For professional investors only

March 2022

CASE STUDY:

# Amazon

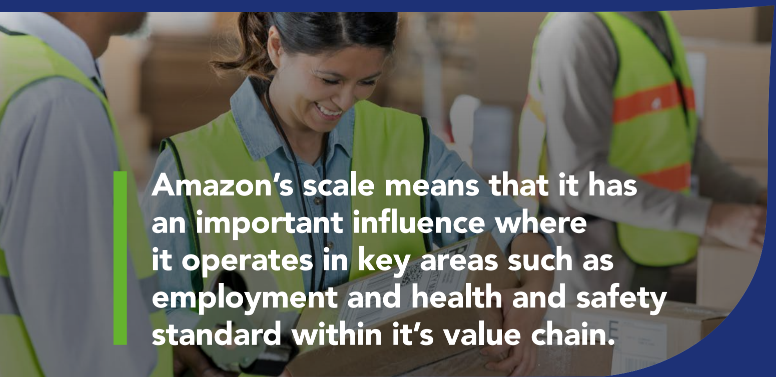
Amazon has committed to be 100% net zero across its operations by 2040 and continues to improve sustainability reporting aligned to its business strategy. EOS welcomes the company's greater willingness to engage with us and other stakeholders recently and its positive response.

## Company overview

Amazon is one of the biggest and most well-known companies in the world. From lowly beginnings in the 1990s selling books from the founder's garage, it is now the world's largest online retailer and one of the biggest cloud computing providers, through its AWS subsidiary. It also has growing businesses in entertainment, third party fulfillment and online advertising.

## Background

Amazon's scale means that it has an important influence where it operates in key areas such as employment and health and safety standards within its value chain. The company's rapid growth trajectory has required significant evolution of its corporate reporting as the company has sought to keep up with market expectations. Important and growing risks and opportunities for its business include, in our view, its environmental impact, particularly concerning those of the products it sells and social issues, and its treatment of its employees, sub-contractors and workers in its value chain. Given its huge global prominence, we believe that it is more than ever incumbent for Amazon to manage its increasing risk profile and become a leader in responsible retail, fulfillment and technology.



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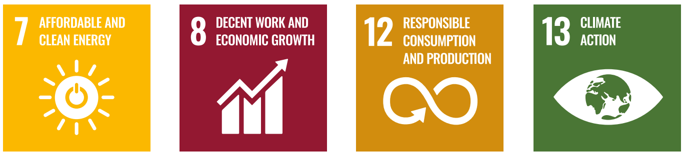
## Sustainable Development Goals:




## Engagement objectives:

**Environmental:** Climate Change, Pollution and Waste Management

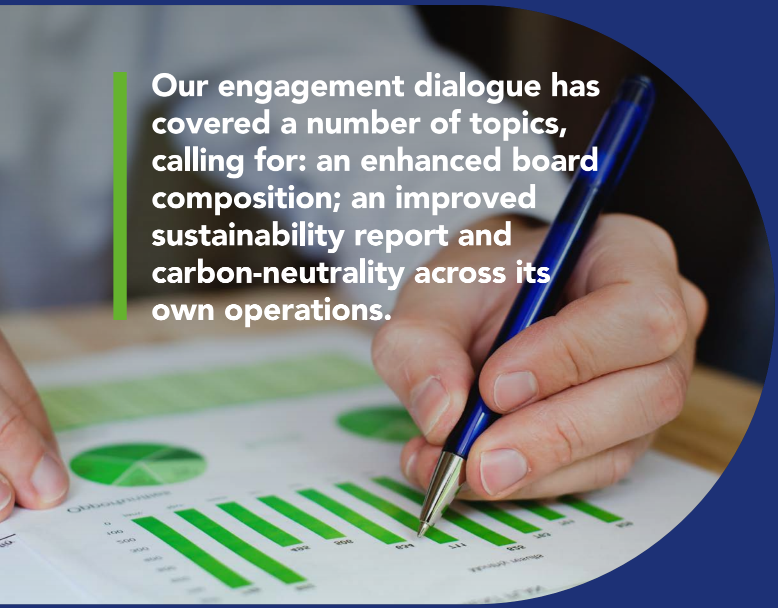
**Social:** Human Capital Management, Human Rights

**Governance:** Executive pay

**Strategy, risk and communication:** Sustainability reporting

## Our engagement

EOS at Federated Hermes began engagement with Amazon in 2012, when we informed the company that we were recommending a vote for shareholder proposals seeking better disclosure on climate change and on its political activity and donations. In our first conversation that year, we pushed the company to respond to the CDP survey on climate change and questioned its governance and the multitude of directors with connections to the founder.



> **Our engagement dialogue has covered a number of topics, calling for: an enhanced board composition; an improved sustainability report and carbon-neutrality across its own operations.**

Although at times in the earlier years we struggled to have a consistent dialogue with the company, engagement has improved in recent years, following the appointment of a head of ESG engagement. Our engagement dialogue has covered a number of topics, calling for: an enhanced board composition; an improved sustainability report and carbon-neutrality across its own operations; and other governance improvements.

## Changes at the company

We are pleased that the board has evolved over time and the directors are now much more diverse in terms of experience, including, importantly, directors with experience of leading large mature companies outside the technology sector, an issue that we raised with the company since 2014. Particular improvements we requested included the appointment of two directors with experience leading retail and consumer goods companies and wider gender and ethnic diversity improvements on the board and at its most senior executive management level.

In addition, in line with our engagement, the company set a deadline of 2040 to become net zero across its operations, cementing its more open-ended commitment it had held for several years. It also published a more strategic sustainability report in 2020, with further improvements in 2021. We are also pleased to see a ban on executives being able to make hedging transactions against share-based equity awards and for a clawback policy to have been implemented.

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## Next steps

**There is still a lot of work to be done, and so we continue to have dialogue with the company in a number of areas, including requesting the company to: perform and publish an enterprise-wide human rights impact assessment beyond Amazon-branded digital devices to identify the company's most salient human rights risks; demonstrate that its lost time injury frequency rate is better than industry peer average; disclose how it is collecting and using forward-looking and qualitative data such as employee feedback to improve its health and safety performance; and increase the share ownership requirement for its senior management to be more aligned to outside shareholders. Although we agree with the company's commitment to using restricted stock units, we believe it could make its ownership obligations more stringent – at a minimum we expect executives at the most senior levels to own at least 10 times salary for a period that extends beyond their employment at the company.**

**The company's sheer size and presence in society raise a number of broader issues to address, including climate change and the wider environmental impact of its value chain (including its outsourced fulfilment and delivery); persistent accusations of poor human capital management; lack of diversity and inclusion in senior management and in technical roles; disclose how it enables freedom of association of workers (such as example practical support measures); the company's impact on the wider health of the retail and competitive landscape; and demonstrating a responsible and resilience approach to corporate taxation.**

**We have welcomed the company's greater willingness to engage with us and other stakeholders recently and its positive response. We hold a positive outlook on the company's ability to respond commensurately to the size of the challenges, while remaining a market leader in retail convenience and value.**

✓ We shared a draft of this case study with Amazon and as a result of our dialogue, we have made some changes to this piece.


**Michael Yamoah**
**Engagement**
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Federated Hermes
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## 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: