

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are curved and reflect the sky, creating a sense of height and architectural grandeur. The sky is a clear, pale blue.

UK, Europe & Australia Vote Guidelines

**EOS at Federated Hermes
2024**

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INTRODUCTION

EOS at Federated Hermes is a global stewardship service provider representing a broad range of long-term institutional investors. As at 31 December 2023, EOS acts on behalf of €1.3tn/£1.2tn, engaging with investee companies around the world to promote long-term, sustainable returns to investors, their beneficiaries, and other stakeholders, and provides vote recommendations to a majority of these clients.

This document sets out our **Vote Guidelines for Europe and Australia for 2024**. It focuses on specific governance and certain environmental and social matters that have a direct impact on our voting recommendations to clients. It is not an exhaustive reflection of EOS' views or engagement priorities and should be read alongside:

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

General voting principles

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resolution and only to abstain in exceptional circumstances such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.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

¹ EOS library | Federated Hermes Limited (hermes-investment.com)

² EOS library | Federated Hermes Limited (hermes-investment.com)

BOARD AND DIRECTORS

Director accountability

Accountability: We will look to identify the most appropriate director to hold accountable for areas of concern. For concerns which do not relate to an individual (eg, tenure, attendance, time-commitments) but rather to issues for which directors have collective responsibilities (eg, remuneration or audit practices), we will generally follow a hierarchy of accountability, starting with the chair of the board or the incumbent chair of the relevant committee. Where this is not possible or appropriate, we will consider opposing other committee members, starting with the longest-tenured, followed by the longest-tenured director on the full board standing for election. In markets with supervisory and management boards, we may also advise our clients to withhold support for discharge to highlight key concerns, such as the management of climate-related risks. This hierarchy should be assumed throughout this document where we refer to 'responsible directors'.

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

Director elections: We support annual, individual director elections. Where bundled elections are offered, we will oppose the full slate of directors where we have concerns about an issue that would have led us to oppose individuals. We may also oppose an individual's discharge in markets where they are not standing for election and we have concerns.

- Where we consider director term lengths to be excessive, we may oppose the election of appropriate directors. In France, for example, we will recommend a vote against the nomination committee chair if a director's term of appointment exceeds three years.

Board composition and effectiveness

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

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

- We may oppose the election of the chair of the board or nomination committee where we have concerns about the presence of an executive chair and/or a combined chair/CEO and/or lack of a lead independent director with suitable powers.

Independence and tenure: Boards should comprise a substantial majority of independent directors to ensure that stakeholder interests are protected, to exercise objective judgement and, if necessary, to act as agents for change. Ensuring sufficient levels and quality of independence is particularly important for founder-led companies, those with executive or non-independent chairs, significant shareholder representatives on the board (which we believe can be useful and justified, provided minority shareholder interests are protected) or significant management representation on the board. The independent directors should be empowered to meet separately to the full board and be granted unfettered access to members of management, information and resources as required. We expect a healthy mixture of tenures on boards, supported by regular board refreshment. We consider the overall composition of boards and recognise the value that long-serving directors can contribute. For two-tier boards, independent directors should constitute the majority of the shareholder-elected directors on the supervisory board. In cases where supervisory boards have employee representatives (who are non-independent) and shareholder-elected directors (who may or may not be independent), the total board should be at least one third independent.

- We will generally oppose non-independent directors where their presence causes a committee or the board to fall below our expectations for independence and may escalate these concerns to the election of the committee and/or board chair and/or the discharge of the supervisory board.
- We generally do not support executives being appointed to key board positions such as chair or audit committee chair without at least a two-year “cooling off” period.

Committees: The board should establish appropriate committees that reflect the nature and complexity of the business and with regular rotation and refreshment of leadership and membership. The board should establish separate audit, nomination and remuneration committees, and risk committee where relevant, unless the size of the board comprised only two or fewer independent non-executive directors (NEDs). Audit and remuneration committees should be comprised exclusively of independent directors, while the nomination committee should be majority independent. We accept that in some markets, such as France and Germany, exceptions must be made for employee representatives on the board and committees and expect committees – particularly audit and remuneration – to be majority independent with independent chairs. We also accept that nomination committees in Sweden are comprised of large shareholders.

- We may oppose non-independent committee members and/or chairs where committees fall below our minimum expectations for independence.

Availability: Directors should have sufficient time to fulfil their duties, with the guideline that they should not hold more than the equivalent of five directorships.

