Best Practice Principles for Providers of Shareholder Voting Research & Analysis

Compliance Statement

December 2020
EOS at Federated Hermes

Federated Hermes

www.hermes-investment.com

Contents

Introduction

EOS at Federated Hermes is delighted to provide its first compliance statement in respect of the Best Practice Principles for Providers of Shareholder Voting Research & Analysis (the Principles), in support of its aims to establish standards for service providers in the industry and in line with the requirements of the amended EU Shareholder Rights Directive as transposed into UK law.

EOS helps long-term institutional investors around the world to meet their fiduciary responsibilities and become more active owners of public companies.

EOS 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 approximately £938bn / $1.2tn / €1tn of assets (as at 30 September 2020) invested in over 18,000 companies worldwide. EOS at Federated Hermes is a subsidiary of the international business of Federated Hermes but does not itself manage investments.

Our diverse and multilingual team of engagement and voting specialists monitors the investments of our clients in companies and intervenes where necessary with the aim of improving long-term performance and sustainability. Our team comprises experienced professionals who have the expertise, language skills and cultural knowledge to deliver real beneficial change at the companies its clients invest in.

Our activities are based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without. Our services support the promotion of long-term corporate value, instead of the short-term financial focus common in financial markets.

For some of our clients, we provide voting recommendations as part of our services. EOS' voting recommendation services are provided in conjunction with Institutional Shareholder Services Inc. (ISS), itself a founding signatory of the Principles.

In this compliance statement, we explain our approach to delivering our service and how we comply with the Principles. As we deliver our voting recommendation service in collaboration with ISS, this document may be read in conjunction with ISS' own compliance statement under the Principles.

Principle One: Service Quality

Approach

EOS' approach is aimed at achieving beneficial change at companies with the ultimate aim of protecting long-term shareholder value.

During 2019, EOS delivered voting recommendations covering 10,359 shareholder meetings, involving over 100,000 resolutions. Our voting recommendation service operates as an add-on to our engagement service which is our primary offering. We do not offer voting recommendations as a standalone service.

As a client of ISS ourselves, we do not seek to independently replicate the full range of research it conducts on our behalf. EOS leverages and builds upon ISS research and infrastructure (including the ISS ProxyExchange platform), seeking to add value primarily through selective escalation of the most important or difficult voting decisions, engagement with companies and operating voting policies and approaches that more closely align to our clients' views than ISS' benchmark policy.

The recommendations our clients receive are, in the first instance, based on ISS' research administered through either EOS' relevant voting guidelines and/or those of our clients. We seek to intelligently deploy our engagers to add insight and value to a specific subset of these meetings, by considering the voting approach in light of the engagement undertaken. This is done through consideration of materiality of holdings and the nature of the issues under consideration.

Meetings for companies identified in the EOS engagement programme are assigned to their designated engagement owner, to ensure each meeting is covered by the best-suited person with the deepest knowledge of the relevant company. Meetings for companies that do not form part of the EOS engagement programme are assigned to engagement professionals with country expertise.

The engagement professionals are aided by reference to company materials such as annual reports, proxy statements, the ISS benchmark research, EOS engagement and voting history (as recorded on our proprietary engagement management system – Emerald) and other sources such as collaborative engagement networks, national and international media, as well as a number of external research providers.

EOS provides voting recommendations to clients, but clients retain full discretion over their final voting decision at all times. Clients are encouraged and empowered to contact EOS for further background on voting recommendations.

Employee qualifications and training

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 stewardship services. We have intentionally built a diverse team of experienced and international voting and engagement professionals who have the expertise, language skills and cultural knowledge to work to deliver real beneficial change at companies. Our engagement team, which is 57% female and 43% male (as at 30 June 2020), draws on a number of skill sets, with our senior engagers coming from a range of backgrounds including, but not limited to, corporate law, accountancy, portfolio management, international development banking, climate change, investment research, corporate social responsibility, strategy consulting, company secretarial and academia.

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 14 countries and fluency in 16 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. The depth and breadth of this resource reflects our philosophy that stewardship activities require an integrated and skilled approach. Intervention at senior management and board director level should be carried out by individuals with the right skills, experience and credibility.

Our engagement professionals collaborate in 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, focussing on the combination of regions, sectors and themes to which they have been appointed.

Our team is primarily 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 specific to some local markets.

Our engagement professionals are generally on permanent/long-term contracts rather than brought in as a temporary resource for the voting season. Each engagement professional who joins the team goes through a training and onboarding process which involves shadowing more experienced colleagues to ensure sufficient understanding of the voting policies in the markets involved. Senior engagement professionals dedicate a significant portion of their time to handle escalated votes and discuss market developments.

