Stewardship Report 2023

EOS at Federated Hermes

April 2024

Federated Hermes EOS

www.hermes-investment.com
For professional investors only

Welcome to the EOS at Federated Hermes 2023 Stewardship Report.[1]

The investment industry can play a powerful role in creating sustainable wealth for investors and in building a better world – and at EOS at Federated Hermes, we believe active stewardship is an important way to achieve this.

As a service provider, we contribute to asset managers and asset owners fulfilling their duties under the UK Stewardship Code. Offering a shared service platform and a dedicated stewardship team, we pool our clients' assets to increase our influence with companies[2]. This leverage means we can have a more meaningful impact on the issues of most importance to our clients.

2023 was another turbulent year for the global economy as inflation, rising interest rates, tight labour markets and geopolitical shocks fuelled uncertainty. It was also the year in which the impact of climate change was writ even larger with catastrophic flooding across 10 countries in 12 days, the hottest ocean temperatures ever recorded, heatwaves that scorched the entire Northern Hemisphere, and the worst drought in 40 years across the Horn of Africa.[3] At the same time, the energy 'trilemma' that had defined 2022 – managing climate risks while ensuring energy security and affordable access to energy – continued.

Encouragingly, the US Inflation Reduction Act (IRA) of August 2022 spurred renewable energy and clean tech investment, and energy prices eased in many markets. This helped to reduce inflationary pressures, although the cost of living crisis persisted in many markets. This series of environmental and macroeconomic challenges reinforced the focus of our advocacy and stewardship activities in 2023.

Geopolitical tensions also remained heightened in 2023, with no sign of an end to the war in Ukraine and the destabilisation of the Middle East through the conflict in Israel and Gaza. Against this backdrop, we continued to engage with companies on how they address the geopolitical risks facing their businesses and their approach to safeguarding human rights in high-risk regions.

Regulators and standard setters remained active in 2023 with the issuance of the inaugural International Sustainability Standards Board (ISSB) standards and the Transition Plan Taskforce Final Disclosure Framework. The publication of the Taskforce on Nature-related Financial Disclosure (TNFD) recommendations reflected the growing focus on nature-related issues.

However, disclosure is not an end in itself. As data availability improves, regulations are emerging to encourage companies and financial institutions to take concrete action. In the EU, for example, 2024 will see the adoption of the Corporate Sustainability Due Diligence Directive (CSDDD), requiring companies to identify and mitigate social and environmental adverse impacts in their value chains.

As a business dedicated to delivering sustainable wealth creation that enriches investors, and, where possible, society and the environment over the long term, we will continue to engage and advocate to support the change needed by the planet, its people and the generations to come, consistent with client objectives and applicable requirements.

Leon Kamhi
Chair, EOS at Federated Hermes
and Head of Responsibility,
Federated Hermes Limited

[1] The statements, references to officers, practices and policies, and discussions in this report pertain to the EOS at Federated Hermes business, which is wholly owned by Federated Hermes Limited. It does not refer to other businesses engaged in by Federated Hermes Limited or Federated Hermes, Inc. The information in this report does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

[2] Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

[3] UN Foundation, 'YEAR IN REVIEW: THE EVENTS THAT SHAPED OUR WORLD IN 2023' (December 2023).

Executive summary

Stewardship: The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

— UK Stewardship Code 2020, Financial Reporting Council

Following on from our 2022 Stewardship Report,[4] this report describes our stewardship work in 2023 and the outcomes of these activities. We have followed the structure of the UK Stewardship Code, reporting principle by principle to communicate our policies, processes, activities and outcomes to clients and wider stakeholders. We outline our engagement, voting recommendations, public policy, screening and advisory work carried out on behalf of our clients.

Building on last year's reporting, we have provided an update on the firm's diversity, equity and inclusion (DE&I) strategy and the formation of six core DE&I project groups; insights into our engagement approach on worker rights and benefits and the importance of a just transition; highlights of the latest operational enhancements to our client portal; and a detailed update on our collaborative engagement activities with Climate Action 100+. Examples and case studies are provided throughout to demonstrate how our approach works in practice.

We once again begin by setting out our purpose, beliefs and values, which drive our strategy and business model. Our stewardship activities flow from this overarching structure, demonstrating how we contribute to building a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

We have worked with over 1,000 companies across the globe to address their key risks, challenges and opportunities, covering environmental, social, governance, strategy, risk and communication matters over the last 12 months. Alongside this, we have continued to engage with policymakers, regulators and standard-setters to help improve market best practice.

In collating this report, we have taken steps to ensure that it is fair, balanced and understandable. In doing so, we have communicated our successes, reflected on our learnings and highlighted the changes we will make in the next 12 months.

Monitoring engagement outcomes is crucial, to ensure that our approach is effective and achieving the desired results. This enables us to demonstrate to our clients that we are maintaining high standards and that stewardship has a tangible impact. We strive continuously to reflect on our efficiency and the outcomes we are delivering in order to identify further ways in which we can improve. Throughout the report we highlight the enhancements made to our approach during 2023, as well as the areas identified for further improvement in 2024.

We have sought to make this report and our reporting elsewhere understandable, providing explainers of key terms and acronyms where appropriate.

Federated Hermes Limited reports separately under the Stewardship Code, with references to EOS activities.

[4] https://www.hermes-investment.com/uploads/2023/05/29a25a31094552037ed6425d7103321f/eos-stewardship-report-2022-singles.pdf.

Principle 1

Signatories' purpose, strategy and culture enable them to promote effective stewardship.

What is EOS and what is our purpose?

EOS at Federated Hermes (EOS, formerly Hermes EOS) is a leading stewardship service provider with a purpose to promote the long-term performance and fiduciary interests of its global institutional investor clients and their underlying beneficiaries. Our engagement activities enable investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance (ESG) issues. Our services were created specifically to meet the needs of investors that have a strong commitment to stewardship, consistent with our vision to contribute to a more sustainable form of capitalism.

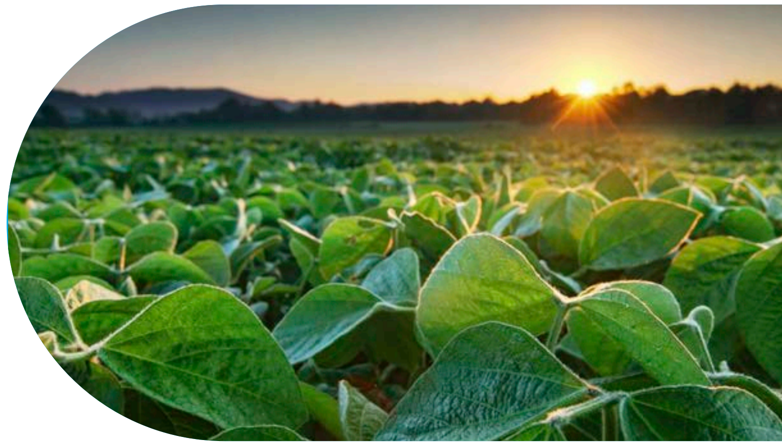
EOS provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. The team works on behalf of long-term global investors who entrust us with the stewardship of approximately £1.2tn/€1.3tn/US$1.4tn (as at 31 December 2023) invested in over 20,000 listed equity, corporate debt and money market holdings worldwide, working collectively in support of shared goals. This pooling of assets increases the influence we can have with companies, which means we can have a more meaningful impact on the issues of most collective importance to our clients.