We consider an executive role to be roughly equivalent to four directorships and a non-executive chair role to be roughly equivalent to two directorships. We also consider some committee chair roles (particularly audit and risk at complex companies) to be weighted more heavily than a typical directorship. We consider a range of other factors when assessing an individual's level of commitments, including any roles at private companies or other organisations and the size and complexity of organisations they are involved with. For example, certain industries, such as banking, may bring business model and regulatory complexity, while others with large and/or complex operations may require site visits and therefore more time commitment. We will consider interrelationships between companies as part of our assessment of time commitment (eg, an employee or director of a parent company sitting on the board of a subsidiary).

- We are likely to oppose directors, including shareholder representatives, who miss 25% of meetings in a given year without a reasonable explanation

Non-executive remuneration: NEDs should not be compensated in performance shares or participate in any incentive schemes as this could seriously impair their independence. We encourage directors to build a modest amount of stock ownership, but steps must be taken to mitigate risks of such a holding impairing independence (for example, capping the size of holdings and/or having mandatory shareholding requirements for at least the duration of the director's tenure). Where there is an executive chair, we expect their salary to be in line with the remuneration of the non-independent directors as opposed to the remuneration of the CEO or other executive officers. We may recommend opposing responsible directors if non-executive directors are compensated in performance-based shares or options.

Diversity, Equity and Inclusion (DEI)

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

- Where we see insufficient progress on critical dimensions of diversity, we will recommend voting against the election of responsible directors, who will often be the chair of the board/supervisory board. In some cases, including where individual directors are not standing for election, we will consider withholding support for discharge. Generally, we will not avoid opposing female board or nomination committee chairs for concerns about diversity, including insufficient female representation. However, we may do

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

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

so on a case-by-case basis in markets with low female representation as a transitional consideration. In time, we expect each gender to be sufficiently represented on boards such that shareholders may hold them to account and potentially remove them without this significantly impairing board diversity.

Board and management DEI: Boards should seek diverse composition in its broadest sense to support high-quality debate and decision-making, considering diversity of skills, experience, networks, psychological attributes, and demographic characteristics (including, but not limited to, race, ethnicity, gender, sexual orientation, age, disability, nationality, and socioeconomic background). We expect companies to clearly disclose board diversity and encourage directors to self-identify. Companies should create a culture where self-identification is possible. For companies of all sizes across Europe, we support a medium-term goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary), race and ethnicity and other diversity traits such as LGBTQ+ and disability.

- We set market-specific minimum expectations for board and management diversity which aim to strike a balance between market context and international good practices. We consider these thresholds to be minimum standards, not final targets:
 - In Germany, we expect at least 30% female representation on the supervisory board. In Germany, we also expect at least 20% women on the management board for DAX40 companies, and at least one woman for other companies.
 - In Italy, we expect 33% women on the boards of larger companies (FTSE MIB) and 25% for other companies. Below the board, we expect at least 20% women on the management boards of FTSE MIB, and at least one women for others.
 - In Spain, we expect 40% women on the boards of listed companies. Below the board, we expect at least 20% women on the management boards of IBEX35, and at least one women for others.
 - In the UK, we support the changes to the FCA's listing rules for board diversity and expect companies to disclose whether they comply – or, if not, why – with the following targets: at least 40% of board seats and at least one senior board position (chair, CEO, CFO or senior independent director) held by a woman, and at least one board seat held by someone from an ethnic minority background. In 2024, we consider the following to be minimum expectations and will likely oppose the chair or other responsible directors if not met:
 - FTSE350 boards to comprise at least 33% women and executive teams to have at least one female member.
 - FTSE100 boards to have at least one member from an ethnic minority background (we will extend this to the FTSE350 from 2024).

- Women to comprise at least 25% (FTSE100) or 20% (FTSE250) of the combined population of the executive committee and its direct reports.⁵
- In France and the Netherlands, we support minimum requirements for women to comprise 40% and 33% of the board, respectively. We also want to see more progress below the board, where women remain notably under-represented. We expect companies to progress towards at least 30% female representation on their executive team and/or the management board and will now generally oppose the chair of companies with no female representation on these bodies.
- In Switzerland and Australia, we expect at least 30% women on the board of larger companies (SMI Expanded Index and ASX300) and 20% for smaller ones, and at least one woman on the executive team.
- In Belgium, we support requirements for women to comprise 30% of the board of BEL20 companies and see this as a minimum standard. We may increase our expectations over the coming years. Below board level, we expect female representation at executive committee level and will consider recommending votes against the chairs of companies with no women on these bodies.
- In the Nordics, we support requirements and/or guidelines for women to comprise 40% of the board (as in Sweden) but still see scope for improvement, for instance in Denmark where companies must set a target for female board representation but often set these at very low levels. We also want to see more progress below the board, where women remain notably under-represented. As such, we generally expect to see at least 30% women on the boards of Danish and Swedish companies as a minimum standard, and may recommend opposing or abstaining on the election the chair or other responsible directors where women are not represented in the executive team.