Research methodology and policy

EOS offers voting recommendations for company meetings on behalf of its proxy voting clients in line with agreed contracts (service agreements). The service agreement with each client will detail whether recommendations are based on the EOS voting guidelines or a custom client policy.

EOS' global proxy voting guidelines (Guidelines) inform our recommendations to proxy voting clients. These explicitly reference environmental, social and governance (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 external and internally-developed global and regional best practice guidelines; principally, our EOS-developed regional corporate governance principles (Principles), which 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.

These Principles articulate the EOS house position on key ESG issues and are informed by relevant external local market standards such as best practice national corporate governance codes, as well as international sources such as the Organisation for Economic Co-operation and Development Principles for Corporate Governance, as well as the collective views of our clients, which are expressed more fully in our annually-refreshed Engagement Plan[2].

Our Guidelines do not seek to repeat all of the expectations articulated in our Principles, but rather outline how these expectations translate into specific voting policies on issues put to shareholder votes at annual 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 sets out our broad position on a number of key topics with global applicability.

Principles

1. **No abstention:** EOS aims to recommend voting either in favour or against a resolution and only to recommend an abstention in exceptional circumstances such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.
2. **Support for management:** EOS seeks to be supportive of boards and to recommend votes in favour of proposals unless there is a good reason not to do so in accordance with our voting policies, global or regional governance standards or otherwise, to protect long-term shareholder interests.
3. **Consistency of voting:** To provide companies with clear guidance of our expectations, EOS seeks to take a consistent position on issues and reflect this in our voting recommendations, in accordance with our stated policies and guidelines. However, recognising the limitations of any policy to anticipate all potential scenarios, EOS reserves the right to use discretion when recommending votes and to recommend in line with the outcome which EOS believes will best serve clients' long-term interests, taking into account market and company-specific circumstances and our engagement with companies, where relevant.
4. **Engagement:** As a minimum, for a defined set of high priority companies (watchlist companies) we will endeavour to engage prior to recommending voting against a resolution if there is a reasonable prospect that this will either generate further information to enable a better quality of voting decision or to change the approach taken by the company. We will also seek to inform such companies of any recommended votes against management, together with the reasons why. For non-watchlist companies, we will inform companies on a best-efforts basis.

Board and directors

1. **Board independence:** We expect boards to meet minimum standards of independence to be able to hold management to account and may recommend voting against the election of directors whose appointment would cause independence to fall below these standards, and/or against the chair of the board where we have serious concerns. We set minimum standards at a market level but, as a general guide, we expect at least half of the board directors to be independent in companies with a dispersed ownership structure, and at least one third to be independent in controlled companies. In judging a director's independence, our considerations include, but are not limited to, length of tenure, concurrent service with other board members, whether they represent a significant shareholder, and whether they have any direct, material relationship with the company, other directors or its executives, including receiving any remuneration beyond director fees. Our expectations may exceed the minimum standards set by regulation or best practice codes in some markets.
2. **Board committees:** Where separate committees are established to oversee remuneration, audit, nomination and other topics – which we expect at most large companies – we may recommend voting against chairs or members where we have concerns about independence, skills, attendance or overcommitment, or the matters overseen by the committee.

[1] https://www.hermes-investment.com/ukw/stewardship/eos-library/

[2] https://www.hermes-investment.com/ukw/wp-content/uploads/2020/02/eos-engagement-plan-2020-2022_public.pdf

3 **Board diversity:** In recognition of the value that diversity of thought, skills and attributes brings to board oversight and in line with our aspiration that board members, together with all levels of management, should broadly reflect the diversity of society, we will consider recommending voting against relevant directors, including the chair, where we consider board diversity – in terms of gender, ethnicity, age, functional and geographic experience, tenure, and other characteristics – to be below minimum thresholds. Some thresholds, such as gender or ethnic diversity, are defined at a market level; others, such as skills and experience, are more globally consistent. Our expectations may exceed the minimum standards set by regulation or best practice codes in some markets.

4 **Director election:** We will generally recommend supporting the election of directors unless there are specific concerns relating to issues such as: board independence and composition; a director's skills, experience or suitability for the role; a director's attendance or ability to commit time to the role; or governance or other failures which a director has oversight of or involvement in – at this or another company.

5 **Director attendance:** We may recommend voting against directors who miss a substantial number of meetings – as a guideline, 25% or more – without sufficient explanation.

6 **Director commitments:** We will consider recommending voting against a director who appears overcommitted to other duties, with the guideline of having no more than five directorships. When considering this issue, we take into account a number of factors, including the size and complexity of roles, with certain industries such as banking (due to its business model and regulatory complexity) and multi-site operating companies such as international mining (due to the need for site visits) requiring more time commitment. As a broad guideline, we consider a chair role equivalent to two directorships and an executive role equivalent to four directorships. A chair should not hold another executive role and an executive should hold no more than one non-executive role, except for cases where serving as a shareholder representative on boards is an explicit part of an executive's responsibilities. A significant post at a civil society organisation or in public life would normally also count as equivalent to a directorship, whether it is an executive, non-executive or a chair role.

