

Public Engagement Report

A VANISHING WORLD
Indigenous Peoples on the
climate frontline

Engaging on the wider
societal impacts of AI

Voting season highlights from
Asia and emerging markets

Q3 2023

Welcome to our Public Engagement Report for Q3 2023. In our cover feature this quarter, we focus on Indigenous Peoples’ rights and how these can come under threat from oil and gas pipelines or mining projects.

Indigenous Peoples may have invaluable knowledge for the sustainable management of natural resources. This can provide practical solutions for climate adaptation and mitigation. However, Indigenous Peoples are increasingly on the frontline of the climate crisis, and in recent years we have seen major flashpoints erupt between extractives companies and local communities. In this article, Nick Pelosi explains how we engage with companies on Indigenous Peoples’ rights and the community impact of large industrial projects.

Recent breakthroughs in generative AI have revived fears about job losses in creative sectors and the infringement of intellectual property rights. There are also concerns that unbridled AI deployment could lead to significant unintended societal harms. In our second feature, Ross Teverson and Nick Pelosi outline how we are engaging with companies to mitigate these risks.

Finally, Shoa Hirosato and Judi Tseng take a look at the 2023 voting season in developed Asia and global emerging markets, where we saw an increase in the number of climate-related shareholder resolutions, plus some improvement on gender diversity.



Claire Milhench
Associate Director – Communications & Content

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Defenders of a threatened world

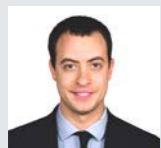
Indigenous Peoples are disproportionately impacted by the economic, environmental, and social impacts of industrial projects. Nick Pelosi explains how we engage with companies on Indigenous Peoples' rights and community impact.

Setting the scene

Indigenous Peoples are the holders of unique cultures and languages, and invaluable knowledge for the sustainable management of natural resources.¹ This knowledge can provide practical solutions for climate adaptation and mitigation.² However, these groups are threatened by the same activities that drive the climate crisis. Indigenous Peoples may be particularly vulnerable to the negative environmental and social impacts of companies, especially those involved with resource extraction or industrial development.

For this reason, the rights of Indigenous Peoples are protected by a range of national and international legal frameworks that materially impact the operations of companies operating in specific areas. By improving the protection of Indigenous Peoples, companies can also secure long-term shareholder value and achieve sustainable wealth creation.

For further information please contact:



Nick Pelosi
Theme co-lead: Human and Labour Rights
nick.pelosi@FederatedHermes.com

Indigenous Peoples are increasingly on the frontline of the climate crisis, and in recent years we have seen major flashpoints erupt between extractives companies and local communities. In Australia, Rio Tinto's destruction of Aboriginal heritage sites at Juukan Gorge damaged the company's social licence to operate and led to the replacement of the CEO and other senior executives.³ In Brazil, Anglo American was forced to withdraw 27 mining research permits, despite approval from the government, following months of campaigning and pressure from impacted Indigenous Peoples.⁴ Several oil and gas projects, especially pipelines, face community opposition, resulting in construction delays. These cases demonstrate the risks that companies face when they do not fully consider Indigenous Peoples' rights in their planning.

Given the importance of protecting Indigenous Peoples' rights both for long-term shareholder value and improving environmental and social outcomes, EOS prioritises engagement with companies on how they can most appropriately respect the rights of Indigenous Peoples and retain their social licence to operate. EOS has over 30 active engagements related to Indigenous Peoples' rights and is an active member of the steering committee of the Investors and Indigenous Peoples Working Group (IIPWG), to ensure best practices are established across investment portfolios.

The legal framework and the business case

International standards for Indigenous Peoples' rights are documented in the UN Declaration on the Rights of Indigenous Peoples (UNDRIP) 2007. UNDRIP, which is endorsed by most countries, recognises Indigenous Peoples' right to give or withhold Free, Prior and Informed Consent (FPIC) to business activities on or near their lands.⁵ FPIC is an avenue through which Indigenous Peoples seek to secure formal recognition of their right to their traditional lands and natural resources.

44% of mining executives ranked the social licence to operate as the biggest risk to their business.

When companies do not obtain FPIC from Indigenous Peoples impacted by their business operations, they increase their likelihood of causing adverse human rights impacts. These impacts can lead to operational, reputational, and regulatory risks for companies and their shareholders. It is estimated that for a typical, large mining project with US\$3bn-\$5bn capex, delays caused by community opposition can cost roughly \$20m-\$30m per week. Some 44% of mining executives ranked the social licence to operate as the biggest risk to their business in 2020, according to EY. And in September 2018, estimated costs incurred by the Dakota Access Pipeline, which faced resistance from Indigenous Peoples along its route, amounted to at least \$7.5bn.⁶

Companies across several sectors still lag on implementing basic FPIC principles where they have impacts on Indigenous Peoples' rights.

Governments play a key role in facilitating the environment for FPIC, and countries without a strong legal framework for Indigenous Peoples' rights can increase the risk of community opposition to companies. We see Canada's Truth and Reconciliation Commission's recommendations to the corporate sector to adopt UNDRIP as a best practice reconciliation framework. The recommendations include:

- Obtaining the FPIC of Indigenous Peoples before proceeding with economic development projects.
- Ensuring that Indigenous Peoples have equitable access to jobs, training, education opportunities, and long-term sustainable benefits from economic development projects.
- Providing education for management and employees on the history of Indigenous Peoples.

Moreover, voluntary industry standards, such as the International Council on Mining and Metals (ICMM), the Forest Stewardship Collective, and the Roundtable on Sustainable Palm Oil, publish guidance for companies on FPIC or require FPIC as a condition for third-party certification. It is important to note that state and industry-led interpretations of FPIC often differ from Indigenous defined best practice.

For example, the ICMM defines FPIC as "a process and an outcome" but caveats that "where consent is not forthcoming despite the best efforts of all parties, in balancing the rights and interests of Indigenous Peoples with the wider population, government might determine that a project should proceed and specify the conditions that should apply". Companies across several sectors still lag on implementing basic FPIC principles where they have impacts on Indigenous Peoples' rights.



¹ Microsoft Word – Factsheet-identity1.doc (un.org).

² The Use of Indigenous Traditional Knowledge in Climate Change Strategies | Wilson Center

³ Juukan Gorge inquiry: Rio Tinto's decision to blow up Indigenous rock shelters 'inexcusable' | Indigenous Australians | The Guardian

⁴ For protecting the rainforest, this Brazilian activist wins Goldman prize : Goats and Soda : NPR

⁵ UNDRIP_E_web.pdf

⁶ colorado.edu/program/fpw/sites/default/files/attached-files/social_cost_and_material_loss_0.pdf

Our engagement approach

We believe that how a company manages its human rights strategy is of critical importance for its licence to operate, its impact on people's lives and ultimately its ability to create and preserve long-term value. We focus on Indigenous Peoples' rights within our human rights engagement theme. We have set objectives on Indigenous Peoples' rights with more than 30 companies, mostly in the oil and gas, mining, and financial services sectors. Through our collaboration and involvement with the Investors and Indigenous Peoples Working Group, we consider Indigenous perspectives when setting priorities for engagement and researching companies.

Additionally, there is a strong overlap between Indigenous Peoples' rights and some of our other engagement themes, for example, natural resource stewardship. While Indigenous Peoples own, occupy or use 25% of the world's surface area, they safeguard 80% of its remaining biodiversity.⁷ In the Amazon rainforest, Indigenous Peoples can play an important safeguarding role because of their deep knowledge and understanding of the Amazon's ecosystem.⁸ But in recent years this has been undermined by illegal logging, mining and fossil fuel extraction. Therefore, protecting Indigenous Peoples' rights offers strong benefits for biodiversity as well.⁹

In our engagement, we encourage companies to adopt a policy commitment to Indigenous Peoples' rights, separate from or included in its Human Rights Policy, which includes support for FPIC and UNDRIP. For example, we engaged with BHP Billiton to share feedback on its policy for protecting Aboriginal heritage sites in Australia. In 2023, the company published a new reconciliation plan that covered FPIC and laid out a five-year plan for community engagement.

