EOS at Federated Hermes

Principles of Annual Meeting Good Practice

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The annual meeting[1] is an important part of corporate governance and shareholder rights and engagement between the board and company shareholders, but its value could be far higher. In 2020 the pandemic created a divergence in practices as companies took their meetings virtual, and in many cases the value of the meeting and shareholder rights were eroded.

For companies the annual meeting is the opportunity to present to, discuss with, meet, and hear from a broad base of shareholders. It has a key role in keeping shareholders engaged with the company and renewing support for the management and the board and their mandate. For shareholders it is the primary annual event to understand the stewardship of their company by the board and management, the personalities running the business, and an opportunity to hold them to account. It is also the main, or only, time shareholders can meet and hear questions from the diverse base of other shareholders. This transparency and accountability of boards and management is to the benefit of stakeholders beyond the attending shareholders.

The principles set out in this paper seek to maximise the value of the meeting for both company and shareholder, and therefore describe our expectations of a complete annual meeting. We recognise that the nature and traditions of annual meetings vary by market but believe all, if not the vast majority, of these principles apply to all markets. We expect responsibly-governed companies to implement good practices in line with these principles.

Context

There are several trends changing the role, importance and format of annual meetings. These include:

1. The internationalisation of share ownership of publicly-listed equity restricting physical attendance for a large segment of the shareholder base due to the infeasible travel burden.
2. The increase in active ownership and stewardship by investors, and the subsequent increasing demands on boards and management to engage with a broader set of shareholders. Annual meetings therefore become an important forum in the year for engagement with shareholders.
3. Increasing expectations under stewardship codes and related regulation for asset owners to make use of their shareholder rights, in particular voting, along with the increasing public scrutiny on voting decisions, which can be informed by the discussion held at annual meetings.
4. The increasing occurrence of shareholder-filed resolutions making annual meetings an important opportunity to hear from both the proponent and the board on the item raised.
5. Virtual meetings have been enabled by both changes to regulation and the availability of online live video platforms.
6. The Covid-19 pandemic removed the ability of companies to hold a traditional physical meeting and drives companies to switch to virtual formats.

[1] Annual meeting, shareholder meeting, general meeting or other terminology depending on the market. The term annual meeting is used throughout this document.

The disruption to annual meetings caused by the Covid-19 pandemic has prompted companies and shareholders to question the future of annual meetings. Boards must now reflect on the objectives and role of their annual meeting, and how the format aligns with the company's values, particularly in relation to engagement, transparency accountability. It is vital that good practice standards, fairness, order, integrity and shareholder rights are upheld across markets.

In 2020 EOS at Federated Hermes participated in 22 annual meetings, in eight markets, and has a history of annual meeting attendance going back nearly four decades. This participation includes attendance, asking questions, proxy voting and presenting shareholder resolutions. The following principles are informed by these experiences and observations.

We recognise that companies may be reliant on regulatory changes to apply these principles and we urge regulators to make the necessary amendments to support the enhancement of practices. Regulations should be consistent across markets to the extent possible, to maintain a base level of good practice and facilitate active participation by an international shareholder base, both institutional and retail.

PRINCIPLES OF ANNUAL MEETING GOOD PRACTICE

These principles cover:

1. Format of attendance
2. The virtual experience
3. Company attendance, presiding and presentation
4. Q&A: in advance, live and records

1. Format of attendance

We believe hybrid meetings are the optimal structure, combining the benefits of both physical and virtual formats, namely:

a) Physical attendance enables in-person engagement between company representatives and shareholders both during, as well as before and after, the meeting. The board, management and other staff should welcome these opportunities for more informal, as well as formal, engagement and dedicate appropriate time to this. Physical attendance facilitates an important accountability/escalation point that is likely to be more immediate and effective than a mediated interaction via an online platform. Also, online platforms are still being tried and tested and as yet are not conclusively enabling the same level of engagement by shareholders as physical attendance would.
b) Virtual attendance enables broad access from an international shareholder base who may also need to vote or attend multiple meetings in a day. It also reduces travel requirements on both the company and shareholders.

We recognise the additional cost of combining both physical and virtual attendance but believe this is worth the investment where attendance and engagement by shareholders is significant and the cost is not material to the business. It is therefore incumbent on shareholders to attend and engage with the meetings to justify the investment in technology and facilities. As many investors increasingly attend virtually, and where this experience is comparable to physical attendance, the numbers attending in person will be limited and smaller venues possible. We therefore hope to see the cost of physical events decrease, as well as those of online platforms as they become more established. For companies in the top market index of their country, virtual-only meetings should be for exceptional circumstances only, and following the pandemic we expect these companies to offer both physical and virtual attendance.

We appreciate that in some instances, such as with small or highly controlled companies, or where shareholder attendance continues to be low, the resource needed to run a comprehensive annual meeting may not be justified. As such we support virtual meetings run in line with these principles in those cases, subject to a clear mechanism by which a minority of investors could request a physical meeting, if required. However, even in these cases a full meeting will on occasion be required, such as for significant commercial transactions, large board refreshment or following significant incidents.

Additional principles on format:

- The procedures and protocol for the meeting should be published in advance, including rules on the selection and ordering of questions, the ability to paraphrase questions and how the company will respond to questions that are not answered live or in advance. The procedures should confirm the company attendee responsible for each rule.
- The annual meeting should have a dedicated area on the company website to which shareholders can refer before, during and after the meeting. This should be updated to include a record of vote results and any statements and/or actions taken by the company in response to material dissent.
- Companies should consider the inclusivity of their meetings and the need for live translation, signing or other mechanisms to support access.