Remuneration

We set market-specific voting policies on remuneration with reference to our Remuneration Principles[3], and according to local market practice. Our broad guidelines are:

7 **Alignment to long-term value:** We will consider opposing incentive arrangements that do not align to the creation of long-term value for shareholders and other stakeholders including, for example, those which disproportionally focus on short-term growth of share price or total shareholder returns.

8 **Executive shareholdings:** We support executive management making material, long-term investment in the company's shares and may oppose remuneration proposals and reports where shareholding requirements or actual executive shareholdings are insufficient. As a general guideline, we support the aim that executives hold at least 500% of salary in shares and no less than 200%, with varying minimum thresholds based on regional pay practices.

9 **Complexity:** We will consider voting against overly complex incentive arrangements which are difficult for investors and others to readily understand. An important factor in assessing complexity is the number of different components that comprise the whole remuneration package.

10 **Variable to fixed pay:** We will consider voting against proposed incentive schemes or pay awards where we consider the ratio of variable pay relative to fixed pay to be too high, as part of our long-term desire to see far simpler pay schemes, based on majority fixed pay and long-term share ownership. We set varying maximum thresholds for variable pay to reflect regional pay practices.

11 **Justification for high pay:** We will consider voting against pay proposals which appear excessive in the context of wider industry pay practices or where executive pay is raised significantly above inflation or that of the workforce average without a convincing justification.

12 **Discretion:** We expect boards and remuneration committees to apply discretion to ensure pay outcomes are aligned with performance and the wider experience of shareholders and may oppose remuneration reports and the election of relevant directors where this is not the case.

13 **Disclosure:** We will generally recommend voting against remuneration reporting where disclosure is insufficient to understand the approach to incentive arrangements and how pay outcomes have been achieved, or where disclosure otherwise falls below expected market practice.

[3] https://www.hermes-investment.com/wp-content/uploads/2018/10/remuneration-principles-clarifying-expectations.pdf

Audit

14 **Ratification of external auditors:** We will generally oppose the ratification of external auditors and/or the payment of audit fees where we have concerns, including those relating to audit quality or independence, or controversies involving the audit partner or firm.

Protection of shareholder rights

15 **Limitation of shareholder rights:** We will generally recommend voting against any limitation on shareholder rights or the transfer of authority from shareholders to directors and only support proposals which enhance shareholder rights or maximise shareholder value.

16 **Related-party transactions:** We will generally only support related-party transactions (RPTs) which are made on terms equivalent to those that would prevail in an arm's length transaction, together with good supporting evidence. We expect RPTs to be overseen and reviewed by independent board directors with annual disclosure of significant RPTs.

17 **Differential voting rights:** We will generally recommend voting against the authorisation of stock with differential voting rights if the issuance of such stock would adversely affect the voting rights of existing shareholders.

18 **Anti-takeover proposals:** We will generally recommend voting against anti-takeover proposals or other "poison pill" arrangements including the authority to grant shares which may be used in such a manner.

19 **Poll voting:** We will generally support proposals to adopt mandatory voting by poll and full disclosure of voting outcomes, together with proposals to adopt confidential voting and independent vote tabulation practices.

20 **Authorities to allot shares:** We will generally recommend voting against unusual or excessive authorities to increase issued share capital.

21 **Rights issues:** We generally support rights issues, provided that shareholder approval is obtained for any rights issue for any significant amount of capital (greater than 10% of share capital).

22 **Market purchase of ordinary shares (share buybacks):** We will generally support proposals for a general authority to buy back shares provided these meet local governance standards. We may not support this authority where it exceeds a period of 18 months, where the potential effect of the buyback programme on executive remuneration is not made sufficiently clear, or where we oppose the strategy for long-term capital allocation.

23 **Bundled resolutions:** We will generally recommend voting against a resolution relating to capital decisions, where the resolution has bundled more than one decision into a single resolution, denying investors the opportunity to make separate voting decisions on separate issues.

24 **Virtual/electronic general meetings:** We will generally recommend voting against proposals allowing for the conveying of virtual-only shareholder meetings, unless such arrangements are a temporary solution in response to restrictions on in-person gatherings, such as in response to the coronavirus pandemic. We may accept meetings to be convened in a hybrid format – where shareholders have the option to join the meeting via an online platform or to join in person, provided all shareholder rights are protected or enhanced.

