed rules. We were pleased to see significant changes to the final rules issued in the summer though some fundamental concerns remain.

Collaboration focused on tackling climate change

We are an active member of CA100+, the collaborative engagement initiative representing over US$52 trillion of assets. We lead or co-lead 31 engagements and are supporting another 35. As far as we are aware, this is higher than any other participant.

Key data for CA100+

Over **545** signatories

With over **US$52tn** under management

Over **160** companies targeted, accounting for an estimated **80%+** of global industrial emissions

We lead or co-lead the engagement on **31** companies across the three major regions (North America, Europe and Asia)

We collaborate with others on another **35** companies

CASE STUDY

Rolls-Royce

A constructive dialogue between Climate Action 100+ signatories and Rolls-Royce has been ongoing since the launch of the initiative in late 2017, including with internal specialists, senior management and the chair of the board. EOS' engagement priorities with the company in 2020, as the lead signatory of the initiative, included: the setting of new interim targets, including goals to address scope 3 produce use emissions, in line with a pathway to net-zero; gaining reassurance over climate-related scenario analysis undertaken and its integration; advancing its climate-related financial disclosure; and asking the company to consider tying executive compensation to climate performance metrics. Rolls-Royce continued to advance its reporting against the TCFD recommendations in its 2019 Annual Report, published in Q1 2020.

In June 2020, it announced a commitment to net-zero emissions in its operations and facilities by 2030 (a science-based target) and to play a leading role in enabling the sectors in which it operates to reach net-zero emissions by 2050. Engagement in 2021 will cover the company's roadmap to net-zero and interim targets in particular in a post-Covid-19 recovery in the aviation industry, the integration of climate-related scenarios and goals into business planning, further improvements to climate-related disclosure where necessary, the integration of executive compensation with the net-zero pathway and the governance of direct and indirect policy advocacy in line with the company's support for the goals of the Paris Agreement. Read the case study in full.[22]

Rolls-Royce must go through the process of understanding how the energy transition will impact each of its products, including aircraft engines, and how these can be made compatible with a net-zero economy.

[22] https://www.hermes-investment.com/ukw/eos-insight/eos/rolls-royce-case-study/

Through this collaborative initiative we have gained an insight into how some of the most challenging transitions to work towards net-zero emissions are those involving companies that must fundamentally change the nature of their products. This is the case for those in the extractives industry, but also for companies such as Centrica, BMW, Rolls-Royce and Kinder Morgan, where we co-lead engagements under CA100+. Our case study on Rolls-Royce is an example of how we have worked with other stakeholders to engage on its process of understanding how the energy transition will impact each of its products, including aircraft engines, and how these can be made compatible with a net-zero economy.

Shareholder resolutions

We support the selective use of shareholder resolutions as they can be a useful tool for communicating investor concerns and priorities, asserting shareholder rights or supplementing or escalating direct engagement with companies. We consider such resolutions on a case-by-case basis and encourage boards to engage with serious, committed long-term shareholders or their representatives, like ourselves. When considering whether or not to support resolutions, we consider factors which help to ensure that the proposal promotes long-term shareholder interests. These include what the company is already doing or has committed to do, the nature and motivations of the filers (if known) and what potential impacts – positive and negative – the proposal could have on the company if implemented. When boards interact in an active and engaged way with shareholders on issues that affect companies' long-term value, we will see less need to recommend support for or the filing of shareholder resolutions.

In our experience, shareholder proposals can be a catalyst for related dialogue with issuers and we avail ourselves of these opportunities, where appropriate, whether or not we recommend a vote in favour of the resolution itself. We expect boards to address the issues raised by shareholder proposals which receive significant support or where they are material to the company. In addition, we view any failure to implement a shareholder proposal that has received majority support as a clear indication that the board of directors is not fulfilling its obligations to the owners of the company. EOS has initiated and supported the co-filing many shareholder resolutions in prior years, for example on climate change at Glencore, Rio Tinto and Anglo American in 2016 and at BP in 2019. In 2020, we also co-filed a resolution on climate change disclosures at Berkshire Hathaway.

When we recommend a vote in favour of a shareholder resolution in the cases that there is no management recommendation, this is classed as a vote against management. This is to ensure that we do not underreport conflicts, although in some instances it may not be voting against what management would have wanted.

We also initiate shareholder proposals in markets where it is relevant and common to do so, for example in Germany and the US, either as lead filer or as co-filer alongside other shareholder representatives or investors. Consistent with our intelligent voting recommendation approach, this typically forms part of a wider engagement with the company and is used as a tool for leverage in our dialogue with management.

Overall, there was a slight reduction in climate change shareholder resolutions across all sectors in 2020, although there were some high-profile successes, as investors called for companies to align their policies and targets with the Paris Agreement goals, including at Woodside Petroleum, Santos and Barclays. The NGO-filed shareholder resolutions at the Australian oil and gas producers attracted record levels of support from institutional investors – more than 50% at Woodside and 47% at Santos. The following are examples from the banking sector of our support for shareholder resolutions in 2020:

- At **Barclays** there were two climate-related resolutions, one backed by the company and the other filed by ShareAction, a charity that advocates for responsible investment. The development of the company-backed resolution followed intensive engagement by investors and their representatives, including EOS. We have worked closely with Barclays over several years to enhance its management of climate-related risks. We recommended voting in favour of both climate-related resolutions. The company-backed resolution passed with almost unanimous support and committed the bank to aligning all of its financing activities with the Paris Agreement, to become a net-zero emissions bank by 2050. ShareAction's resolution went further, calling for a phase out of financing for fossil fuels and utility companies that are not aligned with the Paris climate goals, and was supported by 24% of the investor base.
- **Mizuho Financial Group** became the first Japanese bank to attract a climate-related shareholder resolution. This called on Mizuho to disclose a strategy, metrics and targets aligned with the Paris Agreement, given its continued financing of high carbon-related sectors. We recommended supporting, in line with our ongoing engagement, which dates back to 2009.
- **Toronto Dominion Bank**, one of the world's biggest funders of tar sands oil according to the Banking on Climate Change report, committed to a global climate action plan. Building on our engagement with the company, this included a target to achieve net-zero greenhouse gas emissions from its operations and financing activities by 2050, aligned with the principles of the Paris Agreement. This followed a shareholder proposal, which we recommended support for, asking the bank to adopt emissions reduction targets for its underwriting and lending activities, for which we recommended support.

