Stewardship Report 2021

EOS at Federated Hermes

April 2022

Federated Hermes
EOS

www.hermes-investment.com
For professional investors only

Welcome to the EOS at Federated Hermes 2021 Stewardship Report[1].

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

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

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

The Covid-19 pandemic continued to impact the lives of people around the world in 2021. Despite many national lockdowns and continuing limits on international travel, economic activity bounced back. Engaging with companies on how they support their staff, customers and wider stakeholders has remained a focus of our stewardship work, particularly as many face labour shortages and supply chain challenges.

The landmark COP26 conference finally took place in Glasgow after its postponement from 2020, driving a flurry of activity on the climate agenda. Pledges were made on decarbonisation, eliminating deforestation, increasing the number of electric vehicles, moving away from coal-fired power, and financing natural capital solutions by governments, financial institutions and companies. Federated Hermes Limited hosted a two-day fringe conference, in which EOS participated, bringing together scientists, policymakers, companies and investors. As we look to 2022, our focus is on turning these pledges into action.

Effective and outcomes-driven stewardship is crucial to the achievement of the pledges made by the investment industry on climate and biodiversity issues, and to tackling many of the social issues that the Covid-19 pandemic has brought to the fore. We will continue to engage and act to support the change needed by the planet, its people and the generations to come.

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

[1] The statements, references to officers, practices and policies, and discussions in this report pertain to the EOS at Federated Hermes business, which is wholly owned by Federated Hermes Limited. It does not refer to other businesses engaged in by Federated Hermes Limited or Federated Hermes, Inc. The information in this report does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

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

Executive summary

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

— UK Stewardship Code 2020, Financial Reporting Council

Following on from our inaugural Stewardship Report,[3] this report explains our purpose and beliefs, how this manifests in our approach to stewardship and the outcomes of our activities in 2021. It outlines our engagement, voting recommendations, public policy, screening and advisory work carried out on behalf of our clients.

Building on last year's reporting, we have provided more detailed information about our diversity, equity and inclusion strategy; the systemic and market-wide risks that we monitor and seek to mitigate through our engagements; the range of our involvement in industry initiatives; and the outcomes of our collaborative engagements. Examples and case studies are provided throughout to demonstrate how our approach works in practice.

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

We have worked with over 1,000 companies across the globe to address their key risks, challenges and opportunities, covering environmental, social, governance, strategy, risk and communication matters. Alongside this, we have continued to engage with policymakers, regulators and standard-setters to help improve market best practice.

In collating this report, we have taken steps to ensure that it is fair, balanced and understandable. In doing so, we have communicated our successes, reflected on our learnings and highlighted the changes we will make in the next 12 months.

Monitoring engagement outcomes is crucial, to ensure that our approach is effective and achieving the desired results. This enables us to demonstrate to our clients that we are maintaining high standards and that stewardship has a tangible impact. We continuously strive to reflect on our efficiency and the outcomes we are delivering in order to identify further ways in which we can improve. Throughout the report we highlight the enhancements made to our approach during 2021, as well as the areas identified for further improvement in 2022.

We have sought to make this report and our reporting elsewhere understandable, providing explainers of key terms and acronyms where appropriate.

Federated Hermes Limited reports separately under the Stewardship Code, with references to EOS activities.

[3] https://www.hermes-investment.com/ukw/wp-content/uploads/2021/03/stewardship-report-2020-eos-at-federated-hermes-1.pdf

Principle 1

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

What is EOS and what is our purpose?

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

EOS provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. The team works on behalf of long-term global investors who entrust us with the stewardship of approximately £1.2tn / €1.4tn / US$1.6tn (as at 31 December 2021) invested in over 10,000 listed equity and corporate debt holdings worldwide, working collectively in support of shared goals. This pooling of assets increases the influence we can have with companies, which means we can have a more meaningful impact on the issues of most collective importance to our clients.

Our team, which we outline in more detail under Principle 2, has been strategically built to implement this vision and deeply embed these behaviours into our culture. We use a constructive, objectives-driven and continuous dialogue, developing engagement strategies specific to each company based on its individual circumstances. Our understanding is also informed by a range of research and our deep knowledge across themes, sectors and regions. We are committed to delivering sustainable wealth creation that enriches investors, society and the environment over the long term.

Our origins, culture and values

EOS is wholly-owned by Federated Hermes Limited ("FHL"), which is owned by Federated Hermes, Inc. Leon Kamhi, Chair of EOS and Head of Responsibility for FHL, is responsible for the leadership of EOS, reporting into the CEO of FHL. Our report aims to highlight the extent of our contribution to asset managers and asset owners fulfilling their duties under the Stewardship Code. The reporting submission by FHL, where we are referenced, complements this.

The business that is now known as FHL was set up to manage the pension funds of BT and the Post Office in September 1983 and engagement with companies has always been an important part of what we do. In 1983, our first chief executive Ralph Quartano admonished the Marks & Spencer board for the special loans it made available to directors. His message was clear: we were committed to serving the needs of our clients and their beneficiaries, and we understood that the investment decisions we made on their behalf helped to determine the shape of the future society in which they would live.

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

In 2018, Federated Investors acquired a 60% stake in Hermes Fund Managers Limited, the operator of Hermes Investment Management.[4] On 3 February 2020, the company rebranded as Federated Hermes, strengthening its position as a leader in active, responsible investing.[5] In August 2021, Federated Hermes, Inc. purchased the remaining 29.5% interest of Hermes Fund Managers Limited (now known as FHL) held by the BT Pension Scheme (BTPS)[6] and EOS therefore became wholly part of the Federated Hermes group.

Over the last three years, Federated Hermes Inc., which has a history of backing and investing in the talent and the businesses it acquires, has made substantial investments in FHL, including that in MEPC (a fully-owned development and asset management subsidiary); the build out of the business in the Asia Pacific region; and the build out of the EOS team in the US.

Its commitment could not be better demonstrated than by its decision to change its own name to Federated Hermes, Inc. This was an important step and a powerful illustration of the high regard it has for FHL's talent, expertise and client proposition.

[4] https://www.hermes-investment.com/ukw/press-centre/corporate-news/federated-investors-inc-acquire-majority-interest-london-based-integrated-esg-manager-hermes-investment-management-bt-pension-scheme/

[5] https://www.hermes-investment.com/ukw/press-centre/corporate-news/federated-hermes-inc-introduces-new-brand-identity/

[6] https://www.hermes-investment.com/ukw/press-centre/corporate-news/federated-hermes-inc-to-acquire-remaining-interest-in-hermes-investment-management-held-by-bt-pension-scheme/

Creation of three platforms

The business has now created three distinct platforms to expand the private market offering and to drive responsible investing. These are:

- The **Responsibility** platform – which includes EOS at Federated Hermes, plus FHL's advocacy team, research, ESG integration and some client advisory activities.
- The **Public Markets** platform – incorporating FHL's Equities and Fixed Income products and solutions.
- The **Private Markets** platform – incorporating Private Equity, Private Debt, Real Estate and Infrastructure.

These are supported by all the existing functions necessary to deliver a great client experience – Audit, the Client Group, Compliance, Corporate Communications, Facilities, Finance, HR, Legal, Marketing, Product, Risk, Sales, Sales Support, Tax and Technology.

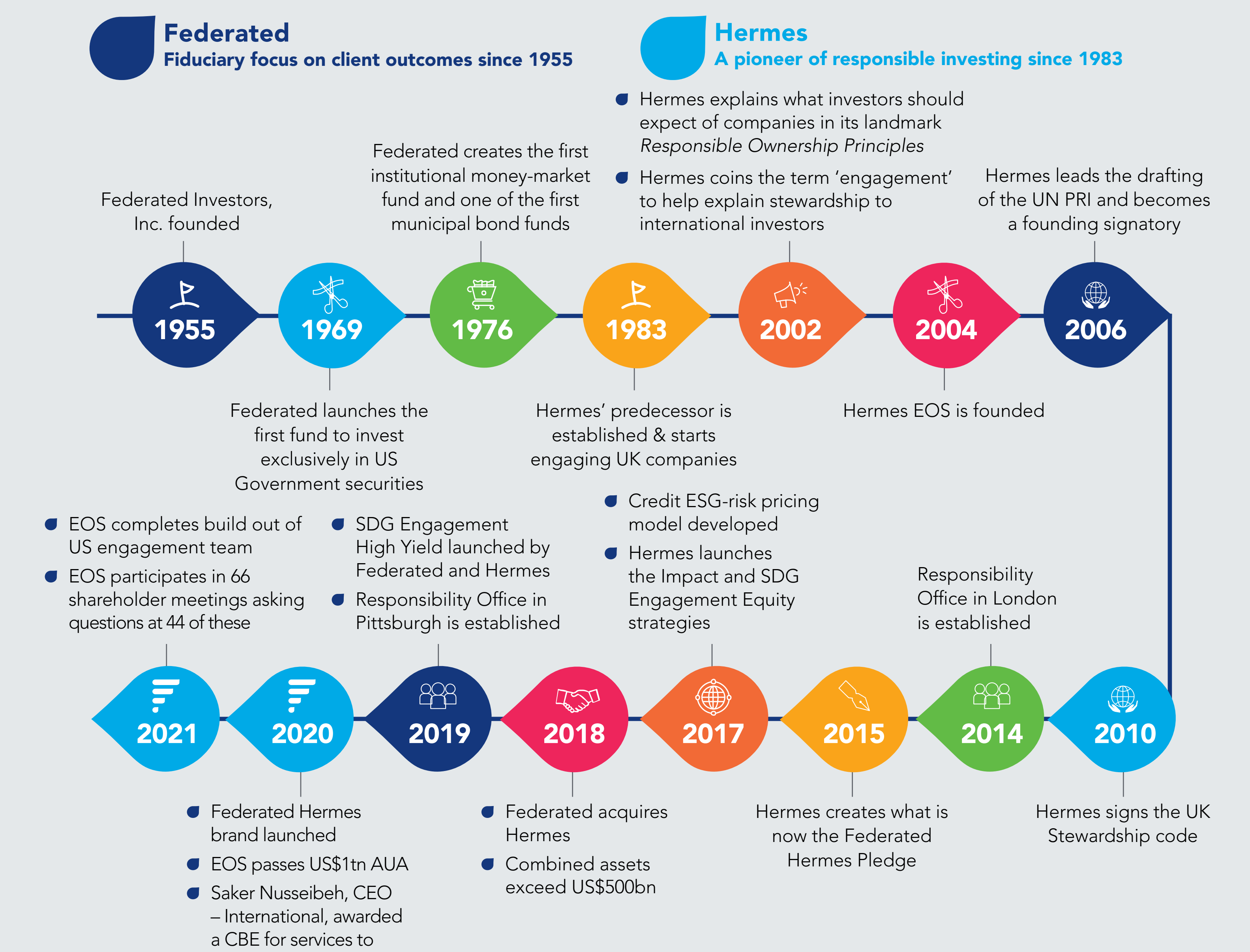
In 2022, FHL will put in place a plan for the sustainable development and growth of this three-platform franchise, placing clients firmly at the heart of what we do.

Purpose and strategy

Effective stewardship is the principal activity for institutional investors to deliver sustainable wealth creation. Our engagement is therefore focused on ensuring that companies are responsibly governed and well managed to deliver sustainable long-term value, as well as improving the lives of employees, promoting diversity and supporting communities.

Companies should do this while contributing to wider society by paying taxes and safeguarding the environment and health. When material and relevant, these factors will drive improved financial performance by companies to the benefit of investors.

For 2022, FHL's priority is to achieve sustainable and profitable growth by demonstrating cost resilience and continuing to invest in responsible investing and stewardship.



Source: Federated Hermes, as at February 2022.

The Federated Hermes Pledge, first established by Federated Hermes Limited in 2015 and adopted by Federated Hermes, Inc. in 2018, compels us to put clients' interests first and to act responsibly. It is a clear expression of our values. It has been voluntarily signed by 98% of employees to date at FHL, including EOS. The pledge is as follows:

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

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

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

Our business model

We offer a shared service model that provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. We work on behalf of long-term global investors who entrust us with the stewardship of over US$1.6tn[7] of assets invested in over 10,000 companies worldwide, working collectively in support of shared goals. Pooling of our clients' assets increases the influence we can have with companies and this increased leverage means we can have a more meaningful impact on the issues that are most important to our clients collectively.

EOS engagement strategy

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

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

We aim to strategically engage on the most financially material ESG risks. We select approximately 300 companies for our Engagement Plan[8] to focus our proactive engagement efforts by screening our clients' aggregate holdings. We look at the holding size, the materiality of risks/issues we identify through our screening, and the feasibility of engagement. We also reactively engage with another 800 companies approximately. This may be in response to a client request, on voting or ad hoc issues, or for companies violating or at risk of violating international norms, as identified by our screening tool. We also cover this in more detail under Principle 2.

Our services

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

*EOS only provides voting recommendations.

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

Ensuring that our strategy and culture enable us to promote effective stewardship

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

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

In an industry where greater focus and awareness at the asset owner and beneficiary level has prompted a push for more transparency around engagements, clients of EOS are able to use the Plan to demonstrate that the engagement we carry out on their behalf is with companies and on themes chosen in a systematic way. This is paramount in demonstrating how we contribute to asset managers and asset owners fulfilling their duties under the Code. It also speaks to our shared service business model and strategy to achieve positive change on behalf of an international coalition of investors – strengthening our collegiate culture, empowering us to strive for change at companies on behalf of our clients with collective assets under advice of US$1.64tn.

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

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

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

Overview of our service for clients during 2021

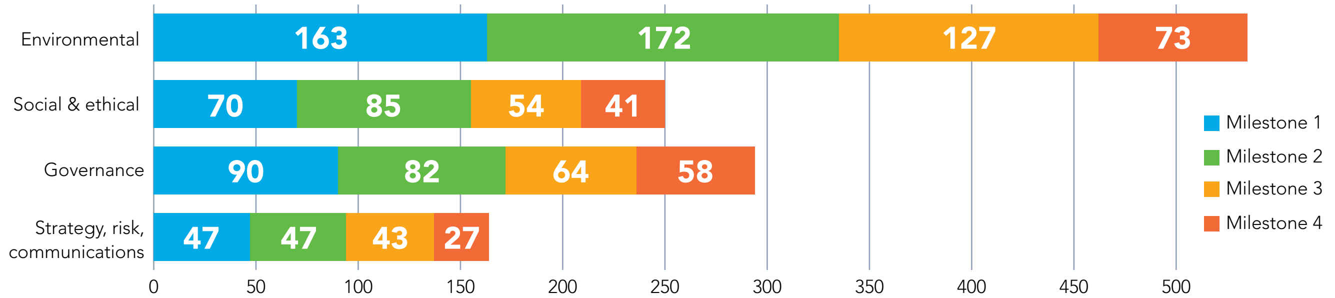
Throughout this report we seek to demonstrate that the outcomes of our stewardship are in the best interests of our clients. We believe that as an integral part of investing for the long term, this delivers sustainable growth and helps to build a better world. The table and graphic below demonstrate that during 2021, we engaged with 1,208 companies, covering 4,154 identified objectives or issues, and 835 objectives advanced by at least one milestone within our engagement programme on behalf of our clients.

Our engagement activity in 2021 reflects an increase on that of 2020 with reference to the number of issues and objectives we discussed with companies. We also saw a 69% year-on-year increase in the assets under advice that were engaged. Our engagement with companies equates to 63% of the value of the MSCI ACWI All Cap index.

In 2021, we also made 64 public policy consultation responses or proactive equivalents such as a letter and held 71 discussions with relevant regulators and stakeholders.

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

	# of companies engaged	# of issues and objectives engaged	# of objectives engaged	# of objectives completed
Engagement programme	374	2,014	868	158
Other companies	834	2,140	505	41
Grand Total	**1,208**	**4,154**	**1,373**	**199**



Source: EOS data

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

Under Principle 5, we outline the range of qualitative and quantitative reporting we provide for our clients. This includes our company case studies on our engagements, which we publish on the EOS Insights page[9] of our website – in 2021 we published 63 standalone case studies and a number of additional summary versions in our other reporting. We have a comprehensive development process for case studies. First, key members of our leadership team review the draft document. Once approved, we share it with the company to verify the engagement journey and the outcomes. This affirms our stewardship credibility. We believe that our case studies are one of the best ways we demonstrate our impact and some summarised examples are included in the next few pages. The EOS Insights page of the website, as well as our Library[10] pages provide examples of our other public reporting.

> **In 2020 and 2021 we collaborated with a working group of interested clients to redesign our client portal, which provides 24/7 access to our engagement insights.**

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

In 2020 and 2021, we collaborated with a working group of interested clients to redesign our client portal, which provides 24/7 access to our engagement insights. Based on their feedback, we have introduced new functionality to enhance the portal. You can read more about this later in the report.

> **Although we provide our clients with this public reporting, we recognise that clients have varying needs with regard to how they are required to report on outcomes and communicate with their beneficiaries and stakeholders.**

While we were still unable to travel or meet with companies in person in 2021, building on the strong relationships we had fostered with companies in the past we were able to continue our engagement using face-to-face video calls. This enabled us to achieve higher levels of activity and a similar quality of engagement to that of previous years as we pursued the long-term agenda of our Engagement Plan. On our priority themes, we saw good progress against our Plan's objectives, with notable highlights as below.

[9] https://www.hermes-investment.com/ukw/stewardship/eos-insights/
[10] https://www.hermes-investment.com/ukw/stewardship/eos-library/

CASE STUDY: ENVIRONMENTAL

Samsonite

Climate change, product innovation and circularity

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

We began discussions with the company about waste, product innovation, and circular design and production in 2018 when we spoke with the newly-appointed CEO. The CEO agreed this was important and told us that a range of products using recycled materials would be trialled soon. When we enquired about end of life and recyclability of products, the CEO explained that a sustainability director was to be appointed who would be responsible for reviewing the strategy across all material sustainability issues.

In 2018 we spoke to the sustainability director, and the research and innovation director of Samsonite Europe, who explained how sustainability and circular economy issues were incorporated into the company's product development process. We discussed the company's eco-range of suitcases made using production waste and continued our conversations on this in 2018 and 2019 with various members of the senior management team.

