

North America Vote Guidelines

Canada and United States



**EOS at Federated Hermes
2023**

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INTRODUCTION

EOS at Federated Hermes is a global stewardship service provider representing a broad range of long-term institutional investors. As at 31 December 2022 EOS acts on behalf of \$1.34tn, engaging with investee companies around the world to promote long-term, sustainable returns to investors, their beneficiaries, and other stakeholders, and provides vote recommendations to a majority of these clients.

This document sets out our **Vote Guidelines for North America for 2023**. It focuses on specific governance and certain environmental and social matters that have a direct impact on our voting recommendations to clients. It is not an exhaustive reflection of EOS' views or engagement priorities and should be read alongside:

- **EOS Public Engagement Plan¹**: EOS' engagement priorities and expectations of public-listed companies around the world across the full spectrum of environmental, social, governance and strategic matters.
- **EOS Global Corporate Governance Principles²**: EOS' best practice global principles of corporate governance, not limited to matters with direct voting implications.

General voting principles

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resolution and only to abstain in exceptional circumstances such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.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

¹ [EOS library | Federated Hermes Limited \(hermes-investment.com\)](https://www.hermes-investment.com)

² [EOS library | Federated Hermes Limited \(hermes-investment.com\)](https://www.hermes-investment.com)

DIRECTOR ELECTIONS

Director accountability

Identifying ‘responsible directors’: We will look to identify the most appropriate director to hold accountable for areas of concern. For concerns which do not relate to an individual (e.g. tenure, attendance, time-commitments) but rather to issues for which directors have collective responsibilities (e.g. remuneration or audit practices), we will generally follow a hierarchy of accountability, starting with the chair of the board or the incumbent chair of the relevant committee. Where this is not possible or appropriate, we will consider opposing other committee members, starting with the longest-tenured, followed by the longest-tenured director on the full board standing for election. This hierarchy should be assumed throughout this document where we refer to ‘responsible directors’.

- We may recommend opposing directors and/or their discharge if serious governance or behavior failings have occurred during their tenure. We may also consider failings on other boards that a director has previously or currently sits on.

Annual director elections: we strongly advocate for annual director elections. We expect a sunset date to be set for any classified boards established following initial public offering to facilitate a transition to annual director elections. Where a board believes a classified structure to be in the best interests of long-term shareholders, it should provide clear and explicit disclosure explaining the additional value this structure provides.

- We generally recommend opposing the election of responsible directors where a board is classified and there is no sunset provisions and/or where we are not satisfied with the justification provided for a classified board structure.

Board composition and effectiveness

Chair, CEO and Lead Independent Director roles: We strongly advocate for the separation of chair and CEO roles and for independent chairs and support the position of most Canadian companies to have separate Chair and CEO appointees on the board. We believe the CEO should manage the business and the chair should manage the board, enabling independent oversight. Combining the roles brings inherent conflicts and risks weakening the independent oversight of the board and overly concentrating power in one person. This issue is particularly compounded by the absence of a lead independent director (LID) with robust powers. Companies with combined chair/CEOs should, in the short term, appoint a LID with the necessary formal powers and attributes ([see appendix](#)) and, over the longer term, move to separate the roles.

- We generally recommend supporting shareholder proposals advocating for independent chairs and expect these to be carefully evaluated by the board. If such a proposal is supported by a majority of shareholders voting, even if precatory, the board should move swiftly to appoint an independent chair. If the proposal does not receive majority support, we still expect the board to respond in all material respects to the points raised in the shareholder proposal.

Executive chairs: We do not believe that running the board should be a full-time managerial responsibility. We see risks including obfuscating the lines of responsibility and accountability between the role of executive chair and the CEO, which can impede the board's ability to scrutinize and challenge management's business decisions, especially those made by the executive chair in a past management role. Where this structure is used, the board must provide clear and explicit disclosure explaining why it believes it to be in the best interests of long-term shareholders, when it was last reviewed and will next be reconsidered, and the factors this review will consider.

Independence: Boards should comprise a substantial majority of independent directors to ensure that stakeholder interests are protected, to exercise objective judgement and, if necessary, to act as agents for change. We do not encourage substantial representation of executives on the board, beyond the CEO and potentially a small number of other key executives where there is a clear rationale, and this does not unduly weaken independence. Ensuring sufficient levels and quality of independence is particularly important for founder-led companies, those with executive or non-independent chairs, significant shareholder representatives on the board (which we believe can be useful and justified, provided minority shareholder interests are protected) or significant management representation on the board. The independent directors should be empowered to meet separately to the full board and be granted unfettered access to members of management, information and resources as required. In the largest Canadian companies, we observe there is a tendency for significant interlocking and overlapping directorships which can reduce the pool of directors and can dampen the positive effects of greater board diversity of thought, which complements independence. We hope that this trend can be reversed through the appointment of first-time directors.

