

Public Engagement Report

FEARS FOR TIERS
Lifting the lid on supply chain risks

Why cutting methane emissions can help limit global heating

Social issues rise up voting season agenda

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Welcome to our Public Engagement Report for Q2 2022. In our cover feature this quarter we take a closer look at supply chains, where companies are under increasing pressure from regulators to identify and address human rights abuses. Hannah Shoesmith examines how we engage with companies on this challenging issue, which includes encouraging companies to consider how their own actions may be exacerbating poor working conditions.

The Global Methane Pledge was one of COP26's most significant achievements, with over 100 countries signing up to cut methane emissions by 30% by 2030, from 2020 levels. Methane is more effective than carbon dioxide at trapping heat in the atmosphere over the short term, so curbing emissions this decade would buy valuable time for hard-to-abate sectors to find viable solutions. Diana Glassman explains why methane is such a big problem, and what oil and gas producers, pipeline operators and energy users can do to address it.

Finally, Amy Wilson and Laura Jernegan bring us all the highlights from the voting season in Europe and North America, where we saw a raft of shareholder resolutions on social issues such as paid sick leave, animal welfare and living wages.

Our regular sections include our company engagement case studies and public policy highlights. Also, we continue our sustainable food systems series with an article on the benefits of regenerative agriculture.



Claire Milhench
Communications & Content Manager, EOS

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The wages of fear

With new US regulations and EU due diligence rules coming down the track, companies are under increasing pressure to scrutinise their supply chains. Hannah Shoesmith examines how we engage with companies on this challenging issue.

Setting the scene

The UN Sustainable Development Goals (SDGs) include the eradication of poverty and ensuring decent work for all – key foundations for building thriving societies and economies. Decent work is recognised in the Universal Declaration of Human Rights, while poverty erodes access to fundamental human rights and can make it impossible to seek justice to address human rights impacts.

Many of the problems targeted by these two SDGs can be disproportionately found in supply chains, due to their complex, dynamic and opaque nature. Although this is well known, poverty, modern slavery and inequalities persist. However, tough new US and EU regulations will put companies under more pressure to scrutinise their supply chains, and identify and address human rights abuses.



Hannah Shoesmith
Theme co-lead: Human Rights

Runaway fuel and food prices, and the Covid-19 pandemic, have pushed many people closer to the brink of destitution over the last two years. The climate crisis is also negatively impacting working conditions for millions of people around the globe. Low-income outdoor workers, such as those employed in agriculture or construction, are especially vulnerable to heat stress, making their working lives a misery, and vastly impacting productivity and output.[1] India and Pakistan suffered in near 50°C heat this spring, a foretaste of what is to come.[2]

Against this backdrop, the business case for corporate action is compelling. Social inequality is a systemic risk that undermines political and economic stability. A commitment to wider stakeholders and economic sustainability must include helping to lift communities out of poverty and finding ways to reach the vulnerable and disenfranchised. Beyond the ethical case for respecting human dignity, and the fact that forced labour and child labour are illegal, being able to articulate human rights risks and implement effective human rights strategies is indicative of robust enterprise risk management.

> **A commitment to wider stakeholders and economic sustainability must include helping to lift communities out of poverty.**

Finally, decent labour standards and fair treatment have been enshrined in international standards for many years, through International Labour Organization (ILO) Conventions and corporate codes of conduct. A corporate responsibility to respect human rights is outlined in the United Nations Guiding Principles on Business and Human Rights (UNGPs). Building on these soft law expectations, current and pending regulations will pose significant challenges to businesses globally that may be unwittingly connected to human rights abuses in their operations and supply chains (see box).

What are the key issues?

By decent work we mean that employees should be safe, treated with respect and compensated fairly. Yet long supply chains may involve forced labour, child labour, poverty wages, abuse of workers and even the death of workers due to negligence. Poverty may be a result of debt bondage, the non-payment of minimum wages, or insecure/seasonal work, which maintains vulnerable people in a spiral of poverty and dependency. This disproportionately affects migrant workers, women, children and ethnic minorities. It is most common in sectors such as manufacturing, agriculture, construction and mining, but also exists in other less manual sectors, such as the technology supply chain.

Companies may commit to being a living wage employer, but this is more common for direct employees. Whilst companies can commit to paying a living wage across their supply chains, it is widely acknowledged that there is no clear definition of what this means or how it will be paid, particularly in low-income markets where it may be most relevant.

In a recent paper,[5] human rights consultancy Shift, collaborative network Business Fights Poverty and the University of Cambridge argued that most businesses still view living wages as a challenge, not an opportunity to address inequalities, drive employee engagement and productivity, and improve customer purchasing power. Despite this, there are some signs of a shift in company commitments with leading businesses and investors coming together to develop systemic solutions. In 2020, Unilever committed to paying a supply chain living wage, but said it would take until 2030 to do so. This remains one of the most ambitious living wage targets set by a company for its supply chain.



Key regulatory developments

New regulations are coming into force to tackle human rights issues, adding to existing Modern Slavery Acts in the UK and Australia, and the French Duty of Vigilance Law. Investors and companies must get ahead of these, or run the risk of fines, lawsuits or reputational damage.

- The US Tariff Act dates from 1930 but in recent years there has been a significant increase in enforcement actions on items where modern slavery is suspected in production, including fish, palm oil and rubber gloves.
- The US Uyghur Forced Labor Prevention Act (UFLPA) was passed in December 2021, effective from June 2022. This works on the assumption that goods mined, produced or manufactured (wholly, or in part) in China's Xinjiang Uyghur Autonomous Region are made with forced labour and therefore will be subject to a US import ban.[3]
- The EU's proposed Corporate Sustainability Due Diligence Directive[4] would mandate companies to carry out due diligence and annual reporting on environmental and human rights issues throughout their global supply chains. Under the proposal, companies falling within the scope of the directive would be required to identify and, where necessary, prevent, end or mitigate the adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example through pollution or biodiversity loss.
- Fines may be imposed in the event of non-compliance, and victims would be able to sue for damages, if the negative impacts could have been avoided with appropriate due diligence measures. This directive would be applicable to EU companies of a certain size threshold, or operating in high-impact sectors, as well as non-EU companies operating in the EU being captured by the other criteria.
- The Japanese government has set up a panel on human rights in business supply chains. It aims to publish guidelines for companies in mid-2022, and will consider passing a law.

[1] ILO: Occupational Heat Strain and Mitigation Strategies in Qatar wcms_723545.pdf (ilo.org)
[2] https://www.theguardian.com/world/2022/may/02/pakistan-india-heatwaves-water-electricity-shortages

[3] Text - H.R.1155 - 117th Congress (2021-2022): Uyghur Forced Labor Prevention Act | Congress.gov | Library of Congress
[4] Corporate sustainability due diligence (europa.eu)
[5] 8a8db7dc09e844bcba841c20adb00089.phpmcknw7 (ontraport.com)

CASE STUDY

Hon Hai



We have engaged with Taiwanese electronics manufacturer Hon Hai – also known as Foxconn – since 2014 on a wide range of labour issues, including long hours and monotonous work. For example, we expressed our concern in 2017 following media reports that students aged 17-19 were working long hours and overtime, violating local law.

In engagement, the company acknowledged that there were operational oversight issues. We discussed responsible remedial actions including the termination of the existing student worker programme and raising the working age to the international labour standard of 18, rather than adhering to the local Chinese standard of 16. The company subsequently developed a labour strategy, approved by the board in 2020, which prevented students under the age of 18 from working in production.

We continued to engage on other labour issues, discussing these with the head of investor relations in July 2020. Despite employing over one million people globally, Hon Hai did not have a human capital management strategy. It recognised that staff turnover was high, with most of its human resources work focused on administration, and it was unclear to what extent the issue was on the board's agenda. The company was aware that it needed to adapt to local circumstances. In India, for example, it encountered challenges as the local workforce did not want to reside in factory dormitories.

Tracking and disclosure

We introduced several human capital management frameworks and metrics for tracking and disclosure and asked to discuss these with the chief people officer. The company already measured some of these metrics and had some good internal practices, but was concerned about disclosure. It was eager to learn about good practice, however, and we shared the relevant information.

In 2021 we asked the company about the risk of forced labour in and from the Xinjiang Uyghur Autonomous Region (XUAR). It shared a public statement saying that: "… at no time has Foxconn ever had employees in its workforce in any market who have not voluntarily joined our firm. Any allegations to the contrary are categorically false".

The company added that it had carried out an investigation and found some Uyghur ethnic minority workers at its Zhengzhou campus in China, but they had been there for over a decade. It added that it fully complied with the relevant laws and regulations in its code of conduct, which it had recently updated to keep up with good practice. It had asked the Responsible Business Alliance to conduct a Validated Audit Process, which published a report in October 2020 indicating that no workers from XUAR were employed at the time of the audit. The chair made a further statement in May 2021 that the company was committed to promoting and protecting the rights of each worker.

In 2022 there were news reports of worker protests at an Indian site due to food poisoning. We discussed this with the company and were pleased to learn of the quick response to address these concerns and the introduction of an anonymised grievance system. We discussed the importance of building trust so that grievances are raised and asked for more proactive disclosure of the working conditions assessments carried out by Hon Hai's teams, and of the third-party verification.

In May 2022 we were pleased to receive the company's new long-term social goals, which include milestones to 2025 and beyond, including some metrics. The plan addresses important aspects of a human capital management strategy, including human rights and labour standards, opportunities for employee feedback, and inclusion and diversity. Overall, this shows significant progress, and we remain committed to following up with the company on implementation.

What can investors do?

Responsible investors should align with the UNGPs and develop a strong policy commitment, plus governance and leadership mechanisms to ensure that salient human rights risks are investigated, and appropriate due diligence is implemented. This should involve engagement with identified high risk companies or sectors. The Principles for Responsible Investment (PRI) has developed useful guidance on how to do this[6] and institutional investors will be able to collaborate through its new Advance initiative to address human rights and social issues.[7]

Investors should take a holistic approach to engaging with companies on these issues. For example, a US company may perform poorly in terms of providing decent work to employees in its supply chain, but a Taiwanese company in the same chain may face challenges with its direct employee base.

Our engagement approach

Our engagement with companies focuses on their responsibility to respect human rights as outlined by the UNGPs. This begins with aspects such as policy and governance, but also encourages companies to do more to document effective human rights due diligence that has identified supply chain impacts and provided remedy. We engage on how a company can provide meaningful grievance mechanisms that allow affected workers to be heard, and provide feedback for solutions.

> **We encourage companies to use their leverage and collaborate with each other, recognising that transformative change requires collective action.**

We also encourage companies to move beyond the relatively standard process of auditing supply chains - which may identify concerns but not provide remedy - to consider how their own actions may be exacerbating poor working conditions, and how to address this. Falling under the umbrella term of purchasing practices,[8] this challenges the common approach of pushing much of the burden for improving working conditions on to suppliers alone.

For modern slavery and child labour in a high-risk sector, or if the company has identified modern slavery as a salient risk, we engage on how companies can implement tailored due diligence. This should focus on how to identify the ILO's forced labour indicators[9] or use the Children's Rights and Business Principles.[10] We believe that companies in high-risk sectors should "find it, fix it and prevent it"[11] given the prevalence of modern slavery and child labour in some sectors.[12]

Companies should also use their leverage and collaborate with each other, recognising that transformative change requires collective action. Examples include:

- The Global Platform for Sustainable Natural Rubber[13] has brought industry participants together, spanning smallholder farmers, processors, traders and end-product manufacturers, alongside civil society. The initiative aims to develop and advance policies, adopt grievance mechanisms and share knowledge, enhancing traceability and building capacity, particularly for smallholders.
- The Responsible Glove Alliance[14] was launched in 2022, following the imposition by US Customs of several Withhold Release Orders during the pandemic.[15] This highlighted some practices of concern within the medical supplies industry in Malaysia. The Alliance's aims are to work with buyers and suppliers to transform recruitment practices through collective influence, recognising that unless buyers are consistent in their desire for higher standards the incentives for forced labour will remain. We have engaged with glove manufacturer Ansell on labour issues (see case study).
- The Responsible Minerals Initiative[16] provides resources for companies seeking to address mineral sourcing issues in their supply chains. It has over 400 corporate members.