We were pleased to see a commitment to circular economy as one of the key pillars of the company's sustainability strategy in 2020, in line with our discussions. This includes increasing materials with sustainable credentials, but also developing end-of-life solutions for products, seeking to divert products from landfill. Samsonite will collect and recycle products for up to 20 years post-purchase. It has also launched its first range of backpacks made entirely from recycled fabrics. The company calculated that the carbon footprint of the backpack is less than half that of a conventional backpack.

Samsonite will collect and recycle products for up to **20** years post-purchase.

CASE STUDY: SOCIAL

Ahold Delhaize

Publish a human rights policy based on the UNGPs

In 2017, we raised our concerns about the absence of a publicly available human rights policy. We asked the company to base its approach on the UN Guiding Principles (UNGPs) for Business and Human Rights. In 2018, we met the director for sustainable retailing and reiterated our expectations.

The website now included a page setting out the company's position on human rights, but this was not based on the UNGPs. We also discussed the company's scores in an Oxfam report assessing supply chain policies and the reported practices of food retailers. The company informed us that it would start working with an external adviser to identify its most salient human rights issues.

In June 2020, Ahold Delhaize published its first substantial human rights report based on the UNGPs, in line with our request. This identified six salient issues as initial priorities, followed by a further six, and its score in the Oxfam report improved.

During a call with the director of sustainable retailing in October 2020, we thanked the company for its progress, while encouraging a broader scope for its human rights due diligence. We also asked for a review of its efforts to uncover modern slavery. Many countries in Europe, for example, would not be considered high risk, and therefore would not be covered by the company's due diligence efforts, which cover own brand production units in high-risk countries. However, labour trafficking and exploitation have been on the rise in Europe.

In an October 2021 meeting with the director in charge of human rights, she acknowledged that the social audit programme should not only focus on high-risk countries, because vulnerable migrant workers may also exist in low-risk countries, so this is being reconsidered. The company has also expanded the speak-up line and has been working with an external organisation to encourage a culture of open dialogue within the supply chain.

CASE STUDY: GOVERNANCE

Vale

Board composition and succession

We engaged intensively with Brazilian miner Vale in the wake of the Brumadinho tailings dam disaster of January 2019, to ensure that a comprehensive response plan was put in place, including assistance for the victims and their families. Subsequently, we challenged the chair to seek ambitious improvements and commit to transforming Vale into a global leader in safety management.[1]

We also engaged with the company on board composition and succession. As Vale was transitioning from concentrated to dispersed ownership, the board succession model, based on nominations by the controlling shareholders, which prevails in most Brazilian companies, was not fit for purpose. We raised our concern with the chair, emphasising the importance of implementing a structured approach to board nomination, based on a skills matrix aligned with the strategic pillars and a board evaluation.

Subsequently, we engaged with the independent directors, the chair and the deputy chair on best practice in board composition and succession, led by a formally established, majority independent nomination committee. We highlighted that engagement with investors and other stakeholders is a key component of the board nomination process. In Q3 2020 the company created a nomination committee and committed to implementing a structured board succession process, in line with international best practice, aiming for the 2021 board election. In Q4 2020, we expressed our expectations to the nomination committee, for a majority independent board with a diverse range of skills, experiences and personalities, an independent chair and the elimination of the role of alternate director.

The nomination committee published its report in Q1 2021, outlining the target skills matrix, the search procedure and the 12 nominees, in line with our expectations, which warranted our recommendation for their election. A group of investors requested that the election be held under the cumulative voting system and presented four alternative candidates, who were elected together with eight of the nominees selected by the nomination committee.

CASE STUDY: STRATEGY, RISK AND COMMUNICATION

JD.com

Shareholder rights and sustainability reporting

EOS began engaging with JD.com on shareholder rights in December 2017. JD.com had not held an annual shareholder meeting since its initial public offering in 2014. This was partly because US-listed companies registered in the Cayman Islands were not legally required to do so. The lack of shareholder rights, the lack of diversity on a male-dominated board, and limited detailed ESG disclosure were key concerns for us.

Engagement was initially challenging due to the lack of wider market pressure in the region. However, following the scandal regarding alleged misconduct by JD.com's founder in 2018, EOS stepped up its engagement on governance, board composition and gender diversity.

We explained that holding an annual shareholder meeting would allow minority shareholders to vote and elect independent directors aligned with their interests, in addition to voicing concerns and posing questions directly to the company. We also raised our concerns about board composition, diversity, the lack of a structured feedback process and the lack of ESG disclosures.

Between 2018 and 2020, we had eight interactions with the company focusing on shareholder rights, diversity and ESG disclosure. We recommended that the company provide an explanation of how human capital management, plus diversity and inclusion (D&I), were linked to its core values and culture. We shared best practice examples of disclosure on governance and culture, D&I, and organisational health, safety and wellbeing.

After our engagement with a senior executive in April 2021, the company published its first ESG report, covering the topics we had discussed. We welcomed disclosures on the company's corporate governance structure, data privacy, and cybersecurity management, and its commitment to decarbonisation. The reports met international standards, and we expect further disclosure on human capital management and employee turnover rates.

Client focus themes

Each year we undertake a formal survey of our client base to identify their priority areas for engagement, so that we can align our activities with their interests. We use the survey results and feedback received through other client touchpoints to determine which engagement themes to focus on.

Based on this, in 2021 we continued to focus on the same four priority themes as 2020. However, we continuously updated our work in each area as follows:

Climate change: We broadened our scope by engaging across more sectors, including financial services.

Human rights: We focused further on human rights in the supply chain, in particular the integration of human rights issues into business models and purchasing practices, and how this impact is evaluated and assessed.

Human capital management: We increased our focus on diversity and inclusion, freedom of association, and health and safety, with a particular reference to the treatment of workers through the pandemic.

Board effectiveness: We launched a report in 2020 setting out our expectations on how best to improve the dynamics of a board, which was used as a platform for engagement in 2021.

Also in 2021, we spent some time reflecting on our approach to engagement and updated the engagement theme taxonomy for 2022, to reflect the latest best practice areas. The theme formally referred to as 'conduct, culture and ethics' was renamed 'wider societal impacts' to reflect the societal impact of positive ethical behaviours (such as zero tolerance of bribery and corruption), as well as the benefits of achieving safer products and responsible tax practices.

External evaluation

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

There is some literature on stewardship that demonstrates the direct financial benefits for investors when engagement occurs at the right level and with the appropriate resources. A few years ago, we shared our engagement data with an international team around Professor Andreas Hoepner from University College Dublin. The authors formulated a very simple – in this case paraphrased – research question: What effect do engagements by EOS have on the riskiness of targeted companies? The study revealed that companies that are successfully engaged by EOS exhibit a lower risk profile, particularly when environmental issues are tackled. We published our summary of the study on our website.[11]

[11] https://www.hermes-investment.com/ukw/eos-insight/eos/shareholderengagementresearch/

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

Prior to this, back in 2017 a research team around Professor Wolff at the University of Göttingen also documented a link between interpersonal communication and the engagement success of EOS.[12] The results showed that: personal interaction with companies is an important driver of success; chair meetings are especially important for successful governance engagements; and contact with C-level executives should be accompanied by meeting the chair or company secretary.

This then prompted us to redefine what this client focus amounts to. We identified that we have many distinct touchpoints that are focused on our clients, enabling us to capture feedback and consider their engagement priorities. Having these multiple touchpoints allows us to constantly re-evaluate our work in clients' best interest. We highlight some of these touchpoints in more detail under Principle 5.

Central to this is updating our client-led Engagement Plan on an annual basis, which outlines our objectives for a three-year period to be carried out on behalf of, and in agreement with, clients. The Plan incorporates our clients' common and specific objectives, building on their feedback and input, plus changes in the market and the regulatory environments in different countries and sectors.

For the past few years, the results from our annual survey and feedback for the future of the Engagement Plan have seen a majority of clients say they would prefer our engagement to remain at a broadly similar level of intensity, across a similar amount of companies. However, in the most recent survey, there has been a shift towards a preference for higher intensity, ie depth versus breadth, to which we are responding. Most of our clients from our 2021 survey responded to say that they were either very satisfied or satisfied with their overall relationship with EOS.

In the most recent survey, there has been a shift towards a preference for higher intensity engagement, to which we are responding.

Principle 2

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

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

EOS is a limited company wholly-owned by FHL, which is wholly-owned by Federated Hermes, Inc. Its activities and direction are overseen by a legal board, comprising members of FHL's senior management team (SMT), which is responsible for all significant matters relating to the overall management of the business. Leon Kamhi, as chair of EOS at Federated Hermes and head of responsibility for FHL, is a member of the SMT.

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

Day-to-day operations

Day-to-day operations are managed by the EOS leadership team. This consists of the following senior members of the EOS team: FHL's head of responsibility, the head of stewardship, the director of client service and business development, the director of business management and the regional team leads for stewardship in each of North America, Europe, and Asia and Emerging Markets.

The leadership team considers engagement quality, continuity and coverage in the interests of clients. Our engagers also hold engagement clinics with senior colleagues to confirm that our engagement is focused on the right objectives and issues and to review the proposed approach to engagement. In addition to these engagement clinics, an annual review of objectives takes place.

Client-integrated governance

EOS hosts client-only meetings approximately twice a year where we put together a packed agenda to increase knowledge and best practice thinking about stewardship, with opportunities for Q&As, workshops or networking. Our thoughts for changes to our Engagement Plan, as well as updates on progress are shared so that clients can feed into the direction of our engagement. We also have client representatives who act as a voice for the wider client base. They provide guidance on matters such as EOS' coverage of sectors, themes and markets and its engagement approach. We have also established a formal feedback loop for clients, which ties all of our structures and processes together, to ensure we remain a client-driven stewardship service provider.

The efficiency of our governance structure is reflected in the outcomes we deliver for clients, which are evidenced throughout this report.

Ensuring quality and accuracy for effective stewardship

Quality engagement through trusted relationships at the most senior levels

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

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

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

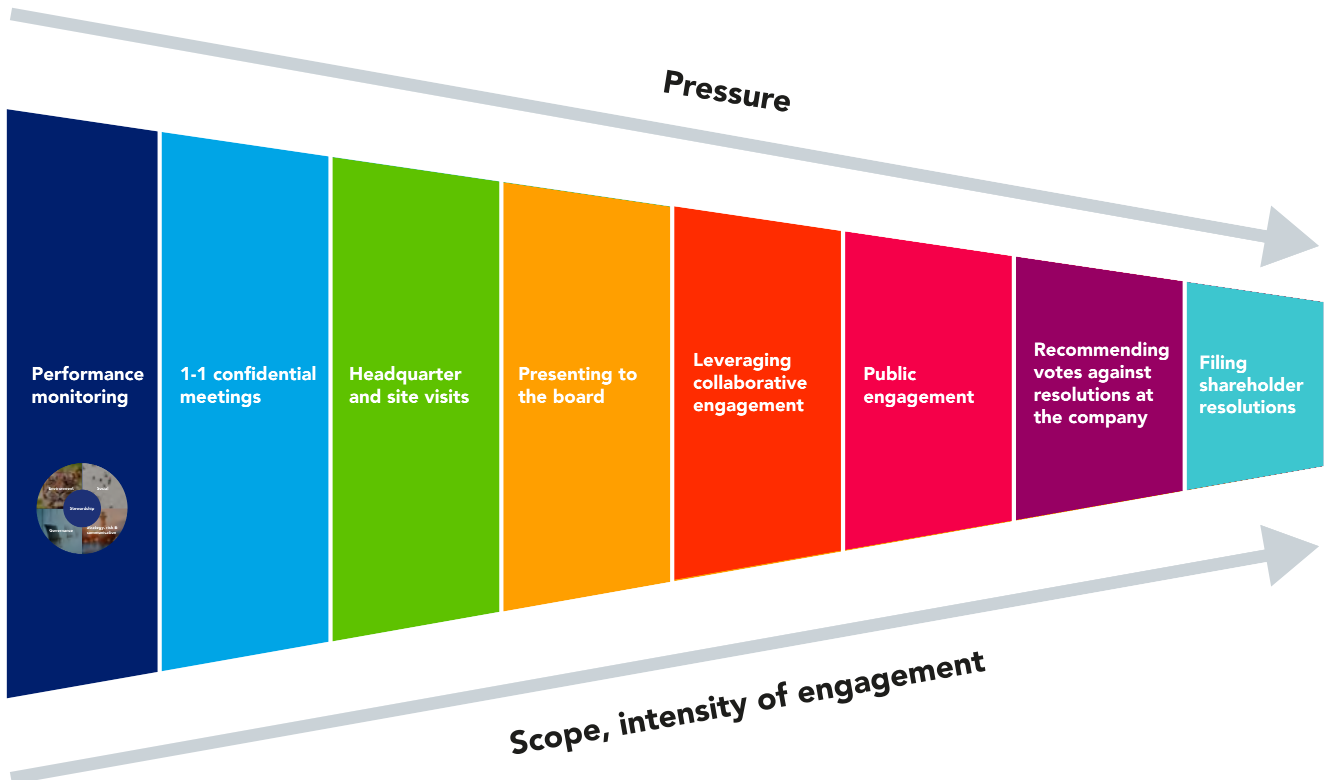
This approach to promote effective stewardship is also supported by literature on stewardship suggesting that engagement is most effective if it occurs at the right level and with the appropriate resources. Under Principle 1, we mentioned how we shared our engagement data with academics, which revealed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

Escalating our engagement at the appropriate time

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

However, where we are unable to achieve success through our usual method of holding conversations behind closed doors, we may escalate our engagement by speaking publicly at the company's annual shareholder meeting, to garner additional support from investors or other shareholder representatives and add further pressure. When doing so, we would normally notify a company in advance. We may also recommend voting against a resolution or management/the board at a company's shareholder meeting. We consider this carefully as we only want to use this technique if our usual engagement has consistently stalled, and we are not confident that the company is taking any action to address our concerns. Given the assets we represent, this sends a strong signal to the company and can help to progress our dialogue with it.

Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings or collaborating with others to co-file shareholder resolutions when necessary. We identify the following engagement tools at our disposal to escalate engagement over time. The graphic demonstrates how different tools are selected as the scope or intensity of the engagement increases in tandem with pressure for change at the company.



CASE STUDY

BP

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

We have engaged with oil major BP on climate change for more than a decade. As part of Climate Action 100+, a collaborative engagement of more than 370 investors and their representatives seeking greenhouse gas emissions reductions from the world's largest emitters, we co-lead the engagement with BP.

In 2018, we intensified our engagement with BP, as we were concerned about whether the company's growth strategy was consistent with the Paris Agreement goals. BP had not disclosed a plan to reduce Scope 3 emissions. These are critical to the future of the industry and the energy transition.

To accelerate change, we led the drafting of a shareholder resolution calling on the company to set out its strategy consistent with the Paris goals. We worked collaboratively with BP to ensure the resolution was in the company's long-term interests. The resolution gained management support and was co-filed by nearly 10% of the shareholder base, passing with a very large majority at the shareholder meeting in 2019.

In early 2020, the CEO announced a new ambition for the company to transition to net zero by 2050 or sooner, supported by 10 underpinning corporate aims. The company has since laid out a detailed strategy by which it intends to transition the energy it produces from high carbon to low carbon, including short-, medium- and long-term targets on the journey to net zero.

EOS further intervened at the 2020 shareholder meeting, asking the company to reconsider its assumptions for Paris-consistent investment and its long-term oil-and-gas price assumptions. Later, during its Q2 2021 results, BP reduced the long-term oil-and-gas price assumptions used in its financial statements, giving shareholders greater visibility over the firm's climate-related risks.

We will continue to engage with BP to seek assurances that it has economic criteria consistent with the company's purpose and a range of assumptions consistent with the Paris goals.

Resourcing our stewardship service

Our organisation and team

EOS has one of the largest stewardship resources of any fund manager in the world. We can draw on additional resource from FHL's Responsibility Office and others within the firm, some of whom have direct engagement experience having previously worked within EOS. There are policies, processes and controls in place to ensure the management of conflicts of interest.

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

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

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

The EOS team has strong gender diversity (57% female /43% male for permanent staff at 31 December 2021) and draws on a wide range of skills and backgrounds.

EOS undertakes a skills gap analysis of the wider team with reference to the thematic and sectoral issues we cover, to ensure we have the right mix of professionals who can represent EOS and our clients' views in our engagement with companies. We have intentionally built a diverse team[13] of experienced and international professionals who have the expertise, language skills and cultural knowledge to deliver real beneficial change at companies. Our engagement team draws on a number of skill sets, with our senior engagers coming from a range of backgrounds including, but not limited to:

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

[13] https://www.hermes-investment.com/ukw/stewardship/eos-team/

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

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

Our engagement professionals are divided into designated teams covering themes, sectors and regions. This ensures we have experts who can educate the wider team on developments and best practice in their respective areas.

Our team is based in the UK and the US. The London-based staff cover engagements in Europe, Asia and emerging markets and our Pittsburgh-based staff cover engagements in North America. Our professionals typically travel to undertake engagements in person where possible at company headquarters, as we believe this is most effective. We also have several senior advisers who provide us with additional resource and expertise to complement our work in some local markets including Japan, the Netherlands and the UK.

We have a long-standing commitment to increasing diversity and inclusion in our business and acknowledge that we need to make further progress.

Diversity, equity and inclusion across the wider firm

Our firm-wide diversity, equity and inclusion (DEI) approach is of relevance to those involved in our stewardship activities. We have a long-standing commitment to increasing diversity and inclusion in our business and acknowledge that we need to make further progress. We aim to foster and promote a culture of inclusion that celebrates all forms of diversity. We aim to appeal to, and retain, a diverse workforce. We encourage innovation and creativity, with a view to helping our employees maximise their potential.

FHL's Executive Committee endorsed a DEI policy in 2019, and the firm plans to launch a new DEI strategy and action plan later in 2022. The firm's employee resource group UNITY, the Inclusion Committee, and our corporate citizenship and HR teams are discovering new ways to support our workforce. In 2021 the firm relaunched its UNITY Employee Resource Group with seven employee networks, in which EOS employees participate and co-lead. The firm also acts as a lead sponsor for the City Hive Cross-Company Mentoring Scheme in collaboration with the #TalkAboutBlack programme. In addition, it has enlisted a third-party consultancy to produce an Insight Report on ethnic diversity and inclusion, it has launched a Disability Awareness Campaign, and has signed the Menopause Workplace Pledge.