EXECUTIVE REMUNERATION

Principles

EOS' views on executive remuneration practices in Europe and Australia:

In a number of markets, we are concerned that executive remuneration structures and practices are not fit for purpose, neither serving long-term investors nor aligning properly with the core long-term objectives of companies, and that poor practices are at risk of spreading to other countries where pay is more restrained. Often, we believe executive pay practices do not support embedding desirable corporate cultures, fairness, or the best ways of working for the long-term sustainability of the business. We call on companies to show leadership in transitioning to simpler pay schemes, more clearly aligned with long-term, sustainable value creation and the desired corporate culture and strategy, while

⁵ We will assess this using data from the FTSE Women Leaders Review, which we will seek to clarify through research into and engagement with companies.

having regard to wider social and environmental outcomes. We expect executive pay to be viewed in the context of workforce pay practices and for companies to demonstrate how they ensure their lowest-paid workers are paid living wages, for example, by aligning to external standards such as the Living Wage Foundation UK or some other robust assessment.

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

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

EOS vote policy approach to executive remuneration: We do not seek to be overly prescriptive about specific structures and metrics but continue to make the case for simpler pay schemes aligned to long-term success and the desired culture in the organisation. Generally, we believe this could be better served through smaller, more fixed pay awards with a substantial portion deferred into long-term, time-restricted stock, coupled with high shareholding requirements for executives for at least the duration of their tenure and ideally several years after their departure.

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

- We may oppose remuneration policies and/or reports where we believe pay design and/or outcomes are materially misaligned with the principles set out in this policy and/those articulated in our Global Corporate Governance Principles.⁸
- We may continue to oppose remuneration reports against a remuneration policy we did not support if pay practices in the year under review continue to manifest the feature(s) of the policy that we did not support.
- Where there are continued votes against the executive remuneration approach at a company, we may choose to escalate our approach by opposing remuneration committee members or the chair of the board.
- We will assess pay proposals holistically, treating some concerns as more serious than others. The most serious concerns may, alone, lead us to oppose proposals; others may lead us to oppose if coupled with other concerns.

⁶ [Remuneration Principles: Clarifying Expectations | Federated Hermes](#) The principles contained in the paper are global in nature, but some of the specific references to structures are more applicable to certain markets such as the UK.

⁷ [EOS library | Federated Hermes Limited \(hermes-investment.com\)](#)

⁸ [EOS library | Federated Hermes Limited \(hermes-investment.com\)](#)

- For each area of concern, we have set market-specific policy guidelines that aim to strike a balance between local common practices and the EOS remuneration principles and/or international good practices.
- The concerns which we generally consider to be **most serious** include:
 - High variable pay opportunity: We generally consider a total variable pay opportunity of over 400% of base salary to be high and will generally not support opportunities of 600% of base salary or more.
 - Low executive shareholdings: We see high executive shareholdings, built up and held for the long-term, as the most effective means of alignment with long-term shareholders. We set market-specific minimum expectations that reflect local market norms and pay levels, but a long-term view to encouraging high executive shareholdings across Europe and Australia. Where sitting executives hold shares in excess of these minimums, we may support remuneration reports but oppose policy proposals until higher requirements are introduced.
 - In the UK, we will generally not support policies with requirements below 400% (FTSE 100), 300% (FTSE 250) or 100% of salary for smaller companies. We also expect a formal policy for post-cessation shareholding requirements, adhering, as a minimum, to the UK Investment Association guidance⁹ of 100% of minimum shareholding requirements for two years post-departure, although we are open to alternative but equivalently effective structures.
 - In Australia, we expect requirements of at least 300% (ASX100), 200% (ASX200) or 100% of salary for smaller companies.
 - In France, we expect requirements of at least 400% (CAC40) or 200% of salary (other companies)
 - In Germany, we expect requirements of at least 200% of salary.
 - In the Netherlands, Italy and Spain, we expect requirements of at least 200% for larger companies and 100% for smaller companies.
 - In other markets, including Belgium, Denmark, and Sweden, we expect shareholding requirements of at least 100% of salary but encourage companies to set requirements at higher levels and may increase our minimum standards in the coming years.
 - High pay and/or pay increases without sufficient justification: This includes pay awards which do not appear to be justified in the context of the wider shareholder (and potentially other stakeholder) experience, and unjustified executive salary rises. For the latter, we generally will not support salary rises of over 10% in one year or over 20% over three years, without a compelling justification, such as: a material change in roles/responsibilities; a track-record of limited pay increases; a planned increase after being paid a lower rate in a