- We generally recommend opposing the election of responsible directors, when independent directors comprise 50% or less of the board.

Tenure: We expect a healthy mixture of tenures on boards, supported by regular board refreshment. We consider the overall composition of boards and recognize the value that long-serving directors can contribute. We do not have rules for retirement or tenure and believe that experience and a detailed knowledge of a company can be helpful. However, too many directors serving concurrently over a long period can increase the risk of groupthink and complacency. Further, boards with long serving directors, including those with service at related companies or other links to other directors or management, can indicate over-familiarity and insufficient challenge to management and other board members. This is particularly the case when there is little evidence of recent board refreshment. Such longstanding directors also impede the welcome move to more diverse boards.

- We generally recommend opposing the election of relevant directors when three or more directors have concurrently served together on the board for more than 20 years or when average tenure exceeds ten years with no new appointees in the last five years.
- **Availability:** Directors should have sufficient time to fulfil their duties, with the guideline that they should not hold more than the equivalent of five directorships. We consider an executive role to be roughly equivalent to

four directorships and non-executive chair role to be roughly equivalent to two directorships. We also consider some committee chair roles (particularly audit and risk at complex companies) to be weighted more heavily than a typical directorship. We may also consider a range of other factors when assessing an individual's level of commitments, including any roles at private companies or other organizations and the size and complexity of organizations in which they are involved. For example, certain industries, such as banking, may bring business model and regulatory complexity, while others with large and/or complex operations may require site visits and therefore more time commitment. We may recommend opposing the election of directors that do not meet our guidelines on time-commitments or who do not attend at least 75% of meetings without clear disclosure to justify their absence.

Committees: The board should establish appropriate committees that reflect the nature and complexity of its business and with regular rotation and refreshment of leadership and membership. Larger boards (typically of eight or more directors) should have specific committees covering audit, executive compensation and governance/nominations. All key committees should comprise 100% independent directors.

- We generally recommend opposing the chair of the nominating and governance committee where nominating and governance, audit, and/or compensation committees do not comprise 100% independent directors.

Non-executive compensation: Non-executive directors (NEDs) should not be compensated in performance shares or participate in any incentive schemes as this could seriously impair their independence. We encourage directors to build a modest amount of stock ownership, but steps must be taken to mitigate risks of such a holding impairing independence (for example, capping the size of holdings and/or having mandatory shareholding requirements for at least the duration of the director's tenure).

- We may recommend opposing responsible directors if non-executive directors are compensated in performance-based shares or options.

DIVERSITY EQUITY AND INCLUSION (DE&I)

Importance of board oversight of DE&I: DE&I is an ethical and business imperative. Expanding and improving upon DE&I, both at the leadership level and throughout the wider organization, creates enduring value by improving decision-making, attracting talent, enhancing workforce satisfaction and stimulating insight and innovation.³ A growing body of evidence supports the system-wide benefits of social and economic inclusion, and the risks of continued exclusion, by linking more diverse company leadership with greater financial performance.⁴ We will hold boards accountable for more effective oversight of inclusive culture and diversity across all levels of the company's workforce and effects on the ecosystem upon which the company's long-term health depends, including suppliers, customers, and communities.

³ For example, [Delivering growth through diversity in the workplace | McKinsey](#)

⁴ For example, The 30% Club has compiled a list of studies examining the benefits of gender diversity <https://30percentclub.org/initiatives/investor-group>

Board and management DE&I: Boards should seek diverse composition in its broadest sense to support high-quality debate and decision-making, considering diversity of skills, experience, networks, psychological attributes, and demographic characteristics (including, but not limited to, race, ethnicity, gender, sexual orientation, age, disability, nationality, and socioeconomic background). We expect companies to clearly disclose board diversity and encourage directors to self-identify. Companies should create a culture where self-identification is possible. In-line with our support for the 30% Club,⁵ we generally view achieving 30% minimum representation of women on both boards and executive teams to be a minimum standard and a core component of wider DE&I targets. Further, we expect to see urgent progress towards greater representation of racial and ethnic minorities, particularly those facing heightened discrimination such as those who are Black or African American, Hispanic or Latinx, Asian (with many diverse sub-groups), Indigenous and people of two or more races. We urge companies to additionally consider other diverse or underrepresented populations including those who identify as LGBTQ+ or those with disabilities.

- We may consider recommending votes against responsible directors where we do not see:
 - A minimum of 40% board diversity including gender, race and ethnicity, and ideally 50% overall board diversity including other diversity traits such as LGBTQ+ and disability.
 - Within the 40% overall expectation, 30% minimum representation of women or the minority gender (including those who identify as non-binary) and one or more directors from an ethnically or racially diverse background.
 - For S&P500, Nasdaq and TSX listed companies, executive teams with at least 30% representation of women or the minority gender (including those who identify as non-binary).