EOS also has a women@eos group, an informal but well-attended collaborative space for women to support each other on issues relating to women inside and outside the workplace.

In an effort to achieve greater gender diversity in the workplace, FHL is taking a number of actions, directly impacting EOS:

- **Recruitment:** FHL has stipulated to recruitment firms on its supplier list that they must increase the number of female candidates being put forward for roles. HR and the Inclusion Committee will monitor and review progress every six months. Managers are also being offered additional learning and development opportunities, including mandatory recruitment and selection training for anyone involved in recruiting. Where possible the firm intends adding under-represented groups to sit on interview panels.
- **Retention and development:** We are committed to ensuring that managers have productive career development conversations with all team members. Through this process we can build a clearer picture of how our population is progressing and evolving across a range of metrics. These discussions also strengthen our succession plans, which will be an area of focus throughout the year.
- **External initiatives:** The firm is participating in the Target Gender Equality Programme, backed by the UN Global Compact, which gives us access to tools that identify strengths, gaps and opportunities to improve gender equality. It is also a member of a number of networks and forums – including the Diversity Project, the 30% Club, InterInvest, and Business Disability Forum, City Hive, Change the Race Ratio, and BITC (Business in the Community).

We are committed to ensuring that managers have productive career development conversations with all team members.

- **Engagement:** In 2021, FHL appointed a Head of Inclusion to ensure that DEI remained on the firm's agenda. In relation to gender diversity, her role, working with HR, is to generate ideas and provide support to enhance the attractiveness of the firm to women. She also monitors the success of these initiatives, reporting to the Inclusion Committee and the senior management team. The firm's Gender, Families and Returners Employee Networks, set up in 2021, will help to drive actions supported by the Head of Inclusion and the senior management team. The firm's Head of International Decision Support and Head of Inclusion have developed listening circles, to understand the issues and concerns of female colleagues and to provide anonymous quarterly reports back to the senior management team and the Inclusion Committee.

In 2021, FHL appointed a Head of Inclusion to ensure that Diversity, Equity & Inclusion remained on the firm's agenda.

With the support of the employee networks, to which EOS contributes, the firm plans to embark on an equality data collection campaign in 2022. The aim is to collect and analyse equality and diversity data, to see if current practices are providing fair access and opportunities for all and reducing inequalities. By taking a data-led approach we will be able to see how different people and characteristics are under-represented at senior levels, are less engaged or face higher incidences of racism, discrimination, bullying and harassment. It is also important that we act on the data that we collect. We will continue to look at data through an intersectionality lens, so that we can analyse and understand an employee's individual experiences in a more nuanced way, rather than looking at characteristics in isolation.

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

Systems

We have invested in systems and processes to ensure effective stewardship. EOS has an online Engagement Management System, allowing us to accurately record, track and report on our engagement work. It also ensures that the history of our engagement is available for any member of the team who may be new to leading a company engagement. Our investment teams are able to access this database, which affords them a full and instantaneous view of the engagement history with the company.

Engagement process

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

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

How do we prioritise and seek change?

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

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

[14] https://www.hermes-investment.com/ukw/wp-content/uploads/2021/02/fheos-corporate-global-voting-guidelines-2021.pdf

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

Voting recommendations

EOS offers voting recommendations for company meetings on behalf of its proxy voting clients. EOS' Global Voting Guidelines[14] (Guidelines) inform our recommendations. The Guidelines explicitly reference ESG factors and aim to harness voting rights as an asset to be deployed in support of achieving engagement outcomes. Our Guidelines are informed by a hierarchy of externally- and internally-developed global and regional best practice guidelines; principally, our EOS-developed 22 regional corporate governance principles (Principles).[15] We also have nearly 50 country-level voting recommendation policies. These set out our fundamental expectations of the companies in which our clients invest, including regarding business strategy, communications, financial structure, governance and the management of social and environmental risks.

Our Global Voting Guidelines seek to outline how our expectations translate into specific voting policies on issues put to shareholder votes at annual and extraordinary meetings.

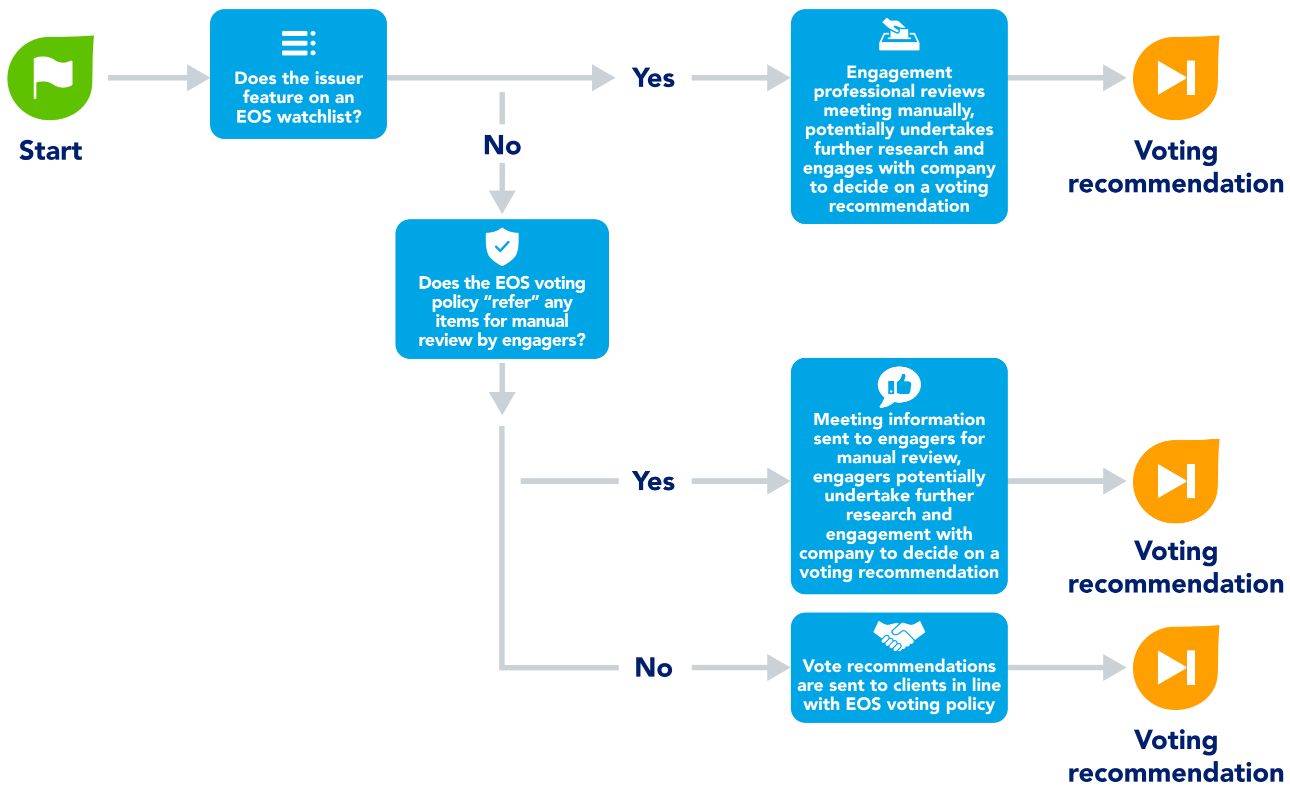
The Principles articulate the EOS house position on key ESG issues and are informed by relevant external local market standards. For example, this includes best practice national corporate governance codes, as well as international sources including the Organisation for Economic Co-operation and Development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

EOS is able to access ISS and custom EOS research and vote recommendations, perform proxy voting actions, and generate reports on key voting activity, all from a single integrated platform.

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

We endeavour to engage around the vote with all companies on our watchlist, comprising around 1,000 companies, including all those in the core engagement programme (over 300), where we are considering recommending a vote against. We will also engage to identify any further relevant information that might inform our voting recommendation and have regular conversations with in-house and external asset managers about the reasons for their views on particular votes. The integration of engagement with our process around our voting recommendations is a powerful tool to achieve engagement outcomes. The diagram on page 20 outlines our voting research and decision-making process.

We endeavour to engage around the vote with all companies on our watchlist, comprising around 1,000 companies, including all those in the core engagement programme (over 300), where we are considering recommending a vote against.



EOS adheres to the regulatory requirements for proxy advisers. More information on our code of conduct and how we have followed this can be found in our Best Practice Principles for Providers of Shareholder Voting Research & Analysis – Compliance Statement.[16]

Public policy work

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

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

Screening service

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

- United Nations Global Compact (UNGC) Principles
- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights (UNGPs)

as well as relevant involvement in controversial weapons.

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

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

Advisory

Our optional advisory services help our clients to meet stewardship regulations, as well as working with them to develop their responsible ownership policies, drawing on our extensive expertise and proprietary tools to advance their stewardship strategies. EOS, which sits within FHL's Responsibility Office, often draws upon the processes and relationships within the Responsibility Office to assist with such requests.

The Responsibility Office acts as the conscience of the business, holding all colleagues to account for executing on the firm's mission of delivering sustainable wealth creation for investors.

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

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

Incentivisation

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

Ensuring that our fees are appropriate for the services provided

We operate an engagement resource-sharing model, so that our clients benefit from collective economies of scale and scope. Pricing reflects the costs of the relevant activities with fairness to clients as a key driver. We have a pricing framework and a pricing governance group that reviews any pricing decisions to ensure that our fees are appropriate for our services. We are aiming for best-in-class value on behalf of our clients, growth, costs, inflation and scaling our offering, so we reinvest heavily into the quality of our services.

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

Our governance structures and processes, as outlined earlier, are a result of how they have worked in practice and their evolution over time. We believe we have a good balance of internal governance structures and processes, as well as structures to integrate external client input to support effective stewardship. The following charts demonstrate our activity in 2021 versus the prior year, which would signal that our governance structures and processes in supporting our clients continue to be effective.

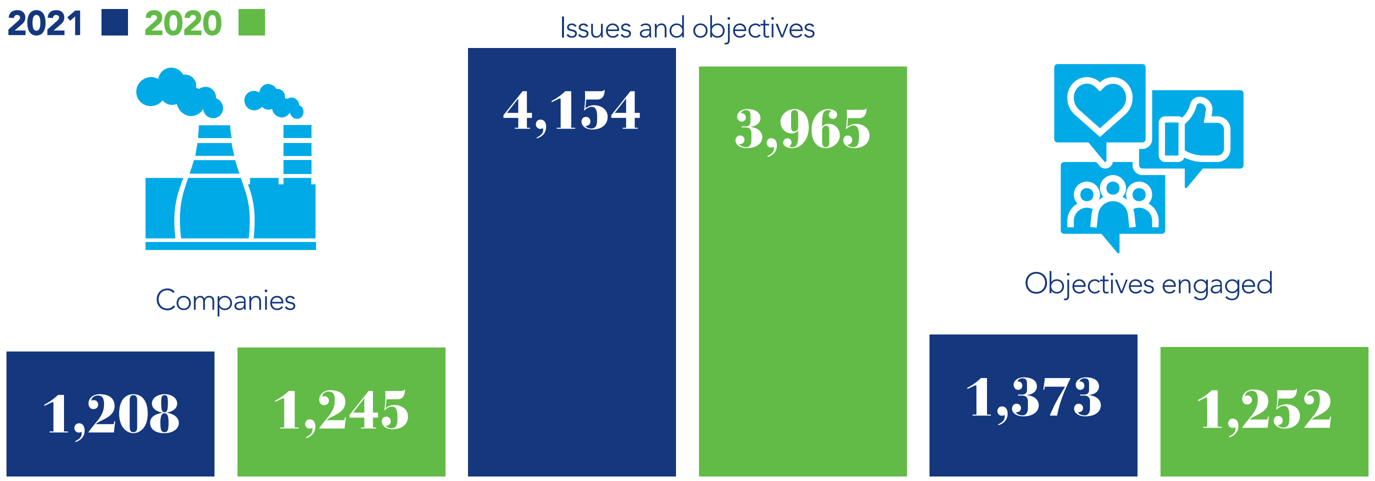
Number of engagements:

Principle 1 outlined our headline engagement process during 2021. In addition, the following charts demonstrate that our structures and approach are considerate of our global client base with differing priorities, outlining a breakdown of our engagement according to theme and region during 2021.

- Environmental **28.9%**
- Social and Ethical **19.4%**
- Governance **37.4%**
- Strategy, Risk and Communication **14.4%**

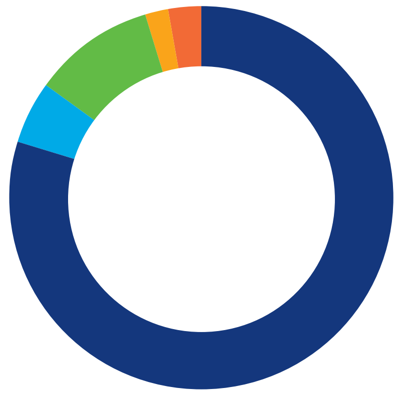
- Australia and New Zealand **55**
- Developed Asia **149**
- Emerging Markets **247**
- Europe **252**
- North America **406**
- United Kingdom **99**

Source: EOS data



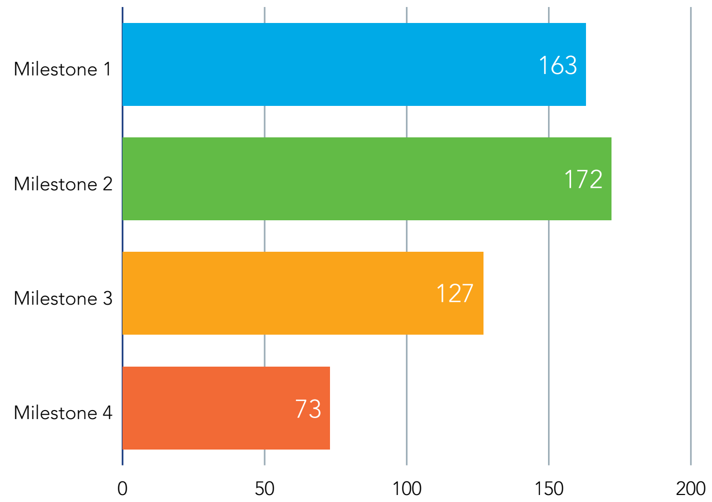
Source: EOS data

Environmental topics comprised 29% of our engagements in 2021.



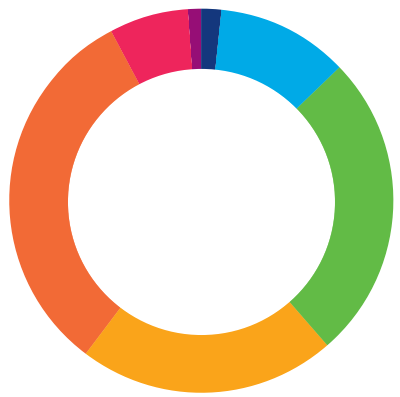
- Climate change **79.9%**
- Forestry and land use **5.2%**
- Pollution and waste management **10.4%**
- Supply chain management **1.9%**
- Water **2.6%**

Progress against environmental objectives



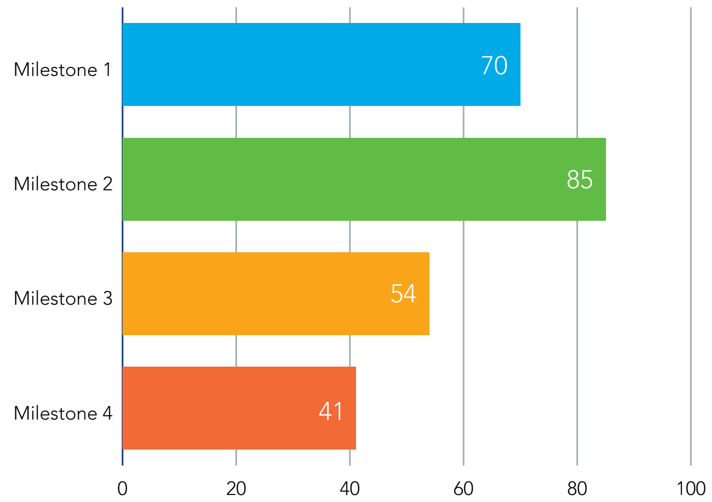
Source: EOS data

Social and ethical topics comprised 19% of our engagements in 2021.



- Bribery and corruption **1.9%**
- Conduct and culture **11.1%**
- Diversity **25.7%**
- Human capital management **21.6%**
- Human rights **32.1%**
- Labour rights **6.7%**
- Tax **0.9%**

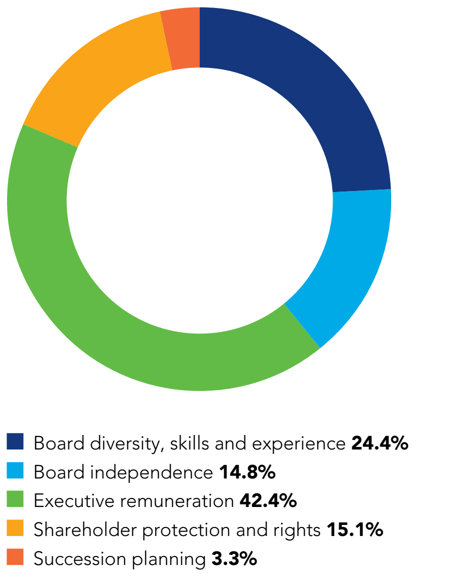
Progress against social and ethical objectives



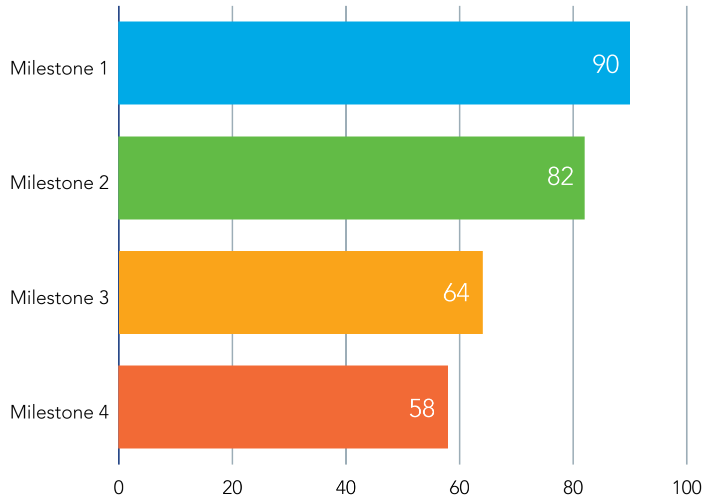
Source: EOS data

Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously. A summary of some the key issues on which we engaged in 2021 is shown across these two pages. The effectiveness of our governance structures and processes is similarly demonstrated through the milestone progress made against each of our environmental, social, governance or strategy, risk and communication objectives.