We encourage companies to report on the implementation of their policy commitment to Indigenous Peoples' rights and have suggested the metrics used within the International Sustainability Standards Board standard for mining. The standard requires that companies disclose the percentage and grade of proved and probable reserves located in or near areas considered to be Indigenous Peoples' land, and the due diligence practices and procedures with respect to Indigenous Peoples' rights, including the FPIC processes.

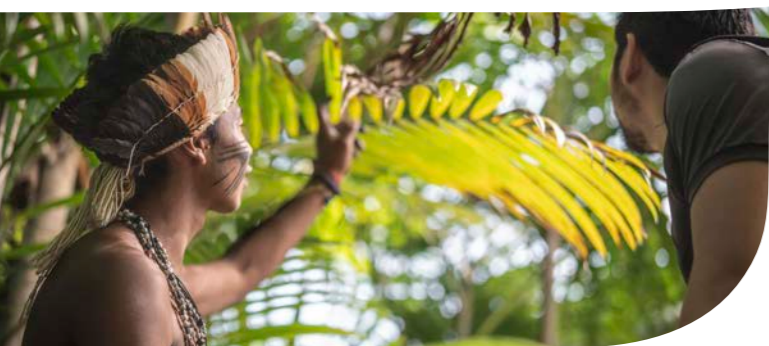


We expect companies to implement human rights due diligence across their operations and undertake human rights impact assessments (HRIAs) at high-risk sites. For example, we asked Freeport-McMoRan to complete an HRIA for its Grasberg Mine in Indonesia, which the company is scheduled to complete this year. More recently, we encouraged Barrick Gold to complete an HRIA for its Donlin Gold Mine in Alaska, which is facing a legal challenge from three tribes in the Kuskokwim River region of Southwest Alaska.¹⁰

Access to remedy is a critical component of FPIC as well as the UNGPs. For this reason, we ask companies to demonstrate evidence of grievance mechanisms that are available to Indigenous Peoples and other impacted communities. We made this request to Posco Holdings following allegations that one of its subsidiaries violated FPIC at palm oil plantations in Indonesia.¹¹ The company has since improved the grievance mechanisms to make them more accessible and effective, committing to disclose key performance indicators showing their effectiveness. Other companies have taken an upfront approach to addressing controversies relating to Indigenous Peoples' rights. For example, Vale published a report of the discussions, disagreements, and management of solutions in previous community disputes.¹²

Best practice is for companies to demonstrate the presence of agreements with Indigenous Peoples that indicate FPIC in relation to proposed developments. These agreements are more likely to be found in certain countries, such as Australia and Canada. One company with an advanced approach, Agnico Eagle Mines, declares a firm commitment to FPIC in its sustainability report, reports on engagement with various First Nations within the vicinity of its business, and has declared no significant community disputes.

The presence of agreements does not automatically guarantee FPIC, but it is an indicator of positive relationships. We continue to engage with Rio Tinto on the importance of community agreements as vehicles for obtaining FPIC. Today, the company has six formal agreements with Indigenous Peoples.¹³ One of these agreements, formed with the Puutu Kunt Kurrama and Pinikura Aboriginal Corporation, created a foundation dedicated to remedying the destruction of the Juukan Gorge. Other criteria help to evaluate the efficacy of agreements, such as levels of transparency and community involvement in negotiations.



⁷ <https://www.worldbank.org/en/topic/indigenouspeoples>

⁸ https://wwf.panda.org/wwf_news/?9463416/Amazon-Summit-Belem

⁹ [Indigenous Communities Protect 80% Of All Biodiversity \(cbd.int\)](https://www.cbd.int/indigenouscommunities)

¹⁰ <https://earthjustice.org/press/2023/southwest-alaska-tribes-sue-in-federal-court-to-halt-the-donlin-gold-mine>

¹¹ <https://www.business-humanrights.org/en/latest-news/ngos-from-korea-and-indonesia-file-oecd-complaint-against-posco-international-for-causing-palm-oil-abuses-and-national-pension-service-and-the-export-import-bank-of-korea-for-financing-the-abuses/>

¹² [Controversies – ESG – Vale \(liferay.com\)](https://www.esg.vale.com/controversies)

¹³ [Community Agreements \(riotinto.com\)](https://www.riotinto.com/community-agreements)

Financial services companies and Indigenous Peoples' rights



Over the past year, we have increased our engagement with financial services companies on Indigenous Peoples' rights. In 2022, we signed the Investor Statement on Line 3, Oil Sands, and FPIC, calling on six US and five Canadian banks to increase protections for Indigenous Peoples' rights within their oil and gas financing. The Line 3 project was the replacement of an Enbridge Energy oil pipeline running from Alberta, Canada to Wisconsin, US. The original pipeline was built in the 1960s and had deteriorated to the point that capacity had to be reduced to avoid further spills. The new pipeline's proposed route crossed some Native American reservations, and met with years of litigation and costly delays. However, the pipeline was completed in 2021 and is now in operation, notwithstanding this opposition.

While most banks have some consideration of Indigenous Peoples' rights within their environmental and social risk management policies, this is limited to instances of direct project finance rather than general corporate finance. We have encouraged banks, including Bank of America and Wells Fargo, to adopt a financing requirement for FPIC to be applied to all energy and mining industry clients.

We have also urged banks to increase Indigenous Peoples' representation at all levels of their business, including when considering directors. We are engaging with Canadian Imperial Bank of Commerce (CIBC) on Indigenous Peoples' rights, focusing on the financing requirement for FPIC. In our most recent engagement with CIBC, we were pleased to hear that reconciliation is a top priority for the company. Also, it has a specific set of targets and actions to meet government guidelines, including a niche Indigenous banking team led by an Indigenous individual.

On FPIC, the bank said that it follows the rules of the provincial and federal government. As the Canadian government has imposed reconciliation requirements and stronger regulations around financing that impacts Indigenous Peoples, the bank effectively defers to these guidelines in its lending decisions. We will continue to encourage CIBC to go beyond government requirements for FPIC when working with energy and mining companies.

Market leadership and public policy advocacy

EOS is represented on the steering committee of the Investors and Indigenous Peoples Working Group (IIPWG). This group holds monthly calls that serve as a clearinghouse for education, news, and joint action to bring together Indigenous and non-Indigenous communities on issues related to sustainable and responsible investing. IIPWG's work focuses on four priority areas:

- Ensuring Indigenous Peoples' FPIC
- Addressing the impact of extractive industries on Indigenous Peoples and the environment
- Ending the use of racist images, stereotypes, and cultural appropriation
- Building corporate and investor support for Indian Country

In 2023, EOS participated in a panel discussion called "Indigenous-Defined FPIC: Best Practices for Investment and Corporate Governance", hosted by IIPWG. The panel discussed the core values and protocols that Indigenous Peoples require in an FPIC policy, and how shareholders can move the extractives industry and financial institutions to fully integrate Indigenous Peoples' rights risk screening and FPIC due diligence. The panel brought together a range of Indigenous and investment expertise to debate common questions about FPIC and its integration into corporate practice. Through discussion, resource sharing and breakout sessions, participants gained a better understanding of Indigenous-defined FPIC requirements.

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Additionally, we are leading or supporting collaborative engagements on human rights with several mining companies through the PRI Advance initiative. This was launched earlier in 2023 to achieve positive human rights outcomes through investor stewardship. Within these dialogues, we have advocated for Indigenous Peoples' rights to be seen as part of the human rights agenda. These dialogues have offered more opportunities for engagement with Indigenous Peoples – for example, we met with community leaders impacted by one of Rio Tinto's mines to improve our understanding of these impacts.

Outlook

Over the coming year, we will continue to engage with companies on Indigenous Peoples' rights. We will encourage further implementation of FPIC through formal agreements with Indigenous Peoples, stronger safeguards within financing policies, and representation of Indigenous Peoples at all business levels. We will explore new ways to compare company performance in this area and benchmark companies relative to their peers. Finally, we will continue to support Indigenous Peoples' rights in relevant public policy forums and encourage company alignment with existing third-party guidelines such as UNDRIP.

We also expect companies to disclose if and how their use of AI, automation, and robotics are impacting their workforce. Disclosure should provide quantitative and qualitative information about the jobs displaced and other impacts to employment, wages, and working conditions. It should describe the company's policies and practices for managing impacts, such as ensuring that workers are given sufficient notice and/or priority for other open positions. And the company should demonstrate evidence of retraining, upskilling, and other forms of financial or technical support for workers impacted by the transition.


