Federated Hermes
EOS

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Dear Sir/Madam,

EOS at Federated Hermes Limited[1]("EOS") engages with companies around the world on behalf of our global institutional investor clients, representing assets of $1.4tn as at 31 December 2023. We believe the purpose of investment is to create wealth responsibly over the long term. We therefore focus our stewardship on the issues that we believe can provide the greatest potential to deliver long-term responsible wealth, consistent with the long-term interests of our clients.

In 2023, extreme weather-related events, ranging from wildfires in Canada and the Mediterranean, to floods in California and South Korea, served as stark reminders of the potential consequences of failing to limit climate change to 1.5°C. At the same time, the energy 'trilemma' which defined 2022 - managing climate risks while seeking to ensure energy security and affordable access to energy – continue. Geopolitical tensions remain heightened, with the ongoing war in Ukraine and the destabilisation of the Middle East through the Israel-Gaza conflict. Artificial Intelligence (AI) is now poised to be rolled out commercially at scale, increasing the need for responsible approaches in an effort to avoid costly unintended consequences.

In this context, we have updated EOS' expectations for companies in our 2024-2026 Engagement Plan and also our suite of recommended Voting Guidelines, including those covering the Brazil. This plan was formed with the input from members of Federated Hermes Limited's investment teams covering all geographic markets across listed and private asset classes and more than 60 asset owner clients.

EOS' overriding objective in developing and setting out our expectations is to seek to align corporate behaviours with the long term interests of investors. We fully recognise that every company has a unique set of circumstances and that the precise views of individual investors, including our clients, will differ and as such we encourage tailored approaches which are appropriately explained.

In what follows, we point out certain key priorities for EOS' corporate engagement and voting recommendations:

Corporate governance, purpose, and capital allocation

In 2024, to seek to enhance the quality of board performance, which is foundational to good corporate decision-making, we remain committed to seeking to improve a board's "software", relating to how it functions, in addition to its "hardware", relating to its composition and structure. We will seek to discuss with companies how a board should continuously monitor and assess the prevailing company culture

[1] EOS at Federated Hermes is the brand name of the stewardship service provided by Hermes Equity Ownership Services Limited, a wholly owned subsidiary of Federated Hermes Limited, a company incorporated in England & Wales and based in London.

and business decisions in an effort to ensure it is in line with the company's purpose, strategy and values.

We will also generally encourage a board to adopt a risk appetite which permits it to seek investment opportunities believed to be profitable, including those that meet an environmental or societal need.

A continuing focus for our engagement is improving board diversity, including improvements to ethnic diversity intended to at least match the recent progress on gender diversity, with the goal to achieve representation reflective of the diversity of the stakeholders the company aspires to serve.

In the Brazil, subject to discussion, where practicable, we may recommend, voting against directors at companies that do not meet the following minimum expectations:

- At least half of the board of directors to be independent in companies with a dispersed ownership structure and in companies listed in the Novo Mercado, and at least 40% of directors to be independent in other companies
- Directors with excessive time commitments, as detailed in the voting guidelines attached, or who do not attend at least 75% of meetings without clear disclosure to justify their absence
- Boards should comprise at least 20% female directors

Human capital and executive remuneration

For most companies, the people in its business are together one of their most valuable assets. Amid anxiety about the negative AI impacts from redundancies to bias in hiring and the cost-of-living crisis driving renewed interest in collective bargaining, we are intensifying EOS' engagement on upskilling workers. We will also engage with companies on the opportunity to consider, (1) an expanded range of diversity metrics beyond representation, including those related to engagement and a sense of belonging, upskilling and advancement, (2) ways to address pay gaps for different groups in similar positions and locations, and (3) reporting on workforce changes and wider employee engagement.

We will continue to monitor and assess that executive pay outcomes are in line with performance and that pay structures are reasonably designed to encourage executives' business decisions to be in line with the company's strategy and business objectives. We will also pay particular scrutiny to any executive pay increases that appear misaligned with the workforce. We will discuss with boards how to seek to ensure fair pay across all levels of the organisation and that senior executives are not disproportionately rewarded at a time when the wider workforce is under financial strain.