Commercial transactions

25 When considering our voting recommendation on a commercial transaction, we consider a range of factors in the context of seeking to protect and promote long-term, sustainable value. These include: consistency with strategy; risks and opportunities (the key risks and opportunities and the extent to which these appear to have been managed); conflicts of interest; and price. The underlying expectation is that due process is followed, with information made available to all shareholders.

Shareholder resolutions

26 We support the selective use of shareholder resolutions as a useful tool for communicating investor concerns and priorities or the assertion of shareholder rights, and as a supplement to or escalation of direct engagement with companies. We consider such resolutions on a case-by-case basis. When considering whether or not to support resolutions, we consider factors which help ensure that the proposal promotes long-term shareholder interests, including: 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.

Climate change

27 **Climate change**: We will consider recommending voting against the chair, and other relevant directors or resolutions, at companies where we consider a company's response to the risks and opportunities presented by climate change to be insufficient, using a range of indicators, including the Transition Pathway Initiative assessment.

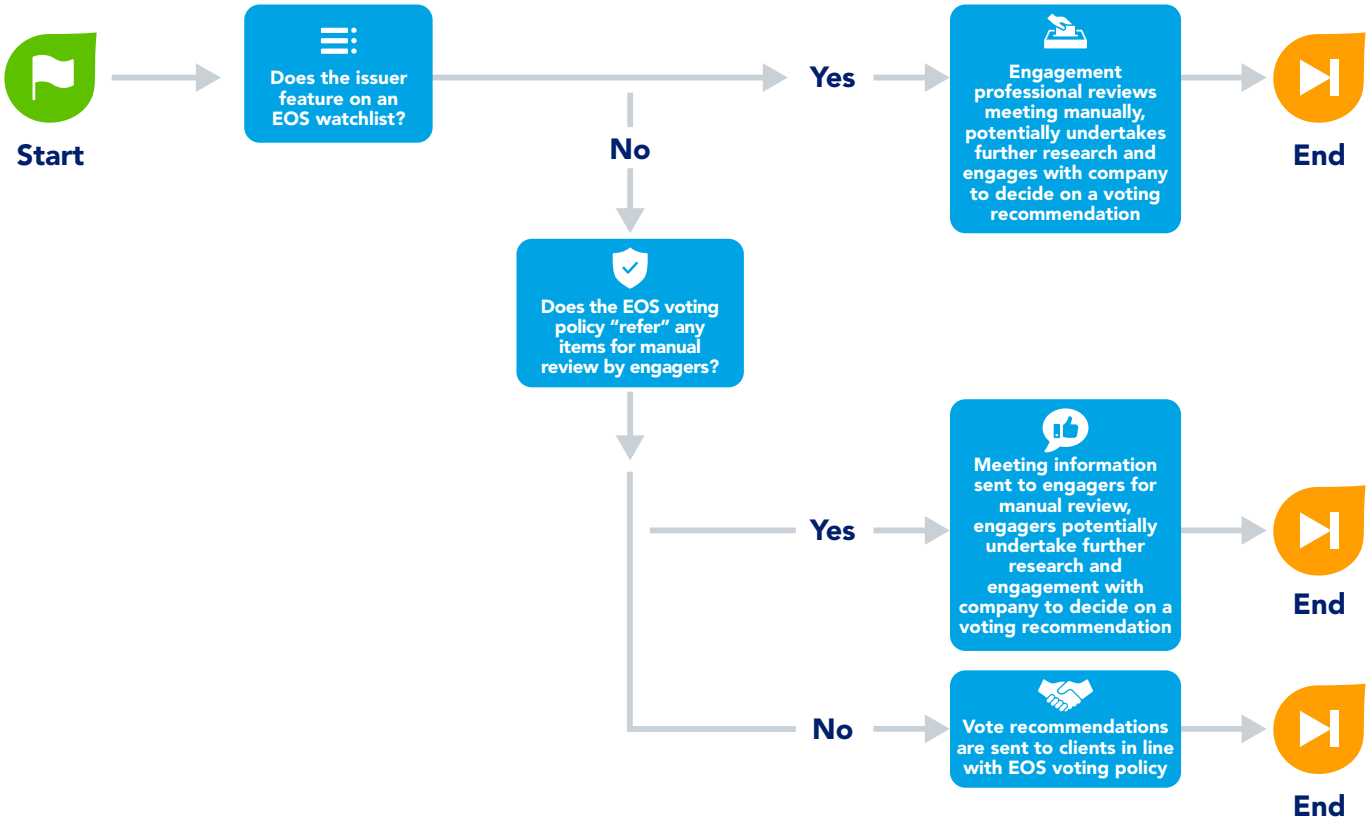
Translation from principles to market-specific policies and final voting recommendations

Our global voting principles are translated into resolution-specific guidelines for each market, these are shared with ISS, so it can conduct the initial research. We indicate in this guidance, in exhaustive detail for each applicable market and each proposal type, which voting recommendations we are expecting ISS' interpretation of our policy to output, as well as the accompanying rationales where this involves voting recommendations that go against management. We may also indicate under which circumstances we would expect a proposal to be brought to our attention by means of a "refer". In such cases ISS' research will not provide an initial voting recommendation, and EOS engagement professionals will resolve the recommendation.