DE&I shareholder proposals: We expect boards that receive precatory (advisory) DE&I related shareholder proposals to consider adopting them and/or recommending shareholder support, especially where the company feels it is already complying in all significant aspects with the shareholder proposal. For example, third-party racial equity audits can enhance board oversight ability, particularly at companies with prior diversity, equity, and inclusion issues, by providing additional information to thoroughly analyze root causes of complex and nuanced issues and more rigorously evaluate performance.

EXECUTIVE COMPENSATION

EOS views on executive compensation practices in North America: We are increasingly concerned that executive compensation structures and practices are not fit for purpose, neither serving long-term investors nor aligning properly with the core long-term objectives of companies, and that poor practices are at risk of spreading to other countries where pay is more restrained. We believe that most current executive compensation schemes play little positive role in embedding desirable corporate cultures, fairness, or the best ways of working for the long-term sustainability of the business. We call on companies to show leadership in transitioning to simpler pay schemes, more clearly aligned with long-term,

⁵ 30% Club (30percentclub.org)

sustainable value creation and the desired corporate culture and strategy, while having regard to wider social and environmental outcomes.

This document provides a summarized view of our vote policy guidelines on executive pay. We expand on our views in the following:

- Our paper, *Remuneration Principles: Clarifying Expectations*⁶, describes our five key principles for executive pay: simplicity, alignment, shareholding, accountability, and stewardship and our views on transitioning to simpler schemes based on long-term share ownership.
- Our Global Corporate Governance Principles⁷ provide more detail on how we consider our key principles when reviewing pay and discusses our expectations on issues like board accountability, ESG in pay, capital allocation and buy backs, and quantum.

EOS vote policy approach to executive compensation: We do not seek to be overly prescriptive about specific structures and metrics but continue to make the case for simpler pay schemes aligned to long-term success and the desired culture in the organization. Generally, we believe this could be better served through smaller, more fixed pay awards with a substantial portion deferred into long-term, time-restricted stock, coupled with high shareholding requirements for executives for at least the duration of their tenure and ideally several years after their departure. We expand on our views in our paper, *Remuneration Principles: Clarifying Expectations*⁸ which, while somewhat UK-focused in parts, articulates our five key principles for executive pay: simplicity, alignment, shareholding, accountability, and stewardship.

We recognize that many US companies continue to employ pay practices that fall short of our expectations. Rather than automatically recommending opposing every such scheme, which we do not believe would be constructive, we have set various guidelines and thresholds to address what we see as the highest risk most egregious practices and to push for better alignment with our principles.

- We may recommend opposing 'say on pay' proposals and the chair of the compensation committee, or other responsible directors, where we believe pay practices materially misalign with the principles set out above.
- Specific indicators which may lead us to recommend opposing include:
 - Total quantum of CEO pay is excessive when compared to a reasonable peer group
 - Total quantum of CEO pay is targeted above the 50th percentile of the peer group
 - Executive chair salary is similar to a CEO salary
 - There is no robust clawback policy for the event of fraud, material financial misstatement, conduct or reputational issues

⁶ <https://www.hermes-investment.com/wp-content/uploads/2018/10/remuneration-principles-clarifying-expectations.pdf>. The principles contained in the paper are global in nature, but some of the specific references to structures are more applicable to certain markets such as the UK

⁷ [EOS library | Federated Hermes Limited \(hermes-investment.com\)](https://www.hermes-investment.com)

⁸ <https://www.hermes-investment.com/wp-content/uploads/2018/10/remuneration-principles-clarifying-expectations.pdf>. The principles contained in the paper are global in nature, but some of the specific references to structures are more applicable to certain markets such as the UK

- CEO shareholding requirements are less than six times base salary for companies on the S&P 500/TSX and less than five times for all other companies.
- Incentive schemes include share options or performance shares with vesting schedules shorter than 36 months
- There is no robust policy to prohibit the hedging of equity-based awards by executives and/or strict controls over pledging of shares.
- Use of one-time or special awards for executives, unless to make-whole with forfeited equity upon joining a company and with explicit disclosure explaining the rationale for the award
- CEO pay exceeds 3.5x that of the average named executive officer
- Key perquisites provided to executives exceed \$500,000 and/or there is insufficient disclosure of the rationale for perquisites
- Severance agreements for the CEO where cash severance far exceeds 2x base salary. We consider it particularly concerning where cash severance is higher than 2x base salary and there is a provision to accelerate the vesting of equity upon a change in control, and so may consider opposing the chair of the compensation committee.

Capital allocation, buybacks and compensation: We believe that a board policy of regular, reasonable dividend payments is normally a better way to return cash to shareholders than a share buyback policy. We are also concerned about the hidden cost of equity compensation through the dilution of outside shareholders and managing this dilution by share buybacks, often at too high share repurchase prices. Moreover, executive compensation metrics such as return on equity and earnings per share can be flattered or even managed by share buybacks. Given the potential effects of buybacks on longer-term investors, companies should disclose how the board decides on buybacks in addition to other long-term capital allocation choices, whether such buybacks are directly or indirectly financed by debt and how this affects the future risk profile of the company, as well as the company's ability to invest in growth and employees. Lack of such disclosure may signal to us that executive compensation is too high or executive succession may be needed.