Our team, which we outline in more detail under Principle 2, has been strategically built to implement this vision and deeply embed these behaviours into our culture. We use a constructive, objectives-driven and continuous dialogue, developing engagement strategies specific to each company based on its individual circumstances. Our understanding is also informed by a range of research and our deep knowledge across themes, sectors and regions. We are committed to delivering sustainable wealth creation that enriches investors, society and the environment over the long term.

Our origins, culture and values

EOS is wholly-owned by Federated Hermes Limited (FHL), which is wholly-owned by Federated Hermes, Inc. Leon Kamhi, Chair of EOS and Head of Responsibility for FHL, is responsible for the leadership of EOS, reporting into the CEO of FHL. Our report aims to highlight the extent of our contribution to asset managers and asset owners fulfilling their duties under the Stewardship Code. The reporting submission by FHL, where we are referenced, complements this.

The business that is now known as FHL was set up to manage the pension funds of BT and the Post Office in September 1983 and engagement with companies has always been an important part of what we do.



In 1983, our first chief executive Ralph Quartano admonished the Marks & Spencer board for the special loans it made available to directors. His message was clear: we were committed to serving the needs of our clients and their beneficiaries, and we understood that the investment decisions we made on their behalf helped to determine the shape of the future society in which they would live.

In 1996, prior to the creation of EOS, FHL set up a dedicated corporate governance team to engage with companies and advise on all aspects of corporate engagement and ESG policy development, research and analysis, voting and engagement. EOS was established in 2004 in response to requests from pension funds that wanted to be more active owners of the companies in which they were invested. These origins, along with our partnerships with some of the world's leading institutions, have provided us with deep-rooted values for the proper stewardship of assets to represent the long-term interests of ultimate beneficiaries, driving our purpose and strategy. This insight into the long-term needs of pension fund clients means that a culture of fiduciary responsibility is embedded at the heart of our organisation.

In 2018, Federated Investors acquired a 60% stake in Hermes Fund Managers Limited, the operator of Hermes Investment Management. On 3 February 2020, the company rebranded as Federated Hermes, strengthening its position as a leader in active, responsible investing. In August 2021, Federated Hermes, Inc. (FHI) purchased the remaining 29.5% interest of Hermes Fund Managers Limited (now known as FHL) held by the BT Pension Scheme (BTPS) and EOS therefore became wholly part of the Federated Hermes group. Since Federated acquired Hermes, we have been united by a shared commitment to client-centric responsible investment and long-term business growth.

Our platforms

In order to continue to lead and oversee the public markets teams based in Europe, to further expand the private markets offering and to drive the responsible investing agenda for our firm, the board of FHL established four distinct platforms:

- The **Public Markets** platform – incorporating our Equities and Fixed Income & Multi Asset products and solutions.
- The **Private Markets** platform – incorporating Private Equity, Private Debt, Real Estate and Infrastructure.
- The **Liquidity** platform – which includes a range of sterling-, euro- and dollar-denominated short-term and standard money market funds as well as bespoke solutions for institutional investors. The funds captured within this platform are excluded from this report.
- The **Responsibility** platform – which includes EOS at Federated Hermes, plus FHL's advocacy team, research, ESG integration and some client advisory activities.

These form the basis of how we view our commercial offering and are supported by all the existing functions necessary to deliver a great client experience – Audit, the Client Group, Compliance, Corporate Communications, Facilities, Finance, HR, Legal, Operations, Marketing, Product, Risk, Sales, Sales Support, Tax and Technology.

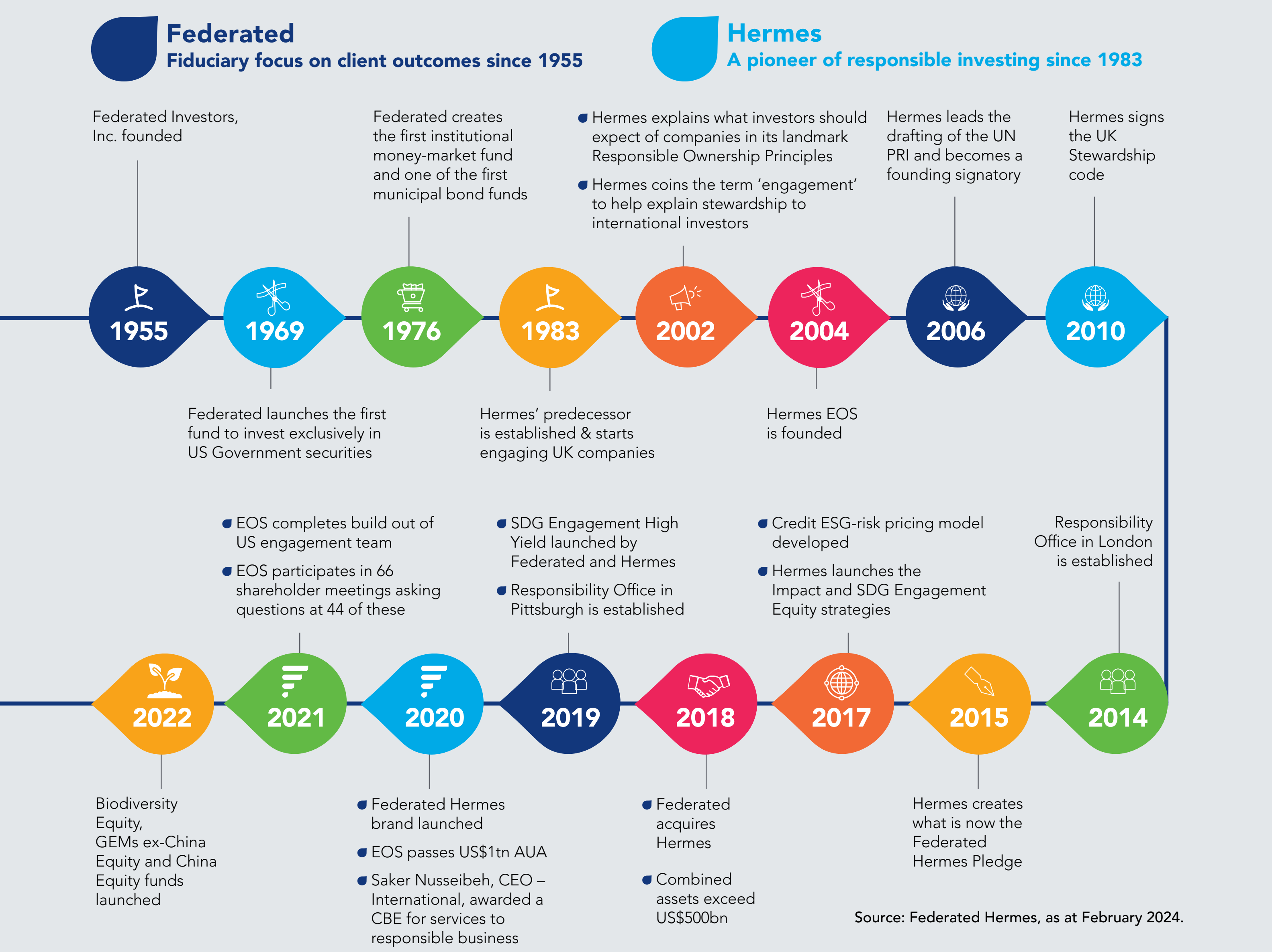
In 2024, now that the four platforms are established, the core area of focus remains on their sustainable development and growth, placing clients firmly at the heart of what we do.

Purpose and strategy

Effective stewardship is a hugely important activity for institutional investors to create sustainable wealth for clients and their investors. Our engagement is therefore focused on ensuring that companies are responsibly governed and well managed to deliver sustainable long-term value for investors, including through improving the lives of employees, promoting diversity and supporting communities.