2. The virtual experience

The experience for virtual attendees should mirror as closely as possible that for physical attendees. This includes:

- A video platform, with an audio line also available.
- A live video-feed of the full board, with a close up of the chair (or other director chairing the meeting if the chair is not independent) and CEO when they are speaking.
- The ability to ask questions live to the board, ideally verbally rather than in writing.
- If questions are to be submitted in writing, visibility of the list of all submitted questions and the order in which they will be answered.

3. Company attendance, presiding and presentation:

- All board members and top executives should attend the meeting and be available for answering questions. This demonstrates commitment to both accountability and shareholder engagement, and enables more complete responses to questions.
- Where the appointment and/or work performed by the external auditor(s) is also an item on the ballot, the lead audit partner(s) should also be in attendance and available to answer any questions.
- The meeting, in particular the Q&A, should be presided over by the chair (or an independent director if the chair is not independent). This is so that the director leading the representation of minority shareholders on the board leads the meeting, and also to avoid management answering questions on corporate governance. This may require an amendment to the by-laws/articles or splitting the chairing of the meeting between presentation and Q&A.
- Management and the board should present on progress against company strategy, including ESG, as well as financials.
- The chair of each board committee should present on its actions of the prior year, its conclusion on the state of the company in its area of focus and the focus areas of the committee for the next year.

4. Q&A

We support the shareholder right for any shareholder or proxy attending to present questions to, and speak at, the meeting.

- We see value in allowing questions to be submitted both in advance of, and during, the meeting. The latter being primarily for the purpose of further clarification or challenge on the answers received to questions submitted in advance.
- Recognising that annual meetings are probably the only opportunity that retail investors have to interact with the board and management, their questions may need to be prioritised. Annual meetings are also an important forum for institutional investors to understand the concerns of retail investors. However, this is also likely to be the only opportunity the full board has to hear from institutional investors, and so adequate time should also be allowed for their questions.
- Questions, and statements, should only be paraphrased for clarity or to fit them within the allotted time limit.
- All those asking and answering questions should identify themselves and their affiliation/role.
- In all cases the board and management should seek to genuinely answer the question with an informative non-boiler plate answer. Shareholders should challenge the board where this is not the case and ask for more detail and clarification. In recent years we have seen a decline in board willingness to provide meaningful and insightful responses and we will call this out where observed.
- Questions should:
    - Be clear and concise
    - Limit contextual descriptions to only what is relevant to explain the question
    - Refer to relevant sections of company policies or reporting
    - Explain why the question is being raised at the annual meeting
    - Be of potential interest to all shareholders.
- The company should be able to eliminate questions that use offensive language or concepts, are defamatory to an individual, or are clearly not relevant to the company or its business.

a) Q&A in advance:

- Written Q&A should supplement but not replace live Q&A.
- The advance submission of questions allows boards to group questions to give combined answers, and to publish detailed responses on the company's website in advance of the meeting. Questions should be submitted no later than 72 hours in advance of the meeting and responses should be provided within no less than 24 hours in advance of the meeting.
- Questions submitted in advance or in written format live, and which are answered live, should be read aloud as written. This ensures that the sentiment and spirit of the question is not lost and shareholders can appropriately determine whether it has been adequately answered.

- We encourage companies to allow receipt of voice-recorded questions, and statements supporting proposals, so that shareholders can hear them expressed as intended. Recordings should be played with the same audio quality as the rest of the meeting to the extent that this is possible.
- Any separate Q&A sessions held in advance of the annual meeting should be open to retail as well as institutional investors, and all questions and answers should be published in advance of the annual meeting.

b) Q&A live:

- There should be an opportunity for the posing of questions live, not least to enable shareholders to respond to any new information. The time for the board and management to be available to answer live questions may need to be limited. This limit may vary depending on the culture and practices of the market but be no less than 90 minutes. A time (or if written, word) limit may also need to be given to each question, but this should be no less than three minutes.
- Questions are best asked orally, and shareholders should only ask questions that they would be prepared to ask live in front of an audience.
- The moderation of questions must be limited to forming an orderly queue of questions, and not inhibit the opportunity for a robust challenge to, and response from, the board and management. The shareholder asking the question should be allowed to respond to the answer including asking for clarification, or to ask for another company representative to also provide a response, if the original response is insufficient. Their line should therefore be left unmuted until they have confirmed, usually with an expression of thanks, that their question has been answered.
- We oppose systems that encourage attendees to vote for their 'favourite' questions in order to prioritise the question list. This risks favouring a subset of the shareholder base and missing critical but lesser-known topics.
- The proponents of shareholder resolutions should have the opportunity to present their proposals, and be given at least 10 minutes in which to do so. This time should be in addition to any minimum time allotted for general Q&A. If the proponent of the resolution is unable to attend, a written statement should be read by a third party on behalf of the proponent.

c) Record of Q&A:

- Where there is a time limit to a session for live questions, any questions submitted before the end of the day should also be answered on the annual meeting website within three working days of the meeting.
- All questions should be made public and include the name of the shareholder unless they request otherwise.
- Questions and answers, including those answered in writing, should be included in a published full transcript of the meeting.