AUDIT

Audit quality and independence

Role of the audit committee: We hold the committee accountable for ensuring audit quality through rigorous auditor selection, rotation, and especially vigilant auditor oversight. The committee has oversight of the financial reporting process as well as important risk and compliance oversight responsibilities, such as oversight of internal audit and whistleblowing facilities, as delegated by boards, or as specified by laws or regulations. We do not expect audit committees to oversee risks beyond those related to financial reporting given the substantial requirements imposed by Sarbanes-Oxley and related obligations. When an audit committee is assigned oversight of non-audit matters (such as cyber security, data privacy, compliance, social and environmental risks) we may challenge the corporate governance guidelines in place and the extent to which the board

performing its essential risk and strategy oversight function. We may reflect this concern in our voting recommendations for audit committee members.

- We may recommend opposing the chair and potentially members of the audit committee where we have any concerns as to the performance of the audit committee, including oversight of the external auditor or the independence and quality of the audit, in line with the principles here.

Independent oversight of the external auditor: In accordance with Sarbanes-Oxley and other regulations, we expect the audit committee to demonstrate that it both independently selects and engages the auditor separately from management and that the audit committee itself directly oversees the auditor. The company's internal audit team should report, as a practical if not administrative matter, to the audit committee rather than management.

Non-audit services and expenses: The audit committee must establish and enforce a policy on what non-audit services the company can procure from the external auditor. We pay close attention to these services and related fees to ensure that they do not compromise auditor independence, which could compromise the integrity of the audit. The non-audit fees should normally be substantially lower than the audit fee and we expect audit committees to have a pre-approval policy and process in place for audit and permissible non-audit fees. The audit committee must have robust procedures for approving non-audit related expenses being paid to the external audit firm which are clearly disclosed to investors. We also expect to see these expenses detailed in the company's annual reporting.

Auditor rotation: Independence, and potentially audit quality, is at risk when the same assurance provider is maintained for too long – whether the audit partner or audit firm. We do not consider the current US practice of rotating lead audit partner every five years to be sufficient and want to see rotation of the audit firm at regular intervals. We expect companies to establish policies of mandatory rotation of the audit firm after 20 years' tenure, with a competitive re-tender process at the interim point of 10 years. We encourage companies, when seeking the ratification of the independent auditor, to disclose the lead independent auditor partner, together with a statement that the external audit firm has complied with Sarbanes-Oxley rotation requirements.

- Where an external audit firm has been in place consecutively for a period of 20 years or greater, we may consider recommending a vote against the chair of the audit committee (or other responsible director) and the auditor ratification if there has been no review or consideration of auditor rotation.

Consideration of climate change in financial statements: Where material or potentially material, we expect companies to disclose climate change – and potentially other environmental and social – matters in its financial statements. Disclosure must also define the connection between accounting assumptions and climate change impacts based on alignment to the Paris Agreement and the ambition to limit global warming to 1.5°C.

- To the extent a company's financial statement does not adequately consider material climate risks and there is no corresponding explanation as to why, we may recommend a vote against the audit committee chair and auditor ratification.

Inclusion of climate change in critical audit matters: The auditor should communicate climate and other ESG matters as critical audit matters to the audit committee where material and involving challenging, subjective and or complex auditor judgement.

- To the extent a company’s financial statement does not adequately consider material climate risks and there is no corresponding explanation as to why, we may recommend a vote against the audit committee chair and auditor ratification.

INVESTOR PROTECTIONS AND RIGHTS

General: We rigorously advocate for and defend shareholder rights on behalf of institutional investors, including the right to receive good quality corporate reporting and material information on a timely basis, to vote at shareholder meetings on issues such as the annual election of directors, to propose new candidates to the board or other shareholder resolutions, and to convene in a special meeting format when other avenues for escalation have been ineffective.

- We may oppose relevant directors where practices do not adhere to the principles set out here.

Majority voting: We consider electing directors by a simple majority vote to be a fundamental shareholder right and welcome its adoption by a growing number of US companies. The Canadian Business Corporation Act requires majority voting for the election of directors, but only during uncontested elections. We believe that all directors should have majority support and encourage Canadian companies to adopt majority voting policies during all elections. We expect all companies to adopt a full majority vote standard, establishing sunset provisions where other arrangements are in place. We oppose the more cumbersome process of resignation policies which transfer the shareholder right to determine who is elected to the board to other directors and expect that directors not supported by a simple majority of shareholders be removed through board action a reasonable time after the vote result is verified. Where a director does not receive majority support and is asked to remain on the board in a temporary-only capacity, the company should publicly commit to expediting a search for a replacement director and for the director to resign shortly following the new appointment.