⁹ The UK Investment Association Principles of Remuneration ([Member guidance \(White\)](#) (theia.org))

new role and subject to performance; a large year-on-year increase driven by an 'artificially' lower baseline the previous year, such as an executive joining mid-year or pay reductions in the face of a crisis. Given the current inflationary and cost of living pressures facing societies across Europe and Australia at present, we expect any executive pay increases to be carefully considered by the board and clearly justified, particularly in the context of pay awards given to the wider workforce.

- The concerns which we generally consider to be **moderately concerning** include:
 - Short-termism in pay design: This includes various considerations which we may consider as more serious depending on whether multiple, compounding factors are present and relativity to local market norms. It includes:
 - Share options: we generally do not support share options at all, but in markets where they are still common (including for tax reasons), we do not expect them to comprise a material part of executives' remuneration and generally do not support those which vest in under 36 months.
 - Short-vesting long-term incentive plans (LTIP): where they are used, we believe LTIPs should not vest in under five years, with three years as an absolute minimum. In many markets, we will not accept LTIPs vesting in under five years. In some, where three years is still common, we may accept this as a transitional arrangement but reserve the discretion to oppose, particularly where this issue is compounded by other factors that weaken long-term alignment.
 - Insufficient proportions of incentive schemes being deferred into shares: this is assessed based on market context and overall scheme design, but generally we expect all LTIPs to be delivered in shares that vest in five years or more and for a portion (eg, at least a third) of substantial annual bonus awards (eg, those over 100% of salary) to be deferred into shares.
 - Use of performance metrics potentially misaligned with long-term sustainable value creation: for example, financial and/or share price-focused measures, such as earning per share (EPS) or total shareholder returns (TSR), not balanced by measures reflecting strategic value drivers which may encourage decision-making misaligned with long-term, sustainable value creation.
 - Over-reliance on TSR as a measure in incentive schemes (generally 50%+ of an award) or use of TSR in schemes such that material awards can be earned for median or below median performance, where we would argue TSR would be better used as an underpin or – ideally – executives should instead be granted long-term time-restricted stock.

- Disclosure issues: we recognise that increased disclosure of executive pay schemes contributes to pay ratcheting and may not meaningfully improve pay practices and so do not advocate for greater disclosure in all circumstances. However, where material performance-based pay awards are offered to executives, we expect sufficient disclosure to be able to assess what metrics and targets they are being incentivised to hit, the relative weighting and value of these, and performance against them. We expect retrospective disclosure of these elements no less than one year after the year in which awards have been paid.
- Multiple pay schemes: we will typically oppose the use of more than two variable pay schemes for executives, excluding legacy schemes and restricted share schemes.
- We generally consider the following to be **positive features**, which may mitigate concerns outlined above:
 - High shareholding requirements, beyond our minimum expectations in a market, and those which extend beyond departure.
 - Simple pay design: single incentive schemes and/or well-constituted restricted share schemes that adhere to EOS principles and any good practice guidance in a market, such as the UK Investment Association guidelines.¹⁰

Restricted shares schemes: In the UK, where packages based on salary, bonus and LTIPs are common, we have encouraged companies to consider removing the LTIP and moving to a smaller grant of long-term, time-restricted stock. We believe that the simplicity and clear alignment of a compensation system based on restricted shares would benefit most, if not all, companies.

We generally endorse the UK Investment Association guidelines for this transition as a minimum, with some additional considerations. We will look to support companies making this transition, provided: there is a robust rationale (noting we will not look favourably on companies making the move to benefit executives during a period where LTIPs would likely not vest and then switching back to an LTIP); there are robust protections for boards to reduce awards at grant and/or vesting where appropriate in cases of failure or to reflect wider shareholder or stakeholder experience (noting this requires both underpins and ongoing board discretion); and where appropriate discounts have been applied (we would typically expect a 50% discount on the maximum award size for companies moving from an LTIP to a restricted stock grant, but may support companies granting more than this if they significantly reduce or remove the annual bonus scheme). We do not expect restricted share grants to increase materially over time and will not generally support an increase in grant size in consecutive policy proposals. We encourage companies in other markets across Europe and Australia to consider moving to simpler, smaller and more long-term packages in this manner.