Companies should do this while contributing to wider society by paying taxes and safeguarding the environment and health. When material and relevant, these factors will drive improved financial performance by companies to the benefit of investors.

FHL's priority for 2024 will be to continue its integration efforts with Federated Hermes, Inc., our parent, while upholding our strong heritage. Sustainable Careers, one of our strategic pillars, remains a priority for the firm, focusing on employee satisfaction, diversity, equity and inclusion, wellbeing, and retention. The firm will also continue to invest in its competitive strengths in responsible investing and stewardship.



Source: Federated Hermes, as at February 2024.

The Federated Hermes Pledge, first established by Federated Hermes Limited in 2015 and adopted by Federated Hermes, Inc. in 2018, compels us to put clients' interests first and to act responsibly. It is a clear expression of our values. The pledge is as follows:

I pledge to fulfil, to the best of my ability and judgement and in accordance with my role, this covenant:

- I will act ethically, responsibly and with integrity.
- I will put the interests of our clients first, consistent with our fiduciary responsibilities.
- I will encourage responsible behaviour in the firms in which we invest and on which we engage.
- I will act with consideration for our community and the environment both now and in the future. I will encourage others to do the same.
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society.
- I will treat my clients, my colleagues and all other stakeholders with dignity and respect and as I would wish to be treated.
- I will deal with our regulators in an open, co-operative and timely way.
- I will communicate clearly and honestly with all parties inside and outside our firm.
- I will manage conflicts of interest fairly between all parties.

Our fiduciary heritage and expertise in responsible investment ensure that our clients' interests come first. Under Principle 2, we outline our detailed recruitment process, which helps to ensure that we continually evolve our team with members that are aligned with our culture.

Our business model

We offer a shared service model that provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. We work on behalf of long-term global investors who entrust us with the stewardship of over US$1.4tn of assets invested in over 20,000 companies worldwide, working collectively in support of shared goals. Pooling of our clients' assets increases the influence we can have with companies and this increased leverage means we can have a more meaningful impact on the issues that are most important to our clients collectively. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

EOS engagement strategy

Our stewardship is focused on providing improved long-term risk-adjusted financial returns on investment and better, more sustainable outcomes for society and the environment.

Our engagement is focused on the themes of most importance to our clients. We undertake a formal consultation process with clients to create a comprehensive forward-looking Engagement Plan.[5] This is updated on an annual basis and acts as a guide for our engagement activity. The Plan summarises the long-term outcomes that we seek to achieve on behalf of our clients and covers a three-year period, as we plan our engagement objectives according to this timescale.

The Plan is based on clients' long-term objectives, and we consult with clients regularly, through dialogue and surveys, to ensure that we are covering the topics of most importance to them. Our clients provide their views at our twice-yearly client meetings. These have a recurring agenda slot where our thoughts for changes to, and progress on, the Plan are shared with an open floor. Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

We aim to strategically engage on the most financially material ESG risks. We select approximately 310 companies for our Engagement Plan to focus our proactive engagement efforts by screening our clients' aggregate holdings. We look at the holding size, the materiality of risks/issues we identify through our screening, and the feasibility of engagement. This may be in response to a client request, on voting or ad hoc issues, or for companies violating, or at risk of violating, international norms, as identified by our screening tool. We also cover this in more detail under Principle 2.

Our services

Engagement with companies is at the heart of what we do, but we offer an integrated approach to stewardship that also includes providing voting recommendations, portfolio screening, public policy and market best practice work and advisory services, as we believe effective stewardship is supported by a combination of these tools to achieve positive change.

[5] https://www.hermes-investment.com/uk/en/institutions/eos-insight/stewardship/eos-engagement-plan-2024-2026/

Ensuring that our strategy and culture enable us to promote effective stewardship

Our engagement strategy and culture promoting effective stewardship as a service provider are actioned primarily through our Engagement Plan.[6] This is formulated through consultation with clients – exemplifying the Federated Hermes Pledge that compels us to put clients' interests first. We consult clients about their priorities and the most material issues on which we should engage with companies. The Plan helps us to stay on track and ensures our efforts are focused where they can have the most impact.

We have developed a number of tools to track our engagement and progress at companies, including our four-stage milestone system, which we cover in detail under Principle 2. Our robust management of conflicts of interest, explained in detailed under Principle 3, is another example of actions that we have taken in the form of processes that support our engagement strategy and culture, and enable us to take effective stewardship action.

In an industry where greater focus and awareness at the asset owner and beneficiary level has prompted a push for more transparency around engagements, clients of EOS are able to use the Plan to demonstrate that the engagement we carry out on their behalf is with companies and on themes that have been chosen in a systematic way. This is paramount in demonstrating how we contribute to asset managers and asset owners fulfilling their duties under the Code. It also speaks to our shared service business model and strategy to achieve positive change on behalf of an international coalition of investors. This strengthens our collegiate culture, and empowers us to strive for change at companies on behalf of our clients with collective assets under advice of US$1.4tn.

Our long-established heritage gives us enhanced credibility to develop trusted relationships with companies, and many of our relationships have been developed over several years. We combine this with our work in building a diverse team with a wealth of experience and skillsets, outlined in detail under Principle 2.

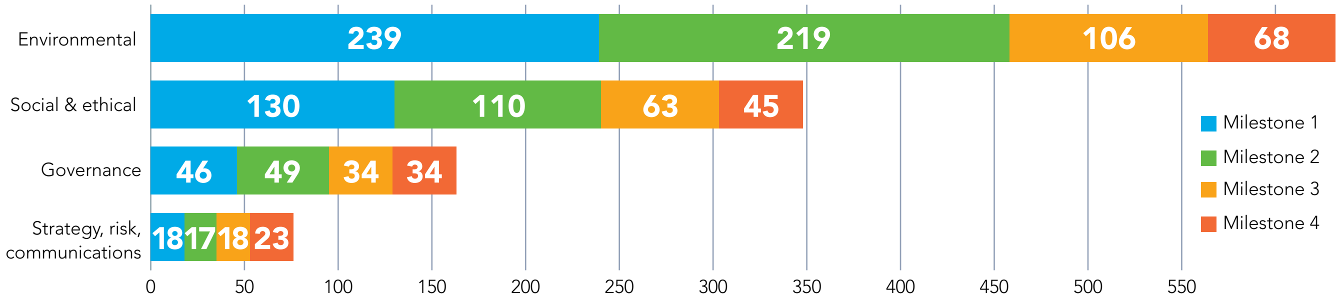
We have put our engagement service at the heart of our stewardship service as we believe we can best promote stewardship by tying our engagement insights into our entire service offering to achieve positive change. When speaking with prospective clients, understanding that this is fundamental to our strategy is central to allowing them to select us as a service provider with aligned long-term approaches.

An assessment of how effective we have been in serving the best interests of our clients

Overview of our service for clients during 2023

Throughout this report, we seek to demonstrate that the outcomes of our stewardship are in the best interests of our clients. We believe that as an integral part of investing for the long term, this delivers sustainable growth and helps to build a better world. The table and graphic below demonstrate that during 2023, we engaged with 1,041 companies, covering 4,272 identified objectives or issues, and 831 objectives advanced by at least one milestone within our engagement programme, on behalf of our clients.

	# of companies engaged	# of issues and objectives engaged	# of objectives engaged	# of objectives completed
Engagement Programme (core)	312	2,158	785	96
Other companies	729	2,114	578	74
Grand total	**1,041**	**4,272**	**1,363**	**170**



Source: EOS data

[6] https://www.hermes-investment.com/uk/en/institutions/eos-insight/stewardship/eos-engagement-plan-2024-2026/

Our engagement activity in 2023 reflects an increase on that of 2022 with reference to the number of issues and objectives that we discussed with companies. Some 68% of assets under advice were engaged in 2023 versus 64% in 2022. Our engagement with companies equates to 62% of the value of the MSCI ACWI All Cap index.