We also continue to make the case for simpler pay schemes based on long-term time-restricted stock and share ownership. In Brazil, subject to discussion, where practicable, we may recommend opposing pay proposals with any of the following features:

- Significant pay increases for executives without a robust justification
- Excessive pay ratios between the CEO and employees
- Variable pay schemes for executives without clear performance indicators
- Variable pay schemes for non-executive directors

Climate change and biodiversity

The emphasis of EOS' engagement remains focused on seeking that companies develop and publish a climate transition plan aligned to the 1.5°C goal of the Paris Agreement, including a commitment to net zero emissions by 2050 supported by interim science-based targets and a decarbonisation strategy. We also seek for companies to identify the dependencies of their transition plans on public policy and technology developments and explain actions taken to support the realisation of these dependencies (e.g. policy lobbying or R&D). We also would like to discuss including and explaining the material consequences of climate change and company transition plans within a company's financial statements in line with existing and emerging guidance from regulators and applicable standard setters. Particular focus areas include reducing methane emissions in the energy sector, plans to address physical climate risks, and strategies to support a 'just transition' for affected employees and communities.

Climate change and biodiversity loss are closely interconnected. We would like to discuss with companies the opportunity to (1) address marine and terrestrial biodiversity loss across their value chains in-line with the mission to halt and reverse biodiversity loss by 2030, as agreed within the Kunming-Montreal Global Biodiversity Framework (GBF); and (2) assess and disclose their nature-related impacts, dependencies, risks and opportunities in line with the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. We believe the insights from the TNFD assessment should be used to develop a strategy, with timebound targets, that should address their most material nature-related risks and impacts, for instance achieving zero deforestation and conversion by 2025, transitioning to regenerative agriculture in the supply chain, or phasing out the use of hazardous chemicals.

Subject to discussion, where practicable, we will consider recommending against support for, the re-election of the chair or other responsible directors where we believe companies' actions bear significant risks to long-term performance through being materially misaligned with the goals of the Paris Agreement or not responding sufficiently to the risks and opportunities posed by biodiversity loss. Dimensions we will consider in such appraisal include:

- Companies identified as lacking comprehensive medium-term greenhouse gas emissions reduction targets and/or Task Force on Climate-related Financial Disclosures (TCFD) reporting
- Companies identified as failing to appropriately reflect, or demonstrate consideration of, material climate-related risks in their financial statements[2]
- Any company scoring below level 3 on the TPI Management Quality Score[3]. Companies in the oil and gas, coal mining, electric utilities, diversified mining or automotive sectors scoring below level 4 will also be flagged[4]

[2] 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

[3] Tool - Transition Pathway Initiative

[4] 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

- Banks without a medium-term target for reducing emissions associated with its financing activities and/or those that do not recognise climate-related risks as a key risk category or explain the exclusion
- Companies included on the Global Coal Exit List[5] without Paris-aligned coal phase-out plans and those listed as expanding coal-related infrastructure
- Companies insufficiently managing deforestation-related risks. We will review companies and financial institutions that score poorly on the Forest 500 assessment[6]

Human rights and responsible Artificial Intelligence principles

We would like to engage companies on the merits of acknowledging the likelihood that human rights impacts are present within some operations and supply chains and demonstrating appropriate board- and executive-level governance of human rights.

As geopolitical tensions increase, we will further focus on seeking to protect indigenous and community rights, and human rights in high-risk regions such as disputed territories or areas of conflict. With AI being rolled out at scale, we will further focus on seeking to protect digital rights in the virtual world, such as challenges to the right to data privacy, the right to freedom of expression and protection from unfair biases which may be amplified by the use of AI.

Given the importance of adhering to the corporate duty to respect fundamental human rights as expressed in the UN Guiding Principles on Business and Human Rights, we would like to discuss, and will consider recommending against, directors of companies where we believe material breaches of such Principles are not being adequately remediated or that the company lags on human rights benchmarks, including the Corporate Human Rights Benchmark,[7] the Ranking Digital Rights Index,[8] the BankTrack Human Rights Index[9] or the Know The Chain Index.[10]

We welcome any comments and observations on EOS' Engagement Plan and recommended Vote Guidelines and would be glad to answer any queries or concerns they may raise.

Yours sincerely

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[5] Global Coal Exit List
[6] Forest 500
[7] Corporate Human Rights Benchmark | WBA (worldbenchmarkingalliance.org)
[8] Ranking Digital Rights
[9] BankTrack – The BankTrack Human Rights Benchmark
[10] KnowTheChain – KnowTheChain