Working with the PRI in response to Covid-19

Through the international business of Federated Hermes, we joined two Principles for Responsible Investment (PRI) collaboration groups to coordinate and develop investor responses to the Covid-19 crisis. The first group focused on short-term responses and ensuring responsible ESG approaches remain at the front of investor activities. The second focused on the future economic recovery phase, considering how the financial system should function to ensure sustainable outcomes. These groups encouraged signatory exchange at first and now support action on the highest priority ask for investors, companies and governments.

Our contribution to industry initiatives

To allow us allows us to be abreast of investor concerns and emerging issues as they arise and promote stewardship as part of a wider force, we are active participants in a number of collaborative industry bodies and initiatives around the world including:

- Climate Action 100+: lead or co-lead 31 engagements, and support another 35
- Principles for Responsible Investment: founding member and chair of the drafting committee that created the PRI in 2006. Lead engagement with Vale on tailings dam failure, and actively involved in other groups, including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax.
- Asian Corporate Governance Association
- Canadian Coalition for Good Governance
- CDP
- Investors for Opioid & Pharmaceutical Accountability
- Investor Alliance for Human Rights
- Investor Initiative on Mining & Tailings Safety
- International Corporate Governance Network
- The Institutional Investors Group on Climate Change
- UN Guiding Principles Reporting Framework
- US Council of Institutional Investors (CII)
- 30% Club

Examples of our work in 2020 with some of these and other industry initiatives included:

- Collaborating with the Ellen MacArthur Foundation within the PRI plastics working group, to develop guidance to help investors engage with companies in the plastics packaging value chain. This is specifically for the petrochemicals, manufacturing of containers and packaging, fast-moving consumer goods and waste management sectors.
- Providing feedback to the Investor Alliance on the development of an Investor Toolkit for Human Rights. We also joined a collaborative investor initiative called 'Find it, Fix It, Prevent It' focused on increasing the effectiveness of corporate action against modern slavery and engaged with companies as part of this group.
- Continuing our focus on improving audit and accounting practices, including collaborating with investors in the Company Reporting and Auditing Group and contributing to the UK Financial Reporting Council project on improving corporate reporting. Companies are aligning to the expectations of the new UK Corporate Governance Code, including addressing the alignment of executive and workforce pension contributions in remuneration policies.
- Serving as the primary recruiter and a co-lead of the Enacting Purpose Initiative, where we invited over 30 company directors to join the North American Steering Group research effort. This is an opportunity for directors leading in business purpose to convene with others to provide thought leadership on enacting purpose in the North American region.

The extent of our contribution and how effective it has been in identifying and responding to systemic risks and promoting well-functioning financial markets

To document our engagement outcomes, we published 22 long-form company case studies in 2020 along with a number of summary ones. Case studies are produced on our engagement objectives which have been completed, or moved a number of milestones according to our milestone progress system outlined in Principle 2. Therefore, we believe they are solid examples of where our engagement has been effective and has therefore addressed systemic risks and promoted well-functioning financial markets. Our case studies cover a number of themes but summary examples of those which demonstrate outcomes on our focus themes are:

CASE STUDY: CLIMATE CHANGE

Duke Energy

EOS wanted Duke Energy to demonstrate a broader corporate commitment to facing climate-related challenges. We first raised the implications of the US Environmental Protection Agency's Clean Power Plan with Duke Energy's chief sustainability officer in 2014, meeting again in 2015, and in 2017 to discuss support for shareholder resolutions which called on the company to publish a climate report aligned with the TCFD. We met with the chief financial officer ahead of the 2018 annual shareholder meeting, to encourage thinking about how the company could disclose aspirations for emissions reduction to 2050. In early 2019, we discussed ideas for improved disclosure with key executives, as well as greater ambitions for 2030 carbon emissions reduction targets.

In 2010, Duke Energy adopted its first carbon dioxide emissions reduction target. In 2015, it committed to double the capacity of its renewable energy portfolio by 2020. In 2017, it set long-term targets for reducing emissions by 40% and the carbon intensity of its generating assets by 45% by 2030 (from 2005). In September 2019, it increased its 2030 reduction target to 50% and further advanced its ambition by indicating an aspiration of achieving net-zero emissions by 2050. In 2017, the company committed to publish TCFD-aligned disclosure and in 2018 it published its first TCFD-aligned climate report. In 2019, the company improved the clarity of its disclosures on lobbying, trade association and political expenditure. We continue to engage on faster retirement of coal power, further opportunities to optimise the balance of gas and renewables with energy storage and distribution, climate reporting and strategy for managing the impact that decarbonisation could have. Read the case study in full.[23]

[23] https://www.hermes-investment.com/ukw/eos-insight/eos/duke-energy-case-study

CASE STUDY: HUMAN AND LABOUR RIGHTS

HEINEKEN

During a meeting with the head of sustainability in 2015, EOS highlighted that following the stream of acquisitions in emerging markets, several of HEINEKEN's operating markets presented a high perceived level of public sector corruption, according to the Corruption Perception Index published annually by Transparency International. We followed up in 2016 and were pleased that our request had led to an internal review of its approach towards transparency and that it would conduct an integral review of its related policies. In 2017 the review was taking longer than expected and the head of sustainability escalated our concerns to relevant experts internally. A meeting in 2018 and the launch of its updated code of business conduct and underlying policies such as the policy on bribery, on responsible alcohol consumption, on human rights and the supplier code in the September gave us further reassurance that the company was taking the matter seriously.

In 2019, Transparency International published a report assessing the whistleblowing framework of 68 Dutch companies. HEINEKEN ranked third with a total score of 82.7% compared to an average score of 45%. Since 2018, HEINEKEN has also been working to improve the working conditions of brand promoters and engaged with industry peers. Since we began our engagement, the number of "Speak Up" reports of suspected misconduct has significantly improved. This is generally the sign of a culture that encourages employees to raise concerns, feeling confident to report wrongdoing. We will continue to engage HEINEKEN on this topic and on other areas including health and safety, climate change and board effectiveness.[24]

CASE STUDY: HUMAN CAPITAL MANAGEMENT

G4S

EOS first raised concerns regarding the high number of fatalities at G4S with its senior independent director / deputy chair in 2009. We reiterated our concerns: in 2011 at a corporate social responsibility (CSR) update, in 2012 in a meeting with the senior independent director and in 2015 with the CSR committee chair. We have since engaged on the issue each year including with the CEO, chair and CSR committee chair, and group health and safety director. In 2011 the company placed increased value on its impact on wider stakeholders by enhancing its board-level governance, upgrading its CSR committee to a full board committee. In 2013, the company launched its road safety programmes, implementing them globally in 2014 when it also introduced mandatory health and safety training for senior leaders and management staff.