In 2023, we made 31 public policy consultation responses or proactive equivalents such as a letter and held 90 discussions with relevant regulators and stakeholders. We believe this is industry-leading, but we look to improve year-on-year. We have a number of governance structures and processes in place that help us in the assessment of serving the best interests of our clients, which we explain in more detail under Principle 2.

Using reporting and case studies as an assessment of our effectiveness in serving our clients

Under Principle 5, we outline the range of qualitative and quantitative reporting we provide for our clients. This includes company case studies of our engagements, some of which we publish on the Insights[7] page of our firm's website. In 2023, we produced 85 standalone case studies and some additional summary versions in our other reporting.

We have a comprehensive development process for case studies. First, we select suitable completed objectives. These are written up and then reviewed by our regional team leads and head of stewardship. Once reviewed, edited and approved, we share the case study with the company to verify the engagement journey and the outcomes. This affirms our stewardship credibility.

We believe that our case studies are one of the best ways to demonstrate our impact, and we make these readily available in our EOSi portal for clients, and publicly in reports and standalone case studies. Some summarised examples are included in the next few pages. The Insights page of the firm's website, as well as our EOS Library[8] pages, provide examples of our other public reporting.

CASE STUDY: ENVIRONMENTAL

3M
Hazardous substance management

We initiated our engagement with the company on hazardous substance management in 2020. We focused on the company's use of fluoropolymers – a subset of per- and polyfluoroalkyl substances (PFAS).

These are chemicals that do not naturally break down, thus accumulating over time in water, soil and the human body. Throughout our engagement, we asked the company to develop a timebound strategy to reduce and eventually eliminate the manufacture of fluoropolymers, including identification of more environmentally sustainable alternatives. The company was receptive to our concerns.

In 2022, we wrote to the company's CEO as one of 47 signatories representing US$8tn in assets under management/advice asking the company to increase transparency on the type and volume of hazardous substances it produces, particularly in non-US and EU markets where disclosure requirements are not as stringent. We reiterated our request for the company to cease production of PFAS given the financial risks associated with litigation and increased costs associated with reformulating products and modifying processes.

In December 2022, we welcomed 3M's announcement to exit PFAS manufacturing by the end of 2025. This decision included discontinuing the use of PFAS across its product portfolio including all fluoropolymers, fluorinated fluids, and PFAS-based additive products.

In a 2023 engagement, the company confirmed it would facilitate an orderly transition for customers in meeting its commitment, intending to fulfil current contractual obligations during the period to 2025. The company is continuing to innovate for new non-PFAS solutions for its customers and remains committed to ensuring that its products continue to be safe for their intended use. In this regard, 3M is working closely with suppliers and customers as part of an existing PFAS transition and in line with its stated commitment.

[7] https://www.hermes-investment.com/uk/en/intermediary/insights/?team=eos/
[8] https://www.hermes-investment.com/uk/en/intermediary/eos-stewardship/eos-library/

CASE STUDY: SOCIAL

Alibaba Group Human capital management strategy

We have been engaging with Alibaba on human capital management since 2021 when we first asked how the company ensures employees are engaged and deliver high performance, whilst maintaining their wellbeing and work/life balance. In calls in 2022 and 2023, we similarly encouraged Alibaba to disclose a human capital management strategy in its upcoming reporting, including key metrics and targets.

Over the course of our engagement from 2021 to 2023, we were encouraged by the company's efforts to improve its human capital approach. This includes engaging with employees, monitoring their satisfaction rate with their office environment, and providing training and dialogue with senior leadership. However, we have stressed that improving disclosure on the human capital strategy is important, especially given the importance of employee retention to Alibaba's business and investors' concerns about excessive working hours in the industry.

While Alibaba has not published an overarching human capital management strategy document detailing its approach to human capital management, the company has made substantial progress. Alibaba's FY 2022 ESG report highlighted the additional benefits provided to employees by its WeCare Program, which was launched in 2021. These additional benefits include companionship leave, parental leave, long-term service leave, travel subsidies, and flexible work arrangements for one day a week.

Alibaba's FY 2023 ESG report, published in July 2023, included improved disclosure of key metrics such as employee turnover rates by gender, age and region. In the report, a breakdown by gender and employee level of training hours undertaken showed greater equity of hours provided, as well as an increase in the total amount of training.

CASE STUDY: GOVERNANCE

Rio Tinto Board oversight of cultural heritage management

In May 2020, Rio Tinto carried out blasting operations which – although in line with the mine development plan and included the relevant legal approvals – destroyed Juukan Gorge in Western Australia. The site was of high cultural significance with evidence of continuous human occupation for over 46,000 years. The incident prompted the mining industry to focus on the practices and legislative frameworks that allowed such destruction to occur.

Our engagement focused on the role of the board in overseeing social performance and cultural heritage management. We heard that the sustainability committee had been overly focused on safety and climate to the detriment of other areas, had not engaged sufficiently with stakeholder groups, and did not receive adequate reporting from the business.

Our dialogue with the company included a face-to-face meeting with the board chair in 2020 where he provided an update on the company's actions since the incident and subsequent board report. In further meetings in 2021 and 2022, we pressed for greater disclosure, ensuring that reporting accurately reflected the views of traditional owner groups through aggregated feedback.

Our 2022 engagement built on this, requesting that disclosures include robust data on the status of relations with traditional owners. We also pressed for greater disclosure on how the governance structure oversees the risks and the resulting changes made by company.

Over the period 2021 to 2023, we noted improvements in the strengthened role of the sustainability committee of the board. This included implementing a board review of cultural heritage management, reviewing the community and social performance (CSP) governance and assurance model, monitoring the implementation of heritage management, including CEO and board escalation routes, and development of 2022-26 CSP targets. We also noted the introduction of an Indigenous Advisory Group that will advise management and the board.

CASE STUDY: STRATEGY, RISK AND COMMUNICATION

Credicorp ESG due diligence framework

We have been engaging with Credicorp on the development of an ESG due-diligence framework since 2018. Although at that time some of Credicorp's subsidiaries had their own procedures to incorporate environmental, social and governance factors into lending decision-making, we asked Credicorp to develop a group-wide ESG due-diligence framework, to be implemented across the subsidiaries, ensuring consistency and adherence to international best practice.

We have had several meetings with management, including the CEO and head of sustainability, the board and external consultants between 2018 and 2023, at the request of Credicorp. In these calls, we emphasised the importance of developing a structured approach to incorporate ESG factors in the assessment of loan applications and to provide input into its development, based on practices adopted by global and regional financial services groups.

We provided feedback to technical teams, management and the board at various steps in the development of the due diligence framework. Based on the experience of some of Credicorp's peers, we highlighted the role of the "tone from the top", training and incentives in embedding ESG factors into the decision-making process.

In a meeting with the CEO in June 2023, we explored details around client scoring, assessment methodology, risk mitigation and culture change to enable the embedding of ESG factors into the lending operations. The company confirmed that the ESG risk management and due diligence framework was being rolled out across the group with clients being scored according to their ESG risk based on general and sectoral questionnaires.

We recognise that clients have varying needs with regard to how they are required to report on outcomes and communicate with their beneficiaries and stakeholders. We have established a dedicated client focus group, which allows us to discuss potential changes with a select number of clients who represent the client base, and to think about ways to continually evolve this in their best interests.