Governance topics comprised 37% of our engagements in 2021.

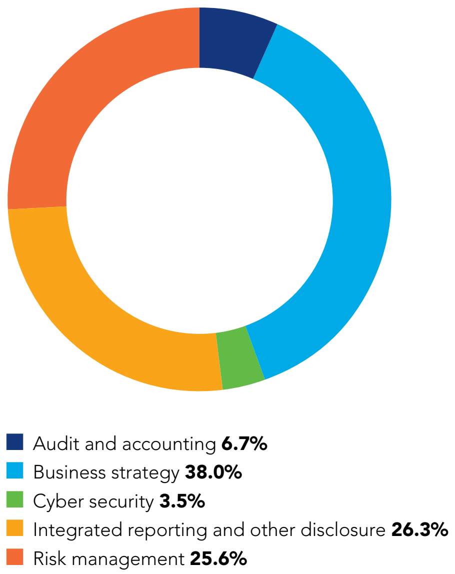


Progress against governance objectives

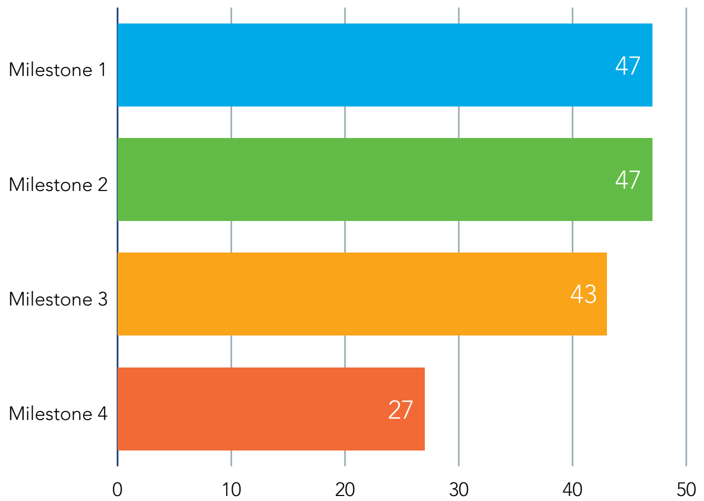


Source: EOS data

Strategy, risk and communication topics comprised 14% of our engagements in 2021.



Progress against strategy, risk and communication objectives



Source: EOS data

EOS recognises that timely communication is key for our clients to manage their own responsible investment activities and communicate the effectiveness of our stewardship service with their beneficiaries and stakeholders. We provide clients with a range of qualitative and quantitative reporting, enabling them to do this, which we explain in more detail under Principle 5. Case studies, which are included throughout the report, form part of this reporting, and two summary examples are included on the next two pages.

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

CASE STUDY

DBS

EOS's engagement with DBS dates back to 2011 on executive pay. We began engaging with DBS on palm oil financing in January 2019. We urged the bank to demonstrate that its palm oil lending criteria are updated to meet the latest Roundtable on Sustainable Palm Oil (RSPO) standard for all borrowers. The bank acknowledged its awareness of the latest RSPO standard and confirmed its new borrowers were asked to demonstrate alignment with no deforestation, no peat and no exploitation (NDPE) or equivalent. The bank has supported companies that undertake good ESG practices, including those complying with existing national and international certification standards.

> **EOS's engagement with DBS dates back to 2011 on executive pay. We began engaging with DBS on palm oil financing in January 2019.**

As of February 2020, the bank's palm oil lending policy had not changed but the head of sustainability confirmed it was committed to working with existing customers who refinance their existing loans on achieving RSPO certification. In March 2021, we were pleased to learn that DBS raised its ESG standards for the palm oil sector. The bank raised the mandatory requirements and restrictions that apply to all lending relationships. It now encourages customers to apply NDPE policy throughout the supply chain. Besides NDPE commitments, the bank also accepts RSPO certification as demonstration of good industry practices. Customers are requested to achieve full RSPO certification via a time-bound action plan that is communicated to DBS.

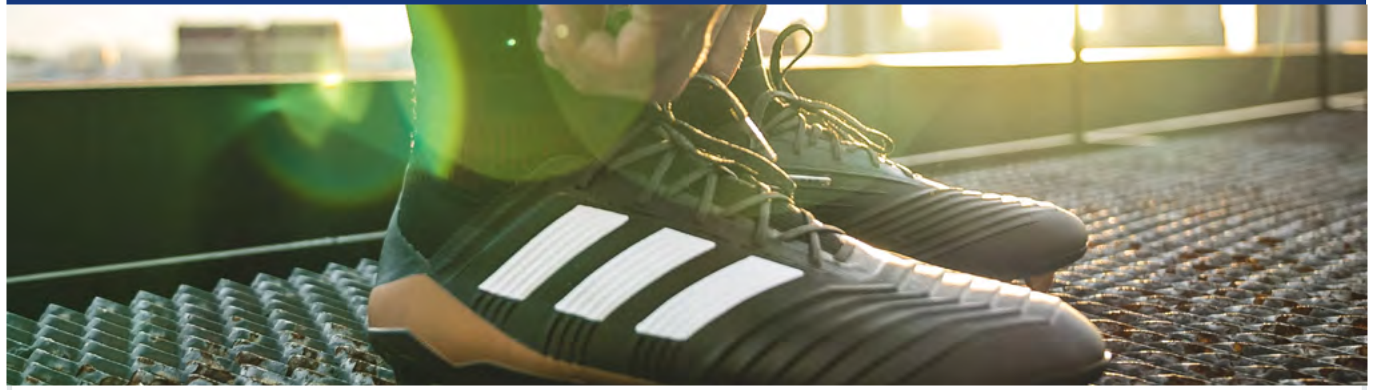
> **The bank has supported companies that undertake good ESG practices, including those complying with existing national and international certification standards.**

The bank also pledges not to knowingly finance companies that are involved in high carbon stock forests, planting on peat, or planting without securing both the legal right and community support to use all the land involved. We will monitor DBS' progress in implementing the sustainable palm oil policy for all its lending relationships.

- Read the case study in full: https://www.hermes-investment.com/uki/eos-insight/eos/dbs-case-study/

CASE STUDY

Adidas



EOS at Federated Hermes' engagement with Adidas intensified in late 2018, when we met with the company's sustainability team to focus on the future trajectory of the company's sustainability strategy. We challenged the company on the environmental impact of its product range. We stressed that ambitious, science-based climate targets need to be central to its 2025 sustainability strategy.

We returned to these discussions after its 2019 results announcement. We welcomed a public commitment from the company to address climate change but urged it to set a science-based emissions reduction target to demonstrate that its ambitions are in line with the 1.5°C trajectory of the Paris Agreement. On resource use and circularity, we welcomed some positive steps: an improvement to its CDP water score and achieving 100% cotton sourced through the Better Cotton Initiative, as part of its commitment to steadily increase the use of more sustainable materials in its production, products, and stores. We pushed the company to go further and to set specific, timebound targets for recycled materials in its products, as well as publishing a plastics footprint.

We challenged the company on the environmental impact of its product range.

In early 2021, the company achieved certification from the Science-Based Targets initiative, affirming that its emissions reduction targets are in-line with our engagement objective. Then in March 2021, the company announced the ambition for nine out of 10 of its articles to be more sustainable by 2025.

We continue to engage with the company on its circularity strategy. We are encouraged by the company's commitment to, firstly, intensify its communication and marketing for products made from sustainable materials and, secondly, roll out its product takeback programmes at a large scale.

- Read the case study in full: https://www.hermes-investment.com/uki/eos-insight/eos/adidas-case-study/

How we can make improvements

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

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

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

We have also given clients more clarity around our rationale for discontinuing objectives, by providing an explanation according to a range of scenarios.

We identify the following as reasons why an objective may be discontinued:

- Company unresponsive: the company has not been responsive to our engagement and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- Company disagreed: the company has expressed its disagreement with our engagement proposals and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change and the materiality of the issue.
- No longer relevant/material: the original objective is no longer considered sufficiently material or relevant to be engaged. This could be due to a change in the company's business profile (such as divestment of a business unit of concern) or if engagement reveals that the original concern is of lower materiality than originally anticipated.
- Restarted as new objective/issue: engagement reveals that the original objective should be materially changed, for example split into two separate and related objectives or combined with another objective

Explaining scenarios where engagement has stalled – that is, instances where engagement is moving slowly or a company refuses to make changes – is more challenging. This is because we conduct the majority of our engagements behind closed doors and we are cognisant of the relationships we have built with companies, as well as our future engagements with them. For these reasons, we provide anonymised case study examples. We have included two examples of discontinued objectives below, one of which we have anonymised.

CASE STUDY

Discontinued objective: Dual class share structure

In 2019, we asked HEICO Corporation to set out a plan to abolish its dual class share structure, since this structure disenfranchises minority shareholders and often increases the power of one shareholder disproportionate to the financial stake. We conveyed our expectations, as set out in our Corporate Governance Principles, that issuers with multiple class share structures should adopt sunset provisions that put in place a one-share one-vote single class structure.

We also outlined that independent directors, convened in executive session, should annually meet with or write to the super-voting rights holders seeking their agreement to sunset these super-voting multiple-class share structures. The company acknowledged our concerns stating that it would be open to transitioning to a single-class structure if the prices were to converge.

In 2019 and 2020 we recommended opposing the chair of the nominating and governance committee over concerns to protect shareholder value, due to the dual class share structure and lack of a disclosed plan to sunset the arrangement. Since 2019, there has been no desire by the company to discontinue the dual class structure. The company acknowledged that some of its governance processes are unconventional, but it believes these are best suited to its long-term approach to shareholder value.

The company acknowledged our concerns stating that it would be open to transitioning to a single-class structure if the prices were to converge.

Based on our engagement with the company, it is unlikely that further dialogue will progress this objective. While our engagement on abolishing the dual class share structure failed to achieve the desired outcome, the company continues to advance its environmental and social disclosures and is receptive to continually improving its governance model, which we appreciate. Our engagement going forward will focus on improved board diversity, climate change risk and opportunity, and product stewardship.

CASE STUDY

Discontinued objective: Board effectiveness

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

In a meeting later that year, we questioned the the company's rationale for making the retiring CEO the executive chair of the company. We welcomed the division of responsibility at the top of the company but asked whether running the board required an executive chair as it should not be a full-time job. The change was effective from 1 January 2019 and the company appointed an internal successor as CEO. At that stage, it was not known whether the company intended this to be a transitional arrangement, with the former CEO exiting to leave the successor as joint CEO and chair.

We engaged on both the rationale for making the retiring CEO the executive chair of the company and on the need for a permanent, independent chair to be appointed.

We questioned what controls were in place to stop the executive chair interfering with the incoming CEO's review of strategy and operations. We encouraged the company to address these issues in its proxy statement.

> **We engaged on both the rationale for making the retiring CEO the executive chair of the company and on the need for a permanent, independent chair to be appointed.**

In Q2 2019 we had a call with the company ahead of its annual shareholder meeting where we explained that we recommended support for a resolution requiring an independent chair, in line with our policy and our ongoing engagement with the company. By September 2019, the company confirmed its intention for the new CEO to take on the joint role of CEO and chair, and this took effect from 1 January 2020.

Although this removed the potential conflicts and surplus costs of having the former CEO as interim chair, we were unable to secure the appointment of an independent chair and, as such, discontinued this objective. We continue to press for wider changes to market practice in this specific regional market, where the appointment of joint CEO/ chairs after retaining the former CEO as an interim chair, remains common.

> **We questioned what controls were in place to stop the executive chair interfering with the incoming CEO's review of strategy and operations.**

Principle 3

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

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

FHL's public Conflicts of Interest Policy[17] sets out our commitment to act professionally at all times. We commit to keeping the best interests of our clients and their beneficiaries in mind and to take appropriate steps to identify circumstances that may give rise to conflicts of interest that entail a risk of damage to our clients' interests. It includes examples of conflicts of interest – such as the receipt of confidential information, conflicts of interest between clients, personal conflicts and conflicts between our business and clients – and the appropriate procedures we have established to manage any conflicts of interest identified and to prevent damage to client interests.

We also have a specific Stewardship Conflicts of Interest Policy.[18] We acknowledge our position as a fiduciary for our clients and their beneficiaries and seek always to act in their best interests. Accordingly, we take all reasonable steps to identify actual or potential conflicts of interest. We also maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.

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

Potential conflicts of interest

Ownership

EOS is fully owned by FHL. Any conflict which may arise between clients of the EOS service and other clients of FHL will be addressed in a similar way to conflicts between any of our clients.

Clients and prospects

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

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

> **We take all reasonable steps to identify actual or potential conflicts of interest.**

Individuals

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

Short selling

Whilst FHL's investment teams do not generally hold short positions, those teams which regularly have short positions are prohibited from being involved in any engagement activities for companies where they hold a short position.

[17] https://www.hermes-investment.com/ukw/wp-content/uploads/2020/07/hermes_conflicts_of_interest_policy_2020.pdf
[18] https://www.hermes-investment.com/ukw/policies-and-disclosures/

Managing and monitoring potential conflicts: a singular focus

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

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

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

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

In all our activities, we seek to promote the long-term value and success of the companies in which our clients invest.

In our voting recommendations and engagements with companies that are the sponsors of (or in the same group as) our clients, we are careful to protect and pursue the interests of all of our clients by seeking to enhance or protect the long-term value of the companies concerned. In the first instance, we make it clear to all pension fund clients with corporate sponsors that we will treat their sponsoring parent or associated companies in the same way as any other company.

In addition, we ensure that in such situations the relevant client relationship director or manager within FHL, including EOS, is not leading the engagement or making the voting recommendation to clients. This same approach would hold true with respect to any engagement with a company with whom we, our owners or our clients have a strong commercial relationship, including suppliers. If we become aware of potential conflicts, they are disclosed if necessary, to the companies so that they can be managed effectively.

In the event that material non-public information is obtained through stewardship activities, our compliance department is informed, and an information barrier is created for 'insiders' until the information is publicly disseminated.

Members of the FHL investment teams have separate processes and management but are encouraged to join engagement meetings with stewardship colleagues and discuss the implementation of our voting policies. EOS' external clients are also invited to state whether they wish to join upcoming engagement meetings on a sustainable and appropriate basis. The engagement objectives are set out and the voting recommendations made and provided by EOS in line with FHL's Responsible Ownership Principles[19] (or, where agreed, client-specific policies).

EOS engagers and the FHL investment teams occasionally hold joint engagement meetings with companies at which EOS' external clients are not present. While carrying out joint engagements may mean that investment teams have access to non-inside information before it is disseminated to stewardship clients, we believe the benefits to the client body of these joint meetings is substantial. In particular, it produces an enhanced engagement process that focuses on the relevant and material ESG risks, and results in a better appreciation of ESG risk in investment decisions.

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

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

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

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

Review of conflicts of interest

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

Recording and escalation

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

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

Annual review

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

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

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

The following are some examples of conflicts that arose as a result of client interests, which we identified and managed in 2021:

- A potential conflict between the views of equity and credit holders arose with respect to a takeover offer for a company with which we were engaging. This was discussed with compliance and an action plan agreed and noted. A decision was made to separate the engagement into individuals representing the credit holders and others representing equity investors.
- A particular class of bond held by a Federated Hermes Limited credit team had its coupon cut because the company went into technical loss. While this was clearly against the interests of the holders of the particular credit security, it could have been perceived as in favour of the equity holders as it saved capital for the company, which is otherwise in good financial health. The company is represented for engagement by EOS across equity and credit and is also held by the FHL credit and global equities teams. Following a meeting of the Federated Hermes Limited equity and credit teams, we agreed an engagement strategy that was in the joint interests of both credit and equity. A joint letter was sent to the company signed by EOS, and the Federated Hermes Limited credit and equity teams.
- The remuneration for a company's CEO rose significantly during a period. Our third party voting research provider recommended a vote in favour, but this level of increase is against EOS' custom voting policy. One of the investment teams within Federated Hermes Limited held the stock and felt the proposal should be supported on the basis of the company's performance. This was escalated internally and a decision was made to vote in favour.
- Our initial vote recommendation for a company was to vote against as there was only 30% gender diversity on the board, below our expectation of 33%. This was discussed internally and a decision was made to recommend a vote in favour 'by exception' as the company recently lost a female director and has committed to urgently working on the issue.

Principle 4

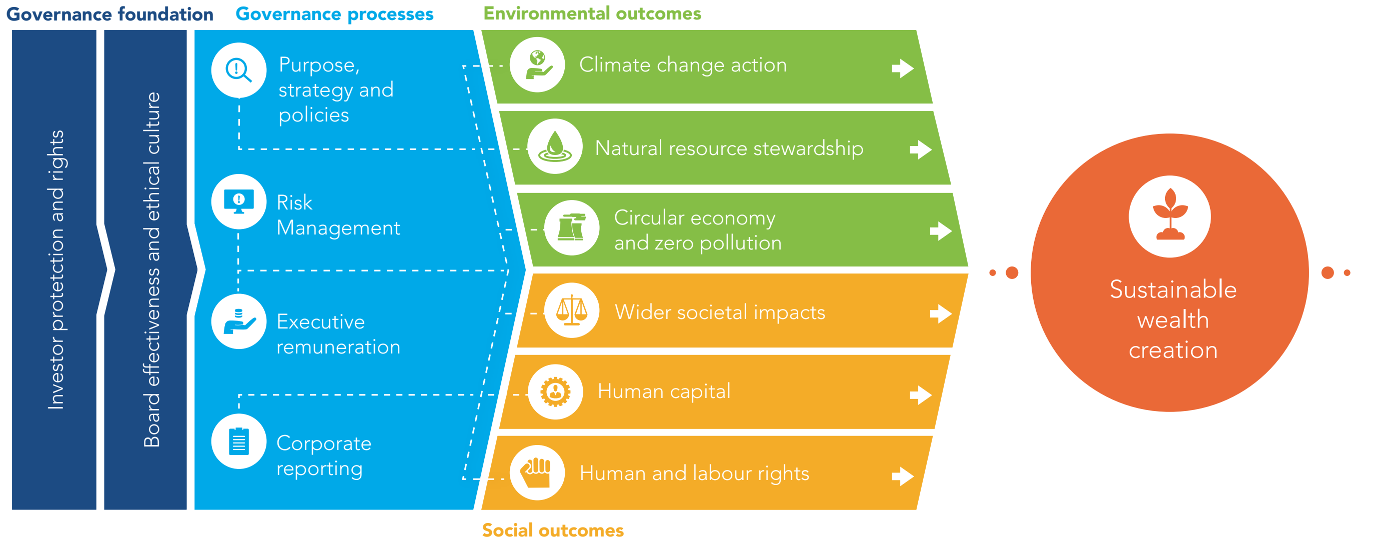
Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

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

Selecting our engagement themes for 2022-24

EOS focuses its stewardship on the issues with the greatest potential for long-term positive outcomes for investors and their beneficiaries. Generally, our work is embodied in a response to systemic risks but interlinked to this are market-wide risks that we must consider. The full taxonomy below identifies 12 key themes and 37 related sub-themes for engagement, which could be considered systemic risks. This breadth of coverage across the whole programme is necessary to reflect the diversity of issues in our global Engagement Plan, which covers all regions and sectors, including those that are most material to the individual companies.