In 2015, the company started to disclose its lost-time injury rate, after we pressed for robust CSR data collection across the group. In 2016 the CEO introduced monthly performance reviews with the regional heads and the central executive team. Fatalities decreased significantly in 2017 following improvements in health and safety policies, practices and training performance. Notable progress has been made on road-related incidents and non-attack fatalities also decreased from 20 in 2012 to four in 2019. The improvement in the lost time incidence rate, from 8.5 per 1000 employees in 2015 to 5.7 in 2019, is also notable. We will continue to monitor the company's performance and seek continuous improvement. Read the case study in full.[25]

[24] https://www.hermes-investment.com/ukw/eos-insight/eos/heineken-case-study/
[25] https://www.hermes-investment.com/ukw/eos-insight/eos/g4s-case-study/

CASE STUDY: BOARD EFFECTIVENESS

CTBC

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

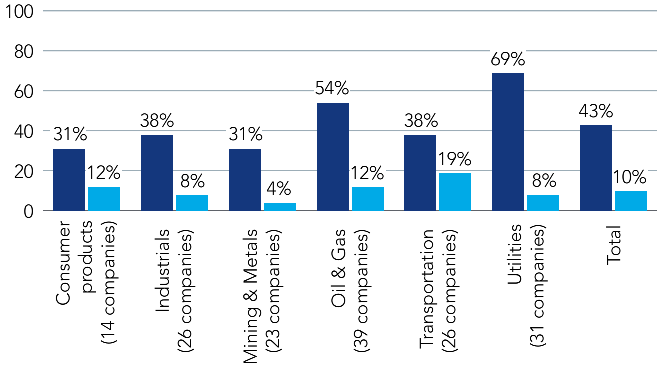
EOS began engagement with CTBC in February 2017, following a period starting in the mid-2000s where CTBC saw controversies related to alleged legal and regulatory breaches by now-former staff. Throughout our engagement, the executive vice president of financial management came to our office to discuss plans regarding restructuring the board and overall corporate governance – we agreed a focus should be separation of powers and stringent checks and balances. In January 2018, we engaged with the chief compliance officer and corporate secretary. In May 2019, we met with CTBC's insurance subsidiary's chief financial officer and chief strategy officer to discuss plans to adopt additional cybersecurity and technology training for the board. We met separately with a subsidiary's head of data intelligence research and development to provide details on the use of responsible big data and artificial intelligence (AI).

CTBC established an ethics and integrity committee in April 2018 and published the committee charter online. The company now uses devices that enable directors to communicate and access information with comprehensive security protection. Its third party rating on business ethics outlook has been upgraded to category 2 (moderate risk), initially from category 4 (significant risk). As of Q2 2019, the new director onboarding process includes mandatory training on anti-money laundering and embezzlement and board members now participate in a variety of courses on topics including digital banking, fintech, US federal regulatory compliance, TCFD and fair dealing. The company published board evaluation guidelines in September 2019. In addition to annual board performance evaluations, an external and independent professional institution or a panel of external experts and scholars shall evaluate board performance at least once every three years. We aim to deepen our discussion on human capital management across the firm, including the board's gender diversity and nomination process, and the responsible use of AI. Read the case study in full.[26]

Outcomes in response to tackling climate change

Looking further into the detail of the effectiveness of our contribution to tackling climate change as a systemic risk we move our focus to our engagement through CA100+. According to the CA100+ 2020 Progress Report, published in December, 43% of focus companies engaged by the initiative have now set a net-zero target. However, it is clear that there is more work to be done as there are gaps in target coverage, with only 10% of focus companies setting a net-zero by 2050 target that covers the company's most material Scope 3 emissions.[27]

The company has set a target or ambition to reduce its greenhouse gas emissions to net-zero by 2050



■ Company has set a net-zero by 2050 target or ambition that covers its Scope 1 and 2 emissions

■ Company has set a net-zero by 2050 target or ambition that covers its most material Scope 3 emissions

Source: Climate Action 100+ 2020 Progress Report.

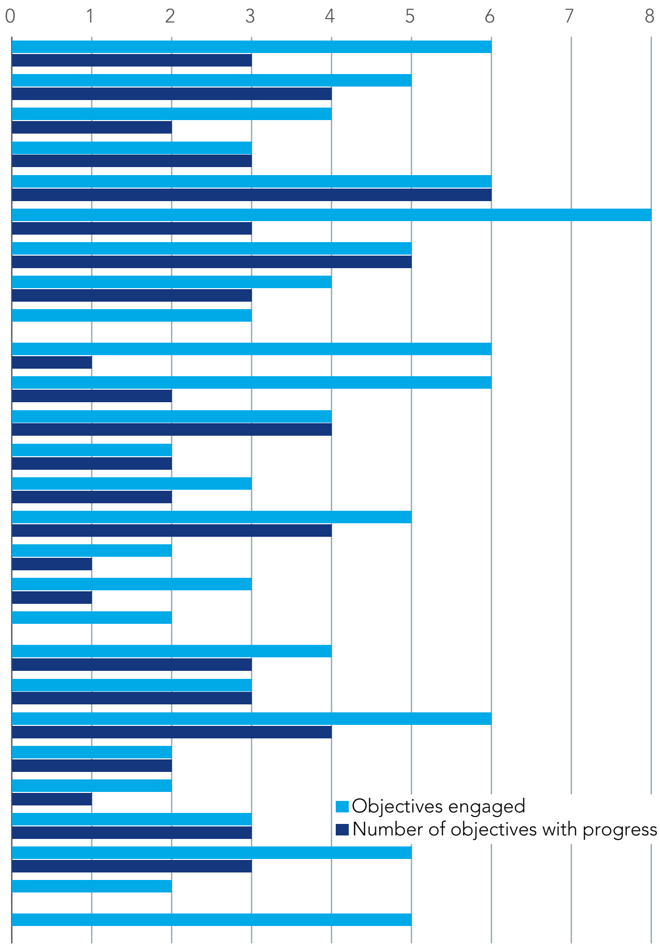
[26] https://www.hermes-investment.com/ukw/eos-insight/eos/ctbc-case-study

[27] https://www.climateaction100.org/wp-content/uploads/2020/12/CA100-Progress-Report.pdf

Nevertheless, the chart below highlights the progress of objectives of CA100+ companies engaged by EOS in 2020, demonstrating the power of collaborating with other stakeholders to promote continued improvement of the functioning of financial markets.

