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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 Japan. 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. Japanese boards have one of the lowest proportions of female representation in major markets. Only 12.6% of board members are women, according to the World Economic Forum's 2023 Global Gender Gap Report. They are typically very homogenous, comprising a large majority of male Japanese executive directors who have been with the same company for many decades. We believe that boards with too much commonality of background run the risk of groupthink and complacency. Despite the historical challenge to secure a sufficient pool of female candidates, a growing number of companies have appointed female directors in recent years. We strongly encourage this trend and advocate for a substantial increase in the proportion of women on boards. In 2024, we will oppose the re-election of the nomination committee chair, board chair, or president at companies where less than 15% of board directors are female, unless they are able to provide a convincing explanation. We plan to raise this to 20% by 2025 and 30% by 2030.

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

- In Japan, we expect all companies to achieve at least one third board independence. At companies with a controlling shareholder, we would like to see the majority of directors to be independent at Prime market listed companies.
- Boards should comprise at least 15% female directors.

Diversity: We encourage Japanese companies to consider younger candidates for director positions, which would not only add age diversity to the board but also help expand the pool of female candidates. It is important to promote diversity at board and executive level, but companies should also focus on promoting a diverse and inclusive workforce. At least to be in line with the Japanese government's target of raising the ratio of female managers to 30% by 2030, companies should make plans including specific efforts to substantially improve the proportion of women at board and senior management level. We expect companies to report on investment in recruitment and subsequent support for women's progression. Improving the representation of women should not be considered in isolation from other dimensions of diversity and, particularly, internationality and ethnic diversity. We continue to encourage companies, particularly those with significant international operations, to reflect this in their board composition. While many boards consider language a barrier to having non-Japanese directors, we continue to encourage companies to find a workable solution, as we believe diversity of nationality is beneficial for companies.

Role of the chair: The chair of the board plays a significant role in leading the discussion and ensuring the effectiveness of the board. However, not many Japanese companies explicitly identify the chair of the board (gicho) as the assumption is that the board is typically chaired by the president or the company chairman (kaicho). The company chairman is usually someone who was the president or senior executive immediately before appointment, and therefore non-independent. This arrangement suggests that there is often no clear separation between executive and monitoring and oversight functions. We encourage companies, as a first step, to reflect on the roles that the chair of the board should play, and then clearly name the chair and disclose the responsibilities of the role. We believe that in the efforts to improve board independence and effectiveness, having an independent non-executive chair can have a considerable effect. While very few companies have appointed an independent chair, we encourage other companies to consider this as a viable option.

Statutory auditors: While we acknowledge the valuable contributions that statutory auditors can make to companies, we do not believe that independent statutory auditors can effectively fulfil the expected role of independent directors, in particular, because they do not have a vote at board meetings. We therefore expect companies to ensure a high proportion of independence among directors, even if there is a high level of independence among the statutory auditors. Similarly, it is not sufficient to have women on the board of statutory auditors alone, we expect companies to appoint female directors to the board as discussed below.

Nomination process: We welcome the voluntary establishment of a nomination and remuneration (advisory) committee at many companies in recent years. We believe these committees can help enhance focus and transparency on these matters. The nomination committee should play a key role in nominating independent directors, ensuring the right mix of skill sets, diversity and independence among board members, as discussed above. It should also lead on succession planning for key executives, including the chair and president, by identifying individuals who have the skills, diversity and expertise needed for the business, instead of endorsing seniority-based promotions. It is important that the nomination committee has a majority (if not comprising solely) of independent directors, without the presence of the president (shacho) to be effective and to maintain objectivity. While the committee is usually described as an advisory body because companies are not legally required to have one, we expect boards to ensure that the committee's decisions are upheld unless the executive management has strong evidence to refute its recommendations. The nomination process and role of the nomination committee should be transparent and the chair of the committee and its members should be disclosed. In addition, meaningful dialogue with investors, in particular involving directors, on these issues is crucial.

Senior advisors and consultants: Many Japanese companies have the positions of senior advisors and consultants held by retired senior executives. While some of them are honorary positions and unpaid, others are paid, and the advisors and consultants often have access to company offices and vehicles. They are typically engaged in external affairs such as industry associations and are not meant to interfere with current management. However, we continue to be concerned about their potential influence over management, not least in the Japanese cultural context where seniority and hierarchy are important. Although companies are now required by the Corporate Governance Code to disclose information about these individuals in the corporate governance report, such as their names and whether or not they are paid, we do not believe this arrangement fits into the formal governance structure of the company and lacks an appropriate level of accountability. These individuals are not board members and therefore not elected by shareholders. We encourage companies to consider removing these positions or as a first step, provide further details on the individuals including their precise roles, interactions with management, pay and other entitlements.

Capital allocation and protection of shareholder rights

Cross-shareholdings: We are concerned about the widespread practice of Japanese companies holding shares of business partners, also known as strategic shareholdings or cross-shareholdings.

1. Many of these holdings lack a clear strategic purpose or are not proven to be the best use of shareholder funds. In addition, these holdings reduce the free float.
2. Many companies believe it is acceptable to hold shares of other companies to maintain long-term business relationships, including the winning and maintaining of contracts for distribution and the stable supply of goods and services. This can, however, conflict with market principles of fair competition because it appears that companies are expected to do business with those with whom they have shareholding relationships instead of those who can offer the best quality products or services or the lowest price.
3. Cross-shareholdings may also contribute to poor corporate governance. The holders of such shares tend to support management of the investee companies instead of exercising their shareholder rights when necessary to hold management and the board to account. Similarly, cross shareholdings can also help to prevent takeovers.
4. The practice leads to the unequal treatment of shareholders because those who hold shares in such a fashion may receive benefits for their business, while other shareholders, including institutional and retail investors, do not.

Many companies, including major banks, have begun to unwind some of the legacy holdings. However, more needs to be done. EOS would like to see these holdings phased out. We understand that this may not be easy in the short term, due to the number of parties involved and companies may fear that the unilateral sale of shares could have a detrimental effect on their business. In the meantime, we ask companies to disclose the following:

- All cross-shareholdings, the aggregate amount and the percentage of total share capital it owns in each company.
- The board's approach to cross-shareholdings including: what factors it considers when conducting its review; anti-competitive or anti-ethical implications concerning any of its shareholdings and what it does in these cases, how it assesses the risk and reward of shareholdings; any cases where business cannot be conducted without cross-shareholdings and the reasons; and any cases where business is improved through these shareholdings as well as the reasons.
- Targets to reduce overall cross-shareholdings, such as [X%] by [date], as part of their strategy to eliminate all strategic holdings by [date]
- Details on how shareholder rights, including voting rights are exercised at each company.

We have begun to see some positive developments in this area and expect progress to accelerate. In 2024 we are recommending voting against top executives of companies which hold significant cross-shareholdings (10% or more of net assets), while continuing not to support the election of outside directors who represent cross-shareholding partners.

More companies are setting targets for higher returns on equity (ROE) and are seeking to discuss their plans with shareholders. We welcome this development and expect management to clearly explain the company's capital policy, demonstrating a strategy and roadmap for using capital more efficiently, to enhance long-term corporate value and achieve sustained growth. In doing so, management should consider a wide range of metrics in addition to ROE.

Takeover defence schemes: We have concerns about the purpose, legitimacy and effectiveness of poison pill schemes and discourage companies from adopting them. We welcome the abolition of such schemes by a number of companies in recent years and continue to encourage others to abolish them. To support a poison pill, we require a specific explanation on how it will be in the interest of and protect minority shareholders.

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 Japan, 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]
- 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

[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
[5] Global Coal Exit List

- 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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[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