As we highlighted previously, our approach is to focus engagement resource on those meetings of greatest interest and materiality to its clients. Each year a list is compiled of the highest priority companies for which our engagers will manually review each agenda item before making vote recommendations. These are known as watchlist companies, comprising our engagement programme companies plus companies of particular interest/sensitivity or where our clients represent significant holdings (in absolute terms or as a percentage of the company's voting rights). The voting watchlist represents a majority of our voting clients' assets by value.

In principle, non-watchlist companies have their voting recommendations issued as per ISS' research conducted in line with EOS' (or the client's) policy guidelines without further manual intervention on the part of EOS, except for meetings with a refer recommendation as detailed above.

The following flow chart explains how this works in practice:



We review ISS' timeliness, platform availability and other key indicators against our Service Level Agreement. EOS personnel liaise with their counterparts at ISS on a regular basis, informally and formally to conduct oversight, including a formal service review each year.

EOS maintains records of conversations it has had with companies and other stakeholders in our proprietary engagement management system, Emerald. Notes pertaining to these conversations are provided to clients. Clients also retain the ability to access ISS benchmark research and the EOS policy research conducted by ISS, to assess these inputs and sources.

Clients are alerted via email of the voting recommendations, plus further updates which may be prompted by material factual errors or revisions to research, analysis or voting recommendations after research publication, including where engagement has caused us to revise a voting recommendation.

Escalation process

EOS operates an escalation process that ensures high-impact votes receive the appropriate attention and scrutiny.

Our process is for assigned engagement professionals to, in the first instance, escalate to a discussion with a senior engager if they are uncertain about the voting recommendation. If unresolved, the recommendation is escalated to a discussion with an EOS director, especially where a voting recommendation is either potentially controversial or difficult to make. Colleagues are encouraged to escalate votes in these circumstances.

Quality

In addition to escalation, client feedback and post-season reviews, additional measures are in place to support the quality of voting recommendations. A daily process prioritises meetings which are due to be researched and assigns the meeting to the most appropriate professional. The process also picks up meetings that are approaching their deadlines to enable timely escalation and resolution. We further ensure that workloads are appropriately balanced so that each meeting receives the right amount of attention and engagement professionals are not overburdened. Engagement professionals receive an end-of-day overview of their recommendations, to review the proposals supported and opposed, as well as the accompanying rationales. This enables recommendations to be corrected on the same day they were input, prior to distribution to clients.

Our voting process is assured by our external auditors (AAF 01/06) on an annual basis. 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.

Each day where an overdue vote is flagged, we consider this a control measure. The votes are tracked through to resolution by the EOS voting and engagement support team (VEST). This ensures we promptly make a vote recommendation and then alert clients manually via email as the automated alerts are not necessarily going to reach the clients before the ultimate vote deadlines on the ISS platform.

Should the control fail, an error and breach form is required to be completed and sent to the operational risk team when it is established that EOS is responsible for the late vote. If errors occur which lead to a late and subsequently rejected vote, VEST investigates and will employ process changes if necessary and/or work with the engagement team members to educate and prevent reoccurrence. For a few randomly selected days throughout the year, the auditors will ask us to show evidence that we have followed the process.

Additionally, we review the voting recommendation outcomes each year to determine what tweaks to the policies or voting approach might be required.

Due to our downstream position from ISS in the voting recommendation process cycle, we benefit from ISS' quality control processes on the information it has received, and the research provided to us. Occasionally we may spot errors or inconsistencies in ISS-provided research and/or the application of our policy which we raise with our designated contact to be resolved. Inaccuracies in ISS' initial research or further updates to publicly available information may lead to EOS and its clients receiving revised research from ISS and for EOS to revise its recommendations. Clients are informed where new recommendations are issued. As our engagement professionals make their recommendations, they will further triangulate where necessary using their contacts with companies, company materials and other sources to help ensure the accuracy of information received.

Client customisation

Most EOS clients subscribe to the EOS voting guidelines as they value a like-minded and cost-effective approach to stewardship and agree with our methodology, expertise and track record. We offer a range of solutions that enable clients to further tailor our voting services to their needs.