¹⁰ The UK Investment Association Principles of Remuneration ([Member guidance \(White\)](https://theia.org.uk/membership/member-guidance-white/) ([theia.org](https://theia.org.uk)))

TAX AND AUDIT

Audit quality and independence

Role of the audit committee: We hold the committee accountable for ensuring audit quality through rigorous auditor selection, rotation, and especially vigilant auditor oversight. Additionally, the committee has oversight of the financial reporting process as well as important risk and compliance oversight responsibilities, such as oversight of internal audit and whistleblowing facilities, as delegated by boards, or as specified by laws or regulations.

- We will consider opposing the appointment of the auditor, the chair and other audit committee members where we have concerns about the performance of the audit committee, including the oversight of the external auditor or the independence and quality of the audit.

Auditor rotation: Independence, and potentially audit quality, is at risk when the same assurance provider is maintained for too long – whether the audit partner or audit firm. We expect companies to adhere to minimum standards of mandatory rotation of the audit firm after 20 years tenure, with an open and competitive re-tender process at the interim point of 10 years. We encourage companies to exceed this standard by seeking competitive tendering for the company's audit firm every seven years, with mandatory rotation after no more than 15 years.

- We will consider recommending voting against the ratification of the auditor where we have concerns that these standards have not been met.

Non-audit services and expenses: The audit committee must establish and enforce a policy on what non-audit services the company can procure from the external auditor. We pay close attention to these services and related fees to ensure that they do not compromise auditor independence, which could compromise the integrity of the audit. Non-audit fees should not exceed 70% of total firm fees over three years or 50% in any one year. Where this 50% threshold is exceeded, and in the absence of compelling justification (for example, one-off costs relating to an acquisition), the audit committee must take immediate action to reduce it, either by tendering for a new audit firm at the next opportunity, or by reallocating non-audit work to a different firm within twelve months.

- We will consider recommending voting against the ratification of the auditor where we have concerns that these standards have not been met.

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

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

Inclusion of climate change in critical audit matters: The auditor should communicate climate and other ESG matters as critical audit matters to the audit

committee where material and involving challenging, subjective and or complex auditor judgement.

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

Responsible tax: Fair payment of tax, based on the intention of tax law and in proportion to the location of economic value generated, is an important pillar of a company's social licence to operate. We believe that companies that seek to aggressively minimise their tax payments will face increasing reputational and financial risks.

- We will consider recommending a vote against the chair and other relevant directors at companies where we consider its corporate tax management has not materially changed in line with our responsible tax principles or there has been a lack of an appropriate response to engagement. Our assessment is informed by a range of indicators including third-party sources, benchmarking and controversies. We generally support on a case-by-case basis shareholder resolutions seeking improved disclosure in line with our responsible tax principles.

PROTECTION OF SHAREHOLDER RIGHTS

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

- We may oppose relevant directors, including the chair of the board/supervisory board where practices do not adhere to the principles set out here.

Capital structure: We believe that 'one share, one vote' is an important principle of good corporate governance, as the use of a single share class promotes strong alignment and representation of all shareholder interests. We also believe that company leadership should be primarily focused on long-term, sustainable value creation, which entails decision-making that extends beyond short time horizons which some investors may be focused on. We consider that all companies should place stakeholders and long-term thinking at the heart of their decision-making. In most cases, we believe that enshrining the principle of 'one share, one vote' helps facilitate this best, as it ensures that all types of shareholders have sufficient opportunity and rights to express their views.

However, if a company seeks to use differentiated share classes to achieve a net positive for stakeholders, such as maintaining continuity with a founder-CEO or family ownership who are genuinely integral to the fortunes of a company, we would expect to see strong protections and provisions in place. Specific provisions would include a sunset provision (such that shares revert back to normal rights after a time period), a restriction on transferal of exceptional rights and a cap on

the overall ratio of voting right. We would also have to consider companies pursuing these structures to be genuinely exceptional cases. We would generally not support companies who have listed with a single-class structure transitioning to a dual-class structure. For companies seeking to list which already have a dual-class structure in place, we may support such structures if the company commits to provisions such as those listed above (ie, sunset provisions, restrictions on transfer of rights and overall caps on voting rights).

Capital raising: We do not support excessive dilution for existing shareholders and support strong guidelines for pre-emptive rights for share issuance. We generally support local market guidelines on capital raising unless we consider them to be insufficient, in which case we may define our own standards drawing on international good practice.