Progress of objectives for CA100+ companies engaged by EOS, 2020

Company Name	EOS Sector
BP	Oil & Gas
Total	Oil & Gas
Siemens	Industrials
Bayerische Motoren Werke	Automotive
Posco	Mining & Materials
Anglo American	Mining & Materials
Hon Hai Precision Industry	Technology
Rolls-Royce Holdings	Industrials
Daimler	Automotive
Centrica	Utilities
Respol	Oil & Gas
LyondellBasell Industries	Chemicals
Eni	Oil & Gas
Gazprom	Oil & Gas
LafargeHolcim	Mining & Materials
Danone	Consumer Goods & Retail
PetroChina	Oil & Gas
Air Liquide	Chemicals
AP Moller – Maersk	Industrials
Chevron	Oil & Gas
Walmart	Consumer Goods & Retail
Lockheed Martin	Industrials
Lukoil	Oil & Gas
Severstal	Mining & Materials
ConocoPhillips	Oil & Gas
Berkshire Hathaway	Financial Services
Volkswagen	Automotive



Rounding up some of the specific outcomes we have seen as part of our role in the CA100+, we have continued to advance engagements and shift focus further towards delivering tangible corporate actions.

- In February 2020, following the appointment of BP's new CEO Bernard Looney, the company announced that it would set a net-zero target for 2050 for all the oil and gas it produces, as well as for its entire operations. This made it the first oil and gas major to make such a commitment, setting the bar for other European oil and gas companies. Later in the year, the company published its methodology for determining whether new capital expenditure was consistent with the goals of the Paris Agreement, including the underlying assumptions around commodity prices. This came in direct response to the 2019 shareholder resolution where we led the filing. It also built on engagement over the previous 12 months to seek alignment of BP's accounting assumptions with the goals of the Paris Agreement.
- Prior to Total's annual shareholder meeting, we worked closely with the French company to produce a joint statement in collaboration with CA100+. In this it set the ambition to achieve net-zero emissions and committed to aligning its investments with the Paris goals.

Although these developments are to be applauded, companies have applied different methodologies, so comparison is difficult. To help address this, we have worked with the Institutional Investors Group on Climate Change (IIGCC) to develop a net-zero benchmarking methodology, which allows for flexibility in business models and a comparison between company commitments. This draws on a range of market-leading sources including the Transition Pathway Initiative, Carbon Tracker and InfluenceMap. We have also participated in the CDP consultation to develop a science-based target methodology for the sector.

In 2021 we will look closely at how the energy transition is accounted for in company financial reports and accounts, as well as focusing on nature-based solutions, the Just Transition, and mitigating physical climate risks through adaptation.

Key outcomes from our response to Covid-19

Despite the lockdown restrictions, our engagement activity was higer than in 2019, with similar levels of access to board directors and senior executives, which we believe is due to our well-established pre-existing relationships. We believe we have tailored our approach to engagement during the crisis effectively as possible, recognising the unprecedented challenges facing companies. We think that businesses that pay the closest attention to their stakeholders, while supporting the efforts of governments and wider society, will emerge from the crisis the strongest. Through encouraging this approach in our engagement, we believe we are helping to promote the return of well-functioning financial markets. Below are some case study examples of our engagement on the topic.

In 2021, we will encourage and support companies to set a clear and meaningful business purpose, which helps guide strategy and identify the actions in the short term to deliver a sustainable business model over the long term. The pandemic has also highlighted the risks to business as human activity pushes past safe planetary boundaries. Therefore, beyond improving approaches to risk management, we are increasing our engagement on actions to help avoid future crises. In addition to tackling the climate crisis, we now expect companies to put in place strategies to achieve a net-positive impact on biodiversity, to eliminate deforestation, and to avoid contributing to the development of antibiotic-resistant "superbugs".

CASE STUDY

Tesco

We have engaged with UK supermarket Tesco on governance and culture in the wake of an accounting scandal in 2014.[28] It now has a markedly different culture and robust processes governing risk management, including for financial reporting and audit. We discussed how this had been reflected in its response to the coronavirus pandemic in our most recent engagements with the chair of the audit committee and the chief people officer.

Pandemic risk was on the company's radar and was rapidly escalated, with a swift operational response. It increased available delivery slots from around 590,000 when the UK lockdown was imposed in March to one million by the end of April. Likewise, efforts to rebuild trust with stakeholders, including employees, have resulted in an engaged and motivated workforce that has enabled the company's response. To support the increased capacity and provide cover for employees who are isolating, Tesco has employed around 50,000 temporary staff, including 4,000 new drivers and 12,000 new pickers, and has begun paying a 10% bonus on the hourly rate to employees.[29]

CASE STUDY

Associated British Foods

ABF is a British multinational food processing and retailing company, which owns high street fashion store Primark, plus Twinings tea and Dorset Cereals, among other brands. In the midst of the pandemic, we had a candid conversation with ABF's CFO to discuss risk management. This was part of a series of conversations we have had with the company since 2013, to gain a better understanding of its approach to this issue.

The CFO said that the company had used the crisis as an opportunity to increase its engagement with employees and to trial technology to communicate with divisions. We discussed the different types of risks faced by ABF and highlighted the difficulties in aggregating risks at the group level, as well as the risk of possible blind spots due to the long tenure of executives. The CFO acknowledged this and stressed the valuable input of newer board members.

We highlighted the key personnel risk inherent in ABF's approach, to which the company provided a strong response based on developing people and fostering a web of relationships with different business functions. We were reassured by the CFO's ability to demonstrate a personal connection to the operating level.

Overall, ABF's portfolio of businesses and conservative balance sheet made it appear resilient to crisis. The CFO also mentioned that the company would include reverse stress tests in its risk management going forward and undertake an external board evaluation in 2021. We continue to engage with ABF on risk management and board composition, as well as on the environmental impact of fast fashion in our dialogue with Primark.

[28] https://www.ft.com/content/2ff76972-1388-11e7-80f4-13e067d5072c
[29] https://www.tescoplc.com/news/2020/tesco-serves-more-than-one-million-online-grocery-orders-in-a-week/

Principle 5

Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

Our client base

EOS represents a large client base of institutional investors around the world, advising on their assets of over $1.3tn, comprised of equity and debt holdings. Established formally in 2004, we have a long track record of working with a variety of client types in 14 different countries, who have a range of different underlying stakeholders and beneficiaries. A large portion of our client base is made up of asset owners (pension funds, foundations, sovereign wealth funds) and the rest comprises non-asset owner clients, including investment consultants, asset, wealth and fiduciary managers.

We place a large emphasis on understanding our client profiles and ensuring we only onboard like-minded clients who wish to invest with a focus on the long term, sharing our vision and strengthening our culture. As a result, we have a strong understanding of the regional nuances and requirements of our client base, and ability to adapt our service to cater to these needs.