We encourage clients to make full use of the alerting and reporting functionality of our voting platform to ensure they stay apprised of votes that are of interest and make it as easy as possible for clients to instruct votes that differ from our initial recommendations. Certain clients have defined bespoke client policies. These are operated at an additional cost (which may depend on the complexity and scope of the deviations requested). Clients who subscribe to a custom policy still have access to the standard EOS voting recommendations as well as our engagement insights. All clients of our voting recommendation service also have access to the ISS benchmark voting recommendations and associated research.

Policy development cycle

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 considers changes made at ISS in view of resolution-level data for past voting seasons to consider what additional changes are warranted. This includes integrating feedback from clients and evolving best practice in each market. A further input is provided by our Engagement Plan which identifies thematic priorities for engagement, which 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.

Feedback management and complaints

EOS' client advisory board and client advisory council provide regular feedback on our performance and are an opportunity for clients to raise any concerns about our service. In addition to these mechanisms, clients are prompted to provide feedback each quarter and are offered the opportunity to participate in engagement meetings (including those around a vote) where appropriate. We encourage clients to exchange thoughts with us about individual votes as we find this helps us to feed into our thinking and foster alignment with client interests. Clients' ability to connect with our engagement professionals about individual companies is a key differentiator of our service offering.

While we aim to offer the best service possible, we do recognise that there may be occasions where we will receive a complaint. We are committed to resolving complaints through a robust, documented procedure.

The complaints handling procedure is applicable to all entities within the international business of Federated Hermes, including associated undertakings and joint venture arrangements where the international business of Federated Hermes has a controlling interest and to all members of staff across the international business of Federated Hermes.

Principles:

The general principles governing the firm's policy are:

- Complaint awareness: Requirement to provide appropriate information to inform all clients of our complaint handling process.
- Complaint handling: Requirement to provide a written acknowledgement to the complainant within five working days of receiving their complaint and to seek to attempt to resolve all complaints within eight weeks of receipt.
- Root cause analysis: Business areas with complaint handling responsibility must have processes to carry out effective root cause analysis.
- Governance and oversight: Business groups with responsibility for complaint handling must allocate responsibility for the governance and oversight of complaint handling to an appropriate committee and be independent from the complaint individual.

Timelines

Our process aims to provide voting recommendations at the earliest possible opportunity once all the relevant materials (including the provisional EOS voting guideline recommendations published by ISS) are made available and relevant engagement has taken place. Recommendations should be issued no later than one working day prior to our earliest client cut-off. In some cases, we are unable to do so, primarily due to the availability of source information and research. On average, our recommendations are available 10 days prior to the cut-off. We make reasonable efforts to chase up outstanding research and challenge conservative deadlines set by custodians. We encourage engagement professionals to contact companies in good time. We issue client alerts to promptly notify clients of recommendations. From time to time, companies will contact us with feedback regarding our voting recommendation which we pass on to the relevant engagement professional to consider. Where time allows, this may trigger additional engagement or a revised voting recommendation which is then relayed to clients promptly.

Client and supplier understanding

EOS seeks always to act in its clients' best interests. Accordingly, EOS takes all reasonable steps to identify conflicts of interest and 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. To this end we have established a conflicts of interest approach which is detailed further under the section addressing Principle Two.

The service agreement between EOS and each client clarifies responsibilities and limitations of our service, including reliance on external parties and the constraints on timeliness indicated above. There are further limitations to our service such as:

Share blocking process

We apply a precautionary principle to ballots involving share blocking. To avoid affecting our clients' ability to trade, we ask each client to nominate an authorised person to approve

such votes before the cut-off date. Once a vote is authorised, the underlying shares may be blocked and remain unavailable for trading until after the meeting date.

Special requirements and Powers of Attorney

We support clients by passing on special requirements without undue delay where we are made aware of them. Our clients are responsible for ensuring valid powers of attorney are in place, and an annual reminder is provided to clients.

Bondholder meetings and private/unlisted companies

Bondholder meetings and meetings of private/unlisted companies are not within the scope of our voting recommendation service. Where we are made aware of such events, we bring these to the attention of our clients as a prompt for them to instruct these events.

Client disclosure facilitation

We recognise that institutional investors may be subject to disclosure requirements of the use of our services. We support clients, upon their request, with disclosure relating to their discharge of stewardship responsibilities. Many voting clients will disclose their voting behaviour on their own website, and we provide vote disclosure files for this purpose as standard at no extra cost. We further assist PRI signatory clients with inputs they can use to support their own reporting.

Principle Two: Conflicts-of-Interest Management[4]

EOS seeks always to act in its clients' best interests. Accordingly, the firm takes all reasonable steps to identify actual or potential conflicts of interest and 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 are proud to have a strong culture of responsibility and we aspire both to maintain and further foster this client-focussed culture.