In 2020 and 2021, we collaborated with a working group of interested clients to redesign our client portal, which provides 24/7 access to our engagement insights. Since our initial development, we have introduced new functionality to enhance the portal based off client feedback. You can read more about this later in the report.

Since international markets have reopened in the post-Covid-19 pandemic era, we have been able to resume travelling to visit companies in person. We have taken advantage of this to build on our existing strong relationships with companies through face-to-face interactions. This has included engagement trips to the US, India, Japan and Australia where we met with companies, often at their headquarters, as we pursued the long-term agenda of our Engagement Plan. On our priority themes, we saw good progress against our Plan's objectives, with some notable highlights later in the report.

Client focus themes

Each year we undertake a formal survey of our client base to identify their priority areas for engagement, so that we can align our activities with their interests. We use the survey results and feedback received through other client touchpoints to determine which engagement themes to focus on.

Central to this is updating our Engagement Plan on an annual basis, which outlines our objectives for a three-year period to be carried out on behalf of clients. The Plan incorporates our clients' common and specific objectives, building on their feedback and input, plus changes in the market and the regulatory environments in different countries and sectors. Based on this, in 2023 we continued to focus on the same four priority themes as 2022. However, we updated our work in each area as follows:

Climate change: We sought assurance that company strategies and actions were aligned with the goals of the Paris Agreement to limit global heating to 1.5°C and asked companies to demonstrate that their business models were resilient and could adapt to future climate change.

Human and labour rights: We encouraged companies to respect all human and labour-related rights linked to their operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty.

Human capital: We asked for improvements in human capital to achieve a healthy, skilled, and productive workforce inclusive of the full diversity of wider society, with access to fair and equitable pay and benefits, in the context of rapid technological disruption.

Board effectiveness and ethical culture: We sought effective boards composed of primarily independent individuals representing the diversity of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying strictly no more than is necessary; the development of a corporate culture that puts customers first and treats material stakeholders fairly; and the establishment and protection of all material investor rights.

For the past three years, the results from our annual survey and feedback for the future of the Engagement Plan have seen our clients shift towards a preference for higher intensity engagement, ie depth versus breadth, to which we are responding.

In 2023, we undertook an updated survey that focused on client service, but also incorporated questions on our reporting and communications. All respondents said that they were either very satisfied or satisfied with their overall relationship with EOS.

External evaluation

EOS did not report under the PRI Reporting Framework in 2023 as reporting for all service providers has been paused since 2021. However, our stewardship work was partly reflected within the FHL results. In 2023, FHL received five stars in the Policy Governance and Strategy, Fixed Income Corporate, Fixed Income Securitised, Fixed Income Private Debt, Real Estate and Infrastructure modules.

We also won awards in 2023 in recognition of our leadership in stewardship and responsible investment. These include the Engagement Award at the 2023 ESG Clarity Awards, while our head of EOS, Leon Kamhi, was named as one of the 50 most influential leaders in sustainable finance.[9]

There is some literature on stewardship that demonstrates the direct financial benefits for investors when engagement occurs at the right level and with the appropriate resources. We shared our engagement data with an international team around Professor Andreas Hoepner from University College Dublin. The authors formulated a very simple – in this case paraphrased – research question: What effect do engagements by EOS have on the riskiness of targeted companies?

The study, updated in 2023, shows that companies that are successfully engaged by EOS on ESG issues exhibit a lower risk profile, particularly when addressing environmental

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topics.[10] In addition, the paper found that those targeted companies with large downside risk reductions demonstrated a fall in environmental incidents after engagement.

Prior to this, back in 2017 a research team around Professor Wolff at the University of Göttingen also documented a link between interpersonal communication and the engagement success of EOS. The results showed that: personal interaction with companies is an important driver of success; chair meetings are especially important for successful governance engagements; and contact with C-level executives should be accompanied by meeting the chair or company secretary.

[9] https://www.fnlondon.com/lists/fifty-most-influential-in-sustainable-finance-2023.
[10] https://academic.oup.com/rof/advance-article/doi/10.1093/rof/rfad034/7288195.

Principle 2

Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

How our governance structures and processes have enabled oversight and accountability for promoting effective stewardship

EOS is the stewardship service provided by Hermes Equity Ownership Services Limited, a company wholly owned by FHL. Its activities and direction are overseen by a board of directors, comprising members of FHL's senior management team (SMT) and a member of FHI's executive committee. Day-to-day operations are directed by the head of responsibility and EOS, and managed by the head of stewardship with directors of the client and business development team and operational management. EOS also has a Client Advisory Board (CAB), which contains client representatives who provide insight, advice and guidance on our business strategy and service offering to ensure that the EOS service is, and remains, client-focused.

The head of responsibility and EOS chairs the Federated Hermes governance committee, which is accountable to, and reports to, the CEO. This is a formal oversight committee responsible for overseeing the formulation and delivery of the Federated Hermes Limited engagement and voting policy for all equity funds, as well as the services provided by EOS. The members include the head of responsibility and EOS, head of the institutional client group, managing legal counsel, chief regulatory officer and head of government affairs, managing director, private markets, and a representative of the investment teams.

Day-to-day operations

Day-to-day operations are managed by the EOS leadership team. This consists of the following senior members of the EOS team: FHL's head of responsibility and EOS, the head of stewardship, the director of client service and business development, the director of business management and the regional team leads for stewardship in each of North America, Europe, and Asia and Emerging Markets.

The leadership team considers engagement quality, continuity and coverage in the interests of clients. Our engagers also hold engagement clinics with senior colleagues to confirm that our engagement is focused on the right objectives and issues, and to review the proposed approach to engagement. In addition to these engagement clinics, an annual review of objectives takes place.

Client-integrated governance

EOS hosts client-only meetings approximately twice a year where we put together a packed agenda to increase knowledge and best practice thinking about stewardship, with opportunities for Q&As, workshops or networking. Our thoughts for changes to our Engagement Plan, as well as updates on progress are shared so that clients can feed into the direction of our engagement.

We also have client representatives who act as a voice for the wider client base. They provide guidance on matters such as our coverage of sectors, themes and markets and our engagement approach. We have also established a formal feedback loop for clients, which ties all our structures and processes together, to ensure we remain a client-driven stewardship service provider. The efficiency of our governance structure is reflected in the outcomes we deliver for clients, which are evidenced throughout this report.