- We may recommend opposing relevant directors where a company does not allow shareholders to vote for or against directors through a majority voting standard and there is no sunset provision in place, or where we are not satisfied with actions taken by boards acting under resignation policies and where directors do not receive majority support, in line with the principles above.

Proxy access and the universal proxy: We recommend supporting proxy access provisions which allow for shareholders owning 3% of the outstanding shares for at least three years, with no limit on the number of investors that make up this 3%, having the right to nominate up to 25% of the board seats, as originally proposed by the SEC. Canadian legislation does not explicitly allow proxy access, but it is a developing best practice. This developing standard in Canada is still weaker than the proxy access rights shareholders enjoy in nearly all developed market. While boards should protect companies from the use of proxy access to gain creeping control, different groups of shareholders should have the right to

nominate director candidates without restrictions beyond reasonable thresholds. We encourage all companies to voluntarily implement the necessary by-laws and governance changes to enact the right of shareholder access to the director nomination portion of the proxy statement so that any candidate duly put forward for election by a group of shareholders is voted on by all shareholders. We do not support companies restricting shareholders from aggregating holdings on share retention requirements after any election, from share lending when there is reasonable right of recall or on restricting the compensation of shareholder-nominated director nominees (provided it is fully disclosed) beyond the compensation policies that apply to all directors. We also oppose onerous restrictions on previously nominated candidates that fail to win a majority of votes cast to prevent them from being renominated.

- We generally recommend support for enhanced proxy access shareholder proposals that are substantially in line with our principles and may recommend opposing the election of responsible directors if boards take any steps that make the use of proxy access more difficult than we believe is reasonable, in line with the principles above.

Capital structure: We support a single share class structure, with one-share one-vote, and oppose any deviation from this. We advocate for initial public offerings of companies with single class structures that provide a level playing field for all investors and equate voting power with financial stake. Issuers with multiple class share structures should adopt sunset provisions that put in place a one-share one-vote share structure. Independent directors should annually meet with and/or write to the super-voting rights-holders and directly ask them to agree to sunset these super voting multiple class share structures in favor of a one share, one vote single class structure.

- We generally recommend opposing responsible directors on boards with multi-class share structures and where there is no sunset provision, a commitment to establish one or evidence of robust engagement with super-voting rights-holders is not disclosed.

Special meetings and written consent: We consider the right to call a special meeting a fundamental shareholder right and believe that providing this right at a reasonably low level of aggregate ownership demonstrates that the board is committed to open and trusting shareholder relations and ensuring director accountability to shareholders. We appreciate that one of the more powerful tools available to shareholders of Canadian companies is the power to requisition a special meeting. Under the Ontario Business Corporations Act ("OBCA") and similar federal and provincial legislation, shareholders holding 5% of the company's shares have the power to requisition a meeting to consider shareholder proposals, including potentially replacing the Board.⁹ We note that even in jurisdictions where the right to call meetings with a 5% threshold exists, such meetings are rarely convened. We accept that this right is currently significantly restricted to a threshold significantly above the best practice 5% level in the US. Therefore, we support a 10% special meeting threshold as a reasonable level in the interim. We generally prefer the right for shareholders to call a special meeting over the right to act by written consent as we support the advance notice provisions of the annual meeting process as an important protection of minority shareholders.

⁹ <https://www.dlapiper.com/en/canada/insights/publications/2017/05/shareholder-right-to-call-a-meeting/>

- We generally recommend support for proposals to lower the threshold for shareholders to call a special meeting to below 10%. If the board fails to implement a majority supported shareholder proposal to lower the threshold to call a special meeting, we will consider recommending opposing the election of responsible directors.
- We generally recommend opposing proposals to provide the right to act by written consent.

SHAREHOLDER PROPOSALS

General: We support the selective use of shareholder proposals as a tool for communicating investor concerns and priorities or the assertion of shareholder rights, and as a supplement to or escalation of direct shareholder engagement with companies. We may file or co-file resolutions, or express our support via exempt solicitation, where we believe this to be warranted. Where boards interact in a constructive manner with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions. Boards should engage with serious, committed long-term shareholders, or their representatives, including ourselves. Where boards interact in a constructive manner with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions.

We consider proposals on a pragmatic basis, reviewing each in its company-specific context, seeking to determine the extent to which the proposal promotes long-term shareholders' interests, following dialogue with the company where practicable. When considering whether or not to recommend support for shareholder resolutions, we consider factors including the extent to which it aligns with the aims of the EOS Engagement Plan; its additionality, given what the company is already doing or has committed to do; the nature and motivations of the filers, if known; and the efforts the board has made to engage with the proponents and what potential impacts – positive and negative – the proposal could have on the company if implemented.