EOS does not offer consultancy services to issuers which may be subject to our engagement or voting recommendations. Our clients are like-minded long-term investors which encourages alignment of EOS' interests with its clients. When onboarding prospects, we consider this alignment and we will not conduct business with clients whose values and philosophy are fundamentally at odds with our guiding purpose.

The Federated Hermes Pledge expresses the commitment of each member of staff to always put the interests of our clients and their beneficiaries first and in so doing manage conflicts of interest fairly between all affected parties. Further we seek to align with international good practice on managing and reporting conflicts of interest.

Across the firm we take all reasonable steps to identify conflicts of interest between: Federated Hermes, including its managers, employees and appointed representatives or any person with a relevant direct or indirect link to them, and our clients as a body; or any one client of Federated Hermes and the client body.

Potential conflicts of interest

Ownership

One potential conflict which has been identified for the group relates to our ownership structure. In July 2018, 60% of Hermes Fund Managers Limited was acquired by Federated Investors Inc (now Federated Hermes Inc) from the BT Pension Scheme (BTPS), which retains ownership of 29.5%. The remaining 10.5% is owned by executives of the international business of Federated Hermes. We have internal procedures to regulate the processes and restrict the flow of information among, and within, business units so that activities are carried out with the appropriate level of independence. It is EOS policy to carry out any stewardship activity with BT Plc and Federated Hermes, Inc. on the same basis as any other company. When providing voting recommendations for meetings of BT Plc or Federated Hermes Inc, responsibility would reside with a senior member of the stewardship team, not the director in charge of the client relationship. In addition, clients would be informed of the potential conflict of interest and attention would be drawn to voting recommendations issued by ISS.

Clients and prospects

EOS provides services not only to BTPS and Federated Hermes Inc, but also to other institutional investors, including pension funds sponsored by corporations, governments and other organisations, as well as fund manager clients. These services include voting and engagement with companies in which Federated Hermes' clients are equity shareholders and/or bond investors.

As a result, the following real or perceived conflicts may arise:

- We may provide voting recommendations pertaining to 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 provide voting recommendation with respect to a corporate transaction, the outcome of which would benefit one client or prospect more than another
- We may engage with and provide voting recommendations relating to a company in which 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 our fund management and stewardship services
- We may otherwise act on behalf of clients who have differing interests in the outcome of our activities

Where we provide voting recommendations relating to 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 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.

We are a relatively small firm, and engagers are exposed to clients on a frequent basis. It is not practicable for us to fully segregate our voting recommendation service from the client servicing function, and engagers will generally be aware of the identity of our clients and their sponsors (who may be subjects of our voting recommendation). We do make efforts to avoid inadvertent influence or bias from sponsoring companies by following our standard engagement and voting protocols – including escalating manual votes relating to sponsoring companies, and only communicating voting recommendations to the client once they are final.

[4] This section draws on the Stewardship Conflicts of Interest Policy from the international business of Federated Hermes which is published on our website: https://www.hermes-investment.com/policies-and-disclosures/

EOS has a robust process in place to identify actual or potential conflicts of interests and business relationships that may influence the preparation of our research, advice or voting recommendations. In such instances we provide clients with a client alert detailing the relationship as well as steps taken to eliminate, mitigate or manage the actual/potential conflicts of interests at the same time as delivering the voting recommendation. Clients may further be provided with a copy of the research provided by a non-conflicted proxy advisor, to aid transparency.

We would acknowledge situations where we become aware that one of our clients is a shareholder proponent or a party to a proxy contest and seek to inform clients with an alert.

Voting recommendations are made and provided by our stewardship team in line with client-agreed policies. We have well-established publicly disclosed voting principles and based upon these and the judgements reached through engagement with individual companies we provide voting recommendations to our stewardship voting clients.

There may be occasions where one of our 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 clients retain full discretion over their final voting decision. Clients, and internal investment teams, 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.

When making our recommendations on such transactions, we consider a range of factors in the context of seeking to protect and promote long-term, sustainable value. These include: consistency with strategy; risks and opportunities (the key risks and opportunities and the extent to which these appear to have been managed); conflicts of interest; and price. We may make different recommendations to holders on each side of the transaction depending on what we believe best serves their long-term interests. There may also be instances where certain clients have holdings on both sides of the transaction and may have conflicting interests.