[6] Why and how investors should act on human rights | Thought leadership | PRI (unpri.org)
[7] Collaborative stewardship initiative on social issues and human rights (unpri.org)
[8] About Purchasing Practices – Better Buying
[9] ILO indicators of Forced Labour
[10] https://www.unglobalcompact.org/docs/issues_doc/human_rights/CRBP/Childrens_Rights_and_Business_Principles.pdf
[11] Find It, Fix It, Prevent It. Annual Report | CCLA Modern Slavery (modernslaveryccla.co.uk)
[12] Forced labour, modern slavery and human trafficking (Forced labour, modern slavery and human trafficking) (ilo.org)
[13] Global Platform for Sustainable Natural Rubber – A multi stakeholder initiative
[14] Responsible Glove Alliance (responsiblebusiness.org)
[15] https://www.cbp.gov/newsroom/national-media-release/cbp-issues-withhold-release-order-malaysian-glove-producers
[16] Responsible Minerals Initiative

CASE STUDY

Ansell



We engaged with Australian personal protective equipment company Ansell in 2021 and Q1 2022. Labour conditions in its single-use glove supply chain, which is 80% outsourced, were among the topics we discussed. Suppliers are under pressure to improve their treatment of workers – mainly migrants – due to US law enforcement and the associated pressure on buyers.

The company's view, similar to our argument for engagement, was that it could make a bigger impact by remaining in a position of influence. Ansell relies on independent inspectors to visit its suppliers, typically every 12-18 months. Although this was disrupted by Covid-19, the frequency of visits is rising, and the company has acknowledged the limitations of such audits.

A small number of Ansell's suppliers were affected by US import bans in relation to alleged forced labour

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12-18 months.

practices, including Top Glove, the world's largest manufacturer of latex gloves.[17] The ban was later lifted following improvements.[18]

In response to the greater focus on labour standards, Ansell committed to ensuring that no fees are levied for recruitment. It will reimburse fees paid by some migrant workers to home country agents, and revamp its supplier management framework. Ansell is also one of seven founding members of the Responsible Glove Alliance.

This is a positive development given the need for cross-industry action to address the sector's pervasive forced labour issues.

Living wages

We also discussed low wages, as these can be an underlying factor in human rights abuses. The company pays a "locally-appropriate living wage", and wages are above the legal minimums even at its outsourced suppliers. Excessive overtime has been a bigger problem recently given product scarcity against the backdrop of the pandemic.

Ansell undertook a living wage gap analysis for its own employees in 2021, with the support of global consultancy Mercer. While most of its plants were already paying above the defined living wage, a few gaps were identified at its Southeast Asia plants, which Ansell said it would address by the end of 2023.

A living wage gap will persist for some indirect workers, but Ansell does not set the terms and conditions of employment for its suppliers' operations. The allegations around modern slavery are illustrative of the challenges in enforcing standards in supply chains, and demonstrate the need for a collective multi-stakeholder response on living wages by outsourced suppliers. The Responsible Glove Alliance may provide the platform for such an initiative.



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[17] https://www.reuters.com/world/asia-pacific/us-customs-determines-forced-labour-malaysias-top-glove-seize-gloves-2021-03-30/
[18] https://www.reuters.com/business/malaysias-top-glove-says-cleared-resume-business-with-us-2021-09-10/

CASE STUDY

Baidu



We raised our concerns about working conditions and employee wellbeing at Chinese technology company Baidu in 2018, due to some significant employee turnover. In May 2019, we intensified our engagement on human capital management after the departure of several senior executives, including the chief operating officer.

We communicated our concerns about the accelerated outflow of Baidu's technology talent, which was heightened by growing competition from within the technology industry and banks seeking to build digital offerings. Baidu said this phenomenon was not a new one in the Chinese technology sector and its attrition rate was not higher than historical levels. We urged Baidu to disclose relevant human capital management indicators and its talent retention efforts.

In February 2020, we wrote to the combined chair/CEO with a proposal to discuss our human capital management framework and the new standards from the International Organization for Standardization, to support improved disclosure and measurement.

After another meeting with the company in March 2020, we sent a letter asking Baidu to:

- Enhance its disclosure of its governance structure for human capital management and provide a contextual explanation of how it is linked to Baidu's core values and culture.
- Disclose time-series data (if possible) on turnover, retention rates and employee engagement.
- Disclose diversity and inclusion data quantitatively and qualitatively.
- Make disclosures on employee wellbeing, including mental health.

Following the release of Baidu's 2019 ESG report, we provided written feedback to the company in June 2020, welcoming the improved disclosure and pressing for the disclosure of retention and turnover rates.

In 2020, the company released a human rights policy, aligned to the Universal Declaration of Human Rights, the UNGPs and the ILO Declaration on Fundamental Principles and Rights at Work, one of the few Chinese companies to do so. In March 2021, the company issued a special report on how it was delivering its human rights policy, incorporating employee feedback and enhanced disclosure.

To read the full case study, go to:
https://www.hermes-investment.com/ukw/eos-insight/eos/baidu-case-study-2022/



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Outlook

During 2022, we will increase our engagement focus on how companies can develop a clear understanding of the salient human rights issues in their operations and supply chains. We will examine whether effective and proportionate controls are in place to identify, mitigate and remedy these issues.

We will also participate in the PRI's Advance initiative, collaborating with institutional investors and other stewardship service providers to accelerate change on human rights and social issues. Companies targeted by the initiative will be asked to fully implement the UNGPs, align their political engagement with their responsibility to respect human rights, and deepen their progress on the most severe human rights issues in their operations and across their supply chains.



Money to burn?

Cutting methane emissions sharply this decade is vital for keeping global heating within 1.5°C, buying crucial time for the transition to a low carbon economy. How are we engaging with oil and gas companies, pipeline operators, energy users and banks to help address this key issue?

Setting the scene

Methane accounts for about 20% of global greenhouse gas emissions, but is more effective than carbon dioxide at trapping heat in the atmosphere over the short term.[1] So curbing methane emissions this decade would buy valuable time for big carbon-emitting sectors to find viable solutions. Scientists say this is required to keep the Paris Agreement goal of 1.5°C within reach and ultimately help to avert catastrophic heating.

The importance of methane as an effective short-term lever is recognised in key industry scenarios. The International Energy Agency's Net Zero scenario assumes a 75% fossil fuel methane emissions reduction by 2030 and the Oil & Gas Methane Partnership (OGMP) calls for a 45% emissions reduction by 2025 relative to 2015 levels, with a 60-75% reduction by 2030.

Reducing methane emissions this decade is probably the single most important action the world can take to reduce the rate of global heating. Methane warms the planet about 80 times more effectively than CO_2 over 20 years, but after about a decade starts to dissipate.[2,3] Making swift reductions in methane would curb rising temperatures more quickly than carbon dioxide cuts in the short term. This buys time for hard-to-abate sectors to find viable technological solutions for their carbon emission problem, helping to keep 1.5°C of heating within reach.

The importance of methane was recognised at COP26 when the US and EU announced a partnership to cut methane emissions by 30% by 2030, from 2020 levels.[4] Over 100 countries signed up to the Global Methane Pledge, acknowledging the urgency of the issue. The latest global heating forecast from the World Meteorological Organization and the UK Met Office underscored that time was running out, with a 48% chance we will exceed 1.5°C within the next five years because of record greenhouse gas levels.[5] This raises the risk of deadly wildfires, extreme heatwaves running at above 50°C, and the flooding of major cities.

For further information please contact:

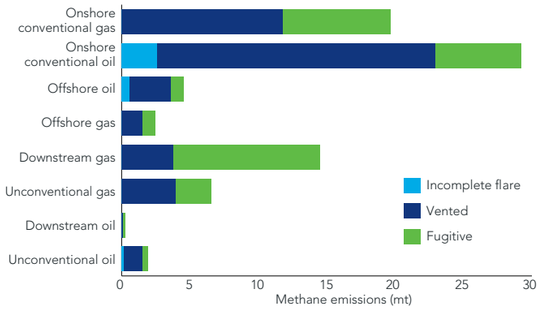


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[1] Methane is the second most-trapping heat in the atmosphere.
[2] Reduce methane or face climate catastrophe, scientists warn | Greenhouse gas emissions | The Guardian.
[3] https://www.nationalgeographic.com/environment/article/methane.
[4] https://www.bbc.co.uk/news/world-59137828.
[5] World on course to breach global 1.5C warming threshold within five years | Financial Times (ft.com)

Unfortunately, methane emissions are an inconsistently reported investment risk and climate issue, and while agriculture is responsible for about 42% of methane emissions, the energy sector accounts for 38%.[6] Oil and gas extraction, processing and distribution contributes 23% of the global total, while coal mining accounts for 12%, according to UNEP's Global Methane Assessment.[7]

Annual oil and gas sector methane emissions by production type and reason, million tonnes



Source: IEA (2020), as cited in UNEP's Global Methane Assessment.

UNEP highlights that there are readily available measures to reduce methane emissions by 30% by 2030 – nearly half of which are available to the fossil fuel sector. Encouragingly, 60-80% of the options to curb leaks from the oil and gas sector are low cost, and in some cases, there is an upside. "The greatest potential for negative cost abatement is in the oil and gas subsector where captured methane adds to revenue," UNEP states.

Reducing methane emissions also has a social benefit. Methane has deleterious health impacts, contributing to premature deaths, asthma-related hospital visits due to the formation of ozone at ground-level, and lost labour due to extreme heat. Curbing methane emissions to mitigate climate change, which disproportionately impacts those least able to adjust to it, would help to avoid exacerbating existing inequities.

Pinpointing methane leaks to identify the worst global emitters can be tricky and relies on satellite data, but Russia's Gazprom has admitted responsibility for some of the biggest leaks in recent years.[8] The World Bank's 2022 Global Gas Flaring Tracker Report, released in May, showed that Russia, Iraq, Iran, the US, Algeria, Venezuela and Nigeria accounted for two-thirds of global gas flaring 10 years running.[9] The top 10 countries have all committed to the World Bank's Zero Routine Flaring by 2030 Initiative, whereby governments and companies pledge not to routinely flare gas in any new oil field development, and to end routine flaring in existing oil fields as soon as possible and no later than 2030. However, over the past decade, only the US has improved the flaring intensity of its oil production, the World Bank notes.

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According to the report, some 144 billion cubic metres of gas was wastefully burnt in flares at upstream oil and gas facilities across the globe in 2021.[10] This is equivalent to 93% of Europe's gas purchases from Russia, according to an analysis by Capterio.[11] However, due to Russia's invasion of Ukraine, the EU is aiming to end its reliance on Russian fossil fuels by boosting renewables, making energy savings and diversifying its sources of supply.[12]



[6] Why Slowing Methane Leaks Is Critical to Climate Fight (bloomberg.com).
[7] https://www.unep.org/resources/report/global-methane-assessment-benefits-and-costs-mitigating-methane-emissions.
[8] Gazprom Admits to Massive Methane Leaks - Bloomberg.
[9] https://www.worldbank.org/en/topic/extractiveindustries/publication/2022-global-gas-flaring-tracker-report.
[10] https://www.worldbank.org/en/topic/extractiveindustries/publication/2022-global-gas-flaring-tracker-report.
[11] New flaring data shows unacceptable flatlining and boldens the imperative to act | FlareIntel.
[12] EU unveils €300bn plan to quit Russian fossil fuels by 2027 and boost clean energy (climatechangenews.com).



Our engagement approach

Given the financial upside on offer, investors and their representatives should urge companies to reduce their methane emissions, and the need to act this decade means that senior executives can be more easily held to account. For example, we can push for the inclusion of methane reduction targets in executives' short-term compensation structures.