- We may recommend support for well written, appropriately crafted shareholder proposals on a case-by-case basis and when aligned with the aims of the EOS engagement plan and long-term interests of our clients.

Company response to resolutions: We encourage companies to support shareholder proposals where the ask of the proposal is consistent with the company course of direction. Further, we encourage companies to disclose withdrawn proposals on the ballot with a statement as to the agreement reached between the parties. We expect boards to disclose the actions taken to address the issues raised by shareholder proposals that receive significant shareholder support or are otherwise potentially material to the long-term returns of the company. We expect companies to disclose outcomes for precatory shareholder proposals that received majority support in a timely way, including the action proposed to be taken.

- We generally recommend opposing the election of responsible directors in cases where a company fails to implement a shareholder proposal that has received majority recommend supporting, or where we have other serious concerns about a company's response to shareholder proposals, in line with the principles above.

- We may recommend opposing responsible directors where the board has supported a management proposal that is in direct conflict with a shareholder proposal on the same ballot.

ENVIRONMENTAL AND SOCIAL

General: EOS engages on environmental and social expectations and/or concerns across a wide range of topics throughout the year in its engagement with companies (see EOS Public Engagement Plan¹⁰ for more). EOS vote guidelines are intended to complement this engagement. As is best practice in Canada, we expect all companies in North America to have written engagement policy that describes the environmental, social and governance topics for discussion between the board and shareholders, information sought by the board from the shareholder for the purpose of arranging a meeting, guidelines regarding meeting attendance, and a means for shareholders to contact the board to request a meeting.¹¹

Environmental and social issues are reflected in EOS' voting activity in the following ways:

- EOS may use its vote recommendations as a point of escalation if we are not satisfied with progress being made through our engagement on a particular issue
- EOS will review shareholder proposals relating to social and environmental issues with one consideration being the alignment between the aims of the proposal and the aims of the EOS Engagement Plan and the long-term interests of our clients (see shareholder proposals section for more).
- EOS may identify priority environmental and social issues for which to set specific vote guidelines, intended to address lagging behaviors and enforce what it considers to be minimum standards. Currently, EOS has specific vote guidelines for climate change and human rights as well as for the diversity of boards and management teams (see DE&I section for more).

Climate change

Importance of climate change: Climate change is a systemic risk to companies and therefore the value of our clients' portfolios, due to the economic, environmental and social consequences of climate change. We strongly support the goal of the 2015 Paris Agreement¹² – seeking to limit global average temperature increase to 1.5°C – and we expect companies to publicly do the same, as well as working to ensure that any third-party organizations they support or are members of, such as trade bodies or lobbying organizations, are aligned to this goal.

Expectations of companies: We expect companies to take the following actions:

- Establish strong governance of the risks and opportunities presented by climate change and the energy transition. Ensure climate-related issues are included on the board agenda at least annually and that the board and senior management engage with outside experts who can advise on

¹⁰ EOS library | Federated Hermes Limited (hermes-investment.com)

¹¹ <https://ccgg.ca/wp-content/uploads/2019/12/2019-Best-Practices-March-2020-update.pdf>

¹² [The Paris Agreement | UNFCCC](https://unfccc.int/)

strategic risks and opportunities that climate change presents, including challenging the company's approach if necessary. For those companies materially exposed to climate-related risks and opportunities, we expect the energy transition to be clearly articulated in governance documents, including board committee charters and the articles of association.

- Commit to achieving net-zero emissions by 2050 at the latest and set supporting short and medium-term science-based targets to reduce greenhouse gas emissions in line with the goals of the Paris Agreement. This should include material Scope 3 emissions associated with a company's value chain or use of products with an explanation of why any Scope 3 emissions are not included.
- Develop and disclose a strategy that includes how emissions targets will be achieved and how physical and transition climate risk will be addressed and climate-related opportunities captured. This should include material information on capital expenditure and use of offsets and technologies such as carbon, capture and storage. We do not expect offsets to account for more than 10% of total emissions reductions in the strategy and offset procurement should focus on high-quality offsets and be subject to robust governance processes.
- Adopt the framework set out by the Task Force on Climate-related Financial Disclosures (TCFD)¹³ for the management and reporting of climate-related risks and opportunities. Where the risks are particularly acute (for example in energy intensive sectors), this should include conducting scenario analysis to establish the potential financial impacts of climate change on the business at different levels of warming. Companies should ensure that the financial risks associated with climate change and the energy transition are appropriately reflected in reports and accounts. The audit committee should be responsible for ensuring these material risks are explicitly accounted for in the financial statements and the external auditor should be engaged to provide an opinion on this matter (see audit section for more).
- Ensure board oversight and robust governance processes are in place to oversee the company's climate-related policy engagement and lobbying activities, including those conducted by third-party organisations of which the company is a member. We expect all such direct and indirect lobbying to be conducted in line with the Paris Agreement and incidents of misalignment to be resolved, such as through influence or ultimately withdrawal from third-party organisations. The company should be transparent about its governance procedures and climate-related lobbying activities by aligning with best-practices set out in the IIGCC Investor Expectations on Corporate Lobbying on Climate Policy¹⁴ and the Global Standard for Responsible Climate Lobbying.¹⁵ Companies materially reliant on public policy support for their climate strategies should also proactively support and advocate for positive action in their spheres of influence.
- We may recommend opposing responsible directors where we have concerns about a company's response to climate change, for example,