How our services best support our clients' stewardship

Relationships and access

We offer a shared service model that provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. Companies understand that EOS is working on behalf of large institutional investors – representing assets under advice of $1.3tn – this gives us significant leverage to exercise more effective stewardship on behalf of our clients.

EOS is a trusted brand and the majority of our engagement is conducted behind closed doors which is how we achieve the biggest changes on our clients' behalf. We use a constructive, objectives-driven and continuous dialogue. We do not just apply a one size fits all approach – we develop engagement strategies specific to each company based on their individual circumstances. Our understanding is also informed by a range of research and our deep knowledge across themes, sectors and regions in which we have dedicated team specialists.

A client-led and tailored approach

Our Engagement Plan provides agreement between us and our clients about our approach to and substance of our engagement and under Principle 4 we identified our 12 key themes and 36 related sub-themes for the next three years.

Through many client touchpoints, client input drives our Engagement Plan to ensure that it represents their priorities and those of their underlying beneficiaries.

Using our Engagement Plan, we align our engagement strategies with our engagement approach for the next three years. This results in us setting SMART objectives and strategies so that our engagement is tailored and on the most financially material factors affecting the long-term sustainability of companies.

Some of the things we might consider when looking at materiality are:

- How relevant is the issue to the company's viability and sustainability?
- What is the likelihood of the risk occurring and if it did what would the impact be?
- Are there sector implications for this engagement that mean we would consider the company a target as either a best/worst practice within a sector or a theme?

An integrated service offering

By putting engagement with companies at the heart of what we do, our other stewardship services which include providing voting recommendations, portfolio screening, public policy and advisory services, are strengthened by being combined with this engagement insight. Under Principle 2, we highlighted in detail the systems, processes, research and analysis which support us in delivery of each of our services. This integrated approach to stewardship puts us in a better position to achieve positive change on behalf of our clients. We believe this demonstrates that our offering has both breadth and depth and clients have the ability to take a combination of services which suit their requirements as they change over time.

Thought leaders and work on emerging themes

Our like-minded clients are often already very sophisticated in their own approaches to stewardship and our services add to their approach. Nevertheless, they still seek value from our thought leadership and identification of new and emerging themes of importance to tackle. In 2020 we continued to build on our work in recent years in the following fast-growing areas and will continue to do so to ensure our clients benefit from us being at the forefront of engaging on these topics:

Plastics

Consumption of plastic has increased 20-fold in the last 50 years and is set to triple again by 2050, yet only around 14% is recycled. Meanwhile, microplastics threaten to contaminate all living organisms, with unknown health consequences. In April 2020 we published our white paper Investor Expectations for Global Plastic Challenges[30], to help address this ballooning problem. Over the long term, plastics must either be removed altogether, reused or recycled in a closed loop.

Artificial intelligence (AI) and ethical data governance

The need for strong data governance is critical as company business models become increasingly reliant on harvesting, storing and analysing data. This will mean ensuring the security, accuracy and integrity of personal data, and that individuals have consented to its use. Companies must take care to avoid discriminatory biases or unintended consequences arising from the application of artificial intelligence, which could lead to significant business risk and adverse social impacts. Since 2019, we have been creating frameworks and tools that investors can use to address issues around freedom of speech, supply chains, data privacy, surveillance, user manipulation, bias and discrimination. In 2020, EOS was shortlisted by the PRI for stewardship project of the year for its work in this area.

Biodiversity and sustainable land use

The UN's landmark 2019 global assessment report on biodiversity and ecosystem services identified a major decline in biodiversity at a level unprecedented in human history, with extinction rates accelerating. In 2021, countries are expected to agree on a post-2020 framework for biodiversity at the Convention on Biological Diversity COP 15, which was postponed from 2020 due to the Covid-19 pandemic. Like the Paris Agreement for climate change, the targets will be delivered by countries and companies. We developed our engagement approach in 2020, culminating in the publication of a white paper: Our Commitment to Nature[31], which focuses on the business case for protecting biodiversity, our engagement priorities and expectations, and key issues such as deforestation and regenerative agriculture.

Fast fashion

Textile production is estimated to account for over one billion tonnes of CO_2 equivalent every year, more than international flights and maritime shipping put together. It is also water intensive, and a major source of microplastics. Yet once the consumer has finished with the item, some 73% is either incinerated or goes to landfill, with less than 1% recycled. In 2020 we advanced our work in this area by identifying key performance metrics and setting more ambitious, yet achievable objectives for the apparel sector.

Integration of client views and feedback into our approach

One of our key differentiators is our client-led approach. As introduced in Principle 1, we have many touchpoints for clients to provide their input to shape and influence the service we offer, in a structured way. As mentioned in Principle 2, we also have an established formal feedback loop for clients, which ties the touchpoints together with our other structures and processes, to ensure we remain a client-driven stewardship service provider. A summary of some of the key touchpoints is described below.

- **Annual client survey** – We strongly encourage our clients to complete our annual client survey. We seek views on our Engagement Plan contents and the allocation of engagement resource.
- **Client meetings** – At our bi-annual client meetings, our head of stewardship hosts a session, discussing our progress against the Plan and our approach going forward. Clients have an opportunity to ask questions and give feedback on the path they would like our engagement to take.

In addition, each client is assigned a dedicated client relationship manager who understands the market and challenges that similar clients are facing and can help navigate and make the most of the tools and service we provide.

[30] https://www.hermes-investment.com/ukw/eos-insight/eos/investor-expectations-for-global-plastics-challenges/
[31] https://www.hermes-investment.com/ukw/eos-insight/eos/our-commitment-to-nature/

Communicating with clients

EOS recognises that timely communication is key for our clients to manage their own responsible investment activities and communicate with their beneficiaries and stakeholders. We are constantly evolving our diverse suite of client reporting and value-add services to assist with this.

Highlights include:

- Our online client portal was built so that clients can access high-level, as well as company-specific, engagement activity 24/7. It also includes an online library of relevant documents and client communications.
- Quantitative and qualitative reports are provided on a monthly, quarterly or annual basis with company updates and statistics on our work.
- On an ad-hoc, regular basis, market insights on key industry topics and company case studies on our engagements are published on the EOS insights page of our website and pushed out to clients so they are aware. Our process around case study development ensures that we always send our drafts to the companies for a fact-check, verifying the engagement impact we have described and adding credibility to the stewardship outcomes we are achieving on behalf of our clients.
- On an ad hoc basis, clients are sent invitations to join client-only events, such as educational calls, training sessions and opportunities to seek feedback.
- Clients are invited to join engagement meetings and upcoming meetings on a sustainable and appropriate basis.