Tackling methane emissions through engagement is not a new focus for us,[13] but we have been able to leverage the greater awareness post-COP26 to help galvanise industry efforts. Under our Engagement Plan, we are seeking a 60-75% reduction in oil and gas operational methane emissions by 2030, from a 2015 baseline.

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Specifically, we ask for methane reduction commitments and implementation plans aligned with the UNEP-managed Oil & Gas Methane Partnership (OGMP) 2.0 to achieve a critical near-term outcome that progresses longer-term decarbonisation objectives. We were an early supporter of the OGMP 2.0, which offers a step-change improvement in the transparency and credibility of reported methane emissions from oil and gas operations. Alignment with the OGMP must be a priority for producers given that it is in their own financial interest, with implications for directors' fiduciary responsibilities and sustainable wealth creation for investors.

Why does so much methane escape?

Early adopters of methane management will have benefitted from a competitive edge – so why have others been slow to follow? Billions of dollars a year are still wasted by companies choosing flaring or venting over capture and recovery.[14]

- Flaring occurs when producers deliberately burn gas rather than capturing and transporting it for use. One major overlooked source of emissions is the flaring of excess gas that is concurrently produced with oil.
- Venting is when methane is deliberately released into the atmosphere, sometimes as a safety measure to prevent pressure building up, reducing the risk of an explosion. Given the current scramble for alternatives to Russian gas, capturing this wasted methane would add vital supply and help to bring down gas prices for struggling households and businesses.
- Methane can also escape through leaky pipes or faulty equipment – so-called "fugitive emissions". Pneumatic pumps and controllers, which tend to be used in areas where electricity is not readily available, can be one of the largest sources of methane emissions.[15]

In our engagements with upstream oil and gas companies – the producers – we ask them to make every effort to reduce flaring, venting and fugitive emissions. Leaks can be detected through regular testing and maintenance, for example, while the installation of solar panels can help to replace pneumatic equipment.

Midstream's key role

The midstream companies operating the pipelines transporting the oil and gas to the customer also have a vital role to play. There are roughly 100 midstream companies in North America, but they have been an under-tapped lever for change. We have engaged directly with companies such as Kinder Morgan, Enbridge and TC Energy. In line with OGMP 2.0's leading methane targets, we ask midstream players to reduce planned and unplanned maintenance venting, identify and address fugitive emissions, and plug pipeline leaks in a timely manner.

For example, Kinder Morgan is a leading player within a slow industry, and we have urged the company to do more to accelerate the pace of change. We asked it to set an example by joining the OGMP 2.0, which we believe is the gold standard in disclosure for investors, and to encourage trade associations such as ONE Future to align with OGMP 2.0.

This segment of the market can also impact Scope 3 supply chain emissions by putting pressure on producers. Pipeline operators often have direct influence over what goes into their pipe, and upstream flaring practices. We encourage pipeline operators to ask their upstream business partners to align with OGMP 2.0, and to disclose the emissions intensity of the fossil fuels they carry as part of their Scope 3, as Enbridge does.

We welcomed Enbridge's development of this meaningful metric, which focuses attention on the behaviours that upstream and midstream players can adopt to accelerate methane emissions reductions. As Enbridge's metric is based on geographic upstream emissions estimates, we are asking Enbridge and the industry to work towards disclosing upstream providers' actual aggregate emissions.

[13] Investor sees methane management as self-help for oil and gas companies (edf.org).
[14] https://www.nytimes.com/2019/10/16/climate/natural-gas-flaring-exxon-bp.html.
[15] https://methaneguidingprinciples.org/best-practice-guides/pneumatic-devices/.

CASE STUDY

Occidental Petroleum



In 2018, we asked Occidental Petroleum to set emissions targets, including methane targets, as part of our feedback on the company's first climate change report. We queried how climate change was factored into the Anadarko Petroleum acquisition, given the company's growth mindset at a time when we may be reaching peak oil demand. The subsequent pandemic and US$9bn write down elevated these concerns.

In 2019, the company established initial Scope 1 and 2 emissions targets. In 2020, it became the first US oil and gas company to announce net-zero targets, including methane targets to end routine flaring by 2030, covering its entire business footprint, including Scope 3. The development of carbon capture, utilisation and storage (CCUS) technologies was expected to offset approximately 20 million tons annually while expanding the capacity for more. We sought clarity on the risks and uncertainties associated with CCUS, which is critical for the low-carbon transition, but should not be a substitute for phasing out fossil fuels.

The company emphasised its 50-year track record of CCUS and said it accounted for the added sustainability benefits when evaluating the economics. It also established additional short-term (2024) and medium-term (2032) targets, endorsed the OGMP 2.0, commissioned independent limited assurance verification for its Scope 1 and 2 emissions, and published its climate public policy positions. We will continue to engage with the company, focusing on the risks and uncertainties associated with CCUS.



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In an engagement with us, Enbridge said that it was analysing the OGMP 2.0 reporting framework, seeing many opportunities to work with the upstream and downstream. It is working closely with jurisdictions to develop stronger regulatory frameworks following COP26 and the Global Methane Pledge.

We have also championed collaborative, cross-sector action. In March 2022, we convened separate meetings with representatives from Kinder Morgan and Ceres' Climate Action 100+ lead, plus the Energy Infrastructure Council (EIC), a trade association, and the Environmental Defense Fund (EDF), a non-profit environmental advocacy group.

Together, we discussed ideas to advance midstream-specific metrics and solutions. There was broad agreement around the need for a collaborative multi-stakeholder process involving the banking sector to generate midstream investor expectations. We have engaged with banks such as Citi and JPMorgan encouraging them to ask their upstream clients to address methane emissions and align with OGMP 2.0 as part of their energy transition plans.

Big users of oil and gas, such as utilities, cement manufacturers and petrochemical companies, should also be demanding transparency from upstream suppliers on this issue, given the slow pace of mitigation to date and the limited timescale in which to act.

We helped to set up a collaborative Climate Action 100+ midstream roundtable on methane attended by midstream companies and investors, alongside the EIC and the GPA Midstream Association. Investors reiterated the importance of energy transition plans with timelines and targets, aligning with the OGMP 2.0 reporting framework, and supporting methane regulations. Companies described their key initiatives to cut methane emissions. For example, Kinder Morgan said that it focused on reducing venting from pipeline repair or testing activities and leaks at compressor stations.

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CA100+ Midstream Oil & Gas Working Group

In 2021 we contributed to the Climate Action 100+ Midstream Oil & Gas Working Group's Investor Recommendations for a Net-Zero Aligned Strategy. These provide additional nuance to the CA100+ benchmark for North American midstream companies.

The guidance for midstream companies lays out investor expectations regarding Scope 1, 2 and 3 net-zero commitments by 2050 or sooner, as well as on targets, decarbonisation strategy, capital alignment, climate policy engagement, climate governance, just transition and TCFD disclosure.

In developing these investor expectations, the Ceres midstream Oil and Gas Working Group built on the top 10 asks that we marshalled in a letter co-signed by 17 signatories. We sent this to Kinder Morgan in September 2020 as a co-lead for the company under CA100+.

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10 asks that we marshalled in a letter co-signed by 17 signatories.

The guidance also incorporates our view that midstream players should consider the emissions from the products transported; adopt responsible customer/supplier practices related to water use, labour standards and community impacts; and describe their policies for dealing with indigenous peoples and the relevant standards applied. These could include free, prior, and informed consent (FPIC) and the UN Universal Declaration of Human Rights. We are currently exploring a multi-stakeholder initiative with Ceres, EDF, midstream companies and trade associations, plus banks, to develop fresh guidance.

Encouragingly, the OGMP 2.0 is gaining traction, with Occidental Petroleum and EQT among the signatories, and we are urging ConocoPhillips, Chevron (see box), Kinder Morgan, Enbridge and TC Energy to sign up. We also discussed the importance of aligning with OGMP 2.0 with energy industry certifiers Equitable Origin and Rocky Mountain Institute-affiliated MiQ.

On the public policy advocacy front, we submitted a comment letter on the US Environmental Protection Agency's proposed rule on US oil and gas sector methane emissions for new and existing sources. We expressed support for strong methane emissions performance standards and endorsed the OGMP 2.0 disclosure framework.

We submitted a comment letter on the US Environmental Protection Agency's proposed rule on US oil and gas sector methane emissions for new and existing sources.

In the letter, we stated our principles-based position, including that the rule should enhance reporting transparency, credibility and comparability. We said that regulation should promote best operating practices such as advanced leak detection and the use of zero-emitting pneumatic controllers, while reducing the wasteful practice of routine flaring. It should also improve public health and safety, and environmental justice, addressing orphaned and abandoned wells, and requiring states to engage with the public and industry.

In May, we participated in an S&P webinar about investor action on methane. Alongside participants from the EDF, we discussed the role that shareholders and industry could play, as well as how to measure the impact of methane on net-zero emissions targets. We have also spoken on methane at an in-person oil and gas conference at the New York Stock Exchange hosted by the Energy Council in May, and at an ESG in Energy Conference in Houston, hosted by the Corporate Council Business Journal in April.

CASE STUDY

Chevron



We discussed OGMP 2.0 in a March 2022 engagement with US oil major Chevron. Although the company said it did not expect to join until better technology was available, thus enabling it to adhere to a commitment, we urged it to consider joining sooner. Chevron believes that customer demand and certifications can help to drive methane reduction.

In May, EOS filed an exempt solicitation with the US Securities and Exchange Commission urging shareholders to support the recommendation by Chevron's board that investors vote for a shareholder proposal for a report on the reliability of methane emission disclosures.[16]

We had urged the board to support this shareholder proposal during engagement prior to the publication of the proxy. During in-person meetings with the company's ESG manager and corporate secretary, we said that supporting a shareholder proposal would be an opportunity to demonstrate leadership in corporate governance best practice, and greater accuracy in methane emissions measurement and disclosure.

The board's action contrasted favourably with the prevailing tendency of oil and gas company boards to oppose shareholder proposals, even in situations where they are substantively consistent with a company's own stated goals and with long-term value creation. The proposal, which focused on improving the accuracy and reliability of methane emissions reporting, progresses our Engagement Plan objective of slashing oil and gas sector methane emissions by 75% by 2030. At the meeting, 98% of shareholders voted in support.

While we continue to engage on multiple areas where the company has room for improvement, we welcomed the board's decision to support this shareholder proposal.

At the meeting,

98% of shareholders voted in support.



Regulation should promote best operating practices such as advanced leak detection, while reducing the wasteful practice of routine flaring.

Outlook

We will continue to engage with companies and policymakers to encourage a switch to renewable energy, and an overall reduction in demand for fossil fuels. In parallel, we will push fossil fuel companies and trade associations to develop collaborative solutions that reduce actual methane emissions and have a real near-term impact on climate outcomes.

[16] https://www.sec.gov/Archives/edgar/data/93410/000162363222000596/form.htm.





Social issues rise up voting season agenda

This year's voting season saw a leap in shareholder resolutions on social issues in the US and UK, along with the mainstreaming of management-proposed say-on-climate votes. By Amy Wilson and Laura Jernegan.

Setting the scene

Shareholders filed a raft of proposals on social issues such as animal welfare, paid sick leave and reproductive rights this year, as US investors made full use of recent changes at the SEC. Meanwhile, as soaring inflation eroded the purchasing power of take-home pay, investors pressed for living wages for the rank and file, while contesting some bumper executive pay packages.

This was the second year for formal shareholder votes on companies' responses to climate change, with a steep rise in management say-on-climate proposals, and new votes at BP, Anglo American and Rio Tinto. Shell and TotalEnergies also offered a chance to vote on the progress achieved since the 2021 proxy season.