Shareholder meetings: We believe hybrid shareholder meetings which robustly defend shareholder rights to be optimal, or if not practicable, physical meetings. We generally do not support virtual-only meetings but may do so on a case-by-case basis where there are clear assurances that shareholders rights will be protected and equivalent to hybrid or physical meetings. We may escalate concerns about shareholder meetings practices to relevant authorities and/or directors. You can read more about EOS' views in our paper *Principles of Annual Meeting Good Practice*.¹¹

- We will typically oppose proposals to move to virtual-only shareholder meetings, unless the company can effectively demonstrate that shareholder rights and/or the benefits of physical meetings can be maintained, for instance by ensuring the board engages with shareholders on a regular basis and there is a function for shareholders to ask questions and follow up in meetings. We will also take into account whether local legislation or best practice exists that provides a framework for how virtual meetings should occur, such as in Germany.

Related-party transactions (RPT): RPTs are an important issue, particularly for minority shareholders, and require significant consideration. All material transactions, be they ordinary business or mergers and acquisitions, should be put to shareholders for a vote. We encourage companies to provide disclosure of RPTs in advance of the minimum required notice period ahead of a vote on them to ensure that any questions from shareholders can be adequately answered before they are voted on. If a majority of minority shareholders have voted against them, the company should engage with minority shareholders to understand and act on their concerns. We expect to receive detailed disclosure on the rationale for the use of the RPTs, the terms of the agreement and the audit and assurance mechanisms put in place to ensure that any RPTs are conducted in a fair and transparent manner.

SHAREHOLDER PROPOSALS

General: We support the selective use of shareholder proposals as a tool for communicating investor concerns and priorities or the assertion of shareholder rights, and as a supplement to or escalation of direct shareholder engagement

¹¹ Principles of Annual Meeting Good Practice, February 2021, [Hermes Investment Management \(hermes-investment.com\)](https://hermes-investment.com)

with companies. We may also file or co-file resolutions where we believe them to be warranted. Boards should engage with serious, committed long-term shareholders, or their representatives, including ourselves. Where boards interact in a constructive manner with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions.

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

- We will consider supporting well written, appropriately crafted shareholder proposals on a case-by-case basis and when aligned with the aims of the EOS Engagement Plan and long-term interests of our clients.

Company response to resolutions: We encourage companies to enable shareholder proposals, which is still challenging in many European markets, and to support them where the ask of the proposal is consistent with the company course of direction. We expect boards to take and disclose the actions taken to address the issues raised by shareholder proposals that receive significant shareholder support or are otherwise potentially material to the long-term returns of the company. We expect companies to disclose outcomes for advisory shareholder proposals that received majority support in a timely way, including the action proposed to be taken.

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

ENVIRONMENTAL AND SOCIAL

Principles

General: EOS engages on environmental and social expectations and/or concerns across a wide range of topics throughout the year in its engagement with companies (see EOS Engagement Plan¹² for more). EOS vote guidelines are intended to complement this engagement.

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

¹² [EOS library](#) | [Federated Hermes Limited \(hermes-investment.com\)](#)

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

Climate change

Importance of climate change: Climate change is a systemic risk to companies and therefore the value of our clients' portfolios due to the economic, environmental and social consequences of climate change. We strongly support the goal of the 2015 Paris Agreement¹³ – seeking to limit global average temperature increase to 1.5°C – and we expect companies to publicly do the same, as well as working to ensure that any third-party organisations they support or are members of, such as trade bodies or lobbying organisations, are aligned to this goal.

Expectations of companies: We expect companies to develop a comprehensive climate transition plan that presents a strategy with short-, medium-, and long-term actions to manage material climate-related risks and achieve net zero by 2050. This should align with best-practice and sector-specific guidance where available and include the following actions:

- Establish strong governance of the risks and opportunities presented by climate change and the energy transition. Ensure climate-related issues are included on the board agenda at least annually and that the board and senior management engage with outside experts who can advise on strategic risks and opportunities that climate change presents, including challenging the company's approach if necessary.
- Commit to achieving net-zero emissions by 2050 at the latest and set interim science-based targets to reduce greenhouse gas emissions in line with the goals of the Paris Agreement. This should include material Scope 3 emissions associated with a company's value chain or use of products with an explanation of why any material Scope 3 emissions are not included.
- Develop and disclose a decarbonisation strategy that identifies, and quantifies to the extent possible, the key levers that will achieve the emissions reduction targets, and the strategy for capturing any climate-related business opportunities being pursued. This should include material information on expected capital expenditure necessary for the transition plan and how investment decisions include assessments of economic resilience under 1.5°C-aligned transition scenarios. Planned use of currently pre-commercial technologies, such as carbon, capture and storage, should

¹³ [The Paris Agreement](#) | UNFCCC

be supported with techno-economic analysis to demonstrate a viable and credible business-case. We do not expect offsets to account for more than 10% of total emissions reductions in the strategy and offset procurement should focus on high-quality offsets and be subject to robust governance processes.