Some of our reporting is confidential but we have also developed materials that can be used publicly to communicate with our clients' beneficiaries and other external stakeholders.

Consideration of clients views and feedback

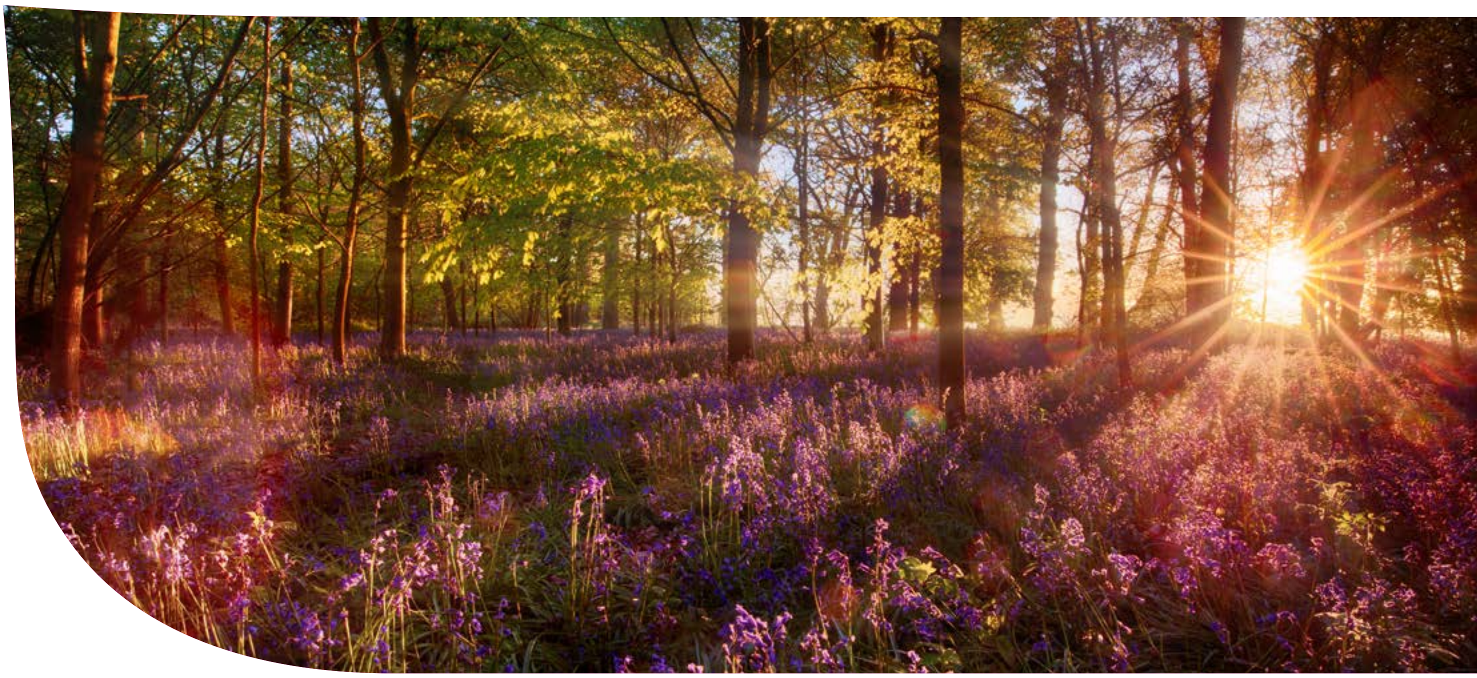
Described in detail under Principle 1, our services and the way in which our clients express their views and feedback on the provision of our services has been developed over a number of years and is anchored in our heritage. Central to this is our client-led Engagement Plan which was borne out of clients requesting a systematic approach to engagement and essentially a written agreement of the stewardship priorities on our clients' behalf. As outlined under Principle 1, we have seen a consistent majority of clients respond in our annual survey to say they that prefer our engagement to remain at the same level of intensity, on a similar amount of companies.

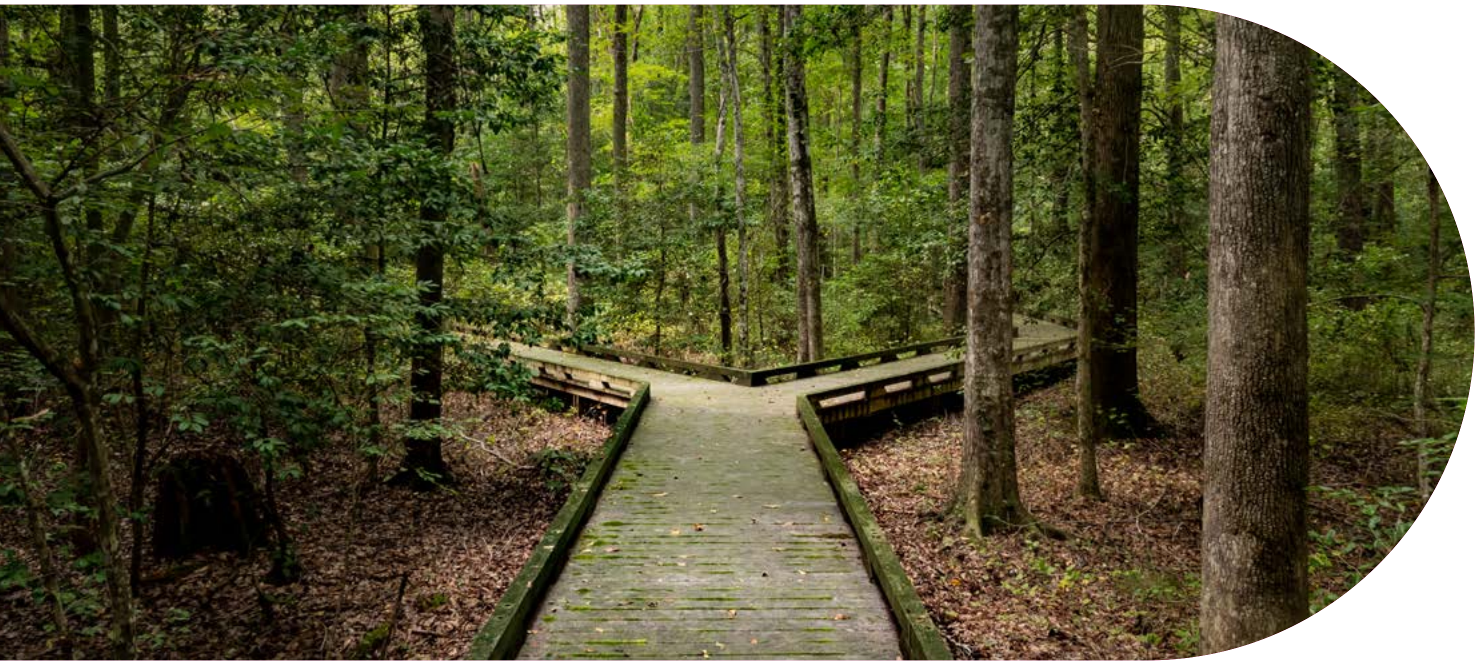
Reporting

Clients often present their views and feedback on the provision of our services through one of our many client touchpoints, which are considered by our reporting governance group. The group meets to evolve reporting according to various pre-agreed factors.

An important aspect of our service involves supporting clients' communications with stakeholders to ensure their trustees, beneficiaries and others have a clear idea of the intention, direction and impact of our clients' stewardship activity. Based on client feedback, we have increased the volume of materials we produce that can be used publicly, as we understand the pressure on investors to be transparent.

- One example of this is adapting our client-driven Engagement Plan, which was originally confidential for clients only. However, we now produce a very detailed and confidential version for our clients, as well as public version which outlines our high-level approach to stewardship.
- Another example is short-form company case study summaries fact checked by the companies. A selection of these are now included in our quarterly Public Engagement Reports, replacing previously anonymised summaries.





Voting

Clients are welcome to provide us with feedback on our approach to voting recommendations and we may make tweaks to our policy where appropriate.

We changed our voting approach for the 2020 shareholder meeting season which we had not initially planned for, due to the Covid-19 pandemic. In this case we arranged a call with clients to outline these changes and our rationale behind them so they could understand our new approach and provide their feedback.

Many vote recommendation clients will disclose their voting behaviour on their own website, and we provide vote disclosure files to them for this purpose. We also assist PRI signatory clients with inputs they can use to support their own reporting.

Screening

Our screening tool has evolved in response to clients wanting more engagement oversight into issues that are flagged, expanding it to now reference additional international principles and guidelines. For instance, we now flag companies in our clients' aggregate holdings universe that have severe negative impacts on people, society and the environment on themes as defined by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The companies are also provided with their corresponding link to the client portal, making it easier for clients to get more context about ongoing engagements.

The evolution of the screening tool also enables us to better assist clients with their requirements as signatories to the international responsible investment covenant, IMVB. We prioritise adverse impacts based on their scale, scope and irremediable character. In accordance with the IMVB covenant, we further distinguish between companies with current or potential salient adverse impacts.

The effectiveness of our communication with clients

Communication through reporting and the client portal

Earlier examples under this Principle demonstrate that we have a diverse range of reporting to cater to different needs of our clients. Our confidential client portal was built in response to client feedback and their needs for a window into our engagement activities. However, over time and gathering feedback through our many client touchpoints, it has become clear that client needs have become increasingly sophisticated.

As introduced under Principle 2, we have set up a client working group to represent the client base and discuss the portal's development and test ideas.

Communicating our progress at companies

Our four-stage milestone system allows us to track the progress of our engagement, relative to the objectives set for each company (as detailed in Principle 2). Principle 1 included a graphic of the headline engagement progress we made in 2020. We communicate which milestone objectives are at through our client portal. However, client feedback has suggested that how they extract/interpret this information form the portal can be quite tricky, so it is another finer detail of development work we are looking into as part of the portal development project.

In addition, client feedback has confirmed that public case studies provide a more engaging way of communicating our progress to our clients. Case studies are typically written on objectives which have reached completion of milestone four, as this is when we are satisfied that they have actioned what we were hoping for them to achieve. Responses from our annual client survey consistently demonstrate that clients highly value this output. During 2020, we published 22 long-form case studies and an additional number of short-form ones, all fact checked by the companies, in our quarterly Public Engagement Reports.

Principle 6

Signatories review their policies and assure their processes.

Review of our policies and activities to ensure support of clients' effective stewardship

Engagement and voting

Our Engagement Plan acts as our key policy for engagement, forward-looking for the next three years. It is updated on an annual basis using a structured horizon scanning exercise mentioned under Principle 4 in detail which takes into account: extensive formal and informal feedback from our clients; an external scan of industry issues; as well as internal input from a survey. This ensures that we take into account fresh perspectives and continue to identify the key themes to address in our engagement which cover our clients' priority areas and support their effective stewardship.

Throughout the year we also hold engagement clinics for individual companies to review engagement strategy, objectives, milestone progress and next steps which we outlined in Principle 2.

EOS' Global Voting Guidelines act as a policy which inform our recommendations to proxy-voting clients. Our Guidelines are informed by a hierarchy of external and internally developed global and regional best practice guidelines. We have 22 EOS-developed regional corporate governance principles available on the EOS library page of our website, which set out our fundamental expectations of the companies our clients invest in. We also have nearly 50 country-level policies.

The primary policy development cycle for EOS voting guidelines is an annual process and runs in conjunction with the policy review process at ISS which informs its benchmark research. EOS looks at feedback from clients, evolving best practice in each market, as well as the changes made at ISS in view of resolution-level data for past voting seasons, to consider what additional changes are warranted. Further input is provided by our Engagement Plan which identifies thematic priorities for engagement. These can often be boosted by enhanced vigilance and potentially escalation through our voting recommendations. EOS completes its major policy changes before the main voting season in each market. Once changes are applied, the policy is monitored to ensure it is having the desired effect and adjusted further where appropriate. Our Global Voting Guidelines are approved annually by the governance committee. The regional corporate governance principles are approved by the engagement management committee and noted by the governance committee.

CASE STUDY

Board composition and diversity is an example of an area we tackled through our voting recommendations in 2020

Given the importance of a stable board for effective crisis management during the pandemic, we considered voting in favour of chairs or committee chairs where we had concerns about poor gender diversity or board or committee independence, unless these were serious or urgent concerns.

Overall in the UK, where the Hampton-Alexander Review established 2020 targets for 33% female representation on boards and in leadership roles, we opposed 35 proposals for concerns about insufficient diversity at board level and below, versus 45 in 2019, reflecting our moderated approach in light of the coronavirus pandemic. We continue to target laggard FTSE 100 companies with all-male executive committees, including Rolls-Royce. However, in line with our engagement-led approach to voting recommendations, we recognised the upheaval the company was experiencing due to the pandemic and so rather than applying our usual policy to recommend against the re-election of the chair in such circumstances we voted in favour, by exception to our policy, but warning of the need to make change rapidly to avoid a recommended vote against in future years. We also received assurances in engagement that diversity was a strategic priority for the business, so we remained supportive, while continuing to push for more ambitious targets and rapid change.