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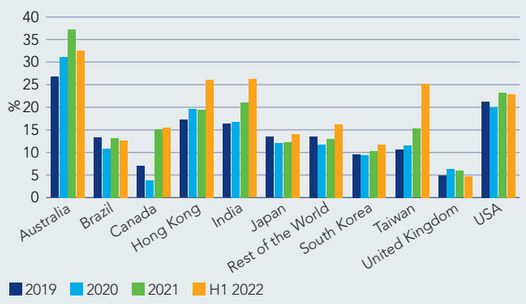
As parts of the world attempted to return to normal life in the wake of the Covid-19 pandemic, more shareholder meetings were held in-person this year. However, some companies embraced the hybrid approach pioneered during the pandemic, attempting to offer shareholders the best of both worlds.

With the ability to virtually attend these hybrid meetings, we 'attended' 12 shareholder meetings overall, including Volkswagen and Bank of America, and submitted questions at six meetings. We attended Bank of Nova Scotia, BP and Berkshire Hathaway in person, making a statement at the latter (see page 19).

We made at least one voting recommendation against management at 70% of meetings.

In the first half of 2022, we made voting recommendations at 10,302 meetings, versus 9,630 over the same period in 2021. We made at least one voting recommendation against management at 70% of meetings, up from 67% in the first half of 2021. We recommended votes on almost 2,424 shareholder resolutions in the first half of 2022, versus 2,395 over the same period in 2021. Some 584 of these were in the US, where we recommended against management on 406 proposals or 70%.

Percentage of proposals voted against management per key market



Source: EOS data

Climate change

Climate voting gained momentum in 2022 following its debut in 2021. We saw around 30 say-on-climate proposals from management teams, asking investors to approve transition plans or providing an annual update on already-approved plans. We also started to assess the integration of climate-related considerations into some companies' financial accounts and audit practices. We expanded our proactive vote policy, which has been in place for four years and targets laggard companies that are materially misaligned with the goals of the Paris Agreement. In total, we recommended voting against directors or relevant proposals at 244 companies in the first half of 2022 due to concerns about insufficient management of climate-related risks.

At Barclays and Standard Chartered, we engaged with management after identifying areas that fell below our **1.5°C-** aligned expectation.

We continued to take a robust approach to assessing companies' climate transition plans, recommending voting in favour of those we believed were substantially aligned with 1.5°C. This included cases where the company clearly indicated that alignment was the goal, with a more developed plan to be put to a further vote, such as at NatWest and Amundi. We also recommended support for a small number of plans by exception to our policy. This was where we believed the companies demonstrated market leadership in setting targets in breakthrough areas, although these targets are not yet clearly 1.5°C aligned, and remain the focus of future engagement. This included at BP and Rio Tinto.

We saw a flurry of "no new fossil fuel" shareholder proposals at major financial institutions, largely based on the International Energy Agency's Net Zero Scenario.



We recommended opposing the plans at Shell, TotalEnergies and Standard Chartered where climate ambition was materially below our sector-specific expectations. At Barclays and Standard Chartered, we engaged with management after identifying areas that fell below our 1.5°C-aligned expectation. Following our discussions, Barclays published a late clarification of its climate plan, emphasising its commitment to targeting 1.5°C portfolio alignment, which ultimately prompted us to recommend support. Standard Chartered failed to make further commitments to improving its coal policy or its methodology for setting decarbonisation targets, which led to us recommend a vote against its plan.

Climate-related shareholder proposals

As well as these say-on-climate votes, many climate-related shareholder proposals were filed. Some companies supported such proposals, including one at Caterpillar for a report on long-term greenhouse gas targets aligned with the Paris Agreement, which attracted 96% support. Boeing was asked for a report on a net-zero emissions by 2050 ambition, and whether it intended to revise its policies to align with the Paris Agreement. This attracted 89% support. It was encouraging to see companies and boards supporting climate shareholder proposals and seizing the opportunity to engage with investors and their representatives, as opposed to being defensive and automatically opposing.

We also saw a flurry of "no new fossil fuel" shareholder proposals at major financial institutions, largely based on the International Energy Agency's Net Zero Scenario. We assessed these on a case-by-case basis. While the non-binding nature of shareholder proposals in North America often enabled us to be supportive, certain proposals in other markets were overly-prescriptive. In Canada and the US, we recommended support at Toronto-Dominion Bank, Bank of America, Citigroup, JPMorgan Chase and Goldman Sachs. In Europe, we recommended opposing a similar proposal at Standard Chartered, where the wording was overly-prescriptive given its potentially binding nature.

US oil major ConocoPhillips received a shareholder proposal for a greenhouse gas emissions reduction target for the second year in a row. The 2021 proposal, which asked for absolute emissions reduction targets across Scopes 1 to 3, attracted 58% support but the board failed to implement this. Due to this lack of progress, we filed an exempt solicitation this year, urging shareholders to vote against the chair of the sustainability and public policy committee. The shareholder proposal received just 39% support, partly due to Russia's invasion of Ukraine fuelling oil and gas price rises, and more stringent targets in the proposal.[1]

At Volkswagen, seven investors filed a shareholder resolution in the form of an amendment to the company's articles of association, urging VW to explain how its lobbying activities helped to address climate risks. Having engaged with the company on this issue since early 2019 we were supportive of this approach. However, the company rejected the proposal under German law in a disappointing approach to shareholder engagement and climate action. We are supporting legal action to challenge this decision, and recommended voting against the re-election of board directors. We will continue to engage.

We recommended supporting shareholder proposals seeking the establishment of an annual advisory vote policy for environmental and climate change targets and action plans at the five largest Canadian banks. Shareholder support for these votes ranged from 15% to 27%. Japan's Sumitomo Mitsui also attracted two climate-related shareholder resolutions. We will look at these in the Q3 *Public Engagement Report*.

Paris-aligned accounts

We also saw the emergence of Paris-aligned accounts as a voting consideration for companies where climate change presents material and foreseeable risks. We were supportive at miner Rio Tinto, where we could see a positive trajectory and a response to engagement. However, after engaging with the chair at building materials company CRH, we recommended opposing the re-election of the audit committee chair, the ratification of the auditor, and acceptance of the financial statements and statutory reports. This was because the company appeared unresponsive to engagement over several years. Also, it was unclear how material climate risks were being considered in the accounts, how CRH's own climate targets were incorporated into its assessment of assets, liabilities and profitability, or what a 1.5°C pathway might mean for its financial position.

We also recommended opposing the auditor, the audit co-chair, and the financial statements at Air Liquide. Since Q4 2020 we have been a co-signatory on letters sent to the company's audit and accounts committee chair, copied to the auditors. These set out our expectations on climate-aligned accounts and audit, including matters we expect to see considered and discussed. Carbon Tracker's assessment of the company's 2021 financial accounts and audit is publicly available and shows no material improvement on 2020.

For coal exposure, we target companies that are expanding coal infrastructure or those that materially produce or derive revenue from coal-related activities without an adequate plan for phase-out.

Coal and deforestation

We continued to develop our proactive climate vote policy, to identify companies whose activities are more clearly misaligned with the goals of the Paris Agreement, including through coal and deforestation. We also consider the management of climate risk, expecting companies to have achieved minimum Transition Pathway Initiative management quality scores according to their sector or region. As a guide, oil and gas companies, utilities and all European companies are expected to reach Level 4 and all other companies should score at least Level 3. Leveraging our access and engagement relationships, we wrote to laggard or highly-exposed companies requesting further engagement to inform our vote recommendations.

For coal exposure, we target companies that are expanding coal infrastructure or those that materially produce or derive revenue from coal-related activities without an adequate plan for phase-out. We were supportive where we were satisfied that progress was being made. This included if a company was still deriving material amounts of power from coal but had a clear, time-bound exit plan, such as at Fortum and CLP. However, we had red lines on the expansion of coal-fired power or coal-mining infrastructure. The lack of sufficiently ambitious coal phase-out timelines caused us to oppose directors at Evergy, Sumitomo, WEC Energy Group and Mitsubishi.

For deforestation, we recommend opposing the directors responsible at companies that are the poorest performers on the Forest 500 assessment, which targets companies that are most exposed to deforestation risks. In 2022, we also looked at the worst performing financial institutions for the first time. Our policy has so far led us to oppose the directors responsible at retailer TJX and food manufacturer Kikkoman. We were supportive where we were satisfied that progress was being made or that policies would be disclosed and implemented soon, such as at US insurer AIG.



[1] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/conocophillips-shareholders-vote-down-stricter-emissions-goals-70265186

VOTING CASE STUDY

Berkshire Hathaway



For the second year running, we filed a climate change reporting shareholder proposal that called on Berkshire Hathaway to publish an annual assessment addressing how the company manages physical and transitional climate-related risks. The proposal was co-sponsored by Caisse de dépôt et placement du Québec (CDPQ), California Public Employees' Retirement System (CalPERS) and the State of New Jersey Common Pension Fund D.

We co-filed a similar proposal in 2021, which we believe attracted a majority of non-insider votes[2]. However, Berkshire Hathaway insiders, including CEO Warren Buffett, control about 35% of the company's voting power through a dual-class share structure. With Berkshire Hathaway opposing the shareholder proposal, it was defeated.

While Berkshire Hathaway publishes some information on the sustainability of its operating companies, the proposal called for climate-related financial disclosures at the parent company level in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), including:

- Climate-related financial reporting where material for subsidiaries and for the parent company
- How the board oversees climate-related risks for the combined enterprise
- The feasibility of the parent company, and its subsidiaries, establishing science-based, greenhouse gas reduction targets, consistent with limiting climate change to well-below two degrees.

We believe that the publication of such an assessment would enable shareholders to assess portfolio risks more effectively, and to engage with Berkshire Hathaway on its climate change risks and opportunities. Once again, proxy advisers ISS and Glass Lewis recommended that shareholders vote in favour of the proposal.

We also asked Berkshire Hathaway's audit committee to explain why climate change was not addressed again this year in the company's audit, when it was specifically outlined in the latest 10-K regulatory filing. Ahead of the shareholder meeting, we recommended voting against the chair of the governance, compensation and nominating committee and the entire audit committee.

Meeting statement

Tim Youmans, EOS North America engagement lead, made a statement in support of the proposal at the company's annual meeting, held at an Omaha convention centre. "Climate financial risk may be significant, even material, at the parent company," he said. In the 2021 annual report, the company stated that climate-related risks could produce losses and significantly affect financial results. "The company audit, however, is silent on climate risk," he said.

Berkshire Hathaway was the only major US public company to score zero on the Climate Action 100+ Net Zero assessment of climate action progress, two years in a row.

Berkshire Hathaway was the only major US public company to score zero on the Climate Action 100+ Net Zero assessment of climate action progress, two years in a row. More encouragingly, the company is now open to engagement with us and has taken some steps following last year's vote. For example, it published a supplement to the chair's annual shareholder letter, from vice chair Greg Abel, discussing climate change matters at Berkshire Hathaway's energy and rail subsidiaries. Also, the parent company's audit committee has amended its charter to include climate risk oversight. However, more action is needed.

With the company once again opposing the shareholder proposal, it was rejected, although we calculate that non-insiders voted 61% in favour of the proposal. With the SEC's proposed climate disclosure rules asking for more disclosure than we requested, the company may want to consider getting a head start so that it is ready to meet these requirements.

With the company once again opposing the shareholder proposal, it was rejected, although we calculate that non-insiders voted

61% in favour of the proposal.

[2] https://www.sec.gov/Archives/edgar/data/1013143/000162363222000499/form.htm

Climate change and human rights at Canadian banks

This year we made coordinated statements at Royal Bank of Canada, Toronto-Dominion, Bank of Nova Scotia, Bank of Montreal and Canadian Imperial Bank of Commerce, addressing the banks' climate strategies as they relate to a just transition. This broadened the conversation from a pure focus on environmental net zero 2050 targets to encompass larger human rights impacts. It also highlighted the guidance from our work with the Institutional Investors Group on Climate Change (IIGCC) in developing investor expectations for the banking sector.