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



Source: EOS

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

Climate change: ensuring company strategies and actions are aligned to the goals of the Paris Agreement to limit climate change to as close as possible to 1.5°C.

Natural resources: protecting, preserving and restoring natural resources by transitioning to sustainable food systems, ensuring affordable access to food and clean water, while protecting biodiversity.

Pollution: controlling pollution of air, land and water to below harmful levels for humans and other living organisms and building a circular economy that avoids waste.

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

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

Wider societal impacts: ensuring that a company adheres to the highest ethical standards, with zero tolerance of bribery, payment of fair taxes and reducing to the extent possible any harms resulting from its products or services.

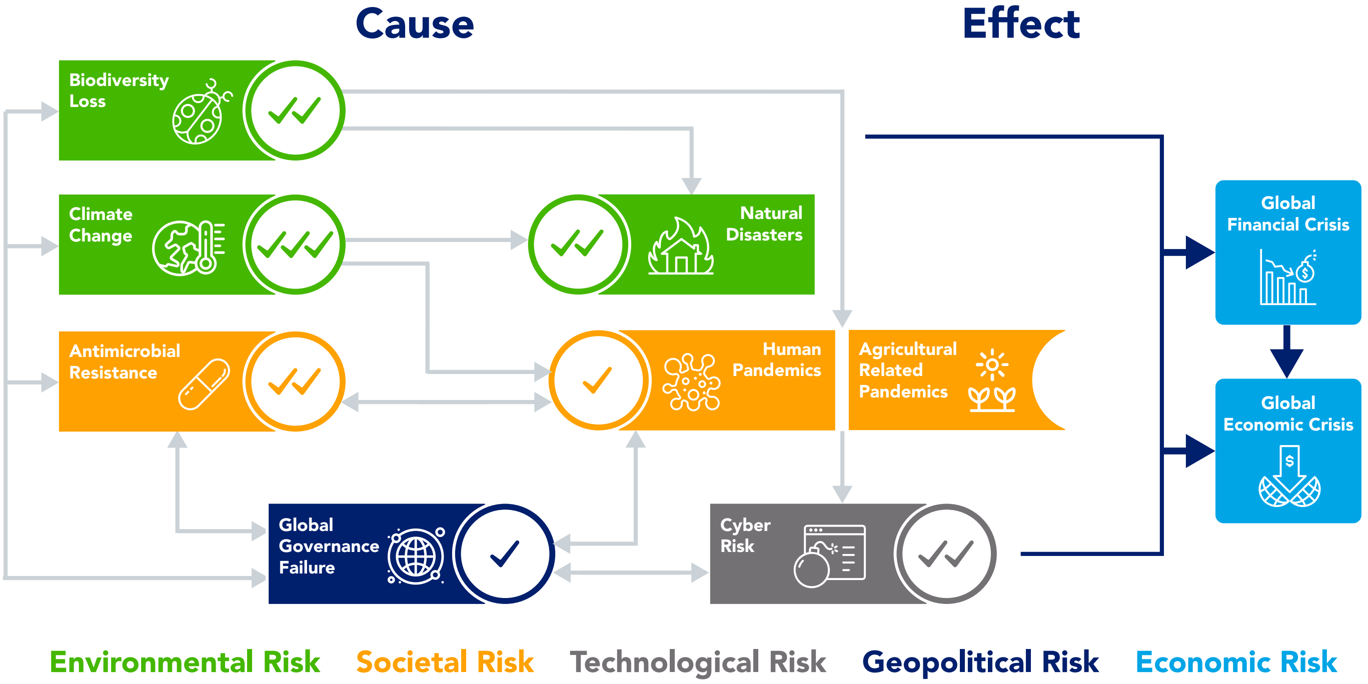
To enable delivery of these outcomes, we seek robust governance and management by companies of the most material long-term drivers of wealth creation, from both a company value and societal outcome perspective, including:

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

Addressing systemic risks through engagement [20]

Part of our horizon scanning exercise in 2021 included a review of recent academic reports. This was to help us identify and embed the most important systemic risks into our plan and prioritise our engagement action. We looked at the most important systemic risks that were highlighted, examined how they were interlinked, and often had cascading effects, and overlaid these with the focus areas in our engagement plan. For example, the three big causal systemic risks illustrated in the diagram below – biodiversity loss, climate change and anti-microbial risk – which have cascading causal effects, are important themes in our engagement plan.

EOS focus of engagement

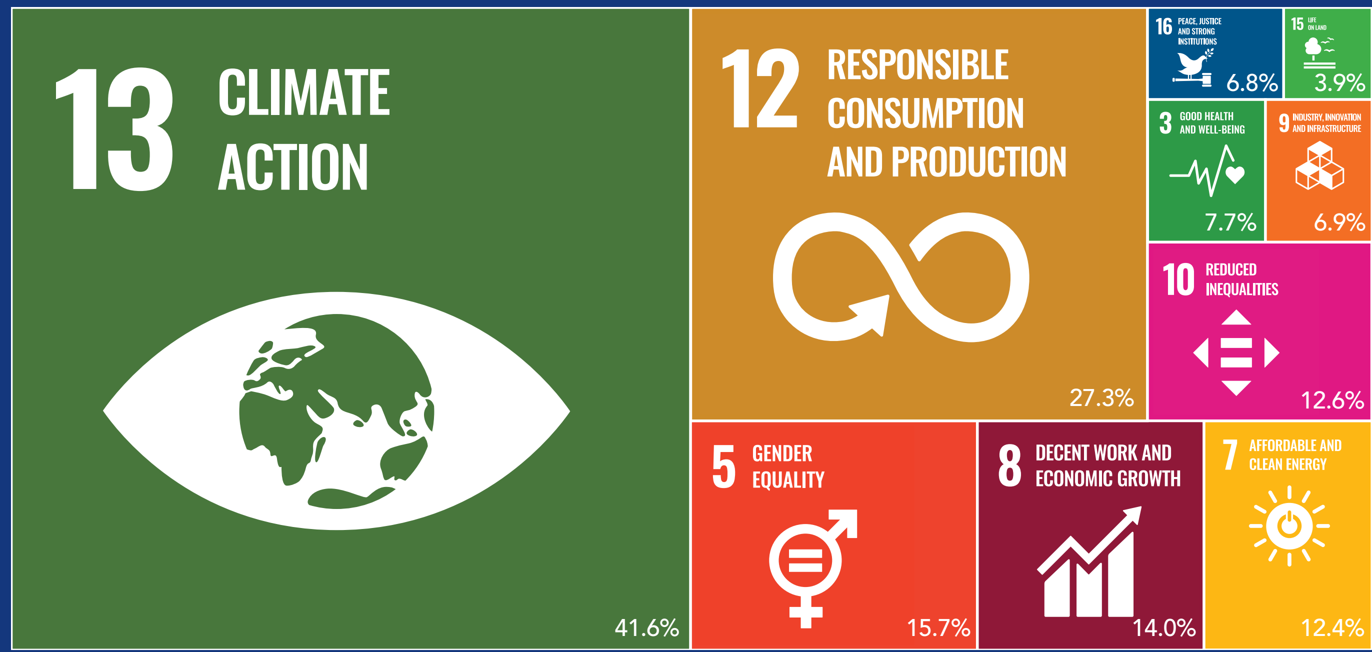


Source: https://www.jbs.cam.ac.uk/faculty-research/centres/risk/publications/managing-multi-threat/systemic-risk-systemic-solutions-for-an-increasingly-interconnected-world/; EOS data

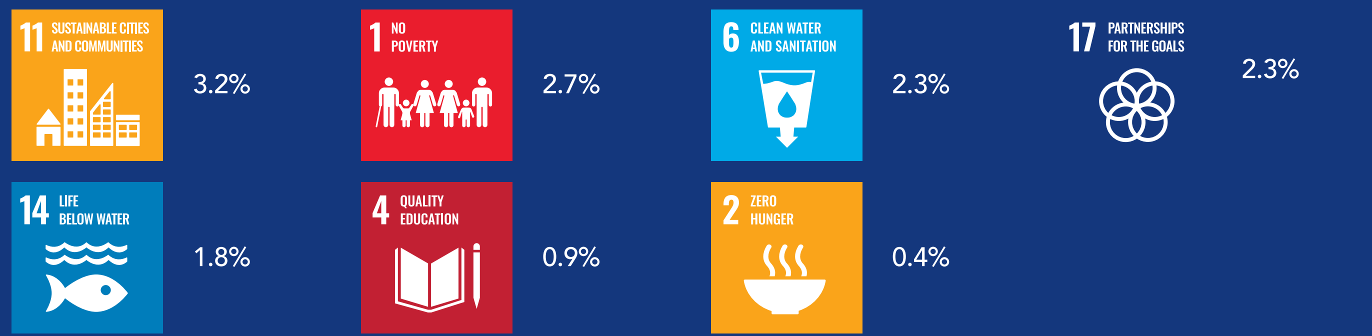
[20] Systemic Risk: Systemic solutions for an Increasingly Interconnected World - Managing multi-threat – Cambridge Judge Business School

Alignment to the SDGs

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



Breakdown of other SDGs linked



2,457 of the issues and objectives engaged in 2021 were linked to one or more of the SDGs

Source: EOS data

A spotlight on our approach to climate change

Climate change continues to be the biggest single issue of concern for long-term investors as a systemic risk, and we tailor our engagements accordingly. In the run up to COP26, over 300 companies committed to achieving net-zero emissions. However, data from the Climate Action 100+ Benchmark shows that while 52% of the world's largest emitters had net-zero goals, only 20% had short and medium-term emissions reduction targets and only 7% had targets aligned with the Paris Agreement goals. The emphasis of our engagement is therefore on matching long-term commitments with a Paris-aligned strategy and targets.

In the near-term, this means that we seek a range of objectives including: development of a strategy consistent with the goals of the Paris Agreement, including that each new material capex investment is consistent with the Paris goals; science-based emissions reduction targets for Scope 1 and 2 emissions and Scope 3 emissions (where a methodology exists, or the equivalent ambition); a public policy position supportive of the Paris goals and alignment of both direct and indirect lobbying activity by member industry associations; board oversight and understanding of climate risks and opportunities; and adoption and implementation of the TCFD recommendations. We also support action to ensure that published financial accounts and political lobbying are similarly aligned. And as the climate changes and extreme weather events become more frequent and severe, it will be important for companies to demonstrate that they have a physical risk strategy.

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

Our response to the Covid-19 pandemic and the exacerbation of social inequalities

The Covid-19 pandemic has exacerbated social inequalities, increasing the risk of unacceptable working conditions such as modern slavery, and limiting access to food and medicines, including effective coronavirus vaccines. In our engagements we ask companies to respect all human and labour-related rights linked to a company's operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty. Other areas of focus include indigenous and community rights, and high-risk regions such as disputed territories or conflict areas. We also engage on digital rights in the virtual world, such as challenges to data privacy rights and freedom of expression.

> **The Covid-19 pandemic has exacerbated social inequalities, increasing the risk of unacceptable working conditions such as modern slavery, and limiting access to food and medicines, including effective coronavirus vaccines.**

The pandemic has also shone a light on companies' treatment of their employees, including contract workers. We are pressing companies to provide fair wages and benefits so that everyone can achieve a decent living standard. We also encourage them to develop and implement a human capital management strategy to promote best practice physical and mental wellbeing in the workplace. We emphasise the importance of diversity, equity, inclusion and representation, asking companies to develop a strategy and action plan to close the ethnic pay gap and achieve proportionate ethnic and gender representation at all levels. We also challenge companies to expand their consideration of diversity metrics to include representation and equity for the LGBTQ+ community and differently-abled. These strategies should include articulation of a culture and employee proposition to improve workforce loyalty and wellbeing.

The 2021 voting season in the context of systemic risks

2021 can be seen as a tipping point for investor engagement and voting on climate change, with the emergence of 18 "say-on-climate" proposals at companies spanning oil and gas, construction, aviation, and consumer goods. Whilst we were supportive of the idea in principle, we had some initial concerns about the concept. The high level of support for transition plans suggests these concerns were justified. We applied a rigorous approach in our assessment of transition plans, setting a robust standard of alignment with the Paris Agreement goals for companies to pass.

We recommended support for proposals that demonstrated robust target-setting, and that were aligned with external frameworks and accreditations such as the Science-Based Targets initiative. We also wanted to see a clear and credible strategy in place to achieve the stated targets, as at Unilever, Aviva and Nestlé. However, we opposed the proposed climate plans at Shell, Glencore and TotalEnergies, as these did not appear to be aligned with the Paris Agreement goals. We also recommended opposing the plan at airport operator Aena, due to a lack of targets for the Scope 3 emissions that are critical to its transport infrastructure.

EOS has had a formal climate change voting policy in place since 2019 targeting climate change laggards and we strengthened this again in 2021. We continued to use the Transition Pathway Initiative (TPI) assessment, setting a threshold of Level 4 for all European companies, coal mining companies or oil and gas companies, or Level 3 for all other companies. The policy identified over 250 companies in 2021 – versus around 130 in 2020 – including over 190 outside the EOS engagement programme. We wrote to companies setting out the reasons for our concern and requesting further engagement and saw a high level of response. This enabled us to successfully engage with over 45 companies beyond the core engagement programme. Ultimately, we recommended opposing the election of the responsible director for climate change (usually the chair) at over 100 companies, including Canadian Natural Resources and China Resources Cement Holdings.

> **We recommended support for proposals that demonstrated robust target-setting, and that were aligned with external frameworks and accreditations such as the Science-Based Targets initiative.**

Companies were also captured by our policy to recommend a vote against a responsible director for climate change due to their continued coal expansion in parts of Asia and a lack of disclosure on their approach to mitigating deforestation risks. For example, we recommended voting against directors at Yakult Honsha, Li Ning Company, and WH Group due to deforestation concerns and against directors at Yanzhou Coal Mining Company, Manila Electric Company, and First Pacific Company due to their coal expansion plans.

> **Companies were also captured by our policy to recommend a vote against a responsible director for climate change due to their continued coal expansion in parts of Asia and a lack of disclosure on their approach to mitigating deforestation risks.**

Racial equity audits and gender diversity – addressing social inequalities

We also saw a significant number of racial equity audit shareholder proposals in 2021, including at some US banks. Although we did not always agree with every aspect of the supporting statements, we broadly agreed with their substance, believing that racial equity audits would add substantial value beyond the actions the companies were already taking.

During engagement we explained that audits can provide additional insight into the root causes of complex problems that companies must address in order to develop enduring solutions. They also enable more rigorous performance evaluation against underlying challenges and increase a board's capacity to provide effective oversight. We subsequently recommended support for the racial equity audit shareholder proposals at Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Wells Fargo, among others, in order to drive momentum for closing racial equity gaps in society. A few of these proposals were withdrawn, such as at BlackRock and Morgan Stanley, or were put to the vote with the support of management. We encouraged other companies to consider supporting proposals in this manner.

In 2021 we also ramped up our voting action on ethnic diversity, having signalled this in our Corporate Governance Principles and engagement for several years. In addition, targets from the Parker Review came into force for UK boards to include at least one director from an ethnic minority background. We subsequently opposed five FTSE 100 chairs for failing to meet minimum expectations for racial diversity on boards.

Overall in the UK, we opposed 37 proposals for concerns about insufficient diversity, including gender diversity, at board level and below, versus 35 proposals in 2020. In the US, we opposed 1,322 proposals for insufficient gender and ethnic diversity, up from 945 in 2020, while in Canada we opposed 190 proposals on this issue, a leap from eight in 2020. On a global basis, we recommended voting against 2,693 proposals due to diversity concerns, up from 1,805 in 2020.

Responding to the Russia-Ukraine conflict

The tragic events unfolding in the Ukraine, which have devastated communities and displaced a population, are having a disastrous short-term human cost alongside wider-reaching implications for society, global markets and sustainability efforts.

Respect for human and labour rights is a priority engagement theme for EOS. Given the escalating nature of the conflict, in March 2022 we decided to temporarily suspend engagement with Russian companies, as we believed it was highly unlikely that businesses in Russia would engage with us meaningfully at that point in time. This decision is being reviewed on an ongoing basis.

We are also asking non-Russian companies in the engagement programme with material connections to Russian clients, suppliers, or counterparties to update us on a number of key issues. These include what actions are being taken to ensure the safety of employees; increased due diligence on identifying connections to human rights violations; and any actions to remedy these, such as the urgent mapping of supply chains or partners that could be involved in supporting the conflict either through products, services or finance.

We expect companies to protect their staff in the region and prioritise the opportunity to prevent and mitigate the most salient human rights impacts to people. Through our engagement efforts, we remain committed to helping them achieve positive outcomes.