¹³ [Task Force on Climate-Related Financial Disclosures | TCFD](https://www.taskforceonclimate-relatedfinancialdisclosures.org/) (fsb-tcfd.org)

¹⁴ <https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/>

¹⁵ <https://climate-lobbying.com/>

where a company has been unresponsive to investor concerns or where we have concerns about the views held by certain directors regarding the reality and urgency of climate change.

- We may recommend opposing the election of responsible directors if a company's financial statement does not adequately consider material climate risks and there is no corresponding explanation as to why, we may recommend a vote against the audit committee chair and auditor ratification.

Climate laggards: We hold the chair or other responsible directors accountable where we believe companies are insufficiently managing climate-related risks to the business or their actions are materially misaligned with the goals of the Paris Agreement. We focus on companies that we believe to be materially exposed to and/or contributing to climate change and which we believe to be clear laggards. We assess this using a range of frameworks and benchmarks, including the Transition Pathway Initiative (TPI)¹⁶, the Global Coal Exit List¹⁷, the Climate Action 100+ Net Zero Benchmark,¹⁸ and Forest 500¹⁹, to set minimum standards which are reviewed annually. Where practicable and/or where we consider company performance to be less clearly lagging, we will seek to engage with companies before making final voting recommendations.

- We may recommend opposition for responsible directors where we consider a company to be a climate laggard, in line with the principles above. For 2023, this assessment will include:
 - Companies identified as lacking comprehensive medium-term greenhouse gas emissions reduction targets by the Climate Action 100+ (CA100+) benchmark²⁰
 - Companies identified as failing to appropriately reflect, or demonstrate consideration of, material climate-related risks in their financial statements by the CA100+ benchmark or other sources²¹
 - Companies in the US and Canada scoring below 3 on the TPI Management Quality Score²², or any oil, gas, coal, utilities or automotive companies scoring below 4.
 - Companies included on the Global Coal Exit List²³ without coal phase-out plans and those listed as expanding coal-related infrastructure
 - Companies insufficiently managing deforestation-related risks. We will review companies scoring very poorly on the Forest 500 assessment.
 - assessment.

'Say on climate' resolutions: In principle, we support the concept of having an advisory shareholder vote on climate change transition plans (so-called 'Vote on Transition' or 'Say on Climate' resolutions), while believing that managing climate-related risk ultimately remains the responsibility of the board. Our foremost

¹⁶ <http://www.lse.ac.uk/GranthamInstitute/tpi/the-toolkit/>

¹⁷ [Home | Global Coal Exit List](#)

¹⁸ <https://www.climateaction100.org/progress/net-zero-company-benchmark/>

¹⁹ <https://forest500.org/>

²⁰ Companies scoring 'No' on Indicator 3 (medium term targets) [Net Zero Company Benchmark | Climate Action 100+](#)

²¹ We will begin by assessing this for companies in the EOS active engagement programme but will likely expand this to more companies in the coming years.

²² [Tool - Transition Pathway Initiative](#)

²³ [Home | Global Coal Exit List](#)

priority is that companies develop a climate change strategy that aligns with the 1.5°C goal of the Paris Agreement and report on progress against this annually. These strategies should be updated at least every three years to account for the evolving context of climate action. Whether a company puts this to an advisory vote should be carefully considered by the board and should not replace ongoing engagement with shareholders on the substance of the transition plan.

Where companies offer an advisory vote, we will not support transition plans which are misaligned with 1.5°C. Indicators of alignment include science-based greenhouse gas reduction targets over the short, medium, and long-term, supported by a clear and credible strategy to achieve these. In order for such votes to offer meaningful shareholder input, we believe they should only be held once a reasonably comprehensive climate change strategy has been published. If companies believe their strategy is ready for a vote but certain elements remain to be confirmed, they should commit to a further vote once fully developed. Companies should also provide further votes on any plan which received significant dissent (following an update to the strategy in line with shareholder expectations), or which has materially changed since receiving shareholder approval.

Climate-focused shareholder resolutions: We will consider and recommend support on a case-by-case basis shareholder resolutions relating to climate change which we consider to be aligned with the aims of the EOS engagement plan and long-term financial interests of our clients. We may also file or co-file resolutions where we believe them to be warranted.