We asked the banks to make an explicit commitment to achieving a just transition, paying attention to the impacts and opportunities for key stakeholders, including workers, their families and the communities most impacted by the low carbon transition. We also asked for reporting on the specific actions the banks would take to achieve the just transition, being clear on how borrowers' own commitments, capacity and strategy to achieve the just transition were factored into financial decision-making.



Oil sands financing

This was consistent with our participation in the Investor Statement on Line 3, Oil Sands Projects, and FPIC[3], backed by investors and their representatives. We lent our support and expressed our concerns about the risks and costs associated with the financing of oil sands projects.

The letter asked financiers to develop policies that eliminate financing for oil sands projects or companies that do not protect indigenous rights, such as the right to give free, prior, and informed consent (FPIC). Additionally, we asked financiers involved in oil sands development to support FPIC in their lending and investment practices. We did this in light of the risks and the threats that this type of financing poses to the rights of indigenous peoples, the cultural survival of indigenous practices, the long-term health of local water systems, and the climate.

We led this engagement with Toronto-Dominion, Royal Bank of Canada and Canadian Imperial Bank of Commerce. We received responses from all three banks and are now formulating our next steps in partnership with the Investors & Indigenous Peoples Working Group, which coordinated this letter-writing campaign.



Emily DeMasi
Theme co-lead: Human Capital

Social issues proposals on the rise

This year we saw record numbers of shareholder proposals at major US companies, including many on social issues, against a backdrop of soaring inflation and a tumultuous political environment. These covered topics such as paid sick leave, employee representation on boards, reproductive rights risks, unionisation, and animal welfare, some of which were supported by high-profile campaigns.

> **This year we saw record numbers of shareholder proposals at major US companies, including many on social issues, against a backdrop of soaring inflation and a tumultuous political environment.**

For example, at retailer TJX, we supported a shareholder proposal to adopt and publicly disclose a policy that all employees, part- and full-time, accrue some paid sick leave that can be used after working at TJX for a reasonable probationary period. This policy should not expire after a set time or depend on the existence of a pandemic. The proposal garnered over 33% support showing that shareholders increasingly view paid sick leave as a basic human right.

At video game developer Activision Blizzard we supported two shareholder proposals that could help the company to improve its management of human capital, human rights and associated risks following recent sexual harassment and discrimination allegations. The first proposal asked for a report on efforts to prevent abuse, harassment and discrimination. The second urged the board to adopt a policy of nominating a director candidate selected by the company's non-management employees. We agreed with the latter's proponents that an employee representative on Activision's board would be particularly beneficial given the recent allegations.

At retailer Walmart, we supported a shareholder proposal asking for a report on the alignment of racial justice goals and starting wages. We strongly recommended that Walmart consider increasing the transparency of its employee pay disclosures, including gender and ethnic pay gap data, by reporting in line with the Workforce Disclosure Initiative framework. A similar proposal last year received 12.5% support, and this attracted 13.2% support.

The proposal garnered over

33% support showing that shareholders increasingly view paid sick leave as a basic human right.

[3] https://www.colorado.edu/program/fpw/sites/default/files/attached-files/line_3_investor_statement_sign-on_2022-03-30_final.pdf

> **As McDonald's has adjusted its completion date for phasing out the use of gestation stalls for pregnant sows, we encouraged the company to communicate the lessons learned.**

Also at Walmart, plus Lowe's and Home Depot, we evaluated a controversial proposal asking for a report on the potential impacts of restrictive reproductive healthcare legislation. After much debate and engagement, we recommended a vote against, as we believed the company's resources would be better spent on enhancing associated healthcare benefits. When engaging with Walmart on this, we were reassured that it had a process for assessing upcoming legislation.

Elsewhere, fast food chain McDonalds received a shareholder proposal on animal welfare targeting the use of gestation stalls in the pork supply chain. We did not recommend support as we believe the company is making progress and providing clear disclosure on its policies and goals in this area. As McDonald's has adjusted its completion date for phasing out the use of gestation stalls for pregnant sows, we encouraged the company to communicate the lessons learned.



> **At Meta, we used our recently published EOS Digital Rights Principles to inform our decisions and justify our support for several shareholder resolutions.**

In Canada, we evaluated a shareholder proposal on the "financialization of housing"[4] filed at certain banks. While we agreed with the proponent on the basic human right to housing and shelter, we questioned the responsibility of the banks to collectively address these issues by creating a due diligence tool. Ultimately, we recommended opposing the proposal, but we will engage with these banks on providing more robust disclosure on how they are embracing opportunities to address home ownership and equity gaps.

At Meta, we used our recently published EOS Digital Rights Principles[5] to inform our decisions and justify our support for several shareholder resolutions. These included requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade offs between privacy rights and child protection. We noted the company's willingness to engage on these issues ahead of the annual meeting, but recommended opposing the CEO and the entire governance committee due to the dual class share structure and other issues.

Racial equity and civil rights

More Civil Rights Audit (CRA), Racial Equity Audit (REA) and Racial Justice Audit shareholder proposals were filed this proxy season, including at Apple, Chevron, Wells Fargo and Johnson & Johnson. In general, such proposals urged boards to oversee a third-party audit analysing the adverse impacts of companies' policies and practices on the civil rights of companies' stakeholders.

During the 2021 voting season, we recommended that clients support REAs at US financial institutions. We did so to build traction and signal mainstream investor support for a practice that helps boards steer favourable diversity, equity and inclusion (DEI) outcomes in the workforce and in society. In 2021, our clients contributed to substantial first-time support of up to about 40% for these proposals. We continued to engage with companies in the wake of these votes.

In 2022, we recommended support for the Apple CRA shareholder proposal, which received 53.6% shareholder support. Where we assessed that the intention of a proposal was to undermine racial equity, such as those at Levi Strauss, Bank of America and Citigroup, we recommended opposing.

This was part of a trend this year where we saw a higher number of poorly-worded proposals, some that conflated investor fiduciary duty and director fiduciary duty, and those where we questioned the intentions of the proponent. For example, we saw some conservative NGOs and think tanks filing shareholder proposals at various companies disguised as racial equity, anti-discrimination, or lobbying disclosure proposals[6].

Living wages and human rights

In the UK, we saw a high-profile resolution at supermarket J Sainsbury filed by ShareAction, asking the company to seek living wage accreditation, which garnered 16.7% support. We joined a meeting in March between the resolution's co-filers and the company's chair and CEO. They confirmed that over 90% of the supermarket's workforce is already paid at or above

[4] https://www.theglobeandmail.com/investing/personal-finance/young-money/article-the-millennial-and-gen-z-dream-of-home-ownership-is-being-exploited-in/
[5] https://www.hermes-investment.com/ukw/wp-content/uploads/2022/04/eos-corporate-digital-rights-principles-04-2022.pdf
[6] https://www.ft.com/content/827f1510-8494-4736-a0dc-e5cdcd0e9a64

the real living wage, and stated that the company believed a significant portion of its third-party contractors was at this level as well. Subsequently, Sainsbury's announced that it would pay the remainder of its workforce in outer London the real living wage. While welcome, this move stopped short of seeking Living Wage Foundation accreditation and guaranteeing real living wages for third-party contractors, so we recommended supporting the proposal.

In 2022, we updated our voting policy to consider recommending votes for relevant proposals or against directors where a company was in clear breach of its applicable regulatory human rights responsibilities or those outlined in the UN Guiding Principles on Business and Human Rights. We treated this year as a pilot, identifying the highest-risk companies in our engagement programme and alerting them that we had updated our policy. We then recommended opposing directors on human rights grounds at a small number of companies. These included Telefonaktiebolaget LM Ericsson, due to various alleged compliance breaches and insufficient remedial actions, Grupo Mexico, due to spills of toxic waste and heavy metals in rivers adjacent to its mines, and Meta, due to the spread of problematic content on its platforms.

Diversity and inclusion

We again tightened our diversity and inclusion voting policies, encouraging greater representation of women and ethnic minorities on boards and in leadership teams. Globally, we opposed 2,361 proposals due to concerns about insufficient diversity. In the US, where we expect women and ethnic minorities to make up at least 40% of the board at the largest companies, with a minimum of 30% gender diversity in line with our support for the 30% Club, we opposed 961 proposals. This included at Berkshire Hathaway, Amgen, United States Steel, Sinclair Broadcast Group, Freeport-McMoRan, Kinder Morgan, Dollarama and NextEra.

In Europe, we continued to push for greater gender diversity on boards and in leadership teams and opposed companies that did not meet our minimum expectations. This included at miners Antofagasta, where we opposed the nomination committee chair for poor board gender diversity, and Fresnillo. Here we opposed the chair due to an all-male executive committee, with women comprising only 5% of senior management and 11% of the total workforce.

We continued to enforce our guidelines for ethnic diversity on UK boards and were pleased to see great progress by FTSE 100 companies in meeting minimum standards of representation. We continued to oppose chairs where this was not the case, for example at DS Smith. At Ashtead Group, the company assured us that an active search to find a new non-executive director from an ethnic minority background was underway, making us able to support the election of the chair.

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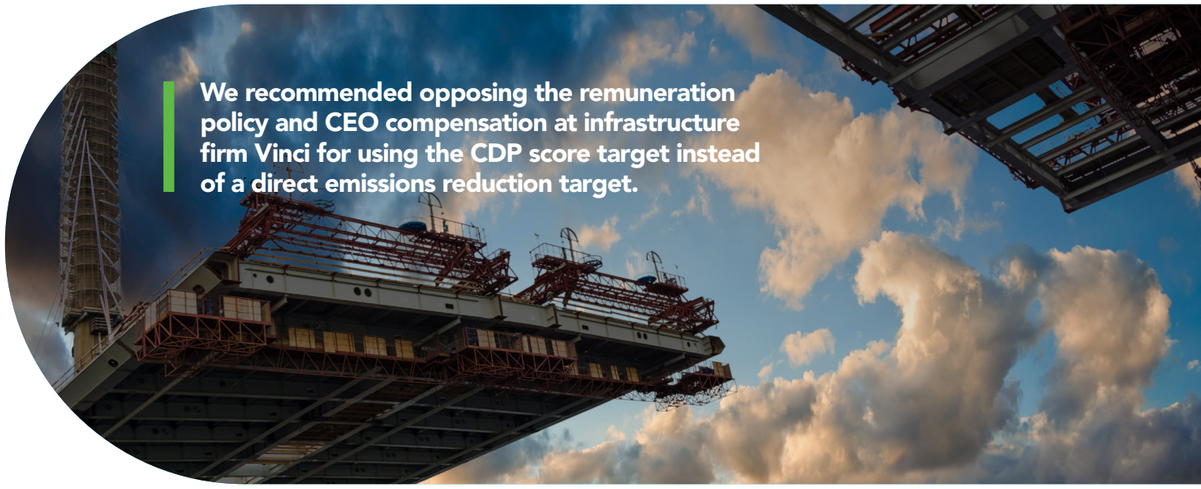
Executive pay

With economies recovering in several major markets in 2021, we saw a resurgence in some executive pay packages. In North America, we continued to oppose the majority (80%) of say-on-pay proposals on the basis that practices across the region remained materially misaligned with our principles. For example, we recommended voting against executive pay and the compensation committee chair at Netflix. Some 73% of shareholders rejected the pay proposal, so we will expect a robust response from the compensation committee in the coming year.

We also recommended opposing pay at Caterpillar, Walmart, Visa, Morgan Stanley, Meta, ExxonMobil, Chevron, Mondelez International, JPMorgan Chase and many more. This was mainly for excessive quantum, without adequate disclosure of the additional value created for long-term shareholders when paying the CEO significantly above the labour-market median.

At Johnson & Johnson, we recommended supporting pay by exception to our policy. This was due to a reasonable quantum, and the compensation committee's responsiveness to shareholders. However, we remained concerned by the exclusion of litigation and compliance-related costs from executive compensation metrics, an issue on which we have engaged. We recommended opposing the compensation committee chair, and voting for the shareholder proposal to adopt a policy to include legal and compliance costs in incentive compensation metrics, which received 48% support.