Ensuring quality and accuracy for effective stewardship

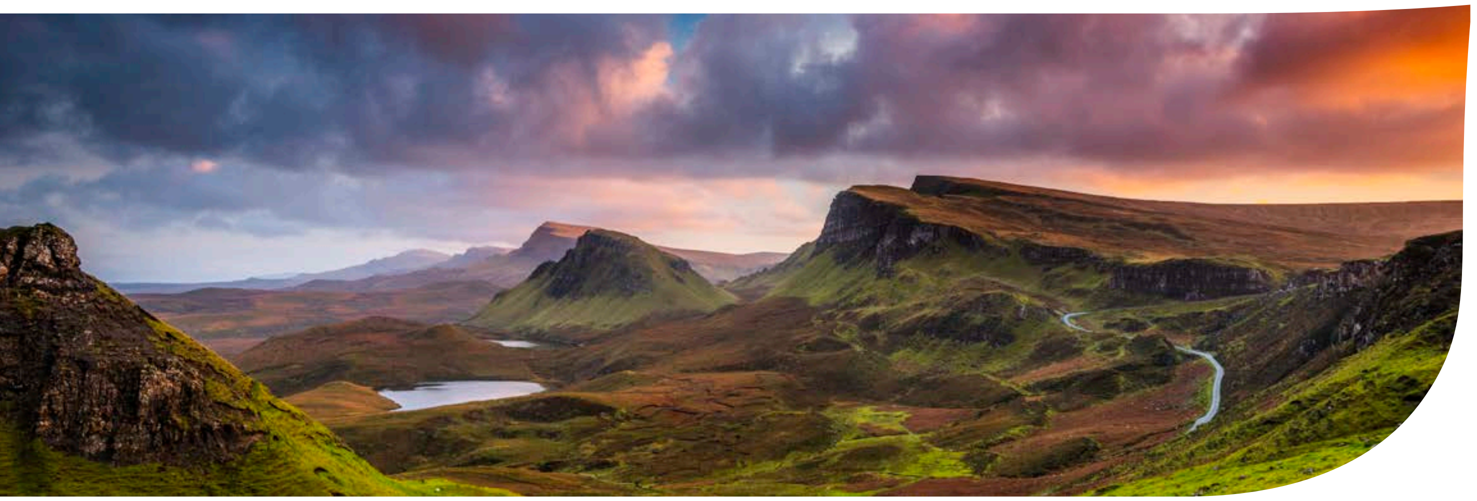
Quality engagement through trusted relationships at the most senior levels

A lot of our engagements are longer-term efforts, and we carry out a continuous dialogue with companies. Our engagement team conducts thorough research and assessment into each company to ensure that the nature of our engagement is accurate, allowing us to build quality, trusting relationships with these companies on our clients' behalf.

Our heritage, described in detail under Principle 1, also supports the quality of our services. The depth and breadth of our resource reflects our philosophy that stewardship activities require an integrated and skilled approach. Our voting recommendations, in particular, are made following extensive research and input from our research partners.

Effective engagement that delivers value demands a specific skillset that goes far beyond written activity or interaction with lower-level company representatives. Change is brought about by access at board level gained by engagement professionals who have industry or professional experience, gravitas, and the specialist skills to challenge senior decision-makers. We believe that to create the most change, engagement needs to be focused on board-level and executive staff. As a result, our engagement with companies typically involves a number of face-to-face meetings with board members, primarily the chair, lead independent director and chairs of board committees, as well as executives.

This approach to promote effective stewardship is also supported by literature on stewardship suggesting that engagement is most effective if it occurs at the right level and with the appropriate resources. Under Principle 1, we mentioned how we shared our engagement data with academics, which revealed that companies that are successfully engaged by EOS exhibit a lower risk profile, particularly when environmental issues are tackled. We also highlighted another study from 2017, which found that: personal interaction with companies is an important driver of success; chair meetings are especially important for successful governance engagements; and contact with C-level executives should be accompanied by meeting the chair or company secretary.

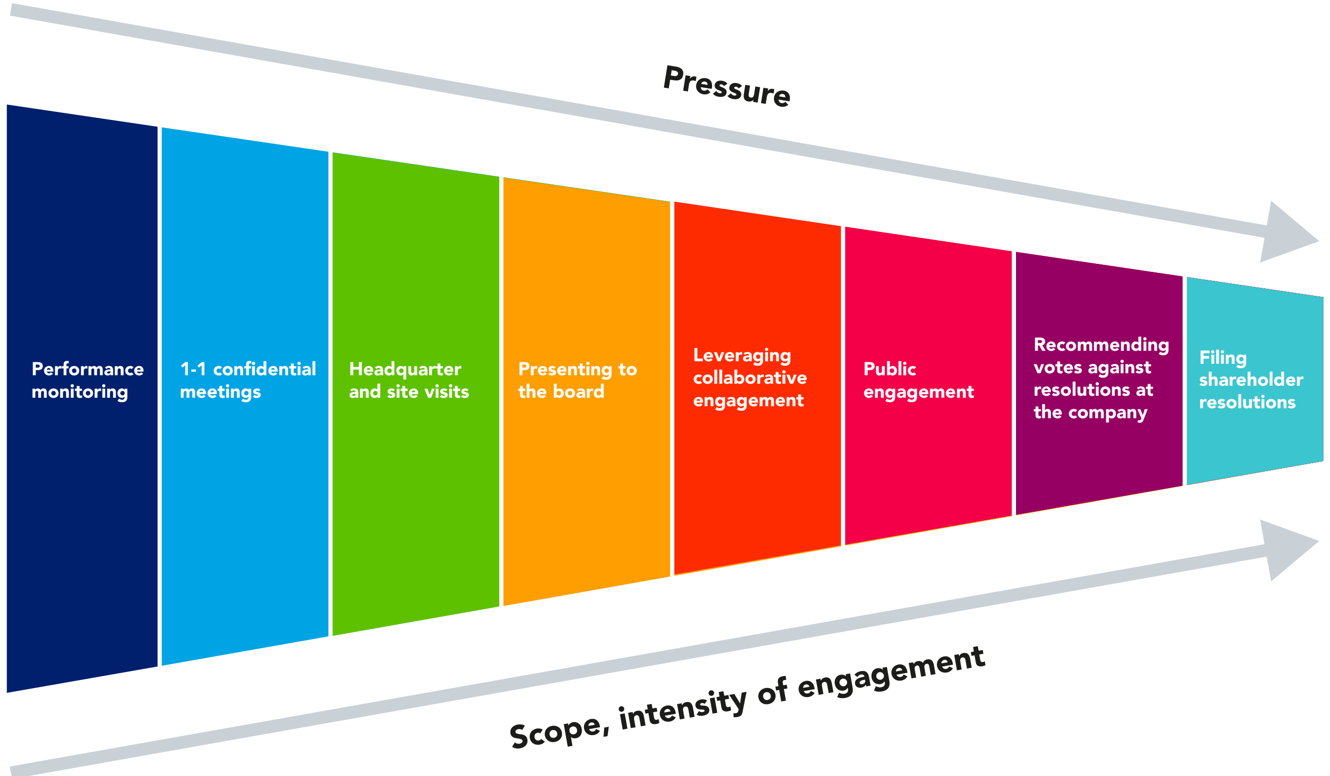


Escalating our engagement at the appropriate time

While we can be robust in our dealings with companies, the aim is to deliver value for clients, not to seek headlines that could undermine the trust that would otherwise exist between a company and its owners. As a result, we generally prefer to conduct engagement privately, rather than taking a public route when seeking change at companies. In our experience, working constructively with boards and management in private is the most effective way to achieve positive change as it allows us to build trusted relationships with companies, which results in more open and frank discussions. It also helps to protect our clients so that their positions will not be misrepresented in the media, allowing us to contribute to them fulfilling their duties under the Stewardship Code in a responsible way.

However, where we are unable to achieve success through our usual method of holding conversations behind closed doors, we may escalate our engagement by speaking publicly at the company's annual shareholder meeting, to garner additional support from investors or other shareholder representatives and add further pressure. When doing so, we would normally notify a company in advance. We may also recommend voting against a resolution or management/the board at a company's shareholder meeting. We consider this carefully as we only want to use this technique if our usual engagement has consistently stalled, and we are not confident that the company is taking any action to address our concerns. Given the assets we represent, this sends a strong signal to the company and can help to progress our dialogue with it.