Human Rights

Importance of human rights: We believe that how a company manages its human rights strategy is of critical importance to its license to operate, its impact on people's lives and ultimately its ability to create and preserve long-term holistic value. The concept of human rights is simply the universal right to human dignity. However, we acknowledge that human rights strategies and impacts may involve complex and sensitive aspects and we seek to engage with companies on these considerations.

Expectations of companies: We endorse and expect companies to align with the UN Guiding Principles on Business and Human Rights²⁴ (the UNGPs). The UNGPs framework outlines the corporate duty to respect human rights. Companies should have a governance structure for human rights which identifies board level oversight and executive accountability. They should report on obligations under the UNGPs, as well as under national legal requirements and relevant international frameworks. Companies have a responsibility to disclose and act upon a policy commitment to human rights in their operations and value chains. This includes carrying out human rights due diligence to identify potential and actual human rights impacts; a plan to prevent, mitigate and account for how to address these impacts; and providing or cooperating in the provision of remedy if a company has caused or contributed to adverse impacts.

We see Canada's Truth and Reconciliation Commission's recommendations to the corporate sector to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a best practice reconciliation framework and encourage

²⁴ [GuidingPrinciplesBusinessHR_EN.pdf \(ohchr.org\)](#)

companies across North America to follow it. This framework includes 1) meaningful consultation and obtaining the free, prior, and informed consent of Indigenous Peoples before proceeding with economic development projects; 2) ensure that Indigenous Peoples have equitable access to jobs, training, education opportunities, and long-term sustainable benefits from economic development projects; and 3) provide education for management and staff on the history of Indigenous Peoples.²⁵

- We may consider recommending a vote against relevant meeting items, such as re-electing a director, discharging management or approving its reporting if:
 - A company is in clear breach of its applicable regulatory responsibilities related to human rights (such as the California Transparency Act & Uyghur Forced Labor Prevention or responsibilities outlined in the UNGPs; and/or
 - There is sufficient evidence that a company has caused or contributed to egregious, adverse human rights impacts or controversies and has failed to provide appropriate remedy; and/or
 - A company scores significantly lower than industry peers within credible external benchmarks related to human rights, including:
 - The Corporate Human Rights Benchmark,²⁶ which ranks some of the world's largest companies on the policies, processes, and practices they have in place to take a systematic approach to human rights approach and respond to serious allegations.
 - The Ranking Digital Rights Index,²⁷ which ranks some of the world's largest technology companies on their commitments and policies affecting users' freedom of expression and privacy rights.
 - The BankTrack Human Rights Benchmark,²⁸ which ranks some of the world's largest banks on their progress towards fully implementing the UNGPs.
 - The Know the Chain Index,²⁹ which ranks some of the world's largest companies on their current corporate practices to identify and eradicate forced labour risks in their supply chain.

APPENDIX

Formal duties of the independent chair or lead independent director

Our expectations

²⁵ <https://www.rcaanc-cirnac.gc.ca/eng/1524506030545/1557513309443>

²⁶ [Corporate Human Rights Benchmark | WBA \(worldbenchmarkingalliance.org\)](#)

²⁷ [Home - Ranking Digital Rights](#)

²⁸ [BankTrack – The BankTrack Human Rights Benchmark](#)

²⁹ [KnowTheChain – KnowTheChain](#)

The independent chair or lead independent director must have formal powers and the necessary character to:

- Call a special meeting of the board of directors or the independent directors in camera at any time, at any place and for any purpose, including to consider the removal of the chair or CEO from one or both positions.
- Consult individually with the chair (if applicable), CEO and committee chairs on topics and schedules of meetings of the board and committees and to approve such schedules and board agendas.
- Ensure that the board has the information it needs with sufficient time in advance of board and committee meetings to fulfil its duties and has the ability to obtain from management or independent, outside board advisors any information that the directors deem needed to reasonably inform director decision making.
- Ensure that the whole board is aware of investor sentiment by requiring that all substantive correspondence and notes of meetings or contact by management or directors with investors is provided in the board materials before the next board meeting.
- Require that any director has access to any employee or officer of the company, without other management present, if a director so requests.
- Engage independent legal or other advice at the company's expense if judged necessary.
- Preside over meetings when the chair is conflicted or absent.
- Guide full board consideration of appointments, evaluations and succession of the CEO, the board and its committees.
- Meet one-to-one with the CEO after every regularly scheduled board meeting.
- Guide annual self-assessment of the board and the performance assessment of the CEO.
- Issue a letter or statement in the proxy describing how the board operated during the year.
- Engage with representatives of significant long-term shareholders at their reasonable request. Where this is unreasonably denied, we find it difficult to recommend supporting some annual meeting agenda items, including re-election of relevant board members.
- Develop and/or maintain a program to proactively meet representatives of long-term shareholders on ESG, long-term strategy and capital allocation matters, to exchange views.

Federated Hermes

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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.

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Our investment and stewardship capabilities:

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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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



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