In Europe, we pushed for greater shareholdings for executives, and improving disclosure where this was lacking or where pay awards were substantial. We scrutinised what appeared to be excessive pay levels, whether these came through salary increases or incentive scheme opportunities.

For example, at GSK we were not supportive of a remuneration policy that continues to increase the variable pay opportunity far in excess of our policy limits. We also noted a duplication of metrics across the bonus scheme and long-term incentive plan (LTIP), which we generally do not support as it rewards executives twice for the same performance.

After careful consideration, we were supportive of somewhat controversial pay arrangements at Barclays where the new CEO was brought in on a package larger than that of his predecessor, who stepped down in late 2021 amidst a regulatory probe.[7] While the pay package offered to the new CEO appears high relative to the former CEO's package and those at other UK-listed banks, we have no concerns with the overall structure and recognise that the company had to activate its succession plan at short notice.

In Europe, we pushed for greater shareholdings for executives, and improving disclosure where this was lacking or where pay awards were substantial.

ESG metrics and auditor tenure

We also saw the emergence of ESG measures in pay, which we scrutinised to ensure they were material and robust. For example, US gas producer EQT is unique in having introduced an incentive for reaching net zero by 2025. This employs an innovative mechanism to penalise management if excessive carbon credits are used to achieve this target. We will share this with peers as an example of how to incentivise Scopes 1 and 2 net-zero achievement.

However, we recommended opposing the remuneration policy and CEO compensation at infrastructure firm Vinci for using the CDP score target instead of a direct emissions reduction target. We also opposed the proposed remuneration policy at insulation and cladding firm Kingspan due to a notable increase in the quantum of the variable pay schemes and the duplication of the earnings per share metric across both schemes. We were concerned by its approach to ESG measures in pay, as the company has a high number of metrics that are not necessarily material to its business.

We continued to push for better auditor independence with a focus on long audit firm tenures in the US, where some have been in place for over 100 years. This year we set expectations for companies to voluntarily rotate the auditor after 20 years. In the US, the rotation of the lead audit partner every five years is not sufficient to strengthen auditor firm independence in our view. Where an audit firm has been in place consecutively for more than 20 years, we will consider recommending votes against the audit committee chair and the auditor ratification.

We continued to push for better auditor independence with a focus on long audit firm tenures in the US, where some have been in place for over

100 years.

For example, at Caterpillar we recommended opposing the auditor ratification, as the firm had been in place since 1925, and we had engaged on this since 2021. More positively, the audit committee reviews the auditor annually and the company acknowledged our concerns about tenure. This led us to recommend a vote in favour of the audit committee chair, by exception to our policy, to encourage further action. Similarly, at US health insurer Humana we recommended opposing the ratification of the auditor, which had been in place for 54 years. We also recommended opposing the audit committee chair.

[7] https://www.ftadviser.com/regulation/2021/11/01/barclays-ceo-steps-down-after-epstein-investigation/



Company engagement highlights

A selection of short company case studies highlighting areas where we have completed objectives or can demonstrate significant progress.

Overview

Our approach to engagement is holistic and wide-ranging. Discussions range across many key areas, including business strategy and risk management, which includes environmental, social, and ethical risks. Structural governance issues are a priority too. In many cases, there is minimal external pressure on the business to change. Much of our work, therefore, is focused on encouraging management to make necessary improvements.

The majority of our successes stem from our ability to see things from the perspective of the business with which we are engaging. Presenting ESG issues such as climate change or board effectiveness as risks to the company's strategic positioning puts things solidly into context for management. These short company engagement updates highlight areas where we have recently completed objectives or can demonstrate significant progress, following several years of engagement.

Abbott Laboratories

Engagement theme: Board composition
Lead engager: Laura Jernegan

We initiated engagement with Abbott Laboratories regarding increasing the number of independent directors on its board in Q2 2013, following the demerger of its pharmaceuticals business. We discussed the need for board refreshment with the corporate secretary, plus investor relations and human resources representatives in a meeting in Q2 2015. We were pleased that the company acknowledged the points that we made about the lack of recent refreshment and the dominance of greater Chicago-area directors, but it did not commit to change at that time.

When we wrote to the company explaining our vote recommendations ahead of its 2016 annual meeting, we reiterated the need for properly independent directors to be appointed to the board. In a meeting with the assistant secretary and investor relations in Q3 2016, we noted the numerous, persisting interlocking boards and other positions among its directors and the lack of recent refreshment.

Outcomes and next steps

The company confirmed that it was searching for director candidates. We were pleased to see the company act on this, evidenced by the appointment of independent directors, as defined by ISS and EOS, in 2017, 2018, 2019, and 2021. As of the company's 2021 annual meeting, independent directors accounted for 77% of the board, with two executive directors and one former employee of an acquired company comprising the rest.

We applauded this substantial refreshment but continued to engage the company regarding interlocking board relationships. We have requested disclosure on the potential competitive overlap with the AbbVie board, which raises concerns over independence.

NextEra Energy

Engagement theme: Sustainability disclosure
Lead engager: Velika Talyarkhan

As part of our ongoing dialogue on climate change through the Climate Action 100+ initiative, we engaged NextEra Energy on climate disclosure and the reporting of its Scopes 1 and 2 greenhouse gas emissions. We explained our expectation for more robust climate disclosure to the corporate secretary in Q1 2020. The company has a substantial renewables business, but its level of disclosure resulted in a low Transition Pathway Initiative score. The company appreciated our feedback.

In Q2 2021, we considered recommending a vote against the governance and nominating committee chair due to a lack of climate disclosure, but we were encouraged by the company's progress on climate change. This included reporting to CDP, plans to include a Task Force on Climate-related Financial Disclosures (TCFD)-aligned climate section in its next ESG report, and a willingness to consider a science-based emissions reduction target. We recommended support for this board member's re-election.

Outcomes and next steps

We welcomed the company's second ESG report later in 2021, which included a more robust climate discussion and third-party verification of the company's Scopes 1, 2, and business travel Scope 3 emissions. We will continue to engage the company on climate, particularly around setting a net-zero emissions target, setting a more robust short to medium-term emissions reduction goal aligned with the Paris Agreement, and expanding on its TCFD disclosure.

Mercury Systems

Engagement theme: Board diversity
Lead engager: Joanne Beatty

In Q4 2020, we engaged with the CFO and corporate counsel on low board diversity. The board had two female directors and 22% overall board diversity, below our best practice threshold of 30% gender, racial and ethnic diversity. While the board did not have an explicit diversity policy at the time, we were encouraged that it was discussing this subject and that the board's nominating and governance committee



considered gender, race, and ethnicity among other director qualifications. In January 2021, we re-emphasised the importance of board diversity when we sent our 2021 US Corporate Governance Principles.

Outcomes and next steps

Engaging again with the company in Q1 2021, we welcomed its board of directors' policy update from October 2020, which included a goal for the board to "reflect gender, ethnic and racial diversity in its membership". We were also encouraged by the company's ongoing work on diversity and inclusion in its workforce.

In Q4 2021, we spoke with the company about its upcoming annual meeting, and we were pleased that overall board diversity had increased to 33% with the appointment of an additional diverse member. We will continue to engage on ESG reporting and climate topics.

We were pleased that overall board diversity had increased to **33%**

Sherwin-Williams

Engagement theme: Sustainability disclosure
Lead engager: Sarah Swartz

As part of our ongoing dialogue with Sherwin-Williams, we initially engaged on sustainability disclosures in February 2019. We focused on disclosure of sustainable products and their development, and sustainability targets post 2020, which we felt were missing from the company's reporting.

In a meeting in August 2020, we welcomed the company's strengthened 2019 sustainability report, which was aligned with the Sustainability Accounting Standards Board and the Global Reporting Initiative. We also discussed the company's opportunity to articulate its stakeholder-inclusive business purpose, continuing to drive stronger disclosure. During a discussion with the vice president of global sustainability in

September 2020, the company confirmed that its next sustainability report would include new targets, and we reiterated our request for further disclosure on sustainable product lines.

Outcomes and next steps

In February 2021, we welcomed the board's involvement in the company's planned updated sustainability reporting pillars. We were pleased with the company's improved 2020 sustainability report, issued in June 2021, which was structured around three pillars: an environmental footprint, a product blueprint, and a social imprint. The report included 2030 environmental goals under the environmental footprint pillar, 2025 inclusion and diversity goals under the social imprint pillar and reporting on its sustainable products under the product blueprint pillar.

Additionally, we welcomed the company's stakeholder-inclusive statement of corporate purpose, also included in the report, plus the Equal Employment Opportunity Commission (EEO-1) disclosure, which was published on the company's website. In future engagements, we will continue our conversations on climate and Task Force on Climate-related Financial Disclosures reporting, and enacting business purpose.

Bristol-Myers Squibb

Engagement theme: Shareholder protection and rights

Lead engager: Laura Jernegan

In Q2 2018 we initiated engagement with Bristol-Myers Squibb on reducing the threshold for shareholders to call a special meeting to 15% from 25%, in a call with the company secretary. We said the company should encourage this expansion of shareholder rights, given shareholder support of nearly 40% for the second year in a row.

We followed up during a meeting with the company secretary and senior counsel at the company's headquarters in Q4 2018. The company indicated that at the time one investor held 14% of voting rights, hence its hesitancy, but we maintained our view that 15% was the ideal threshold. The company said that it was open to revisiting this matter in the future.



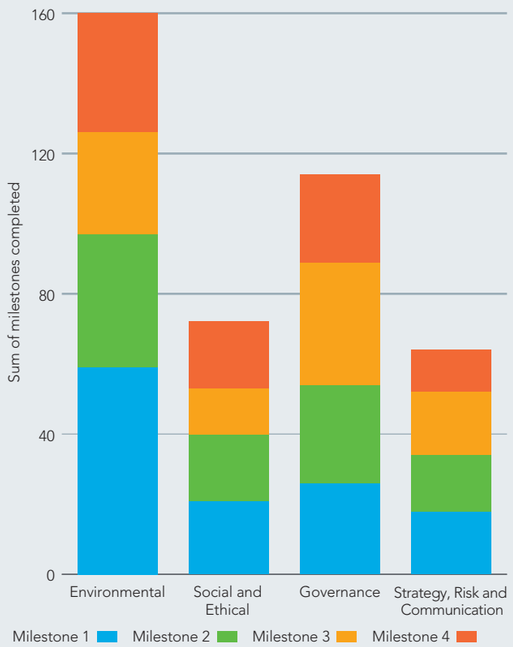
During February 2021, as part of its engagement programme outreach the company said that following the board's review and feedback from EOS and other shareholders, it was contemplating reducing its special meeting threshold from 25% to 15%. It asked for our preliminary feedback on how we would receive this change.

During the company's annual proxy engagement in April 2021, we again raised the topic. In its 2021 proxy statement, the company had a management proposal to reduce the threshold to 15% and a shareholder proposal to lower the threshold to 10%. We recommended supporting both as they would expand shareholders' rights. However, we added that where shareholders and management were moving in the same direction, we encouraged management to support shareholders in their rights rather than challenge them by putting a competing measure on the ballot.

Outcomes and next steps

Following majority support for the management proposal, in Q4 2021 we thanked the lead independent director (LID) for the board taking action to reduce the threshold for shareholders to call a special meeting to 15%. The LID acknowledged that this was an effort to move towards best practice for this important shareholder right. We continue to engage the company on enacting a stakeholder-focused business purpose, board oversight of human capital management, and an expansion of its lobbying disclosures.

Milestones completed by stage, H1 2022



Source: EOS data

CASE STUDY

Petrobras



We have engaged extensively with Brazilian oil and gas giant Petrobras on the development of its governance framework, covering board composition and effectiveness, the board nomination policy, and conduct and compliance.