Wider societal impacts

An evolving issue, which requires more consideration, is company lobbying on AI regulation. Strong AI regulation that mitigates unintended risks inevitably slows innovation to some extent. However, major players in AI, including Google and


OpenAI, recognise that consistent, global, and collaborative regulation may be necessary to avoid a race to the bottom and mitigate extreme risks.⁹

We may therefore spend more time seeking to understand the approach that companies are taking to AI regulation, with an expectation that they support a regulatory approach that helps to mitigate the risk of societal harms and any subsequent financial impacts on businesses.

Additionally, companies should go beyond simply complying with regulation when it comes to deploying responsible AI through human rights due diligence throughout the business, including for capital expenditure on AI or other emerging technologies. These procedures should show how risks to wider societal outcomes are considered in business decision making as well as the clear no-go areas or restrictions being imposed on technologies.

CASE STUDY

DBS Group



Our engagement on AI with DBS started in 2020 with a letter to the chair. We recently met data governance and compliance representatives of DBS face-to-face in Singapore for an AI-focused discussion. We sought to understand the bank's approach to AI governance, how it implements its ethical AI principles and how it manages potential societal impacts.


Responsible data use is governed at various levels across the company, such as business units, dedicated functional committees, management and the board. The company ensures effective implementation of its responsible data use framework, PURE (Purposeful, Unsurprising, Respectful, Explainable), through a combination of training, approval mechanisms, compliance and audit assessment, debates at committees and fit-for-purpose reviews.

It puts significant emphasis on building educational content and seeks the board's direction proactively. It plans to establish structured reporting on AI to the board. To ensure


that innovation is balanced with stringent governance, it socialises ideas at the senior level, then tests models in a controlled environment before deployment.

We asked whether the company's advocacy is focused on achieving regulatory consistency across the markets in which it operates. While differences in policy across its markets pose challenges for ensuring consistency, it continues to take proactive steps to stay abreast of changing policy and shifts in societal norms across the jurisdictions in which it operates.

We discussed how it assesses materiality and the potential for significant social harm across its use cases. It evaluates ethical use and unintended bias against customers, employees and the disadvantaged, and scores use cases against a number of dimensions to determine the materiality of each. It is working on testing use cases with higher materiality and ensuring recourse and the explainability of its models as a next step. We welcomed the progress made to date and encouraged the company to continue to increase the transparency and oversight of this rapidly evolving field.



Sonya Likhtman
Theme co-lead: Natural Resource Stewardship



Judi Tseng
Sectors: Financial Services, Technology

⁹ Perspectives on Issues in AI Governance – Google, Governance of superintelligence – OpenAI

CASE STUDY

Royal Bank of Canada



We have been engaging with the Royal Bank of Canada (RBC) on AI governance since 2020. RBC's market position means that it can play a pivotal role in establishing responsible policies for the use of AI.

In Q3 2020, we asked RBC to publish AI ethical use principles and encouraged it to assign board level responsibility to a director. In early 2021, we met with the company and were encouraged to hear that, while the board did not have a designated AI expert, the topic was discussed at board meetings.

RBC had also commissioned an internal white paper highlighting ethical AI principles and said that its practices aligned with those of the Borealis AI Institute, a research centre created by the bank focusing on responsible AI.

However, we emphasised the value of making these principles publicly available to alleviate any stakeholder concerns.

In Q1 2022, we continued to press the company for more clarity on board and senior management level oversight of AI. After receiving a shareholder proposal on AI governance in 2023, the company said that the board receives regular reports on initiatives involving the use of AI, and the risk committee reviews significant and emerging risks, including those related to the adoption and use of AI. This, along with the expertise of directors, led us to believe that the company had sufficiently addressed board level AI oversight.

We also view the company's work on the Respect AI pillars (which identify robustness, fairness, model governance, data privacy and explainability as critical for responsible and safe AI), along with disclosure outlining RBC's approach, as emerging best practice.



Emily DeMasi
Sector co-lead: Financial Services

Technology and financial services

EOS currently engages on over 60 objectives or issues that relate to AI. We recognise that AI advances human development, but there is also the potential for misuse. Perhaps unsurprisingly, over half of the companies engaged are in either the technology or financial services sectors.

The technology sector is leading the development of AI itself while also using AI for numerous purposes. Tech companies play a huge role in influencing users' behaviour or contributing to social segmentation, exerting significant control over the media consumed.¹⁰ For example, social media companies use AI to curate, rank, and recommend online content, to deliver targeted advertising, generate search results, and feed users political news. This can lead to the development of so-called echo chambers, where a user is unwittingly digesting only one side of a story, reinforcing their existing views. This fuels the polarisation of political and cultural opinions. Increasingly, people are driven to take more extreme positions and the consensus is lost.

We ask companies in our engagement programme to build trust in responsible AI through various methods. For example, we expect companies to demonstrate that their business models do not incentivise problematic content, to include specific examples

of AI deployment in their human rights impact assessment, and to provide disclosure of the policies and processes they use to enforce child age restrictions where relevant.

In the financial services sector, AI deployment is also widespread. Specific applications include risk management, chatbots, virtual assistants, underwriting, fraud detection and algorithmic trading. One of the key issues in AI deployment is the potential for racial and gender bias. We have engaged on this issue to gauge how companies are thinking about it. We have also asked companies to publish the ethical AI principles that their AI models follow and to consider conducting a bias assessment.

Outlook

As AI deployment becomes more widespread in sectors beyond technology and financial services, the scope of our engagements will extend to new areas. However, we anticipate that an emphasis on AI governance and ethical use principles will continue to form the foundation of our approach. Meanwhile, understanding and mitigating the impacts from a human capital management and wider societal impacts perspective will become increasingly important.

¹⁰ Unintended racial, gender, and other biases have been identified within algorithms and can lead to inequitable outcomes.

Key voting season trends from Asia and the emerging markets



Shoa Hirosato
Themes: Board Composition and Effectiveness, Natural Resource Stewardship



Judi Tseng
Themes: Corporate Reporting, Human Capital

This year’s voting season in developed Asia and emerging markets saw an uptick in the number of climate-related shareholder resolutions, with investors seeking more robust transition plans from banks and utilities. We also detected pockets of improvement on gender diversity although overall progress is slow, particularly in markets such as Mexico, where governance standards fall short of best practice. Shoa Hirosato and Judi Tseng identify the key trends.

 Climate resolutions in Japan

This year, we saw a record number of shareholder resolutions filed in Japan, including climate-related resolutions. More than 300 shareholder resolutions were filed at around 90 Japanese companies, up from 77 last year and 54 in 2019, according to Bloomberg data. This coincided with a broader recognition of shareholder activism, and constructive engagement in the market.

As addressing climate change continues to be our top priority, we recommended support for several key proposals, including some filed by institutional investors at vehicle manufacturer Toyota, and Electric Power Development Co, also known as J-Power.

At Toyota, the first shareholder proposal in almost 20 years asked for improved reporting of the company’s climate-related lobbying activities. We met the company several times to discuss the proposal, which we ultimately supported. Although Toyota already reported on its climate lobbying activities, we reiterated that the company should clarify the actions it had taken to identify and respond to misalignments between the lobbying activities of Toyota’s industry associations, and the goals of the Paris Agreement. The proposal received 15% support, which was significant given that Toyota’s shareholder base includes many strategic shareholders and group companies, which were unlikely to vote for a resolution that was not management-approved.

Toyota has faced some criticism that it has been slow to respond to the rise of electric vehicles, and 66-year-old Akio Toyoda stepped down as CEO in April. He was replaced by Koji Sato who has indicated his ambition to drive change at the company. Toyoda was subsequently voted in as company chairman although we recommended voting against his election. Climate change will remain a focus for discussion in our engagements.

J-Power received two shareholder proposals from institutional investors this year. One asked the company to disclose a business plan for the achievement of science-based emissions reduction targets aligned with the goals of the Paris Agreement. The other asked the company to disclose how its remuneration policies facilitated the achievement of these targets. We recommended support for both proposals, given that such disclosures would help to increase investors’ understanding and the credibility of the company’s long-term climate strategy. The proposals received 21% and 15% support respectively, which is relatively high for a non-management approved resolution.