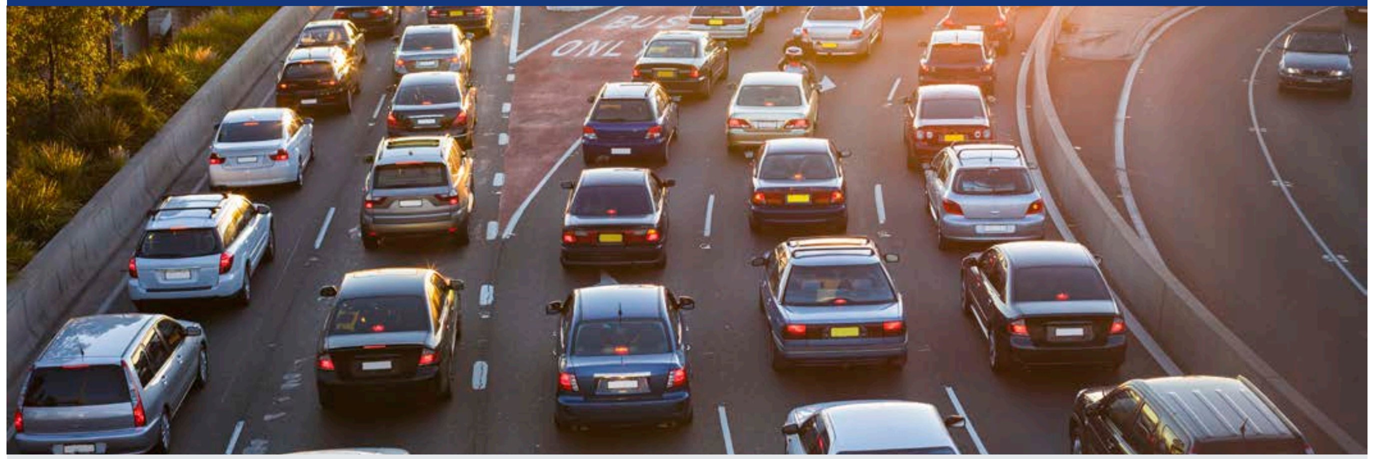
Similarly, we have demonstrated a willingness to use the full range of rights that we have at our disposal, including the tabling of resolutions at shareholder meetings or collaborating with others to co-file shareholder resolutions when necessary. We identify the following engagement tools at our disposal to escalate engagement over time. The graphic demonstrates how different tools are selected as the scope or intensity of the engagement increases in tandem with pressure for change at the company.



CASE STUDY

Volkswagen

This summary example demonstrates the escalation of an engagement over several years, using a selection of engagement tools, including collaborative engagement and voting recommendations.



Our engagement with Volkswagen has focused strongly on climate lobbying since the start of 2019. We have asked the German automotive company to align with the Institutional Investors Group on Climate Change investor expectations on climate change-related corporate lobbying[11] and the new Global Standard on Responsible Climate Lobbying.[12]

In our view, progress at the company has been slow. In 2022, we made a supporting statement for a shareholder resolution filed by seven European investors, urging the company to explain how its lobbying activities helped to address climate risks. We stated that since the start of our engagement with Volkswagen, nearly half of the European companies in scope for the Climate Action 100+ initiative had published at least one climate lobbying review, and the majority had committed to repeating this disclosure annually.

This shareholder proposal was rejected by the company, resubmitted in 2023, and again rejected. In February, we met with VW's public affairs department, which confirmed that the company was planning to publish a report before the 2023 AGM. However, in the run up to the meeting we did not see any detailed drafts or a public commitment to publish the report.

For this reason, as well as our concerns about the misalignment between the short- and medium-term emissions reduction targets and a 1.5°C trajectory, EOS recommended a vote against the discharge of the management board ahead of the AGM. Following our clients' effective voting deadline and only days before the annual meeting in May, Volkswagen published its first Association Climate Review 2023. We welcomed this as a step in the right direction following four years of engagement on this issue.

Resourcing our stewardship service

Our organisation and team

EOS has one of the largest stewardship resources of any fund manager in the world. We can draw on additional resource from FHL's Responsibility Office and others within the firm, some of whom have direct engagement experience having previously worked within EOS. There are policies, processes and controls in place to ensure the management of conflicts of interest.

We believe the recruitment and selection of the right people is central to the company's continued success, as they are our most important asset. At the heart of our organisation is an effective recruitment and selection process that helps to ensure that we employ people who can add value to the company and who will fit in well with the culture of the business and existing team members. Our human resources division, as well as all departments across the wider business, work to the following defined set of key values, which guide the entire recruitment process:

- Recruitment is driven by business need
- Selection decisions are made on merit
- Recruitment processes are rigorous and fair
- All recruitment is based upon a job description and person specification; and
- All recruitment processes, including advertising and testing, must comply with our equal opportunities policy.

[11] https://www.iigcc.org/resources/investor-expectations-on-corporate-lobbying
[12] https://climate-lobbying.com/

Our team's seniority, experience, qualifications, training and diversity

The EOS team has strong gender diversity (53% female/47% male for permanent staff as at 31 December 2023) and draws on a wide range of skills and backgrounds.

EOS undertakes a skills gap analysis of the wider team with reference to the thematic and sectoral issues that we cover, to ensure we have the right mix of professionals who can represent EOS and our clients' views in our engagement with companies. We have intentionally built a diverse team of experienced and international professionals who have the expertise, language skills and cultural knowledge to deliver real beneficial change at companies. Our engagement team draws on a number of skillsets, with our senior engagers coming from a range of backgrounds including, but not limited to:

- Banking
- Law
- Sciences
- Academia
- Climate change
- Corporate governance
- Corporate strategy
- Human capital management

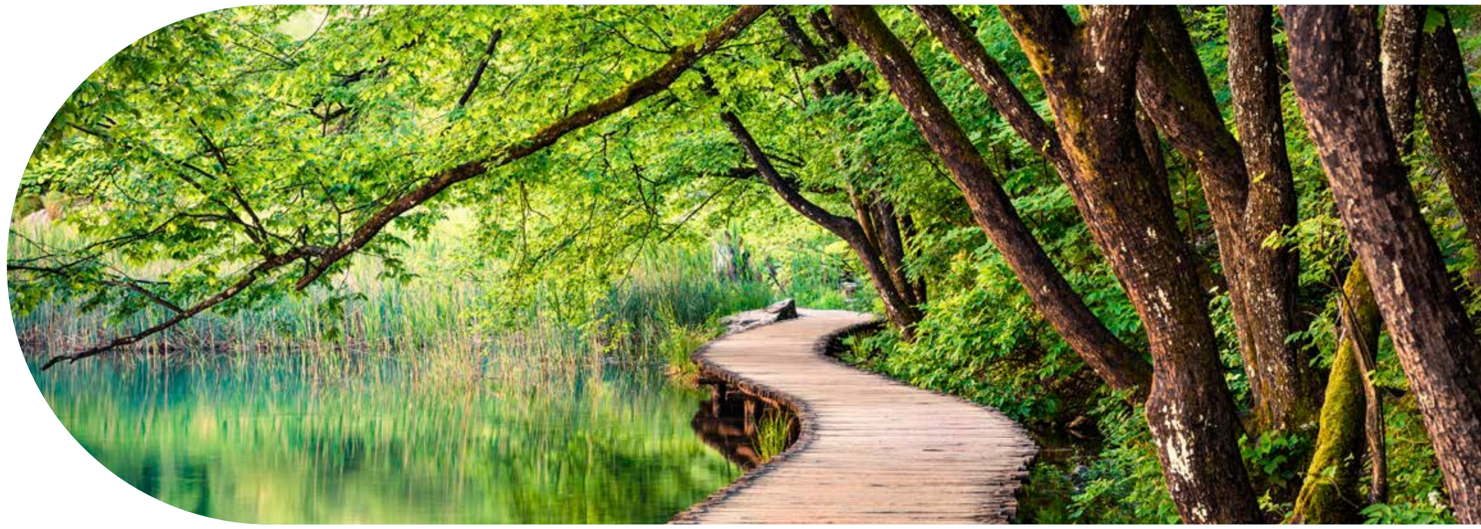
Our ability to engage with company representatives in the local language, and an understanding of local culture and business practice, are critical to the success of our engagement work. Within our team, we are represented by 20 nationalities with fluency in 16 different languages. The team's skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards. Intervention at senior management and board director level should be carried out by individuals with the right skills, experience and credibility.