Petrobras is a diversified oil and gas producer and refiner with over 750,000 shareholders, including domestic and international, retail and institutional investors. The Brazilian state holds 36.75% of the share capital, but 50.50% of the voting rights.

Petrobras has over 100 subsidiaries, ranging from special purpose vehicles to fully-fledged companies with their own supervisory and executive boards. Historically, the major subsidiaries - some of which were established by acts of parliament - have been managed with a significant degree of independence from their parent company and subject to political interference. This was a source of controversy during the Lava-Jato (Car Wash) bribery and corruption scandal[1].

Since 2017, we have engaged with Petrobras on the governance framework of its subsidiaries, including on topics such as board composition and effectiveness, board nomination policy, and conduct and compliance. We discussed with senior executives how the company could implement best practice regarding control and oversight, as well as operational efficiency. In subsequent meetings, we were assured that this was a priority for the board.

Outcomes and next steps

In all the previously mentioned areas, we have seen significant progress, in line with the expectations contained in our Brazil Corporate Governance Principles. Changes at the company include the introduction of a framework for corporate governance of subsidiaries, which was formally approved in Q2 2018.

The creation of the new Petrobras conglomerate audit committee, separate from the Petrobras parent company audit committee, was approved at an extraordinary shareholders' meeting in Q4 2018. We have discussed the effectiveness of the new framework with independent board members, especially the conglomerate audit committee, currently covering 15 subsidiaries.

We have gained assurance from our engagement with independent directors that the improved governance of subsidiaries has led to better oversight on nomination, compliance and audit, as well as improved operational efficiency at the subsidiary level. We continue to engage with Petrobras on the governance of its subsidiaries and joint ventures, and issues such as board composition and effectiveness, including the election of minority-shareholder nominated directors.

Read the engagement case study in full at:
https://www.hermes-investment.com/ukw/eos-insight/eos/petrobras-case-study-05-2022/

Engagement objectives:

Governance:
- Governance of subsidiaries and joint ventures

Sustainable Development Goal:

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



Jaime Gornsztejn
Theme lead: Board Composition and Effectiveness

[1] https://www.bakerinstitute.org/media/files/files/b49a8c69/lagunes-lavajato-backgrounder.pdf

BLOG SPOTLIGHT



How regenerative agriculture can sow the seeds of change

In the fifth article in our series on the social and environmental impacts of the global food system, Sarah Swartz explores the benefits of regenerative agriculture.

Widespread use of fertilisers and pesticides may have increased crop yields and prevented global famines, but this more intensive form of agriculture has also had a negative impact on the environment. With the global population predicted to rise by another two billion people between 2019 and 2050 we must find a way to feed the world sustainably.

What is regenerative agriculture?

This term generally refers to a set of practices and principles that increase biodiversity, enrich soil, improve watersheds and enhance ecosystem services. Organic agricultural practices can overlap with these and promote healthy soils and ecosystems. And although regenerative agriculture practices are executed at the farm level, food manufacturers, retailers and investors can also play a role by helping to implement and promote these.

Our food system depends on ecosystem services and biodiversity, and as climate change and other environmental and social crises threaten these, investors face financial, reputational and long-term risks. To drive systemic change in how food is produced, we expect companies with significant agricultural supply chains to encourage and support regenerative agriculture through a clear strategy, with disclosed supply chain risk governance. This includes measuring and disclosing the outcomes that the regenerative agricultural strategy is having on biodiversity, soil health, carbon sequestration and other key indicators.

Emerging best practice

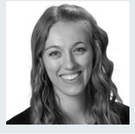
We have engaged on regenerative agriculture with companies within the agriculture supply chain, including food and beverage manufacturers, retailers, a paper packaging company, and companies that provide agricultural products. We asked several companies to set regenerative agriculture transition targets and to report on measurable environmental and social impacts and outcomes.

Through engagement, we have seen some emerging best practice. For example, Cargill has focused its regenerative agriculture strategy around farmers, partnering to provide not only training, technical support and measurement assistance, but also compensation and cost sharing to assist in the transition to regenerative practices. General Mills is implementing technologies to measure and quantify impacts such as the use of satellite imagery, sensors and soil tests. And through partnerships, Danone created a scorecard to define regenerative agriculture practices at various levels of implementation, and as a guide for farmers and other stakeholders.

To increase ecosystem resiliency and biodiversity in the long term, we need a new agricultural revolution, one that drives a transition towards a sustainable, nutritious, and equitable system of regenerative agriculture. Through engagement, investors can encourage companies to adopt transition strategies with effective governance, measurement, and disclosure, to mitigate the climate, biodiversity, and other environmental and social risks posed by the current agricultural supply chain.

Read the EOS Insights article in full at:

https://www.hermes-investment.com/ukw/eos-insight/eos/how-regenerative-agriculture-can-sow-the-seeds-of-change/



Sarah Swartz
Theme: Natural Resource Stewardship



Public policy and best practice

EOS contributes to the development of policy and best practice on corporate governance, sustainability and shareholder rights to protect and enhance the value of its clients' investments over the long term.

Overview

We participate in debates on public policy matters to protect and enhance value for our clients by improving shareholder rights and boosting protection for minority shareholders.

This work extends across company law, which in many markets sets a basic foundation for shareholder rights; securities laws, which frame the operation of the markets and ensure that value creation is reflected for shareholders; and codes of best practice for governance and the management of key risks, as well as disclosure.

In addition to this work on a country specific basis, we address regulations with a global remit. Investment institutions are typically absent from public policy debates, even though they can have a profound impact on shareholder value. EOS seeks to fill this gap.

By playing a full role in shaping these standards, we can ensure that they work in the interests of shareholders instead of being moulded to the narrow interests of other market participants, which may differ markedly – particularly those of companies, lawyers and accounting firms, which tend to be more active than investors in these debates.

Presentation on biodiversity and COP15 expectations to finance ministries

Lead engager: Sonya Likhtman

We were invited to present to the Coalition of Finance Ministers for Climate Action, which is coordinated by the World Bank, at the launch of the coalition's new report: *Bending the Curve of Nature Loss - Nature-Related Risks and Potential Policy Actions for Ministries of Finance*. We welcomed the report as an important step in bringing biodiversity up the policy agenda and emphasising the need for regulatory frameworks that enable private sector action.

In the session, we highlighted some of the voluntary steps already being taken by private financial institutions and outlined our position, as Finance for Biodiversity, ahead of the UN Convention on Biological Diversity (CBD) COP15. We explained the commitments within the Finance for Biodiversity Pledge, the development of the Taskforce on Nature-related Financial Disclosures (TNFD) and the increasing amount of engagement on biodiversity, including through the upcoming Nature Action 100 initiative.

To support and scale up these voluntary actions by financial institutions, we explained the need for governments to establish an enabling environment. We outlined our strong belief that one way to achieve this is to include a specific hook within the upcoming Global Biodiversity Framework, focused on the alignment of public and private financial flows. We said that our second position paper for COP15 will be published

ahead of the negotiations in Nairobi. We encouraged the representatives of the ministries of finance to support our position and liaise with CBD negotiator colleagues to stress the important role of private finance in halting and reversing biodiversity loss.

Response to SEC's proposed climate disclosure rule

Lead engager: Miguel CuUnjieng

We sent a letter to the US Securities and Exchange Commission (SEC) in response to its proposed climate disclosure rule. We said that we welcomed the SEC's efforts to enhance reporting requirements for companies to include material environmental, social and governance factors, and consider disclosure rules on climate change. We added that the requirement to disclose Scopes 1 and 2 emissions, and material upstream and downstream Scope 3 emissions would have significant positive impacts.

We are supportive of the rule given that it would lead to more timely, accurate, comprehensive, comparable, and standardised information disclosed by public and private companies. We are confident that this disclosure would contribute to informed capital allocation and business decisions, resulting in improved value creation and risk mitigation for investors.

While we referenced existing standards that the SEC should consider building on, such as the Task Force on Climate-related Financial Disclosures (TCFD), the International Sustainability Standards Board (ISSB), and the Sustainability Accounting Standards Board (SASB), we also encouraged consideration of climate-related social issues, including the just transition.

Our other suggestions included the consideration of mandatory disclosure rules tied to climate risk governance and management processes, material climate impacts over various time horizons, the inclusion of material climate impacts on line items in financial statements, and disaggregated emissions reporting by constituent gas. In addition to our support for the proposed climate disclosure rule, we will continue engaging with companies regarding their own responses to the SEC and their preparedness for potential climate disclosure requirements.

Response to CDP consultation on water-related indicators for financial institutions

Lead engager: Joanne Beatty

As a member of the CDP's Technical Working Group (TWG), we responded to a public consultation survey on CDP water-related indicators for financial institutions. CDP, with input from investors and their representatives, is developing the first set of standardised, global water security reporting indicators for the financial sector.

The development of these standards is timely. Achieving a water-secure, net-zero economy will require significant transformation of the global economy. To succeed, companies with the greatest impacts on water resources must rethink their business models, products and practices in ways that decouple production and consumption from the depletion of water resources. Global financial institutions can offer unique, systemic incentives for change by ensuring that their lending, investment and insurance underwriting practices drive water users to treat water as a scarce resource and protect water quality.

To do this effectively, financial institutions need clear guidance on decision-useful qualitative and quantitative indicators. The new indicators will support increased water-related transparency and awareness among financial institutions.

The public consultation period, which launched on 9 March, asked TWG members to review and provide confidential feedback via a survey on the proposed quantitative indicators before they are incorporated into CDP's reporting framework for the financial sector in 2023 and beyond. The opportunity enabled us to preview the current list of new water indicators and share feedback confidentially with CDP.

The water-related indicators included in the consultation represent the second phase of indicator development, which is quantitatively focused. An initial set of water security indicators has already been incorporated into a nature-related module as part of CDP's 2022 climate change questionnaire for the financial sector. The consultation is part of a two-year project that will support increased water-related transparency, awareness and action among financial institutions.



Companies with the greatest impacts on water resources must rethink their business models, products and practices.

Engagement and voting

The following pages contain an overview of our engagement activity by region and theme, and our voting recommendations for the last quarter.

EOS makes voting recommendations for shareholder meetings wherever practicable. We base our recommendations on annual report disclosures, discussions with the company and independent analyses. At larger companies and those where clients have a significant interest, we seek a dialogue before recommending a vote against or an abstention on any resolution.

In most cases where we recommend a vote against at a company in which our clients have a significant holding or interest, we follow up with a letter explaining the concerns of our clients. We maintain records of voting and contact with companies, and we include the company in our main engagement programme if we believe further intervention is merited.

Engagement by region

Over the last quarter we engaged with 629 companies on 1,858 environmental, social, governance and business strategy issues and objectives. Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously.



We engaged with 629 companies over the last quarter.

- Environmental **28.6%**
- Social and Ethical **43.6%**
- Governance **17.2%**
- Strategy, Risk and Communication **10.6%**



We engaged with 127 companies over the last quarter.

- Environmental **28.8%**
- Social and Ethical **48.1%**
- Governance **14.1%**
- Strategy, Risk and Communication **9.0%**



We engaged with 61 companies over the last quarter.

- Environmental **31.6%**
- Social and Ethical **42.8%**
- Governance **17.8%**
- Strategy, Risk and Communication **7.9%**



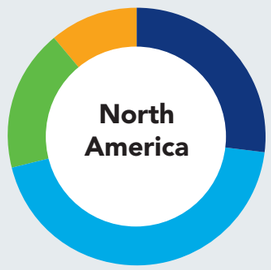
We engaged with 89 companies over the last quarter.

- Environmental **29.8%**
- Social and Ethical **39.3%**
- Governance **17.9%**
- Strategy, Risk and Communication **13.1%**



We engaged with 54 companies over the last quarter.

- Environmental **31.9%**
- Social and Ethical **38.8%**
- Governance **18.8%**
- Strategy, Risk and Communication **10.6%**



We engaged with 293 companies over the last quarter.