This year, the NGOs MarketForces, Kiko Network, Rainforest Action Network and 305.org, which are known for submitting climate resolutions in Japan, filed proposals at three of Japan’s megabanks, two utilities and one trading house. The proposals submitted to Mizuho Financial Group, Mitsubishi UFJ Financial Group (MUFG), and Sumitomo Mitsui Financial Group (SMBC) sought the disclosure of transition plans under which the banks would align their lending and investment portfolios with the Paris Agreement’s 1.5°C goal for net-zero emissions by 2050.

The megabanks argued that their existing transition plans were sufficient. While we recognised their progress, we recommended support for the proposals, as we expect the banks to improve their transition plans so that they are credible and science-based. The proposal at MUFG attracted 17% support, the Mizuho proposal 19%, and the SMBC proposal 21%.

Several utility companies have aligned their plans with national climate goals but lack robust climate strategies that align with the goals of the Paris Agreement.

We also recommended support for proposals at the utilities Tokyo Electric and Chubu Electric, seeking the alignment of the companies’ capital investments with their 2050 net-zero commitments. These received 10% and 20% support respectively.

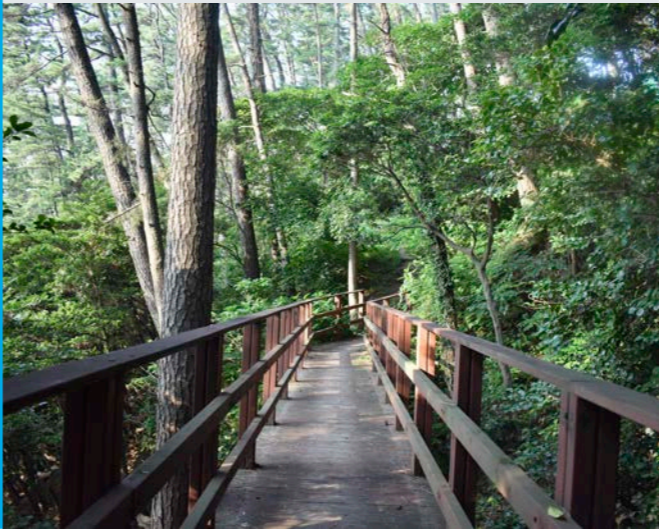
Finally, at trading house Mitsubishi Corp, we supported the proposals calling for the company to align its emissions reduction targets with the Paris Agreement, and to evaluate the consistency of its new capital expenditure with its net zero by 2050 commitment. These received 20% and 12% support respectively.

Unfortunately, support for climate proposals overall fell compared with 2022. Shareholder proposals in Japan take the form of amendments to articles of incorporation, which are then legally binding. This limits support as a resolution may be seen as too prescriptive. In addition, shareholder resolutions are less likely to pass than management proposals as two-thirds support is required. However, engagement and escalation by investors around the AGMs encouraged companies to improve their climate commitments.

 Climate change

Across Asia and the emerging markets we saw a year-on-year increase in votes against management for climate change issues. We again recommended voting against the say-on-climate proposal at South African asset manager Ninety One, as there was no clear approach to coal financing. Similarly, due to concerns over coal strategies, we recommended voting against the relevant directors at various utility companies in Asia such as Tokyo Electric and Kansai Electric, amongst others. Several utility companies have aligned their plans with national climate goals but lack robust climate strategies that align with the goals of the Paris Agreement.

Other companies where we recommended votes against for climate-related reasons included Posco Holdings, Astra International, Suzuki Motor, China Petroleum & Chemical and China National Building Material. In addition, we recommended voting against the election of directors due



to deforestation concerns at food companies such as WH Group and Toyo Suisan Kaisha. Through our engagement, we recognised improvements at some companies that were captured in our climate voting watchlist, which led us to recommend support for the relevant directors at Honda Motor, Hyundai Motor, and CLP Holdings.

 Gender diversity

Expectations on gender diversity continued to tighten across Asia and global emerging markets. Hong Kong and Taiwan are phasing out single gender boards by 2024. At Taiwan’s LandMark, in light of the company appointing its first female director and making progress on board refreshment, we recommended support for a non-independent director despite overall board independence falling below our 50% threshold.

We also observed some progress in China, with Meituan appointing its first female independent non-executive and Estun Automation its first female director, although both still fell below 20% board gender diversity. We continued to recommend voting against directors for low board gender diversity at Beijing Enterprises, PetroChina, China Oilfield Services and Sungrow. In South Korea we welcomed the appointments of additional female directors at Lotte Fine Chemical and Hyundai Motor.

Long tenured directors can indicate over-familiarity and offer insufficient challenge to management and other board members.

In Japan, following the government’s new target for women to make up 30% of board directors at prime market companies by 2030, it was encouraging to see some improvement. For example, Toray Industries appointed its first female director, and Shin Estu Chemical appointed an additional female director. So although we increased our expectation this year for female directors to comprise at least 15% of boards at TOPIX 100 companies, we recommended fewer votes against directors for board gender diversity versus 2022.

Many companies still fell below our threshold, including Suzuki Motor, SoftBank, Nippon Steel and Mitsubishi Chemical. At Sumitomo Mitsui Trust Holdings and East Japan Railway we recommended support for a female director serving on both boards who was affiliated to the respective companies through cross-shareholdings. This was by exception to our policy, as she was playing an important role in female career progression. In our engagement with companies we have been increasing our emphasis on building an internal pipeline for female board candidates.

 Independence

We continued to observe a lack of board independence across Asia and other emerging markets, limiting board effectiveness. We expect companies in Mainland China, Hong Kong and the ASEAN markets to have fully independent audit committees and majority-independent nomination and remuneration committees with independent chairs, without any executives as members.

Due to concerns over audit committee independence, we recommended voting against the non-independent chair at DBS Group, as well as non-independent directors and a long tenured independent director at Industrial & Commercial Bank of China and AIA respectively, for their membership of the corresponding audit committees. At AIA we also continued to recommend voting against directors with tenures over our market specific threshold, as five out of 10 directors had been board members for over nine years. Long tenured directors can indicate over-familiarity and offer insufficient challenge to management and other board members.

Boards with large numbers of executives and non-independent directors are still common across developed Asia and emerging markets. This year we strengthened our voting policy in China and Hong Kong to recommend a vote against any executives (excluding the C-suite) when board independence falls below 50%. This led us to recommend votes against executives at Midea, Sinopec and China National Building Material.

In India, to protect the interests of minority shareholders and other stakeholders, we expect at least half the board to be independent where the board chair is a promoter or executive. Accordingly, we recommended votes against executives and non-independent nominees at Hindustan Unilever, Dabur India and Pidlite Industries.

In some cases, we were stricter than our established thresholds. For example, at Samsung, despite board independence meeting our threshold, we recommended voting against re-electing an executive as we had communicated our concerns earlier in the year. Five out



of 11 board directors were executives, and the remaining independent directors had short tenures and lacked business backgrounds. This made us question their ability to contribute to board discussions.

To improve board effectiveness, we also scrutinise non-executive directors classified as independent by the company. Across Japanese boards at companies such as Toyota, Panasonic and Mitsubishi, we continued to recommend voting against non-executive directors who were affiliated with the company through strategic shareholdings. In our view, affiliated directors lack genuine independence as they are conflicted by the incentive to maintain the business relationship.



In Brazil, we saw increasing use of legislation allowing minority shareholders to nominate their own board candidates. Using the cumulative voting system, we recommended a concentration of votes for two genuinely independent candidates nominated by minority shareholders at Petrobras and Klabin.

At Petrobras, we recommended voting against the new candidates nominated by the government, as they would have lacked genuine independence given that they represented the controlling shareholder. They also lacked diversity and an appropriate skillset. At Vale, we were disappointed by the appointment of a non-independent chair. However, as the company told us in an engagement that it would appoint a lead independent director, we supported the new chair by exception to our policy.

 Governance-related shareholder resolutions

The uptick in shareholder activism in Japan and South Korea was also evident in the growth of governance-related shareholder resolutions. In Japan, around half the governance-related proposals for which we recommended votes this year were article amendments



on different issues. These included requiring majority outsider boards, disposing of strategic shareholdings, setting up committees, and improving disclosures.