> **The tragic events unfolding in the Ukraine, which have devastated communities and displaced a population, are having a disastrous short-term human cost alongside wider-reaching implications for society, global markets and sustainability efforts.**

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

This involves public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties. The following is a selection of highlights from 2021:

- We responded to a consultation by the Australian Treasury on reform options for proxy advisory services and suggested alternative solutions, such as the introduction of a demanding stewardship code. We did not support the Treasury's proposed reform options, believing they could compromise the independence of proxy advisory services, reduce the quality of advice, and reduce the competition. Instead, we encouraged the Treasury to promote constructive, long-term engagement between companies and institutional investors that is not limited to the narrow framework of proxy voting.
- In Brazil, new legislation now allows for the creation of multiple share classes with unequal voting rights for new listings. Through the Association of Capital Markets Investors (AMEC), we raised our concern about the impact on the quality of new listings and pressed for the adoption of mitigating measures. The legislation includes provisions such as a sunset clause triggered when the shares with super voting rights are sold, or after seven years are subject to renewal at the AGM. Through AMEC we are also engaging on ways to simplify the voting process in Brazil.
- We responded to the Hong Kong Stock Exchange's consultation on the Corporate Governance Code and its related listing rules. We asked that companies be required to publish timelines for improving gender diversity at the board level and across the workforce, as well as arguing that the establishment of a nomination committee should become a listing rule.
- We also responded to the China Securities Regulatory Commission consultation on ESG disclosure requirements for companies in their annual and semi-annual reporting.

We largely supported the proposal to include information such as environmental penalties, conflicts of interest with controlling shareholders, and board attendance. However, we recommended making the disclosure of carbon emissions, and any outcomes from poverty alleviation and rural revitalisation, mandatory. We also pushed for the inclusion of commentary on human capital management and human rights.

- As part of 30% Club Japan, we encouraged companies to raise board gender diversity levels, with our policy of recommending a vote against companies where fewer than 10% of directors are women. Where our expectations for board gender diversity are not met, we expect companies to have set a time-bound target and outlined a plan to achieve this. We had several meetings throughout 2021 with regulators including the Financial Services Agency, Japan Exchange and the Ministry of Economy, Trade and Industry (METI). We highlighted our concerns about governance issues, including board effectiveness and cross-shareholdings, as well as climate change and Japan's energy policy. We also worked closely with the Asian Corporate Governance Association, Japan Corporate Governance Network and Asia Investor Group on Climate Change and provided a response to consultations on the revised Corporate Governance Code and the Sixth Strategic Energy Plan drafted by METI.
- In the UK we responded to a consultation by the UK Department for Business, Energy & Industrial Strategy on mandatory Task Force on Climate-related Financial Disclosures (TCFD) reporting for listed companies, large private companies and limited liability partnerships. We promoted enhanced regulation around climate risk reporting in line with the TCFD recommendations. Where material, we noted the importance of scenario analysis within the strategic report to demonstrate each company's awareness and preparedness for climate-related risks. We also stressed the importance of auditors in overseeing annual reports to ensure that the energy transition is properly considered.
- We continue to provide leadership to the Enacting Purpose Initiative by contributing to its latest report, Directors & Investors: Building on Common Ground to Advance Sustainable Capitalism. The report provides a US perspective on why corporate purpose matters.

Collaboration focused on tackling climate change

Since December 2017 the collaborative engagement initiative Climate Action 100+ (CA100+) has been striving to bring the world's biggest corporate emitters into line with international ambitions for a 1.5-degree world. EOS is a significant supporter of CA100+, leading or co-leading engagement at over 25 of the 167 focus companies across Europe, North America, and Asia.

In 2021 we stepped up engagement with notable laggards such as chemicals company LyondellBasell, leading a delegation of eight institutional investors who spoke at the annual shareholder meeting, in our role as CA100+ lead. We had escalated this engagement by obtaining support from 27 institutional investors to use a legal mechanism under Dutch law to require a discussion on climate change at the shareholder meeting. Later in the year, the company made a commitment to net-zero emissions by 2050 with interim steps towards achieving this goal. These included a 30% absolute reduction in emissions target, and a goal of sourcing at least 50% of its electricity from renewable energy by 2030.

We also co-signed a letter to the chair and CEO about a ShareAction collaborative engagement initiative focusing on the climate risks posed by the European chemicals sector. In response, the company said that Scope 3 emissions in the chemicals sector were not yet well defined, but it was planning to participate in a Science-Based Targets initiative (SBTi) working group to define the sector's decarbonisation approach.

On the other side of the Atlantic, EOS's North American engagement team co-led a CA100+ engagement with the US oil company ConocoPhillips asking for an enhanced assessment of its climate-related risk. CA100+ has a flagging mechanism to enhance the impact of investor voting on climate-related resolutions. Seeking more ambition from ConocoPhillips, EOS flagged and recommended a vote for a shareholder proposal at the company's 2021 annual shareholder meeting that asked for absolute emissions reduction targets across Scopes 1 to 3. The proposal gained 58% support and we continue to engage on the company's response to this request.

Key data for CA100+

1.5°C

Over **615** signatories

With over **US$65tn** under management

167 focus companies targeted, accounting for

80%+ of corporate industrial greenhouse gas emissions

Engaged across **33** markets

In our role as the CA100+ co-lead for the French oil and gas major TotalEnergies, we led a group of 35 institutional investors to move a collective statement at the annual shareholder meeting and recommended voting against Total's climate transition plan. However, only 8% of shareholders did so, suggesting that some investors lacked the technical skills or the time to evaluate the plan properly. Without this level of scrutiny, 'say on climate' votes are at risk of becoming a greenwashing tool rather than an opportunity for investors to drive climate ambition.

CASE STUDY

POSCO

Even hard-to-abate sectors must reduce emissions immediately if the world is to achieve the Paris Agreement goals. Steel production is one such sector, accounting for 9% of total energy sector emissions in 2019. Low-carbon technologies are still in their infancy for steel production, yet the International Energy Agency's Net Zero by 2050 scenario indicates that Scope 1 emissions from the steel industry must fall by 29% by 2030.

EOS has engaged on climate change with POSCO – one of the world's largest steel producers – directly since 2016, and as a co-lead for the company under CA100+. We had asked the company to set science-based, short-, medium-, and long-term emissions reduction targets. These requests were met in late 2020 when the company set targets that require short-term action and a transformation of the business to align with 1.5°C in the long term. Its work driving hydrogen-based steelmaking to reach these targets may also serve as a catalyst for decarbonisation of the whole sector.

While CA100+ is focused on 167 of the world's biggest corporate emitters, it is vital that decarbonisation is achieved across the entire economy. In 2021 EOS contributed to the new CA100+ Global Sector Strategies workstream, which will provide transition roadmaps for key sectors and identify the priority actions that companies, industries and investors should take. The aim is to help transform entire sections of the economy that require coordinated action. EOS contributed to the first Global Sector Strategy Reports on the steel sector and the food and beverage sector, highlighting the cross-sector actions needed to reach net zero.

Shareholder resolutions

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

In our experience, shareholder proposals can be a catalyst for related dialogue with issuers and we avail ourselves of these opportunities, where appropriate, whether or not we recommend a vote in favour of the resolution itself. We expect boards to address the issues raised by shareholder proposals which receive significant support or where they are material to the company. In addition, we view any failure to implement a shareholder proposal that has received majority support as a clear indication that the board of directors is not fulfilling its obligations to the owners of the company. EOS has initiated and supported the co-filing of many shareholder resolutions in previous years, for example on climate change at Glencore, Rio Tinto and Anglo American in 2016 and at BP in 2019. In 2021, we also co-filed a resolution on climate change disclosures at Berkshire Hathaway.

Berkshire Hathaway shareholder resolution

In conjunction with California Public Employees' Retirement System (CalPERS) and Caisse de Dépôt Et Placement Du Québec (CDPQ), we filed a shareholder proposal at Berkshire Hathaway, hoping to trigger a dialogue with the company on climate change. We co-lead on Berkshire Hathaway for CA100+.

The proposal asked Berkshire Hathaway's board to publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities. Tim Youmans, the EOS lead for North America, spoke at the 2021 shareholder meeting on behalf of the proposal.

> **Berkshire Hathaway insiders, including the chair and CEO Warren Buffett, control 35% of the company's voting power.**

While the company has performed well historically, simply asking shareholders to "trust" the company on its capital deployment decisions without climate risk being adequately disclosed is concerning. For example, Berkshire Hathaway Energy is now the largest US power company without a net-zero goal. Berkshire Hathaway insiders, including the chair and CEO Warren Buffett, control 35% of the company's voting power. With Berkshire Hathaway opposing the shareholder proposal, it was defeated, but when adjusted for non-insiders, the vote results were close to 60% in favour of the proposal.

With Berkshire Hathaway opposing the shareholder proposal, it was defeated, but when adjusted for non-insiders, the vote results were close to

60% in favour of the proposal.

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

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

The 2021 voting season saw several key shareholder proposals related to climate change. For example, a shareholder resolution requiring Scope 3 targets at US oil major Chevron gained 61% support from investors. We had recommended support for the proposal, noting that Chevron's existing strategy in relation to the energy transition appeared to assume that it would not need to shrink in the short, medium and possibly long term. Accordingly, it had set emission intensity targets for its Scopes 1 and 2 emissions only. To us, this seemed a very high-risk strategy, made riskier by being widely shared by its sector peers.

> **When we recommend a vote in favour of a shareholder resolution where there is no management recommendation, this is classed as a vote against management in our disclosures.**

We also recommended support for another proposal requesting an audited report on how a significant reduction in fossil fuel demand, as envisaged by the International Energy Agency's net-zero 2050 scenario, would impact the company's financial position and underlying assumptions.

In another significant development, Japan saw its second and third shareholder resolutions on climate, after the first at Mizuho Financial Group in 2020. Two similar proposals were filed at Mitsubishi UFJ Financial Group and Sumitomo Corp, asking the companies to align their business strategies with the Paris Agreement goals. These companies were targeted for their significant exposure to fossil fuels, including coal. We accelerated our engagements with them, while also seeking views from the NGOs who had filed the proposals, then recommended support for both.

Our contribution to industry initiatives

In 2021 we continued to advocate for a number of changes to public policy and market best practice, aligned with the themes upon which we engage, as set out in our Engagement Plan. Below, we have provided a summary of some of our activities in 2021.

To allow us to keep abreast of investor concerns and emerging issues as they arise and to promote stewardship, we are active participants in a number of collaborative industry bodies and initiatives around the world (see box).

Key stewardship initiatives

We are an active participant in the following:

- Climate Action 100+
- Principles for Responsible Investment: founding member and chair of the drafting committee that created the PRI in 2006.
- Asian Corporate Governance Association
- Canadian Coalition for Good Governance
- CDP
- Investors for Opioid & Pharmaceutical Accountability
- Investor Alliance for Human Rights
- Investor Initiative on Mining & Tailings Safety
- International Corporate Governance Network
- The Institutional Investors Group on Climate Change
- UN Guiding Principles Reporting Framework
- US Council of Institutional Investors (CII)
- 30% Club

Source: EOS data

Public policy

64 Number of consultation responses or proactive equivalent made in 2021.

71 Number of discussions held with relevant regulators and stakeholders.

Source: EOS data

Examples of our public policy and advocacy work from 2021 include:

Biodiversity

- We advocated for an ambitious Global Biodiversity Framework (GBF) that explicitly references the role of the financial sector in halting and reversing biodiversity loss to be agreed at COP 15 in Kunming in 2022. We contributed to the pre-COP 15 discussions on the GBF on behalf of the 28 financial institutions that are part of the Finance for Biodiversity Foundation. We made an intervention in the session focused on targets 14 and 15, which are most relevant to business. We were pleased that our proposal received support from the EU on behalf of its 27 member states.

> **We contributed to the pre-COP 15 discussions on the GBF on behalf of the 28 financial institutions that are part of the Finance for Biodiversity Foundation.**

- We also played a key role in writing a statement, which was coordinated by the Finance for Biodiversity Foundation and Ceres, addressed to governments ahead of the biodiversity COP 15. We signed the statement as both EOS at Federated Hermes and FHL, along with financial institutions representing over US$10tn in assets. The statement calls on governments to address biodiversity loss by agreeing an ambitious and transformative GBF, and through their national policies, including by introducing consistent and decision-useful corporate disclosure requirements.

> **We also played a key role in writing a statement, which was coordinated by the Finance for Biodiversity Foundation and Ceres, addressed to governments ahead of the biodiversity COP 15.**

Antimicrobial resistance

- To raise awareness of this issue, EOS acted as a key adviser to the FAIRR report Feeding Resistance: Antimicrobial Stewardship in the Animal Health Industry and participated in a panel discussion at the launch event. The report, which was published in July, explored the practices of the 10 largest publicly-listed players in the animal health industry and the actions required to ensure resilience of the companies' product portfolios and good AMR stewardship.
- In addition to our continued engagement with companies on AMR, we have participated in a consultation with the Sustainability Accounting Standards Board (SASB) on early-stage research on the sustainability and business implications of AMR. We also provided input to the development of a One Health Priority Research Agenda on AMR.

Climate Change

- EOS is a significant supporter of CA100+, leading or co-leading engagement at over 25 of the 167 focus companies across Europe, North America, and Asia. Please see coverage of this earlier in this section.

- We asked the International Energy Agency (IEA) to produce a 1.5°C scenario, which was published in May 2021. The IEA's landmark special report, Net Zero by 2050: A Roadmap for the Global Energy Sector, set out the priority actions needed to build a global energy sector with net-zero emissions. We have engaged with the IEA over several years about the publication of such a report, understanding how significant this would be for companies undertaking scenario analysis to determine their climate strategies. As well as signing letters to the organisation through the Institutional Investors Group on Climate Change (IIGCC) and other bodies, in 2019 we went to Paris with a small group of investors to meet the IEA's executive director, Fatih Birol, to talk about the possibility of producing a 1.5-degree scenario.
- We co-authored a paper setting out investor expectations on the alignment of the banking sector with the goals of the Paris Agreement. The paper focused on three areas: the actions banks should take to align their financing activities with the Paris goals and the achievement of net-zero emissions; steps to strengthen the governance of their climate strategy; and disclosure to demonstrate implementation. Officially launched by the Institutional Investors Group on Climate Change (IIGCC) in April 2021, the paper was supported by 35 investors and their representatives, collectively representing $11tn in assets under management or advice. Participants sent a courtesy letter to 27 banks, with a copy of the paper. These banks were selected on the basis that they represent the largest fossil fuel financiers and are designated as globally systemically important. Subsequently, the group initiated collaborative engagements with these banks. EOS leads or co-leads the dialogue with eight banks and takes an active participating role with five other banks.

Diversity

- In the US, we supported the discussion draft of a bill led by the Council of Institutional Investors (CII) to amend the Securities Exchange Act of 1934. The aim is to improve the governance of multi-class stock companies and require issuers to make annual diversity disclosures. The CII draft bill is consistent with our corporate governance principles and reflects the sound legislative policy recommendations of the US SEC's Office of the Investor Advocate. In our view, the provisions of the draft bill would have a positive impact on accountability to investors, corporate performance, and the efficiency of the US capital markets generally.

Corporate purpose

- EOS is helping to accelerate best practice purpose governance globally through its involvement in the Enacting Purpose Initiative (EPI). The EPI is a multi-institutional partnership between Federated Hermes, the University of Oxford, the University of California Berkeley, BCG BrightHouse, the British Academy, and over 65 board members, global investors, and asset owners. The EPI's second report was published in July, focusing on the US. In the report: *Directors and investors: building on common ground to advance sustainable capitalism*, market participants share their insights on the value of corporate purpose and how to leverage purpose to address societal and environmental issues.
- It builds on the EPI's initial report, *Enacting purpose within the modern corporation: a framework for board directors*, which convened 30 business leaders from organisations and institutions in the UK and continental Europe. The second report sets out how to define and measure purpose and includes case studies and best practice examples to assist boards in taking ownership of corporate purpose. EOS is using the outputs of this work to deepen its discussions with companies on how they can practically enact purpose and move beyond high-level statements and alignment with culture, to embed corporate and societal sustainability in their strategy and capital allocation.

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

To document our engagement outcomes, we published 13 long-form company case studies in 2021, noted in our response to Principle 1, along with 50 summary ones. Case studies are produced on completed engagement objectives, or where we have moved a number of milestones according to our milestone progress system outlined in Principle 2. Therefore, we believe they are solid examples of where our engagement has been effective and has addressed systemic risks and promoted well-functioning financial markets. Our case studies cover a number of themes, but summary examples of those demonstrating outcomes on our focus themes are included below.

CASE STUDY: CLIMATE CHANGE

Daimler

EOS has a long history of engaging with Daimler that extends back to 2007. Since 2010, we have been engaging on climate change. In 2018, we took on the lead role of engaging with Daimler as part of the collaborative investor Climate Action 100+ initiative, intensifying engagement through meetings with the supervisory board chair and company executives. In parallel, we have addressed succession planning and remuneration. In May 2019, the company announced its targets for carbon neutral production, and all Mercedes-Benz passenger vehicles sold to be carbon-neutral in both manufacturing and use by 2039, aligned with our request.

At the 2019 shareholder meeting, we welcomed the progress and indicated our support for the newly appointed CEO and CFO. We also stressed the need for the company to take action to ensure alignment between its own support for ambitious climate policies and the positions of its membership industry associations. In October 2019, Daimler Trucks & Buses followed with the strategic goal to offer only new vehicles that are CO_2-neutral in driving operation in its major markets by 2039. Mercedes-Benz Cars & Vans set a Scope 3 emissions reduction target, verified by the Science-Based Targets initiative. We were also pleased to see part of executive compensation now linked to sustainability goals.

We will seek further meetings to ensure robust oversight of the execution of the company's mobility strategy and watch its progress in reviewing the alignment of the lobbying position of third-party industry associations of which it is a member with the Paris Agreement. Read the case study in full.[21]

[21] Daimler case study | UK Wholesale (hermes-investment.com)

CASE STUDY: HUMAN CAPITAL MANAGEMENT

BAE Systems

EOS has been engaging with BAE Systems since 2009 on a range of issues. In 2018, we were pleased to hear that, although climate had not traditionally been a priority focus, it was becoming so for its corporate responsibility committee. We were also pleased to hear that changes in leadership had brought a greater focus on human capital and particularly gender diversity. We encouraged the company to set aspirational targets and improve its reporting on human capital management. We also requested that the company seek accreditation as a living wage employer, which we see as an important indicator of investment in human capital above minimum legal requirements.