- Environmental **27.1%**
- Social and Ethical **44.1%**
- Governance **17.8%**
- Strategy, Risk and Communication **10.9%**



We engaged with 5 companies over the last quarter.

- Environmental **33.3%**
- Social and Ethical **33.3%**
- Governance **16.7%**
- Strategy, Risk and Communication **16.7%**

Engagement by theme

A summary of the 1,858 issues and objectives on which we engaged with companies over the last quarter is shown below.



Environmental topics featured in 29% of our engagements over the last quarter.

- Climate Change **75.0%**
- Forestry and Land Use **7.9%**
- Pollution and Waste Management **12.6%**
- Supply Chain Management **2.3%**
- Water **2.3%**



Social and Ethical topics featured in 17% of our engagements over the last quarter.

- Bribery and Corruption **1.3%**
- Conduct and Culture **11.0%**
- Diversity **25.1%**
- Human Capital Management **17.9%**
- Human Rights **36.1%**
- Labour Rights **8.2%**
- Tax **0.6%**



Governance topics featured in 44% of our engagements over the last quarter.

- Board Diversity, Skills and Experience **20.9%**
- Board Independence **12.2%**
- Executive Remuneration **49.0%**
- Shareholder Protection and Rights **15.4%**
- Succession Planning **2.5%**



Strategy, Risk and Communication topics featured in 11% of our engagements over the last quarter.

- Audit and Accounting **18.8%**
- Business Strategy **26.9%**
- Cyber Security **1.0%**
- Integrated Reporting and Other Disclosure **27.4%**
- Risk Management **25.9%**

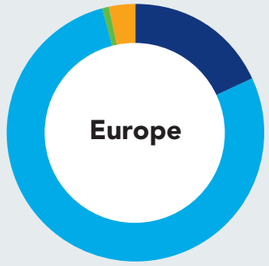
Voting overview

Over the last quarter we made voting recommendations at 8,431 meetings (101,101 resolutions). At 6,230 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 150 meetings and abstaining at 33 meetings. We supported management on all resolutions at the remaining 2,018 meetings.



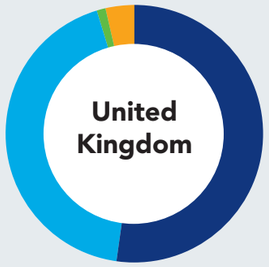
We made voting recommendations at **8,431** meetings (**101,101** resolutions) over the last quarter.

- Total meetings in favour **23.9%**
- Meetings against (or against AND abstain) **73.9%**
- Meetings abstained **0.4%**
- Meetings with management by exception **1.8%**



We made voting recommendations at **1,162** meetings (**20,542** resolutions) over the last quarter.

- Total meetings in favour **18.2%**
- Meetings against (or against AND abstain) **77.8%**
- Meetings abstained **0.7%**
- Meetings with management by exception **3.3%**



We made voting recommendations at **385** meetings (**6,684** resolutions) over the last quarter.

- Total meetings in favour **52.5%**
- Meetings against (or against AND abstain) **42.9%**
- Meetings abstained **1.3%**
- Meetings with management by exception **3.4%**



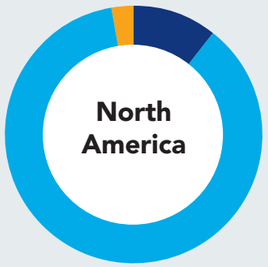
We made voting recommendations at **2,475** meetings (**28,220** resolutions) over the last quarter.

- Total meetings in favour **31.0%**
- Meetings against (or against AND abstain) **67.5%**
- Meetings abstained **0.7%**
- Meetings with management by exception **0.8%**



We made voting recommendations at **1,514** meetings (**16,043** resolutions) over the last quarter.

- Total meetings in favour **32.4%**
- Meetings against (or against AND abstain) **67.4%**
- Meetings with management by exception **0.3%**



We made voting recommendations at **2,793** meetings (**28,641** resolutions) over the last quarter.

- Total meetings in favour **10.7%**
- Meetings against (or against AND abstain) **86.6%**
- Meetings with management by exception **2.6%**



We made voting recommendations at **102** meetings (**971** resolutions) over the last quarter.

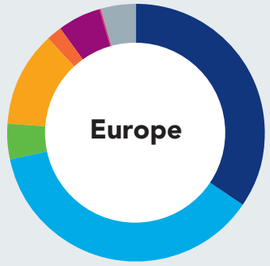
- Total meetings in favour **46.1%**
- Meetings against (or against AND abstain) **50.0%**
- Meetings abstained **2.0%**
- Meetings with management by exception **2.0%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.



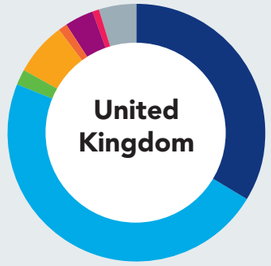
We recommended voting against or abstaining on **19,982** resolutions over the last quarter.

- Board structure **50.6%**
- Remuneration **21.8%**
- Shareholder resolution **6.9%**
- Capital structure and dividends **8.5%**
- Amend Articles **5.6%**
- Audit and Accounts **3.6%**
- Investment/MandA **0.5%**
- Poison Pill/Anti-Takeover Device **0.2%**
- Other **2.3%**



We recommended voting against or abstaining on **3,699** resolutions over the last quarter.

- Board structure **34.6%**
- Remuneration **37.1%**
- Shareholder resolution **4.6%**
- Capital structure and dividends **11.9%**
- Amend Articles **1.8%**
- Audit and Accounts **5.7%**
- Poison Pill/Anti-Takeover Device **0.1%**
- Other **4.2%**



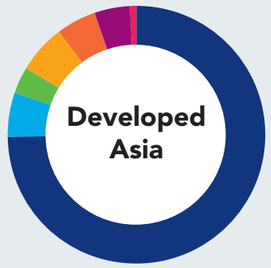
We recommended voting against or abstaining on **403** resolutions over the last quarter.

- Board structure **33.7%**
- Remuneration **47.4%**
- Shareholder resolution **2.0%**
- Capital structure and dividends **6.7%**
- Amend Articles **1.0%**
- Audit and Accounts **3.7%**
- Poison Pill/Anti-Takeover Device **0.7%**
- Other **4.7%**



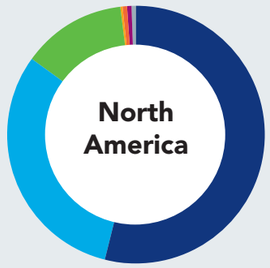
We recommended voting against or abstaining on **6,336** resolutions over the last quarter.

- Board structure **47.6%**
- Remuneration **8.4%**
- Shareholder resolution **4.0%**
- Capital structure and dividends **16.0%**
- Amend Articles **13.4%**
- Audit and Accounts **5.1%**
- Investment/MandA **1.6%**
- Other **3.9%**



We recommended voting against or abstaining on **2,869** resolutions over the last quarter.

- Board structure **74.9%**
- Remuneration **5.3%**
- Shareholder resolution **3.5%**
- Capital structure and dividends **6.1%**
- Amend Articles **5.1%**
- Audit and Accounts **4.3%**
- Poison Pill/Anti-Takeover Device **0.7%**



We recommended voting against or abstaining on **6,430** resolutions over the last quarter.

- Board structure **54.1%**
- Remuneration **31.0%**
- Shareholder resolution **13.0%**
- Capital structure and dividends **0.3%**
- Amend Articles **0.7%**
- Audit and Accounts **0.5%**
- Other **0.4%**



We recommended voting against or abstaining on **245** resolutions over the last quarter.

- Board structure **26.1%**
- Remuneration **46.9%**
- Shareholder resolution **8.6%**
- Capital structure and dividends **6.1%**
- Amend Articles **5.3%**
- Audit and Accounts **1.6%**
- Poison Pill/Anti-Takeover Device **1.2%**
- Other **4.1%**



The EOS approach to engagement

EOS at Federated Hermes is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance issues.

We believe this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.



Our services



Engagement

We engage with companies that form part of the public equity and corporate fixed income holdings of our clients to seek positive change for our clients, the companies and the societies in which they operate.

Public policy

Engaging with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate more sustainably.

Voting

We make recommendations that are, where practicable, engagement-led and involve communicating with company management and boards around the vote. This ensures that our rationale is understood by the company and that the recommendations are well-informed and lead to change where necessary.

Screening

We help 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 conventions.

Advisory

We work with our clients to develop their responsible ownership policies, drawing on our extensive experience and expertise to advance their stewardship strategies.

The EOS advantage

- **Relationships and access** – Companies understand that EOS is working on behalf of pension funds and other large institutional investors, so it has significant leverage – representing assets under advice of US$1.6trn as at 31 March 2022. 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.
- **Client focus** – EOS pools the priorities of like-minded investors, and through consultation and feedback, determines the priorities of its Engagement Plan.
- **Tailored engagement** – EOS develops engagement strategies specific to each company, informed by its deep understanding across sectors, themes and markets. It seeks to address the most material ESG risks and opportunities, through a long-term, constructive, objectives-driven and continuous dialogue at the board and senior executive level, which has proven to be effective over time

EOS team

Engagement



Leon Kamhi
Head of Responsibility



Justin Bazalgette
Sectors: Financial Services, Industrial & Capital Goods



Joanne Beatty
Sector lead: Chemicals



Thomas Beresford-Smart
Sectors: Financial Services, Industrial & Capital Goods, Technology



George Clark
Voting and Engagement Support



Miguel CuUnjieng
Sector lead: Financial Services



Emily DeMasi
Sector lead: Pharmaceuticals & Healthcare



Zoe de Spoelberch
Sector co-lead: Retail & Consumer Services



Bruce Duguid
Head of Stewardship, EOS



Diana Glassman
Sector lead: Oil & Gas
Sector co-lead: Technology



Jaime Gornsztejn
Sector co-lead: Mining & Materials



Younes Hassar
Voting and Engagement Support



Shoa Hirosato
Sectors: Financial Services, Transportation, Utilities



Laura Jernegan
Sectors: Financial Services, Pharmaceuticals & Healthcare



Lisa Lange
Sector lead: Transportation



Pauline Lecoursonnois
Sector co-lead: Consumer Goods



Sonya Likhtman
Sectors: Transportation, Consumer Goods, Financial Services



Emma Ledoux
Sectors: Consumer Goods, Retail & Consumer Services, Technology



Earl McKenzie
Voting and Engagement Support



Claire Milhench
Communications & Content



James O'Halloran
Director of Business Management, EOS



Navishka Pandit
Themes: Climate Action, Risk Management



Nick Pelosi
Sector co-lead: Mining & Materials



Howard Risby
Sectors: Financial Services, Mining & Materials, Oil & Gas



Hannah Shoesmith
Sectors: Retail & Consumer Goods, Financial Services, Technology



Sarah Swartz
Sectors: Chemicals, Consumer Goods, Retail & Consumer Services, Utilities



Velika Talyarkhan
Sector lead: Utilities



Kenny Tsang
Sector co-lead: Consumer Goods



Mark Turner
Voting and Engagement Support



Owen Tutt
Sectors: Chemicals, Oil & Gas, Utilities



Amy Wilson
Sector co-lead: Retail and Consumer Services



Haonan Wu
Sectors: Transportation, Chemicals, Retail & Consumer Services, Technology, Utilities



Michael Yamoah
Sector co-lead: Technology



Tim Youmans
Sectors: Financial Services, Industrial & Capital Goods, Technology

Client Service and Business Development



Amy D'Eugenio
Head of Client Service and Business Development, EOS



Diego Anton
Client Service



Alexandra Danielsson
Client Service



Andrew Glynne-Percy
Communications and Marketing



William Morgan
Client Service



Alice Musto
Client Service



Sofia Tsarouchi
Client Service



Mike Wills
Client Service

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 Investment Management are now undertaken by Federated Hermes Limited (or one of its subsidiaries). We still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important 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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