Around a quarter were related to removing incumbent board directors and appointing shareholder nominees. The remainder were related to capital management actions such as share repurchasing and dividend payments. We recommended support for around 37% of these proposals. We supported proposals to remove directors and elect shareholder nominees where board refreshment was necessary, such as the board overhaul at Fujitec following allegations around the company's president.

We also recommended support for shareholder nominees at Seven & I Holdings to improve governance, and supported shareholder nominees at Tsuruha Holdings, as greater independence was needed to challenge the heavy influence of founding family board members. Other proposals that we backed included improved compensation disclosure at Chubu Electric and Kansai Electric, abolishing advisory posts, and improving capital efficiency where appropriate.

We also observed more governance-related shareholder resolutions in South Korea. For example, at KT&G we supported proposals to appoint shareholder nominees to the board to address governance issues. The market embraced new ways of engaging shareholders around AGMs. Individual shareholders conducted social media campaigns on a massive scale on issues such as improving board composition and dividends. Also, new methods of voting have emerged, such as voting through apps, which have the potential to change the South Korean market.

 Governance in Mexico

We expect disclosure of board candidates before the AGM so that shareholders have enough information to assess their capacity to fulfil their responsibilities, and

their level of independence. When we started engaging in Mexico, we recommended voting against bundled slates, given the lack of disclosure on director nominees. We subsequently saw some improvements, with companies disclosing board candidates before their AGMs, although bundling persisted.

Unfortunately market regulation is behind international best practice, as it is not a legal requirement for Mexican companies to present and disclose board candidates individually.

In 2022, for the first time candidates were disclosed and presented individually, not as a bundled slate, at companies such as Cemex, Orbia Advance, and Grupo Commercial Chedraui. However, this is still not common practice in the market. Many companies present bundled slates of directors with little disclosure, such as at mining major Grupo Mexico, where we recommended voting against the slate as we had concerns about board independence and the all-male board. Unfortunately market regulation is behind international best practice, as it is not a legal requirement for Mexican companies to present and disclose board candidates individually.

This is also the case for governance standards generally in Mexico, and there is limited stewardship activity from local investors. Many companies are family-controlled or controlled by groups of investors, so other governance issues persist, including long tenured directors and a weak approach to board refreshment. Board gender diversity is poor, with women accounting for only 10% of boards. There is persistent gender disparity in labour force participation, and the estimated earned income for women is only 52.3% that of men, according to the World Economic Forum's 2023 Global Gender Gap Report.

Progress report

Although many of the shareholder resolutions filed in Japan and South Korea did not pass this year, they provided opportunities for investors to engage with companies constructively and to put the case for governance improvements. Regulatory changes have been successful in raising board gender standards in Japan and in Malaysia. The latter achieved a significant milestone following an update to its corporate governance code in 2021. As of June 2023, women held 30.6% of board seats at the top 100 publicly listed companies.¹

In Brazil we welcomed the appointment of more minority shareholder nominees to company boards. And while Mexico still has some way to go, the fact that major companies are now unbundling director elections and providing more information for investors shows that the direction of travel is positive.

¹ <https://www.brandinginasia.com/30-club-malaysia-celebrates-milestone-for-gender-diversity-in-corporate-malaysia/>

Company engagement highlights

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

Overview

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

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

Berry Group

Engagement theme:
Pollution, waste and circular economy
Lead engager: Joanne Beatty



In 2020, this plastic packaging company set a goal to use at least 10% recycled materials as a proportion of its total raw materials volume by the mid-2020s. We noted that the company's peers had set more ambitious targets for recycled content at 25% by 2025, and downstream consumer goods buyers had set targets much higher than this. Our expectation was that the company should set a 25% recycled content goal by 2025 for its total materials volume in line with peers. This ambition level would require significant collaboration by the company with its value chain partners to scale up systems for recycling plastics and packaging materials to generate sufficient recycled volume at cost to compete with virgin materials.

We conveyed our expectations to the company in a 2020 mid-year engagement, comparing the company's goal with those set by its competitors. During an investor-led collaborative engagement on plastics, the company said it was examining how to set more ambitious targets but signalled that these new targets might not reach beyond 10% between then and 2025. The company said that there were additional drivers of plastics sustainability for which it could set new goals, and it was examining these with its customers.

Outcomes and next steps

In 2021, we welcomed significant investment by the company towards innovation and sustainability-related initiatives to drive improved operational efficiency in recycled content. When asked, the company said it was still working on a sustainable plastics recycled content goal. In Q4 of 2021, the company announced its new 30% by 2030 circularity goal for its fast-moving consumer goods, which represent approximately two-thirds of its total revenue. We appreciated that the company was prioritising a move away from its reliance on virgin fossil fuel plastics and that the new 2030 goal surpasses its previous target of using 10% post-consumer recycled resin by 2025. We will continue to engage with the company on circularity.

Chubb

Engagement theme:
Board independence
Lead engager: Michael Yamoah

In 2019, as part of our voting recommendations to clients ahead of the annual shareholders' meeting, we wrote to this US insurance company. We encouraged it consider the appointment of a new lead director given concerns related to his time commitments, the apparent conflict with a large shareholder and his significant tenure in the role and on the board. The company acknowledged our concern and noted that the lead director was set to retire in 2020.

Outcomes and next steps

In 2020, we were pleased to see that there were some additional refreshments and that the board size continued to shrink. In 2021 and 2022, we confirmed the appointment of a new lead director based on information from the company's proxy statements. We hope to have more informed engagements with the company to help it understand the role we fulfil on behalf of clients in relation to the services we provide.

BASF

Engagement theme:
Climate lobbying
Lead engager: Joanne Beatty



We first raised the issue of climate lobbying disclosure in 2013 during a call with the company's climate change lead where we explored BASF's positioning on climate policy advocacy. In a follow-up meeting, the chair assured us that the supervisory board was aware of investor expectations for clear positioning on climate change policy and committed to making the company's position clearer on climate change, energy policies and regulation.

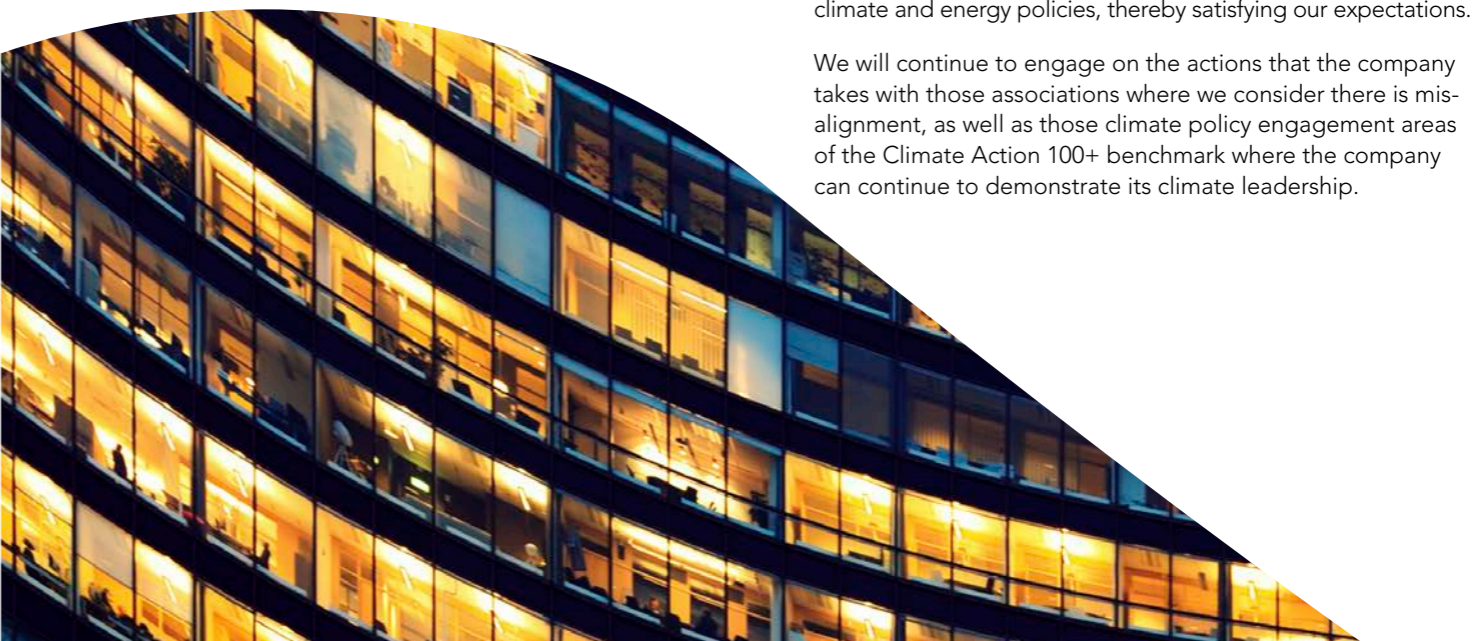
In 2015, when discussing the company's outspokenness on EU climate change policies, the company clarified that it was not against a global carbon emissions trading scheme but against an EU-level scheme, which it argued could result in carbon leakage. From 2015 to 2021, we engaged in numerous meetings, including a site visit where we investigated some of the company's new systems. Over this time, we encouraged greater disclosure from the company on its policy positions to make this clearer to all stakeholders.