- Identify and disclose the key assumptions and dependencies the transition plan relies on, for example, public policy changes or technological developments, and explain how the company is proactively working to enable these outcomes.
- Adopt the framework set out by the Task Force on Climate-related Financial Disclosures (TCFD)¹⁴ for the management and reporting of climate-related risks and opportunities. This should include conducting scenario analysis to establish the potential financial impacts of physical and transition climate risk on the business under different transition scenarios. Companies should ensure that the financial risks associated with climate change and the energy transition are appropriately reflected in reports and accounts (see audit section for more).
- Where exposure to physical climate risk is material, develop and disclose an adaptation and resilience plan setting out the actions that will be taken to manage the risks the company is directly and indirectly exposed to, such as through its supply chain.
- Ensure board oversight and robust governance processes are in place to oversee the company's climate-related policy engagement and lobbying activities, including those conducted by third-party organisations of which the company is a member. We expect all such direct and indirect lobbying to be conducted in line with the 1.5°C goal of the Paris Agreement and incidents of misalignment to be resolved, such as through influence or ultimately withdrawal from third-party organisations. The company should be transparent about its governance procedures and climate-related lobbying activities by aligning with best-practices set out in the Institutional Investors Group on Climate Change (IIGCC) Investor Expectations on Corporate Lobbying on Climate Policy¹⁵ and the Global Standard for Responsible Climate Lobbying.¹⁶ Companies materially reliant on public policy support for their climate strategies should also proactively support and advocate for positive action in their spheres of influence.

Climate laggards: We hold the chair of the sustainability committee or equivalent and/or other responsible directors accountable where we believe companies are insufficiently managing climate-related risks to the business. We assess this using a range of frameworks and benchmarks, including the Transition Pathway Initiative (TPI)¹⁷, the Global Coal Exit List¹⁸, the Climate Action 100+ Net Zero Benchmark,¹⁹ and Forest 500²⁰, to set minimum standards which are reviewed annually. Where practicable and/or where we consider company performance to

¹⁴ Task Force on Climate-Related Financial Disclosures | TCFD) (fsb-tcfd.org)

¹⁵ <https://www.iigcc.org/resources/investor-expectations-on-corporate-lobbying>

¹⁶ <https://climate-lobbying.com/>

¹⁷ <https://www.transitionpathwayinitiative.org/sectors>

¹⁸ [Home | Global Coal Exit List](#)

¹⁹ <https://www.climateaction100.org/progress/net-zero-company-benchmark/>

²⁰ <https://forest500.org/>

be less clearly lagging, we will seek to engage with companies before making final voting recommendations.

We may recommend opposition for responsible directors where we consider a company to be a climate laggard, in line with the principles above. For 2024, this assessment will include:

- Companies identified as lacking comprehensive medium-term greenhouse gas emissions reduction targets and/or TCFD reporting by the Climate Action 100+ (CA100+) Net Zero benchmark.²¹
- Companies identified as failing to appropriately reflect, or demonstrate consideration of, material climate-related risks in their financial statements by the CA100+ Net Zero benchmark or other sources.²²
- Any company scoring below Level 3 on the Transition Pathway Initiative (TPI) Management Quality Score²³. Companies in the oil and gas, coal mining, electric utilities, diversified mining or automotive sectors, and/or European, UK, Australian or New Zealand companies scoring below Level 4 will also be flagged.
- 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.²⁴
- Companies included on the Global Coal Exit List²⁵ without Paris-aligned²⁶ coal phase-out plans²⁷ and those listed as expanding coal-related infrastructure.
- Companies insufficiently managing deforestation-related risks. We will review companies scoring very poorly on the Forest 500 assessment.

Say on climate' resolutions: In principle, we support the concept of having an advisory shareholder vote on climate change transition plans (so-called 'vote on transition' or 'say on climate' resolutions), while believing that managing climate-related risk ultimately remains the responsibility of the board. Our foremost priority is that companies develop a climate transition plan that aligns with the 1.5°C goal of the Paris Agreement and report on progress against this annually. These strategies should be updated at least every three years to account for the evolving context of climate action. Whether a company puts this to an advisory vote should be carefully considered by the board and should not replace ongoing engagement with shareholders on the substance of the transition plan.