In early 2019, we returned to the topic of human capital. We were pleased to hear that internal targets for improving gender diversity had been set for managers and that the role of the HR function had been strengthened. In late 2019, we reiterated our request for public targets on improved diversity in leadership, supported by credible plans to achieve them.

In 2021, we welcomed a broad set of public commitments from the company. On gender diversity, BAE announced targets to achieve 50% women in the executive committee and 30% women in the UK workforce by 2030. The company achieved accreditation as a Living Wage employer. It also provided improved reporting on human capital management during its 2021 ESG investor event. Climate change was identified as a principal risk in the 2020 annual report and the company announced its ambition to achieve net-zero emissions across its operations.

We continue to engage with the company on human capital management. We will monitor its progress on diversity and its net-zero roadmap once published.

CASE STUDY: HUMAN AND LABOUR RIGHTS

Engaging with companies on Myanmar

Although there are no companies in our engagement programme registered or headquartered in Myanmar, some companies have joint ventures, partnerships, subsidiaries or important value chain partners there. We engaged with companies using our internal guidance for engaging on human rights in high-risk contexts, which is aligned to the UN Guiding Principles on Business and Human Rights. Associated British Foods (Primark), Chevron, Coca-Cola, DSV Panalpina, Meta (Facebook), Infosys, KDDI, Kirin, Maersk, Posco, Siam Cement and TotalEnergies were among the companies with which we engaged.

After the UK and US governments imposed sanctions on MEHL and MEC, we reviewed our engagement programme companies with potential links to these. We did not take a position on whether a company should leave Myanmar, but sought to understand each company's particular operating context and the severity of possible adverse human rights impacts. This might include how companies were working to ensure employee safety and welfare. For example, if a company operating strategic assets in Myanmar were to withdraw, would its employees be subjected to forced labour?

We engaged with French oil major TotalEnergies, which operates in Myanmar through a subsidiary under a production-sharing contract for natural gas from the Yadana field. The company said it was closely monitoring the situation, while continuing to operate the gas field, to maintain electricity supplies in the capital city Yangon. We said that if the company decided to remain in the country for a longer period, it would have to clearly explain how it came to that conclusion and what elements it had considered. We also discussed the importance of conducting heightened due diligence and of reporting transparently on this. Subsequently, we welcomed increased transparency around its rationale for remaining in Myanmar. We also welcomed the reporting of tax payments paid to the state and the equivalent sums that the company paid to local NGOs working to progress human rights in Myanmar. We continued to seek engagement with the company bilaterally on key topics such as international sanctions. We also signed a letter to the company, with investors, asking further questions about the potential human rights risks related to the company's business activities in Myanmar.

We also engaged with Chevron, whose affiliate – Unocal Myanmar Offshore Co – holds a minority, non-operated interest in the Yadana project. Following our engagement, Chevron updated its statement on Myanmar. It explained that switching off the supply of gas, and therefore electricity, to a large section of the people of Myanmar could create further hardships for them. It also noted that the shareholders of its gas pipeline joint venture had voted to suspend the payment of monthly cash distributions. Nonetheless we remained concerned about the human rights risks of the company's continued support for its local joint venture.

We supported a letter from US-based investors seeking collaborative dialogue on this matter. In late January 2022, TotalEnergies and Chevron said that they were exiting Myanmar. Total issued a statement saying that despite its earlier actions, it had not been able to meet the expectations of stakeholders who were calling for it to end the revenues going to the state from the Yadana gas field. It added that as the situation in Myanmar had continued to worsen, it had decided to initiate the contractual process of withdrawing.

CASE STUDY: BOARD EFFECTIVENESS AND CLIMATE CHANGE ACTION

ExxonMobil

In 2017, EOS joined 62% of ExxonMobil's shareholders in requesting an annual assessment of long-term portfolio impacts of technological advances and global climate change policies. Following the resolution, we urged management to demonstrate how its long-term strategy accounts for climate change. We recommended that the strategy be stress tested against various demand assumptions and policy scenarios.

In 2019, we were disappointed that ExxonMobil appeared to be withdrawing from dialogue on climate change with investors and their representatives, reducing our access to management. We recommended votes against the members of the board affairs and public issues committees, for insufficient response to climate change.

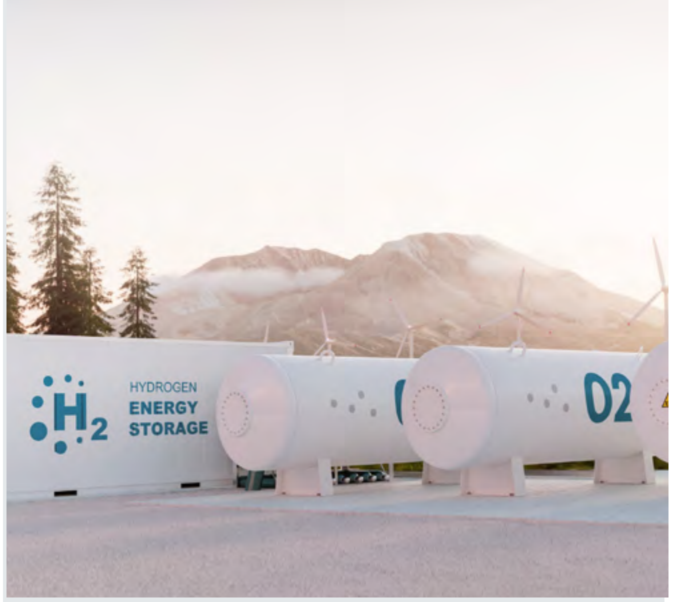
In 2021, ExxonMobil faced a proxy contest in which an activist shareholder, Engine No. 1, proposed an alternative list of directors to those put forward by the company's board. Following engagement with both Engine No. 1 and ExxonMobil, we recommended supporting the proxy contest. We believe additional board refreshment is necessary given the company's long-term financial underperformance.

ExxonMobil has taken some actions by committing $15bn for lower-emissions investments through 2027; announcing a net-zero plan and beginning methane certification for some production in the Permian Basin; and by joining 11 companies to support largescale carbon capture utilization and storage technology.

After the proxy contest, we requested targets demonstrating how Scope 3 emissions from product use will be reduced over time in line with the International Energy Agency's 2050 net-zero scenario. We recommended that Exxon Mobil support their auditor by exception since climate change is not described as a factor in the audit committee report, nor in the management resolution to ratify PricewaterhouseCoopers.

CASE STUDY

Air Liquide



We have co-led the Climate Action 100+ (CA100+) engagement with Air Liquide since 2018, and we met with the head of sustainability and the head of investor relations in 2018, 2019 and in 2020. We asked the company to start reporting against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), to make a public long-term commitment for the achievement of net-zero emissions across its entire value chain, and to set science-based targets.

We escalated our engagement in 2021, ahead of an update on the sustainability strategy. We asked for greater disclosure on the significant categories of Scope 3 emissions, for an explanation of how the company contributes to emissions avoided for its customers, and for a quantitative ambition in the low carbon markets that support the energy transition.

During its sustainability strategy day in March 2021, we were pleased that the company committed to achieving carbon neutrality by 2050. Additional information on the significant categories of Scope 3 emissions was also provided.

As Scope 3 emissions represent approximately 40% of the company's total emissions, we continued to press for a long-term goal across the entire value chain, with interim targets. Air Liquide expects that the engagement with the Science-Based Targets initiative on chemical sector Sectoral Decarbonisation Approach (SDA) development will bring robust methods around which Scope 3 commitments can be made. We also continue to press for enhanced reporting to align with TCFD reporting recommendations and with the CA100+ Net-Zero Benchmark.

Other outcomes in response to tackling climate change

According to analysis by research company BNEF, 111 of the Climate Action 100+ focus companies have set a net-zero or equivalent target, compared with five prior to January 2018 when the initiative was launched. BNEF estimates that in 2030, the net-zero targets set by these 111 focus companies will reduce greenhouse gas emissions by 3.7bn metric tons of carbon dioxide equivalent annually.

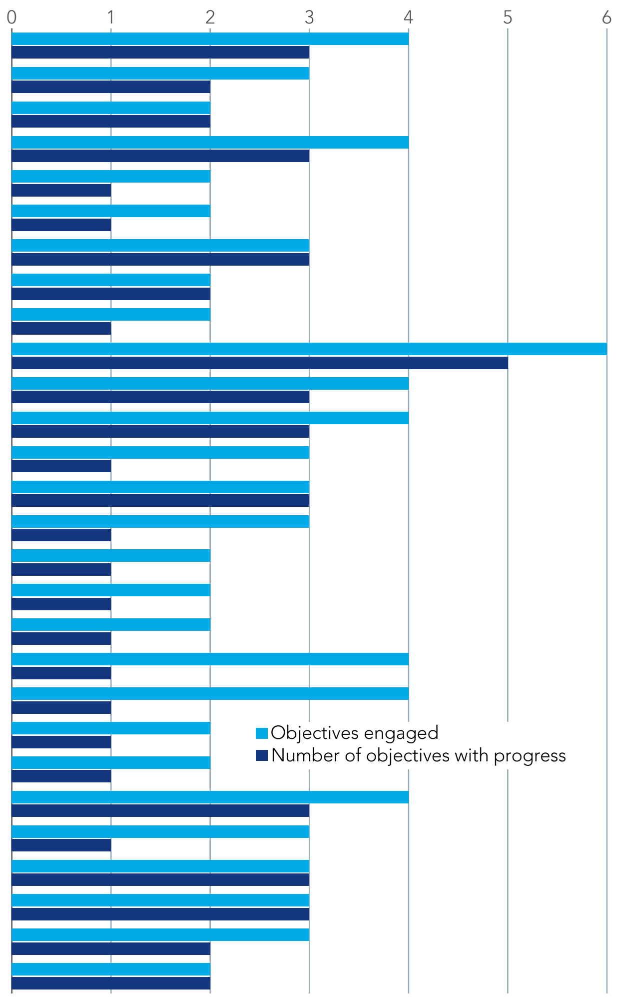
In March 2021, CA100+ published its first assessment of focus companies against the Net-Zero Company Benchmark, a standardised framework for evaluating company progress. EOS contributed to the benchmark through its collaboration with the Institutional Investors Group on Climate Change (IIGCC) – for example, on the inclusion of a test for capital expenditure alignment. The benchmark found that companies still had work to do, with alignment of value chain greenhouse gas emissions – Scope 3 – often a blind spot. For example, while 83 of the focus companies assessed – 52% of the total – had announced an ambition to achieve net zero by 2050 or sooner, 44 of these commitments did not cover the full scope of the companies' most material emissions.

We aim to take companies up a ladder of ambition, starting with an initial commitment to net-zero emissions by 2050 or sooner. This should be followed by putting in place short, medium and long-term targets aligned with 1.5°C. These should be underpinned by a comprehensive strategy, with capital expenditure aligned to the Paris goals and good disclosures of progress, in line with the TCFD recommendations. The final step is for companies to become 'Aligned' by demonstrating good progress against these targets. Ultimately this should lead to a portfolio of net-zero companies, ideally by 2030 or sooner.

To support these aims, we set a variety of objectives for companies within the CA100+ initiative, with whom we have engaged.

Progress of environmental objectives for selected CA100+ companies engaged by EOS, 2021

Company Name	EOS Sector	Participation
LyondellBasell Industries	Chemicals	Co-Lead
BASF	Chemicals	
Air Liquide	Chemicals	Co-Lead
Rolls-Royce Holdings	Industrials	Co-Lead
Siemens	Industrials	Lead
Boeing	Industrials	
Anglo American	Mining & Materials	Co-Lead
CRH	Mining & Materials	Co-Lead
Glencore	Mining & Materials	
Exxon Mobil	Oil & Gas	
TotalEnergies	Oil & Gas	Co-Lead
Equinor	Oil & Gas	
Repsol	Oil & Gas	Co-Lead
Occidental Petroleum	Oil & Gas	
Royal Dutch Shell	Oil & Gas	
BP	Oil & Gas	Co-Lead
Chevron	Oil & Gas	Co-Lead
PetroChina	Oil & Gas	Co-Lead
Walmart	Retail & Consumer Services	Co-Lead
AP Moller – Maersk	Transportation	Co-Lead
Bayerische Motoren Werke	Transportation	Co-Lead
Daimler	Transportation	Lead
American Electric Power	Utilities	
Dominion Energy	Utilities	
Duke Energy	Utilities	
Engie	Utilities	
PPL	Utilities	
CEZ	Utilities	



Source: EOS data

The political lobbying and public policy advocacy conducted by companies directly or through the trade associations to which they belong can have a significant influence on the structural policy environment. We ask companies to assess their industry memberships and identify any areas of climate policy misalignment. For example, after three years of specific engagement by EOS, BMW, another company where we co-lead for CA100+, published its first policy in relation to its trade association memberships. This describes how the company monitors the climate policy positions of its trade associations and its new, proactive approach to membership that seeks to influence the positions taken by these organisations.

Key outcomes from our response to Covid-19

As the pandemic rolled on through 2021, it became clear that key workers in retail, healthcare, logistics and other people-facing roles were significantly worse off than office workers who could work from home. Gig workers, who are often excluded from benefits that full-time or part-time employees receive such as paid sick leave, were particularly hard hit, even as demand for their labour increased. A lack of sick pay provision means that if workers fall ill, they may have to choose between losing their income or going to work while sick, increasing the risk of passing on the infection to others.

Existing social and economic inequalities affecting women and people of colour were also exacerbated by the pandemic. Home schooling meant that unpaid care work increased, with the burden impacting women to a greater degree, while racial and ethnic minorities were disproportionately represented in key sectors such as retail, healthcare and manufacturing, putting them at greater risk of exposure to Covid-19.

During the pandemic our engagement has centred around company management of the most material human capital issues as we believe that increased productivity and business sustainability is achieved through investment in the workforce.

- We engaged with supermarket chain Tesco on paying its UK employees a living wage. While the retailer is not certified by the Living Wage Foundation, we were satisfied that Tesco's approach to pay was a reasonable alternative. This was on the basis that it appears broadly equivalent in value, that employees influence the composition of the package, and that they report relatively high levels of satisfaction with its competitiveness.
- As part of a concerted effort to increase gender diversity across the Japanese companies in our engagement programme, we welcomed the significant improvement that Nifco made in its disclosure of data on human capital management and gender diversity. While the company was unable to meet its target to improve the proportion of female managers to 8% by the deadline, it described various measures to improve this. For example, it has appointed a female executive officer from outside, changed its personnel system and is focused on identifying and developing young talent as management candidates.
- We also engaged with Starbucks around setting a clear strategy for diversity and inclusion and combatting racism, including training for a larger percentage of employees and measuring the experience of racial minorities in its stores. The company appointed a global chief inclusion and diversity officer in 2020 and expanded its inclusion and diversity strategy in 2021, which mandated anti-bias training for vice president levels and above. The company said that it considered the experiences of racially-diverse customers by collecting feedback from external civil rights groups as a proxy for customer experience, in addition to feedback from customer helplines. Managers were expected to respond to concerns raised by employees through its anti-bias questions in its annual survey.

Looking beyond the pandemic

As countries plan for a post-pandemic recovery, we are engaging with companies, policymakers and society as a whole to reflect on the factors behind the crisis. This may mean reassessing business models, energy and transport infrastructure and economic systems that fail to align with the goals of the Paris Agreement on climate change.

In the first instance, companies should not be surprised if governments regulate to insulate society from future pandemics. Actions that could significantly impact companies include enhancements to employment law, and health and safety regulations. We also believe that business activities that threaten future health and wellbeing, including those relating to intensive animal farming with its links to anti-microbial resistance and infections transmitted from animals to humans, could face new controls.

Principle 5

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

Our client base

EOS represents a large client base of institutional investors around the world, advising on their assets of over US$1.6tn, comprised of equity and debt holdings. Established formally in 2004, we have a long track record of working with a variety of client types in 14 different countries, including: Australia, Belgium, Canada, Denmark, Germany, Ireland, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States, who have a range of different underlying stakeholders and beneficiaries. A large portion of our client base is made up of asset owners (pension funds, foundations, sovereign wealth funds) and the rest comprises non-asset owner clients, including investment consultants, asset, wealth and fiduciary managers.

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

How our services best support our clients' stewardship

Relationships and access

We offer a shared service model that provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. Companies understand that EOS is working on behalf of large institutional investors – representing assets under advice of US$1.6tn – this gives us significant leverage to exercise more effective stewardship on behalf of our clients.

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

A client-led and tailored approach

Our Engagement Plan provides agreement between us and our clients about our approach to and the substance of our engagement. Under Principle 4 we identified our 12 key themes and 37 related sub-themes for the next three years. Through many client touchpoints, client input drives our Engagement Plan to ensure that it represents their priorities and those of their underlying beneficiaries.

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

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

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

Screening and engagement

We monitor our clients' listed equity and corporate debt holdings, which in practice is a universe of around 20,000 companies. We formally screen these holdings quarterly using our screening tool, the CCR, which flags companies that contravene the 10 Principles of the UN Global Compact or are at risk of doing so. This is supplemented with companies engaged in the production, distribution or maintenance of controversial weapons, and those with infringements on trade and arms embargoes.

Through a proprietary screening process we identify the companies where there is the most value at risk, and target these for systematic and intensive engagement. We also undertake lighter touch, reactive engagement with additional companies throughout the year, as suggested by our clients.

Some highlights of our engagement activity in 2021 are as follows:

84 companies in our core programme featured engagements with the CEO

67 companies in our core programme featured engagements with the chair

280 companies in our core programme featured engagements with senior management

We engaged with companies in our core programme in 2021 on average more than **4** times

Regional corporate governance principles **22**

92% of our relationships with companies in our core engagement programme have lasted 5 years or more

75% of our relationships with companies in our core engagement programme have lasted 8 years or more

Source: EOS data

An integrated service offering

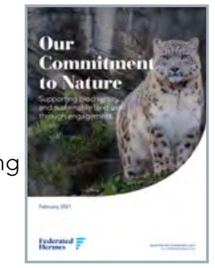
By putting engagement with companies at the heart of what we do, our other stewardship services, which include providing voting recommendations, portfolio screening, public policy and advisory services, are strengthened by being combined with this engagement insight. Under Principle 2, we highlighted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

Thought leaders and work on emerging themes

Our like-minded clients are often already very sophisticated in their own approach to stewardship, and our services add to this. Yet they still seek value from our thought leadership and our identification of new and emerging themes of importance to tackle.