In assessing price, we will draw on analysis from the EOS team and other external sources, and seek independent input from a Federated Hermes investment team colleague with expertise in analysing company value if needed. Input from investment team colleagues will be considered alongside other inputs with EOS retaining discretion over the final recommendation, in line with the long-term interests of EOS clients. Where concerns about price are raised by a Federated Hermes investment team rather than an external source or from EOS' engagement or analysis, based on their insights into one or more of the companies involved, and the concern appears to be biased or unrealistic, we will seek additional inputs. We make clear to our clients that we will at times seek input from investment team colleagues as one of several inputs and will communicate to clients where this has been done for a particular transaction. As with all voting recommendations, clients retain the final decision on voting. On the rare occasion that the investment team and EOS disagree on the appropriate voting action, the matter is logged and escalated as described in the next section.

Our policies seek to avoid any potential conflicts for individual Federated Hermes staff members arising from engagements with companies in which they have personal investments or some material personal relationship with a relevant individual. When any staff member recognises a potential conflict of interest with a company in which they are engaging, he or she must raise this with their line manager. Where a staff member has a significant personal connection with a company – such as having been employed by the company within the last 24 months, or being related to an employee of the company in a position of influence – he or she is required to make this known and is not permitted to be involved in any relevant stewardship activities, including making voting recommendations.

Recording and escalation

We maintain a register of instances of conflicts or potential conflicts as they arise. In those limited circumstances where a conflict over our approach to voting recommendations (aside from that directed by client-specific policies) arises which is not able to be resolved, an EOS director in the manner set out above will escalated it to an escalation group which reports to an independent sub-committee of the board of the international business of Federated Hermes. The escalation group comprises the heads of investment, responsibility, client relations, compliance and EOS. The group is guided in reaching its decisions 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 of the group, then the CEO of the international business of Federated Hermes will make a final decision. All such instances would be documented and reported to the risk and compliance committee – an independent sub-committee of the board of the international business of Federated Hermes. It is expected that votes cast by the investment teams of the international business of Federated Hermes would be consistent with the voting recommendations we provide to EOS' voting service clients other than in limited circumstances.

We review the 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 is possible, mitigated. The Policy is publicly available on our website.

Conflicts of interest approach in practice

Our policy on conflicts may be best understood by considering its impact in practice. Our EOS conflicts of interest register contains a description of stewardship conflicts, what mitigation procedure and controls were 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 conflicts which we identified and managed in 2020:

Voting recommendation difference with an investment team

EOS' initial voting recommendation for a company was against the remuneration report due to the use of options for executive directors. The relevant investment team of the international business of Federated Hermes signalled that preventing the company from being able to use the options would put the company at a competitive disadvantage, due to the importance of retaining talent in the industry. Following further discussion, EOS decided to recommend support by exception. One strong rationale for this was the fact that EOS had learned that the executive directors were the founders and long-term shareholders, which mitigated concerns related to the use of options.

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. We chose not to discuss our recommendation with those clients to minimise any perception of undue influence on them. This potential conflict was escalated to the head of EOS and head of client services.

Principle Three: Communications Policy

Dialogue with issuers, shareholder proponents and other stakeholders

EOS actively seeks dialogue with issuers, shareholder proponents and other stakeholders – this is a key feature of our approach. We communicate the outcomes of these dialogues to clients through our client reporting portal, EOSi, as well as through our regular alerting and reporting.

We do not proactively furnish all issuers with our voting recommendations ahead of the meeting. Our team is not resourced to be able to commit to this and voting recommendations are primarily provided for the benefit of our clients. Where we vote or recommend voting against or abstaining on management resolutions or support shareholder resolutions opposed by management, we normally contact companies within our engagement programme or in which our clients have a significant stake (watchlist companies), before the meeting. Any resultant dialogue helps us to take a fully informed view and can lead us to change our intended vote or voting recommendation. If in our final recommendations we oppose management recommendations on any matter, we will endeavour to inform these companies of our reasons, and we are reviewing options to expand our communication with issuers around the vote even further, aligning with evolving regulatory requirements in the markets where we operate. A quarter in arrears, voting recommendations are made public through the library page of our website[5].

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 proprietary engagement management system, Emerald, 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.

Dialogue with media and the public

We generally prefer not to take a public route when seeking change at companies. In our experience, working constructively with boards and management in private is most effective in achieving positive change.

However, on some occasions, when we think it is helpful, we may use the media and other public forums to drive change. If we speak to the media, our comments should come as no surprise to the company because we have either already made the same points to the company or our position on major issues is well-known through the principles and policies we have publicly set out. This activity is subject to our corporate communications policy and designated engagement professionals receive targeted training to manage media contact, including managing risks including those related to defamation, market abuse, and material non-public information. Our policy is to provide our voting recommendations to clients before disseminating recommendations to a wider audience in the rare cases where we would seek to publish these ahead of a meeting.

[5] https://www.hermes-investment.com/ukw/stewardship/eos-library/

Federated Hermes

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 public companies. EOS is based on the premise that companies with informed and involved shareholders 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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