Where companies offer an advisory vote, we will not support transition plans which are misaligned with 1.5°C. Indicators of alignment include science-based greenhouse gas emissions reduction targets over the short, medium, and long term, supported by a clear and credible strategy to achieve these. In order for such votes to offer meaningful shareholder input, we believe they should only be held once a reasonably comprehensive climate change strategy has been published. If companies believe their strategy is ready for a vote but certain elements remain to be confirmed, they should commit to a further vote once fully

²¹ Companies scoring 'No' on Indicator 3 (medium term targets) and/or 'No' or 'Partial' on indicator 10.1 (TCFD reporting) [Net Zero Company Benchmark | Climate Action 100+](#)

²² 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.

²³ [Tool – Transition Pathway Initiative](#)

²⁴ Banks scoring 'No' on indicator 2.1.b (medium-term targets) and/or 'No' on indicator 8.1.a (climate risk reporting) [Banking Tool - Transition Pathway Initiative](#)

²⁵ [Home | Global Coal Exit List](#)

²⁶ 2030 in OECD countries and 2040 in the rest of the world

²⁷ Companies considered to be primarily focused on coal mining with limited opportunity for diversification will not be captured unless they are identified as expanding coal-related infrastructure.

developed. Companies should also provide further votes on any plan which received significant dissent (following an update to the strategy in line with shareholder expectations), or which has materially changed since receiving shareholder approval.

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

Human Rights

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

Expectations of companies: We endorse and expect companies to align with the UN Guiding Principles on Business and Human Rights²⁸ (UNGPs). The UNGPs framework outlines the corporate duty to respect human rights. Companies should have a governance structure for human rights which identifies board level oversight and executive accountability. They should report on obligations under the UNGPs, as well as under national legal requirements and relevant international frameworks. Companies have a responsibility to disclose and act upon a policy commitment to human rights in their operations and value chains. This includes carrying out human rights due diligence to identify potential and actual human rights impacts; a plan to prevent, mitigate and account for how to address these impacts; and providing or cooperating in the provision of remedy if a company has caused or contributed to adverse impacts.

We may consider recommending a vote against relevant meeting items, such as re-electing a director, discharging management or approving its reporting if:

- A company is in clear breach of its applicable regulatory responsibilities related to human rights (such as the UK Modern Slavery Act, Uyghur Forced Labor Prevention or responsibilities outlined in the UNGPs); and/or
- There is sufficient evidence that a company has caused or contributed to egregious, adverse human rights impacts or controversies and has failed to provide appropriate remedy; and/or
- A company scores significantly lower than industry peers within credible external benchmarks related to human rights, including:
 - The Corporate Human Rights Benchmark,²⁹ which ranks some of the world's largest companies on the policies, processes, and practices they have in place to take a systematic approach to human rights approach and respond to serious allegations.

²⁸ [GuidingPrinciplesBusinessHR_EN.pdf \(ohchr.org\)](#)

²⁹ [Corporate Human Rights Benchmark | WBA \(worldbenchmarkingalliance.org\)](#)

- The Ranking Digital Rights Index,³⁰ which ranks some of the world's largest technology companies on their commitments and policies affecting users' freedom of expression and privacy rights.
- The BankTrack Human Rights Benchmark,³¹ which ranks some of the world's largest banks on their progress towards fully implementing the UNGPs.
- The Know the Chain Index,³² which ranks some of the world's largest companies on their current corporate practices to identify and eradicate forced labour risks in their supply chain.

³⁰ [Home - Ranking Digital Rights](#)

³¹ [BankTrack – The BankTrack Human Rights Benchmark](#)

³² [KnowTheChain – KnowTheChain](#)

APPENDIX

Formal duties of a lead independent director

The lead director role and powers should be clearly defined in published rules of the board or in the articles of association.

In particular, the lead director should:

- Have the ability to call a special meeting of the board of directors or the independent directors at any time, at any place and for any purpose.
- Make sure that independent directors receive the information they need to perform their duties.
- Preside over working sessions of non-executive directors exclusively.
- Be accountable for managing conflicts of interest and compliance with good governance. For example, by presiding over meetings when the chair or executive chair is conflicted.
- Collaborate with the chair of the board, CEO and committee on topics for, and schedules of, board and committee meetings.
- Direct the periodic evaluation of the chair of the board and lead any process for the succession thereof.
- Engage with long-term shareholders.

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EOS001215 0016512 01/24

Federated Hermes

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Why EOS?

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

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