Outcomes and next steps

In Q4 2019, the company first published an Industry Associations Review, and we were encouraged by the company's subsequent Q4 2021 publication. The company has disclosed a clear and detailed framework for assessing alignment with its industry associations against five climate-related topic areas. The review identified the positions of trade associations in the company's key markets of operation relative to BASF's own position on climate and energy policies, thereby satisfying our expectations.

We will continue to engage on the actions that the company takes with those associations where we consider there is misalignment, as well as those climate policy engagement areas of the Climate Action 100+ benchmark where the company can continue to demonstrate its climate leadership.



Roche Holding

Engagement theme:
Board gender diversity
Lead engager: Justin Bazalgette



In a call with the chief compliance officer in 2018, we raised concerns about the low level of gender diversity on the board. We followed up in 2020, sending the company a copy of our paper on the guiding principles for an effective board, which focuses on the human, relational, and behavioural aspects of a board. In this paper, we touch on board evaluations which, as we stress in our engagement with boards, signal to investors that the board is open to constructive criticism and willing to improve.

We continued to encourage Roche to conduct external evaluations, giving information on how the evaluation was carried out, and how the company has responded to the conclusions drawn. This disclosure should strike a fine balance between providing reassurance to investors and maintaining confidentiality. We highlighted that at Roche, gender diversity on the board remained below our minimum expectation of 30%.

Outcomes and next steps

In 2021, the company acknowledged that gender equality was one of its goals, seeking to bolster women in senior management positions from 25%. Roche included diversity as a key metric for senior management incentive payments and had increased diversity in the overall management community to 32%.

After the 2022 AGM, two more women were voted on to the board, bringing female representation to 36%. We followed up with an engagement call to provide positive feedback on achieving this goal and to reiterate the importance of ensuring that the percentage continued to improve both at the board level and across the wider group.

In addition, we suggested that the company should ensure there is a succession plan in place so that the board percentage does not drop if one of the women steps down from the board. By this point, women in all management positions had increased to over 40%.



BNP Paribas

Engagement theme:
Implementation of coal exit strategy
Lead engager: Justin Bazalgette



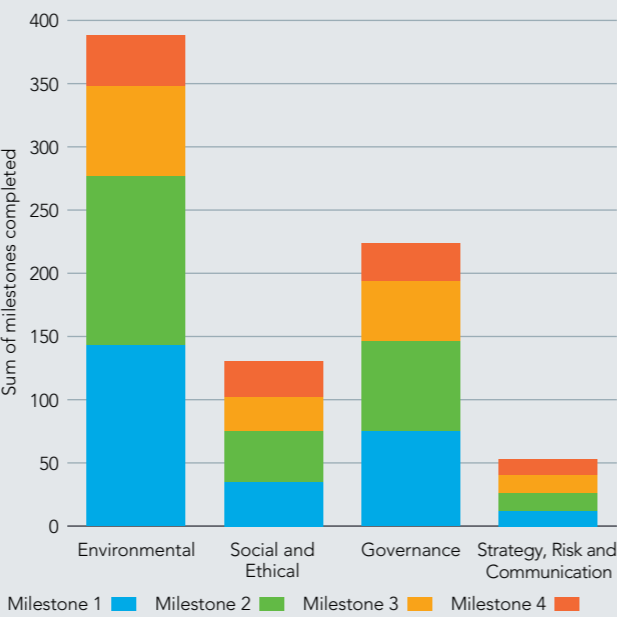
BNP Paribas is the second largest banking group in Europe, after HSBC. By the end of 2015, it had already significantly strengthened its criteria for financing and investing in the coal sector and in 2019 it confirmed its intention to exit coal by 2030 in OECD and EU countries, and by 2040 in the rest of the world. However, in July 2021, as part of a group engagement with the company, we asked it to provide regular updates on the progress it had made establishing clear plans to exit from supporting clients with thermal coal investments or who were significantly involved in thermal coal production, with the introduction of intermediary targets.

Outcomes and next steps

In June 2022, the bank published its climate alignments analytic report and its latest Task Force on Climate-related Financial Disclosures (TCFD) report. Here, it clearly stated interim targets to reduce thermal coal as a percentage of its loan portfolio from 10% in 2020 to 5% in 2025. It is demonstrating progress, with coal representing around 8% of the bank's loan portfolio in the power generation sector as of the end of 2021. In addition, the bank announced in 2022 that it would no longer accept any new customers earning more than 25% of their revenue from thermal coal, developing new coal-fired electricity generation capacities, or new thermal coal extraction projects.

We will continue to review this issue over the coming years and expect BNP Paribas to report annually on the progress it is making towards exiting its involvement with thermal coal.

Milestones completed by stage Q1-Q3 2023



Source: EOS data

CASE STUDY

Techtronic Industries



Techtronic Industries designs and manufactures power tools for home and industrial use. The company has a strong focus on innovation and has driven a trend of cordless power tools adoption, reducing its indirect carbon footprint. It employs over 50,000 people globally and is headquartered in Hong Kong.

Our engagement

On the back of technological advancement from corded to cordless products, the company is exposed to human rights risks through the cobalt mining process, a key mineral in the batteries that power wireless appliances. Initially, Techtronic did not have a dedicated cobalt procurement policy, a concern we first raised in 2019.

In our view, there was also insufficient disclosure of its supply chain management methods and performance indicators to show investors how it complies with the Modern Slavery Act statement, as published in its 2017 annual report. The company then faced the challenge of disclosing the effective implementation of its newly established cobalt procurement policy.

Cobalt mining

We first engaged with Techtronic on cobalt sourcing in 2018 sharing our feedback on the company's human rights disclosure in its supply chain. The company sought our advice on cobalt sourcing and expressed its intention to work with us to exert pressure on its key suppliers to improve supply chain transparency.

We visited the headquarters and research and innovation centre of its US power tool subsidiary. While impressed with Techtronic's investment in product innovation, we were concerned about the oversight of its cobalt supply chain and provided recommendations on how to improve its existing due diligence process.

In 2019, we raised the need for meaningful disclosure around the then new cobalt procurement policy, particularly around country of origin and the outcomes of its

monitoring and audits. In subsequent years, we requested that the company disclose more about its progress in cobalt supply chain mapping in its annual report, including its position on artisanal and small-scale mines.

Changes at the company

Towards the end of 2019, we were pleased to learn that Techtronic had implemented a procurement policy for cobalt. Its suppliers were now required to disclose the source of cobalt used in manufacturing its products and to comply with the policy. Based on further discussions with the company, we were satisfied with the level of supply chain disclosure provided.

With the policy in place, we moved on to engaging around implementing the policy effectively. Techtronic confirmed in 2020 that it had worked in partnership with the Responsible Minerals Initiative to trace the source of most of its cobalt and to assess mining conditions. In addition, it disclosed the assessment work conducted at source and an overview of its mines. This has also led to engagement in community impact programmes such as the Better Mining initiative, of which it is a founding member.

We have also engaged with the company on emissions reduction and reporting, including setting ambitious targets to address its operational emissions intensity. Other engagements have focused on board diversity and committee independence. We continue engaging on target-setting for Scope 3 emissions reduction, and improving board composition and effectiveness.

Read more about these issues in the full case study at:

<https://www.hermes-investment.com/uk/en/institutions/eos-insight/stewardship/techtronic-industries-case-study/>

Engagement objectives



Social and Ethical
– Supply chain rights



Ross Teverson
Sectors: Retail & Consumer Services, Technology



Judi Tseng
Sectors: Financial Services, Technology

Public policy and best practice

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

Overview

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

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

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

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

PRI's stewardship initiative on nature advisory

Lead engager: Zoe de Spoelberch

We participated in the first call for the PRI's collaborative stewardship initiative on nature, as part of its new signatory advisory committee. We will be providing input to the PRI team to help with the development of collaborative engagements on nature. The goal is to generate positive real-world outcomes and encourage companies towards responsible political engagement on nature.

The PRI provided an update on its work to define geographies and the policy arenas where the engagement should be focused. We provided feedback on the company selection process to determine which companies will be targeted by the initiative. We made the point that there were multiple emerging collaborative engagement initiatives on nature and deforestation. We suggested that this one should focus on additionality and align with the work of others such as the Nature Action 100 or the Finance Sector Deforestation Action. We also provided feedback on the investor statement and suggested it should further define the engagement expectations around responsible sourcing to ensure coherence between engagements with different companies. We will continue feeding into the development of the initiative.

The goal is to generate positive real-world outcomes and encourage companies towards responsible political engagement on nature.

Letter to the EU Commissioner regarding chemicals

Lead engager: Joanne Beatty

The proposal for the final four environmental topics of the EU Green Taxonomy (part of the green transition and aimed at channelling funds into sustainable endeavours) contained some promising statements about chemicals. Specifically, it said that producing and using harmful substances can never be regarded as sustainable, and that substituting them should be considered "deep green". The proposal is slated to be turned into a regulatory framework by the European Commission.

To ensure that the taxonomy helps investors and their representatives identify truly sustainable economic activity, it is important that the framework maintains the ambition of the original proposal. EOS wrote to Commissioner Mairead McGuinness calling on the taxonomy criteria to be truly sustainable, so as to encourage the development of safer chemicals. We wrote that we were concerned that the production and use of harmful chemicals, in addition to proposing a major threat to human health and the environment, were linked to major financial risks for investors and manufacturing companies. These risks include costs and damages related to regulation, reputation, insurance, and litigation.

Subsequently, Michael Haag, the director in charge, responded to our July 2023 letter to Commissioner McGuinness. The director thanked us for our comments including underlying the usefulness of criteria to pollution prevention and the control of the use and presence of chemicals in addressing substances of very high concern.

The director explained the process that the Commission had taken to fast track select activities and provided reassurances that although certain activities in the environmental taxonomy delegated act (concerning chemicals) were not included, these may be at a later stage. The director offered the services of the Directorate-General for financial stability, financial services and capital markets union for any follow-up questions that we may have.

Investor Initiative on Hazardous Chemicals

Lead engager: Joanne Beatty

We attended the Investor Initiative for Hazardous Chemicals (IIHC) steering committee's Q3 2023 meeting and reflected on the lessons from this year's company meetings. The committee also discussed the 2024 collaborative engagement that will commence following the release of the 2023 ChemScore in Q4.

The committee reviewed and agreed changes to the three investor requests concerning hazardous chemicals management and disclosure. The updated requests will be included in the Q4 letter to companies regarding their 2023 ChemScore. The committee also discussed and agreed to communicate a standard agenda template to IIHC company leads to keep engagement consistent and on topic. This was in response to feedback from the steering committee and other investor members. We also discussed resourcing to cover the remaining 34 chemical companies that are not part of the 2024 engagement focus.

WWF consultation on regenerative agriculture

Lead engager: Zoe de Spoelberch

We contributed to the development of a roadmap for financing the regenerative agriculture transition in the UK, led by the World Wildlife Fund (WWF). We outlined the need for a standardised global definition of regenerative agriculture, and a set of key performance indicators that should be measured when farmers and companies are engaging in regenerative agriculture.

We also pressed for the development of tools to measure soil health including active organic matter, to support a better understanding of soil health and related ecosystem services. This will enable more companies to access the information needed on their supply chain impacts and dependencies so that they can set relevant targets on biodiversity. We also discussed the importance of public policy work being carried out in line with the goals of the Global Biodiversity Framework (GBF).

We outlined the need for a standardised global definition of regenerative agriculture, and a set of key performance indicators that should be measured when farmers and companies are engaging in regenerative agriculture.

Engagement and voting

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

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

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

Engagement by region

Over the last quarter we engaged with 284 companies on 828 environmental, social, governance and business strategy issues and objectives. Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously.



We engaged with 284 companies over the last quarter.

- Environmental 41.1%
- Social 26.5%
- Governance 18.8%
- Strategy, Risk and Communication 13.7%



We engaged with 56 companies over the last quarter.

- Environmental 40.6%
- Social 22.4%
- Governance 18.8%
- Strategy, Risk and Communication 18.2%



We engaged with 24 companies over the last quarter.

- Environmental 53.5%
- Social 21.1%
- Governance 12.7%
- Strategy, Risk and Communication 12.7%



We engaged with 56 companies over the last quarter.

- Environmental 33.1%
- Social 26.1%
- Governance 28.2%
- Strategy, Risk and Communication 12.7%



We engaged with 37 companies over the last quarter.

- Environmental 44.8%
- Social 24.1%
- Governance 23.0%
- Strategy, Risk and Communication 8.1%



We engaged with 95 companies over the last quarter.

- Environmental 39.6%
- Social 31.7%
- Governance 15.1%
- Strategy, Risk and Communication 13.6%



We engaged with 16 companies over the last quarter.

- Environmental 56.3%
- Social 12.5%
- Governance 18.8%
- Strategy, Risk and Communication 12.5%

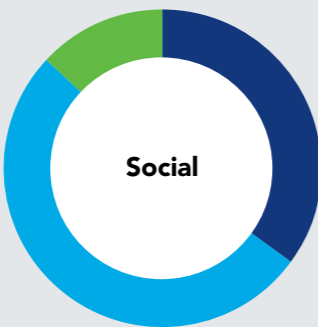
Engagement by meta-theme

A summary of the 828 issues and objectives on which we engaged with companies over the last quarter is shown below.



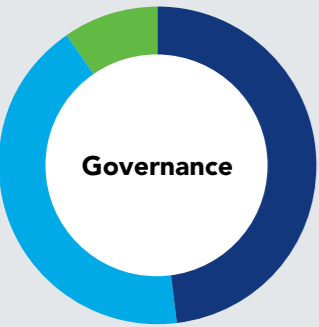
Environmental topics featured in 41.1% of our engagements over the last quarter.

- Circular Economy & Zero Pollution 18.5%
- Climate Change 61.8%
- Natural Resource Stewardship 19.7%



Social topics featured in 26.5% of our engagements over the last quarter.

- Human & Labour Rights 35.2%
- Human Capital 52.1%
- Wider Societal Impacts 12.8%



Governance topics featured in 18.8% of our engagements over the last quarter.

- Board Effectiveness 48.1%
- Executive Remuneration 42.3%
- Investor Protection & Rights 9.6%



Strategy, Risk and Communication topics featured in 13.7% of our engagements over the last quarter.

- Corporate Reporting 35.4%
- Purpose, Strategy & Policies 42.5%
- Risk Management 22.1%

Voting overview

Over the last quarter we made voting recommendations at 1,793 meetings (13,319 resolutions). At 1,021 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 12 meetings and abstaining at 0 meetings. We supported management on all resolutions at the remaining 760 meetings.



We made voting recommendations at 1,793 meetings (13,319 resolutions) over the last quarter.

- Total meetings in favour 42.0%
- Meetings against (or against AND abstain) 56.9%
- Meetings with management by exception 0.7%



We made voting recommendations at 139 meetings (1,325 resolutions) over the last quarter.

- Total meetings in favour 52.5%
- Meetings against (or against AND abstain) 46.0%
- Meetings with management by exception 1.4%



We made voting recommendations at 162 meetings (2,251 resolutions) over the last quarter.

- Total meetings in favour 64.8%
- Meetings against (or against AND abstain) 33.3%
- Meetings with management by exception 1.9%



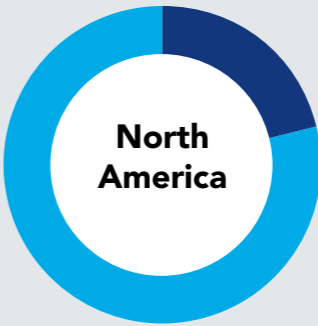
We made voting recommendations at 1,182 meetings (7,339 resolutions) over the last quarter.

- Total meetings in favour 41.0%
- Meetings against (or against AND abstain) 58.4%
- Meetings with management by exception 0.6%



We made voting recommendations at 109 meetings (795 resolutions) over the last quarter.

- Total meetings in favour 50.5%
- Meetings against (or against AND abstain) 49.5%
- Meetings with management by exception 0.0%



We made voting recommendations at 164 meetings (1,449 resolutions) over the last quarter.

- Total meetings in favour 21.3%
- Meetings against (or against AND abstain) 78.7%
- Meetings with management by exception 0.0%



We made voting recommendations at 37 meetings (160 resolutions) over the last quarter.

- Total meetings in favour 18.9%
- Meetings against (or against AND abstain) 81.1%
- Meetings with management by exception 0.0%

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



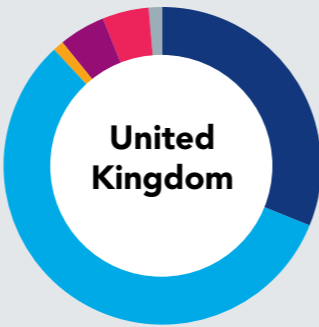
We recommended voting against or abstaining on **2,480** resolutions over the last quarter.

- Board structure **46.3%**
- Remuneration **26.6%**
- Shareholder resolution **5.4%**
- Capital structure and dividends **5.6%**
- Amend articles **10.3%**
- Audit and accounts **2.7%**
- Investment/M&A **0.2%**
- Poison pill/Anti-takeover device **0.2%**
- Other **2.9%**



We recommended voting against or abstaining on **182** resolutions over the last quarter.

- Board structure **31.9%**
- Remuneration **36.8%**
- Shareholder resolution **3.3%**
- Capital structure and dividends **10.4%**
- Amend articles **5.5%**
- Audit and accounts **4.9%**
- Other **7.1%**



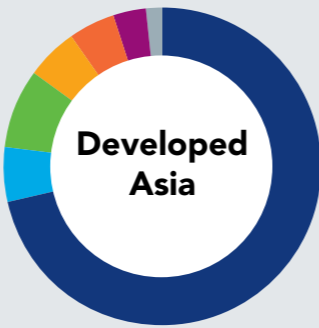
We recommended voting against or abstaining on **86** resolutions over the last quarter.

- Board structure **31.4%**
- Remuneration **57.0%**
- Capital structure and dividends **1.2%**
- Audit and accounts **4.7%**
- Poison pill/Anti-takeover device **4.7%**
- Other **1.2%**



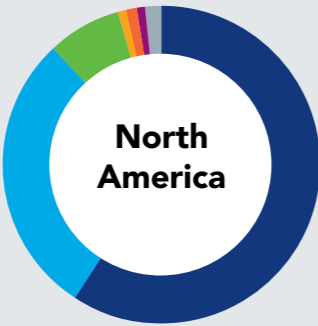
We recommended voting against or abstaining on **1,742** resolutions over the last quarter.

- Board structure **44.7%**
- Remuneration **24.8%**
- Shareholder resolution **5.5%**
- Capital structure and dividends **5.7%**
- Amend articles **13.5%**
- Audit and accounts **2.6%**
- Investment/M&A **0.2%**
- Other **3.0%**



We recommended voting against or abstaining on **148** resolutions over the last quarter.

- Board structure **71.6%**
- Remuneration **5.4%**
- Shareholder resolution **8.1%**
- Capital structure and dividends **5.4%**
- Amend articles **4.7%**
- Audit and accounts **3.4%**
- Other **1.4%**



We recommended voting against or abstaining on **263** resolutions over the last quarter.

- Board structure **59.3%**
- Remuneration **28.9%**
- Shareholder resolution **7.6%**
- Capital structure and dividends **0.8%**
- Amend articles **1.1%**
- Audit and accounts **0.8%**
- Other **1.5%**



We recommended voting against or abstaining on **59** resolutions over the last quarter.

- Board structure **35.6%**
- Remuneration **45.8%**
- Capital structure and dividends **16.9%**
- Amend articles **1.7%**

The EOS approach to engagement

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

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



Our Engagement Plan is client-led – we undertake a formal consultation process with multiple client touchpoints each year to ensure it is based on their long-term objectives, covering their highest priority topics.

Voting

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

Screening

We help our clients to fulfil their stewardship obligations by monitoring their portfolios to regularly identify companies that are in breach of, or near to breaching, international norms and conventions.

Advisory

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

Our services



Engagement

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

Public policy


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

The EOS advantage


- Relationships and access** – Companies understand that EOS is working on behalf of pension funds and other large institutional investors, so it has significant leverage – representing assets under advice of US\$1.4trn as of 30 June 2023. The team’s skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards.
- Client focus** – EOS pools the priorities of like-minded investors, and through consultation and feedback, determines the priorities of its Engagement Plan.
- Tailored engagement** – EOS develops engagement strategies specific to each company, informed by its deep understanding across sectors, themes and markets. It seeks to address the most material ESG risks and opportunities, through a long-term, constructive, objectives-driven and continuous dialogue at the board and senior executive level, which has proven to be effective over time

EOS team


Engagement




Leon Kamhi
Head of Responsibility and EOS




Richard Adeniyi-Jones
Sectors: Consumer Goods, Financial Services, Industrial & Capital Goods



Dana Barnes
Sectors: Oil & Gas, Utilities




Justin Bazalgette
Sectors: Financial Services, Industrial & Capital Goods



Joanne Beatty
Sector lead: Chemicals, Industrial & Capital Goods




George Clark
Voting and Engagement Support




Emily DeMasi
Sector co-lead: Financial Services




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




Bruce Duguid
Head of Stewardship, EOS




Elissa El Moufti
Sectors: Financial Services, Mining & Materials, Oil & Gas



Will Farrell
Sectors: Consumer Goods, Chemicals, Financial Services




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




Jaime Gornsztejn
Sector co-lead: Mining & Materials




Hannah Heuser
Sectors: Oil & Gas, Utilities




Ellie Higgins
Themes: Climate Change Action, Human and Labour Rights



Shoa Hirosato
Sectors: Financial Services, Transportation, Utilities




Lisa Lange
Sector lead: Transportation




Pauline Lecoursnonnois
Sector co-lead: Pharmaceuticals & Healthcare




Sonya Likhtman
Sectors: Transportation, Consumer Goods, Financial Services




Earl McKenzie
Voting and Engagement Support




Claire Milhench
Communications & Content




James O'Halloran
Director of Business Management, EOS




Navishka Pandit
Themes: Circular Economy, Human Capital, Human Rights



Xinyu Pei
Sector: Oil & Gas



Nick Pelosi
Sector co-lead: Mining & Materials



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



Velika Talyarkhan
Sector lead: Utilities



Ross Teverson
Sectors: Retail & Consumer Services, Technology



Kenny Tsang
Sector co-lead: Consumer Goods



Judi Tseng
Sectors: Financial Services, Technology



Mark Turner
Voting and Engagement Support



Owen Tutt
Sectors: Chemicals, Oil & Gas, Utilities



George Watson
Theme: Wider Societal Impacts
Sector: Industrial & Capital Goods




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




Michael Yamoah
Sector co-lead: Technology


Client Service and Business Development




Mike Wills
Head of Client Service and Business Development, EOS




Diego Anton
Client Service




Amy D'Eugenio
Sustainability Director




Andrew Glynne-Percy
Communications and Marketing




Alishah Khan
Client Service



Jonathan Lance
Client Service



William Morgan
Client Service



Alice Musto
Client Relations Lead

Federated Hermes

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Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

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- **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

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