Nevertheless, at Morrisons we recommended voting against the chair of the board and at UniQure we recommended voting against the nomination committee chair, as our concerns about poor board gender diversity remained persistent. Similarly, we recommended voting against the re-election of a non-independent non-executive due to an overall lack of independence on the board at Ocado Group.

Self-review in response to the pandemic

We have detailed the changes to our policies and activities in response to the pandemic under Principle 4, including the modifications to our voting recommendation policies for the shareholder meeting season. We also had to take much more of a 'digital first' approach to our delivery and ensured that clients still received everything they would under normal circumstances. This was also particularly relevant to our client relationship reviews which we typically try to carry out in person.

Assurance in relation to activities that support our clients' stewardship

Assurance of engagement and overall service

As mentioned under Principle 2, we have an engagement management committee which provides assurance in consideration of engagement quality, continuity and coverage in the interests of clients. Our engagers also hold engagement clinics to confirm our engagement is focused on the right objectives and issues and review the proposed approach to engagement. Our client-only meetings, held approximately twice a year include a session on our thoughts for changes to our Engagement Plan, as well as updates on progress so that clients can feed into the direction of our engagement. We also have client representatives which act as a voice for the wider client base, providing further assurance that our activities support our clients' effective stewardship.

Assurance of our voting recommendation process

In addition to escalation, client feedback and post-season reviews, additional measures are in place to support the quality of voting recommendations. This includes an end of day review and daily prioritisation to tackle timely escalation and any corrections before distribution to clients. Our internal audit team performs checks on a regular basis to ensure recommendations are provided on a timely basis and that operational controls are effective.

In terms of our partnership with ISS, we review its timeliness, platform availability and other key indicators against our Service Level Agreement. EOS personnel liaise with ISS on a regular basis, informally and formally to conduct oversight, including a service review each year.

On an annual basis, our voting recommendation process is assured by external auditors as part of a Report on Internal Controls prepared in accordance with the guidance described in ISAE 3000 and ISAE 3402 issued by the International Federation of Accountants and Technical Release (AAF 01/06). It assesses internal controls over the processes involved to ensure all client ballots have a recommendation instruction submitted prior to deadline where possible, and the recording of all instances with operational risk where a late recommendation is submitted as a result of these processes failing.

External consultancy reviews

In 2019 we engaged a consultancy to provide an independent review of our operating model and assess its scalability and efficiency to support the business. We also undertook a separate evaluation exercise the same year, with the help of an external consultant to understand from our clients and the market more broadly what was valued about the EOS service – what makes it unique and what is important to investors when assessing a stewardship provider, as detailed under Principle 1.

External audit assurance on our integration and stewardship activities

Through the international business of Federated Hermes, we have pursued discussions with a view to securing assurance of our stewardship activities. We view such assurance as an important way to demonstrate the high standards of our stewardship. We are in discussions with a number of providers, with the aim to develop an outcomes-focused assurance approach. While we explored this previously with an assurance provider, they unfortunately proposed to take a tick-box approach – something we did not feel reflected the high standards of stewardship that are reflected in the Stewardship Code.

Internal audit

Following our last internal audit, some points were noted which led to us making improvements to the governance framework and conflicts of interest logging processes. We also made plans to automate some of our processes in the short to medium term, depending on IT priorities.

Compliance

The Federated Hermes compliance department, together with senior management, continues to augment and embed the firm's compliance framework, which includes:

- Managing any potential conflicts of interest.
- Improving the monitoring of regulatory and client-specific guidelines through the implementation of new systems.
- Ensuring that the risks associated with new products, instruments and markets/locations are adequately considered.
- Money laundering and know-your-client responsibilities.
- Staff inductions and regulatory training.

In 2019 our compliance team carried out a review surrounding conflicts of interest, specifically relating to EOS and our ownership structure. No findings that required action were identified.

Ensuring our reporting is fair, balanced and understandable

Under Principle 5 we described in detail our range of activity-based, qualitative and quantitative reporting for clients, as well has how they are able to present their views and feedback through our eight client touchpoints. This is central to our continuous evolvement to ensure our reporting is fair, balanced and understandable. We also outlined the comprehensive process that our case studies have in their own right – key members of our functional heads team are reviewers and once happy, we always send our drafts to the companies for a fact-check, verifying the engagement impact we have described and adding credibility to the stewardship outcomes we are achieving on behalf of our clients. Our governance structures and processes described under Principle 2 also consider the quality of our reporting as part of their purpose.

Also mentioned in Principle 2, we have been undertaking the process of redeveloping our client portal to enhance the search functionality and user experience, as well as introducing the ability for clients to generate bespoke reporting based on themes of their choice. Our dedicated client working group has been an additional forum which has allowed us to discuss the project in detail and share ideas and developments to ensure our reporting is fair, balanced and understandable going forward.

We also undertake a peer analysis review on a regular basis.

Using feedback for continuous improvement

Changes following external consultancy review

Following the external consultancy review, we kicked off a business change project to implement some of the recommendations. These include: evolving our client portal; ensuring our team has access to the right market-leading tools and processes to conduct engagement; and evolving our processes which underpin our services to support the continuous improvement of stewardship practices on behalf of our clients.

Changes to the engagement management committee

We recently reviewed the committee structure and as a result of this we decided to add four engagement team members to the committee. Each of the engagers represent a different region of our work to ensure that we are applying a global perspective to support our clients' effective stewardship.

Changes to our screening tool

Following client feedback and internal review our screening tool, which we detailed under Principle 2, this was enhanced in 2019 to now flag companies in our clients' aggregate holdings universe with adverse human rights impacts, using the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights.

New content delivery in response to the Covid-19 pandemic

Following our self-review in response to the pandemic, we have adapted and improved the client user experience through increased use of digital channels, methods from other industries and continuous client feedback.

Further assurance

While we were disappointed with the suggestions previously made by an external assurance provider with regard to securing assurance of some of our stewardship activities, we continue to view such assurance as an important way to demonstrate the high standards of our stewardship. In the meantime, we continue to carry our own high standards of internal audit on processes.

Conclusion

We believe this document effectively demonstrates our stewardship outcomes on behalf of our clients and provides an understanding of our organisation's business operations and strategy. We are enabling clients to contribute to a more sustainable form of capitalism and global financial markets, assisting them in adding long-term value to their investments and managing their risks by engaging with companies and policymakers on their behalf using dialogue on ESG.

Federated Hermes
EOS

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

Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of their assets. EOS is based on the premise that companies with informed and involved investors are more likely to achieve superior long-term performance than those without.

For more information, visit **www.hermes-investment.com** or connect with us on social media:

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