In addition to the four priority themes that we identified for our updated Engagement Plan (referred to earlier in this report), we are pursuing further engagement in these fast-growing areas:

- **Biodiversity** – Building on our existing work in this area, in 2022, we will engage with companies, especially those that are involved in the production and sale of food, on halting and reversing biodiversity loss. As we outlined in our white paper on biodiversity, as a priority companies must identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services. They must reduce their impacts on biodiversity across the value chain following the mitigation hierarchy and aim for a net-positive impact on biodiversity as best practice. Depending on the specific company context, engagement will cover various issues including deforestation, regenerative agriculture, sustainable proteins and chemical run-off management.



- **Fast fashion** – We will continue to engage with apparel companies on their environmental and social impacts, building on our fast fashion white paper published in April 2021. We will push companies to acknowledge the need to move to a circular business model and assess the risks to their business from their environmental impacts, including in their supply chain and from product disposal. We urge companies to set science-based greenhouse gas emissions reduction targets and timebound targets for sustainable materials. We will also engage on the management of salient human rights risks in companies' value chains.

- **Digital rights** – We published high-level expectations on digital rights in 2022. Digital products and services can play a critical role in strengthening human rights but have also engendered unexpected harms and created new challenges. We will engage with companies on negative societal impacts including problematic content on social media; the misuse of artificial intelligence; health and safety impacts on children and young people; and the environmental and social impacts in hardware supply chains. We expect companies to balance freedom of expression with obligations to remove problematic content, and take action to respect privacy rights online.

Integration of client views and feedback into our approach

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

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

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

Communicating with clients

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

- Our online client portal was built so that clients can access high-level, as well as company-specific, engagement activity 24/7. It also includes an online library of relevant documents and client communications. In 2021 we completed the redevelopment of our client portal and rolled this out to clients. We worked closely with clients, requesting their feedback on desired enhancements and consulting with them periodically throughout the process.
- Quantitative and qualitative reports are provided on a monthly, quarterly or annual basis with company updates and statistics on our work. Our client portal has the functionality to extract engagement data.
- On an ad-hoc, regular basis, market insights on key industry topics and company case studies on our engagements are published on the EOS Insights page of our website and communicated to clients. Our process around case study development ensures that we always send our drafts to the companies for a fact-check, verifying the engagement impact we have described and adding credibility to the stewardship outcomes we are achieving on behalf of our clients. In 2021, we issued 63 case studies and over 50 other materials, covering a range of themes, markets and companies, which can be used by our clients to communicate with their internal and external stakeholders.
- On an ad hoc basis, clients are sent invitations to join client-only events, such as educational calls, training sessions and opportunities to seek feedback. In 2021, topics included the EU Sustainable Finance Disclosure Regulation (SFDR), Engaging in Asia and Emerging Markets, Voting Season Trends, and Modern Slavery.
- Clients are invited to join engagement meetings and upcoming meetings on a sustainable and appropriate basis.

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

Consideration of clients' views and feedback

As we described in detail under Principle 1, our services, and the way in which our clients express their views and give feedback, have developed over a number of years, and this is anchored in our heritage. Central to this is our client-led Engagement Plan, which was driven by clients requesting a systematic approach to engagement and a written agreement of the stewardship priorities identified on our clients' behalf.

Reporting

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

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

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

Voting

On behalf of our clients, in 2021 EOS delivered:

Number of voting recommendations made in 2021:	at	Number of recommended votes against:
128,858	**13,412**	**20,665**
resolutions	meetings	resolutions

Source: EOS data

In advance of the voting season, we provided a detailed overview of our expectations, noteworthy AGMs/ballots, and an overview of material changes to our voting policies for clients via an EOSi call. Clients are welcome to provide us with feedback on our approach to voting recommendations and we may make tweaks to our policy where appropriate.

In response to the pandemic trend for more virtual and hybrid annual shareholder meetings, and the fact that some meetings were held behind closed doors in 2020, we published our EOS Principles of Annual Meeting Good Practice ahead of the 2021 voting season.[22] This set out our thoughts on how to maximise the value of the meeting for the company and shareholders, to prevent shareholder rights being eroded.

Every year we also revise our global voting policy guidelines, which inform our recommendations to proxy voting clients. Given the significant variation across markets, the global voting policy sets out our broad position on a number of key topics with general global applicability. For 2022, we have strengthened our policies for board diversity and board independence.

In Europe and Australia we now expect women to make up 30% of boards at the largest companies, at a minimum, aligning expectations across markets. If boards fail to meet minimum thresholds, we will consider recommending voting against relevant directors, including the chair. In North America, we have also raised our expectations to a minimum of 30% women for the largest companies, up from 20%. In global emerging markets and Asia excluding Japan and South Korea, we are looking for a minimum of 20% gender diversity. We will consider voting against relevant directors for inadequate disclosure of director gender identity.

In the UK we continue to enforce the minimum standards set by the Hampton-Alexander Review, expecting FTSE 350 companies to have at least 33% women on the board. We also look at below-board gender diversity for the FTSE 100, and will consider opposing the chair where there is an all-male executive committee or fewer than 20% women in leadership positions.

For ethnic diversity, in North America we have moved from using a 10% minimum threshold to asking for one ethnically-diverse board member, or more. This echoes the approach taken by the Parker Review in the UK, which set a target for boards to include at least one director from an ethnic minority background by 2021. In light of this, we introduced a new policy from 2021 to oppose FTSE 100 chairs where there was no ethnic minority director, or no submission to the Parker Review and no commitment to do so in future. We will continue this in 2022.

[22] https://www.hermes-investment.com/ukw/wp-content/uploads/2021/03/eos-principles-of-annual-meeting-good-practice-february-2021.pdf

In our broader climate change voting policy, we will consider recommending voting against the chair and other relevant directors at companies where we consider a company's climate change response to be insufficient, or its activities and reporting, including its financial statements, to be materially misaligned with the goals of the Paris Agreement. Particular areas of concern include the expansion of coal-fired power and a company's contribution to deforestation. Assessments will be informed by a range of indicators, including the Transition Pathway Initiative assessment and the Climate Action 100+ Benchmark.

We have also made some changes around pay. In Europe and Australia, we continue to push for higher shareholding requirements for executives. For 2022, the expectation in France is increasing to 400% of base salary, joining the UK and Switzerland, for the largest companies. Engagers will increasingly escalate concerns to the remuneration committee chair where there are major or persistent concerns. In Japan, we will recommend voting against the use of options with short exercise periods, and in North America, we will continue to engage on persistent pay for performance issues and stronger alignment with EOS pay principles.

Many vote recommendation clients will disclose their voting behaviour on their own website, and we provide vote disclosure files to them for this purpose. We were able to facilitate enhanced reporting via our partner, ISS, to help clients as they consider 'significant votes' relevant to their portfolio, as per the EU's Shareholder Rights Directive II and the UK Stewardship Code.

We also assist PRI signatory clients with inputs they can use to support their own reporting.

Screening

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

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

The effectiveness of our communication with clients

Communication through reporting and the client portal

Earlier examples under this Principle demonstrate that we have diverse reporting to cater to different client needs. Our confidential client portal was built in response to client feedback and a need for a window into our engagement activities. However, over time, by gathering feedback via our many client touchpoints, client needs have become increasingly sophisticated. Over 2020 and into 2021 we developed and rolled out a new portal. Based on client feedback, we introduced new functionality to enhance the user experience. The portal allows clients to more easily view the activity undertaken on their behalf, and to track the progress we are making in our engagements. It also offers an enhanced search facility to make it easy for clients to find information across all the content we produce. We have also developed a mechanism for clients to extract the underlying data to support their own bespoke reporting requirements.

Communicating our progress at companies

Our four-stage milestone system allows us to track the progress of our engagement, relative to the objectives set for each company (as detailed in Principle 2). Principle 1 includes a graphic of the headline engagement progress we made in 2021. We communicate which milestone each objective is at through our client portal, which provides 24/7 access to engagement insights for clients. We have enhanced how we express this information to clients as part of the client portal redevelopment.

Client feedback has confirmed that public case studies provide an engaging way of communicating our progress to our clients. Case studies are typically written about objectives that have reached completion by progressing to milestone four, as this is when we are satisfied that the company has achieved the goal. Responses from our annual client survey consistently demonstrate that clients highly value this output as it helps them to communicate with their external stakeholders. Often there is a need for more succinct summaries of case studies for clients to use in their reporting. In response to this, we have deliberately increased the number of short-form case studies that we produce. During 2021, we published 13 standalone full-length case studies and 50 short company updates, all fact checked by the companies, some of which appeared in our Public Engagement Reports.

In 2021 we continued to assess how we could better focus and measure our engagement with respect to impact. We have worked with clients and external stakeholders on ways to enhance this, and look forward to implementing this in 2022.

Principle 6

Signatories review their policies and assure their processes.

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

Engagement and voting

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

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

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

The EOS voting guidelines are developed through an annual process, which runs in conjunction with the policy review process at ISS informing its benchmark research. EOS looks at feedback from clients, the evolving best practice in each market, plus the changes made at ISS in view of the resolution-level data for past voting seasons, to consider what additional changes are warranted. Further input is provided by our Engagement Plan, which identifies the thematic priorities for engagement. These can often be boosted by enhanced vigilance and potentially escalated through our voting recommendations.

EOS completes its major policy changes before the main voting season in each market. Once the changes are applied, the policy is monitored to ensure that it is having the desired effect and adjusted further where appropriate. Our Global Voting Guidelines are approved annually by the governance committee. The regional corporate governance principles are approved by the engagement management committee and noted by the governance committee. You can read more about some of the recent revisions to our global voting guidelines under Principle 5.

The EOS voting guidelines are developed through an annual process, which runs in conjunction with the policy review process at ISS informing its benchmark research.

We subsequently opposed five FTSE 100 chairs for failing to meet minimum expectations for racial diversity on boards.

Below, we give examples of the way our voting guidelines were applied in the 2021 voting season.

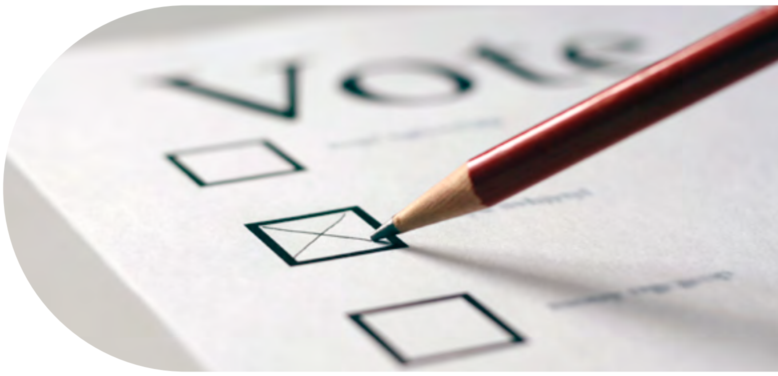
Board composition and diversity

In 2021 we ramped up our voting action on ethnic diversity, having signalled this in our Corporate Governance Principles and engagement for several years. In addition, targets from the Parker Review came into force for UK boards to include at least one director from an ethnic minority background. We subsequently opposed five FTSE 100 chairs for failing to meet minimum expectations for racial diversity on boards. Overall in the UK, we opposed 37 proposals for concerns about insufficient diversity, including gender diversity, at board level and below, versus 35 proposals in 2020.

In the US, we opposed 1,322 proposals for insufficient gender and ethnic diversity, up from 945 in 2020, while in Canada we opposed 190 proposals on this issue, a leap from eight in 2020. On a global basis, we recommended voting against 2,693 proposals due to diversity concerns, up from 1,805 in 2020.

In Asia we saw some progress on board gender diversity, such as in India and South Korea, but it remained a concern across markets. In China, Hong Kong and Taiwan, we still regularly see all-male boards. We expanded our approach of recommending a vote against board chairs or nomination committee chairs if they were up for election, to include any new male director if these two options were not possible (unless independence was a concern and the new male director improved that).

As a result of this policy, we recommended voting against a new male director due to concerns about the all-male board at China Mengniu Dairy Company and against directors at Techtronic Industries, Samsonite and Bharat Forge due to low gender diversity. For Hong Kong companies as a whole we made 378 recommendations against management due to diversity concerns in 2021, versus 333 for 2020. In India we recommended voting against 128 times, a jump from just four times in 2020.



We set a clear expectation that boards should continue to use their judgement to ensure that executive pay could be justified in the context of the experience of other stakeholders, particularly for companies that had made redundancies, benefited from government support, or were otherwise in distress.

Executive pay

In 2021, shareholders in many countries were asked to vote on the decisions taken on executive pay for 2020, which heightened our concern given the backdrop of Covid-19. We set a clear expectation that boards should continue to use their judgement to ensure that executive pay could be justified in the context of the experience of other stakeholders, particularly for companies that had made redundancies, benefited from government support, or were otherwise in distress. Overall, we recommended a vote against 38% of pay proposals, compared with 35% in 2020. In the US, where we believe there are substantial issues with executive pay practices, we opposed 88% of compensation proposals versus 81% in 2020. These concerns were exacerbated by decisions to insulate executives from the impacts of Covid-19, relative to other stakeholders.

For example, at hotel chain Hilton, we recommended voting against the say-on-pay proposal and the chair of the compensation committee. The compensation committee had altered the performance metrics in the long-term incentive plan due to Covid-19 after the company realised that the performance stock units would not pay out. This meant that the long-term plan paid out much higher, appearing out of step with the company's decision to lay off 25% of its staff in mid-2020. Elsewhere, we recommended a vote against the board chair at fast food chain McDonald's due to the board's failure to oversee a sufficient investigation into allegations of misconduct against the former CEO. We also recommended a vote against the executive compensation and compensation committee chair due to a failure in the company's clawback policies to recoup the severance awards made to the former CEO.

As well as scrutinising decisions taken against the backdrop of the pandemic, we continued to oppose pay where we judged it to be excessive or misaligned with the interests of long-term shareholders and other stakeholders. At miner Rio Tinto, we opposed the remuneration report due to the heavy focus on shareholder returns in its pay schemes, with limited consideration of other, important strategic and stakeholder factors. We also had concerns about pay-outs to departed executives, which we believed did not sufficiently reflect the failures that led to the destruction of the Juukan Gorge caves in Western Australia. The company suffered a significant defeat with over 60% of shareholders opposing the remuneration report.

We also recommended a vote against at AstraZeneca, which proposed further increases to the already substantial incentive awards offered to its CEO, and where we opposed the previous schemes on the basis of excessive quantum. Around 40% of investors voted against, a sign of the growing discontent.

Self-review in response to the pandemic

We have outlined the changes to our policies and activities in response to the pandemic under Principle 4. We also had to take much more of a 'digital first' approach to our delivery to ensure that clients still received everything they would expect to get under normal circumstances. This was particularly relevant to our client relationship reviews, which we typically try to carry out in person.

Assurance in relation to activities that support our clients' stewardship

Assurance of engagement and overall service

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

Assurance of our voting recommendation process

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

As mentioned under Principle 2, we have an engagement management committee that provides assurance in consideration of engagement quality, continuity and coverage in the interests of clients.

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

External audit assurance on our integration and stewardship activities

To maintain the quality of our engagements we have established a quality-assurance programme. Day-to-day operations and quality assurance are managed by the EOS leadership team, as outlined earlier in this report.

In relation to engagement quality there is an Engagement Management Committee, which considers engagement quality, continuity and coverage in the interests of clients. There are also director-led engagement clinics to confirm that our engagement is focused on the right objectives and issues, and to review the proposed approach to engagement. An annual review of objectives also takes place.

Day-to-day operations and quality assurance are managed by the EOS leadership team, as outlined earlier in this report.

In addition, Prime Advocates Limited, an independent external assurer, undertook a limited assurance engagement on the information disclosed as part of the sustainability reporting of FHL (at the time, Hermes Fund Managers Limited) from June 2020 to July 2021 (inclusive). The limited assurance engagement related only to our stewardship and ESG integration within our listed equities, credit, real estate and infrastructure investment portfolios.

The assurer's report contained the following conclusion: 'Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that [Federated Hermes' Limited's stewardship and ESG integration] within its portfolio investment for Equity, Credit, Real Estate and Infrastructure has not been prepared, in all material respects, in accordance with the identified applicable appropriate criteria. We are satisfied, subject to our limited reasonable assurance, that [Federated Hermes Limited] Exceeds regulatory requirements and current best practice for [stewardship and ESG integration].'

Internal audit

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

Compliance

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

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

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

Ensuring our reporting is fair, balanced and understandable

Under Principle 5 we described in detail our range of activity-based, qualitative and quantitative reporting for clients, as well as how they can present their views and feedback through our eight client touchpoints. This is central to our continuous evolution to ensure that our reporting is fair, balanced and understandable, including representing a range of outcomes in our reporting and describing the lessons learned.

We also outlined the comprehensive process that our case studies have in their own right. Key members of our functional heads team review these case studies and, once they are happy, we send our drafts to the companies for a fact-check. This verifies the engagement impact we have described and adds credibility to the stewardship outcomes that we are achieving on behalf of our clients. Our governance structures and processes described under Principle 2 also consider the quality of our reporting as part of their purpose.

> **Under Principle 5 we described in detail our range of activity-based, qualitative and quantitative reporting for clients, as well as how they can present their views and feedback through our eight client touchpoints.**

As we highlighted earlier in this report, we have redeveloped our client portal to enhance the search functionality and user experience, also introducing the ability for clients to generate bespoke reporting based on the themes of their choice. Our dedicated client working group has been an additional forum that has allowed us to discuss the project in detail and share ideas and developments to ensure our reporting is fair, balanced and understandable. We also undertake a peer analysis review on a regular basis.

> **Following client feedback and an internal review, our screening service tool, which we outlined under Principle 2, was enhanced in 2019.**

Using feedback for continuous improvement

Changes following external consultancy review

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

Changes to the engagement management committee

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

Changes to our screening tool

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

Conclusion

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

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 their assets. EOS is based on the premise that companies with informed and involved investors are more likely to achieve superior long-term performance than those without.

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

EOS000992 0012783 04/22