Our engagement professionals are divided into designated teams covering themes, sectors and regions. This ensures we have experts who can educate the wider team on developments and best practice in their respective areas. Each engager is responsible for engagement, voting recommendations and ESG analysis, focusing on the combination of regions, sectors and themes to which they have been appointed.

Our team is based in the UK and the US. The London-based staff cover engagements in Europe, Asia and emerging markets and our Pittsburgh-based staff cover engagements in North America. Our professionals occasionally travel to undertake engagements in person, when warranted, at company headquarters, as we believe face-to-face engagement is most effective. We also have several senior advisers who provide us with additional resource and expertise to complement our work in some local markets including Japan, the Netherlands and the UK.

Within the EOS team, we have delivered a training programme of educational sessions, some of which were also offered to the wider FHL/FHI teams. These sessions are offered with the intention of sharing knowledge across different sectors and themes to facilitate a cross-pollination of expertise. Examples of this included ad hoc sessions on responsible tax and artificial intelligence (AI). The training also provides exposure to areas of the business that the team would not necessarily have otherwise.

> **Our ability to engage with company representatives in the local language, and an understanding of local culture and business practice, are critical to the success of our engagement work.**



Occasionally, we also invite external members from the wider business to join us. This provides a variety of opinions on a range of topics with participants drawing on knowledge from different touchpoints across stewardship and investment. The training that we deliver can be grouped into these segments:

1. **Induction** – these training modules introduce members of the EOS team, either recent joiners or longer-tenured employees, to activities undertaken by different departments within EOS. These include areas such as client relationship management, communications and marketing, the Engagement Plan and Programme, the engagement process and research.
2. **Sectoral** – members of the EOS team offer educational sessions covering different sectors, including banks, energy and pharmaceuticals. In 2023, EOS ran 45 of these sessions, which were also attended by investment analysts. These sessions covered 15 different industry working groups consisting of investment professionals and engagers, in which we discuss two companies from a fundamental and an engagement perspective.
3. **Thematic webinars** – we hosted five thematic webinars exclusively for the EOS team. These covered topics such as biodiversity, digital rights/AI and the supply chain.
4. **Deep-dive thematic** – EOS team members delved into detail on climate change, covering areas such as Scope 4 and avoided emissions, carbon credits, and offsetting.

Diversity, equity and inclusion across the wider firm

Our firm-wide diversity, equity and inclusion (DE&I) approach is of relevance to the diversity of those involved in our stewardship activities. We have a long-standing commitment to increase DE&I in our business, acknowledging that we need to make further progress. We aim to foster and promote a culture of inclusion that celebrates all forms of diversity. We aim to appeal to, and retain, a diverse workforce. We encourage innovation and creativity, with a view to helping our employees maximise their potential.

In 2023 the SMT updated the firm's 2023-2026 DE&I Strategy. The creation of the DE&I Office and the rebrand of the firm's employee resource group 'UNITY' to 'Community for All' aligned with our mission to foster and promote a culture of inclusion, celebrating all forms of diversity. We aim to appeal to, and retain, a diverse workforce. In 2023, the firm launched six core DE&I Strategic projects:

- Employee Engagement Project
- Mental Wellness Project
- Baseline Demographic Project
- External Charters Project
- Disability Project
- Menopause Project Team

In support of promoting an inclusive environment, FHL launched a number of additional initiatives: 'Let's talk about the menopause' essential training (for all line managers); the Menopause Toolkit; inclusive recruitment training; neurodiversity training workshops (open to all colleagues); Cultural Competency workshops (for several teams across the business); Building Strategic Partnership inclusion workshops; @MYSTORY (a campaign that invited colleagues to share their personal story, with insights into their culture and life experiences); LGBTQ+ awareness training (for SMT and a workshop for all employees); several men's health workshops; and Mental Health First Aider (MHFA) training and MHFA refresher training.

Members of EOS are active participants in many of these initiatives, in some cases taking leading roles. EOS also has a women@eos group, an informal but well-attended collaborative space for women to support each other on issues relating to women inside and outside the workplace.

The firm has continued to collaborate with specialist organisations – including Beyond Education, 10,000 Black Interns, GAIN and Change 100 – to provide internship opportunities for individuals from underrepresented communities. In the summer of 2023, FHL launched its intern programme for university undergraduates to gain work experience and exposure, with a long-term aim to build an early career talent pipeline.

Throughout our organisation, leaders see the value of DE&I as a driver for growth and innovation. As a result, leaders promote an inclusive and performance-led culture that supports the FHL vision statement and mirrors the Pledge. Leaders act as the champion of change within the organisation and actively sponsor the firm's DE&I-related commitments.

We are committed to having the best talent. This means attracting, developing, and retaining individuals from all backgrounds. Initiatives conducted in 2023 include: the appointment of a Talent Requisition Partner; the roll out of inclusive recruitment training for managers; the launch of the Introduction to Culture workshops for all new employees; providing secondment opportunities; promoting internal and external mentoring schemes; and continuing to run the management development programme.

> **We are committed to having the best talent. This means attracting, developing, and retaining individuals from all backgrounds.**

The firm continues to commit to voluntary UK charters and pledges including the Women in Finance Charter (WIFC); BITC Race Charter; Change the Race Ratio, Menopause Workplace Pledge, and being a Disability Confident Level 2 employer.

FHL remains fully committed to supporting the Women in Finance Charter and its objective of attaining gender balance across all levels of financial services. In 2023, it has seen an increase in the proportion of women at the FHL board level with a modest increase in women firm-wide in 2023. However, the number of women at senior management level has fallen across the firm. This will be a core area of focus in 2024.

It is also important to note that EOS seeks to amplify its impact by engaging with companies on DE&I. Engagement objectives at companies include ensuring board diversity and effective oversight of DE&I practices among employees, supply chains, and products and services. Our internal experience provides insight into engagement, and engagement with companies provides insight into best practices that we seek to infuse into our company.

Our investment in systems, processes, research and analysis supporting our services

Systems

We have invested in systems and processes to ensure effective stewardship. EOS has an online Engagement Management System, allowing us to accurately record, track and report on our engagement work. It also ensures that the history of our engagement is available for any member of the team who may be new to leading a company engagement. Our investment teams can access this database, which affords them a full and instantaneous view of the engagement history with the company.

Engagement process

Our engagement team considers the long-term financial materiality of an issue to a company and how likely it is that the issue will introduce risk or cause damage. Materiality can sometimes be quantified – for example, if a portion of a company's revenues disappear due to the forced closure of an operation or a large fine is imposed. On other occasions, the materiality of the issue will be more around the reputational impact or the sustainability of the whole business, which is much less directly quantifiable but just as important to address. It also considers the feasibility of achieving success when assessing engagement candidates.

In order to understand this, a certain amount of company research is necessary. There is no hard and fast rule to this. However, from this research, we must have a clear idea about the case for engagement and what the engagement objectives and other issues we will want to address with the company should be. Resources for research could include records from previous calls/meetings with the company, information from research providers, sector/country/theme team consultations, or information from our proxy adviser, for example.

How do we prioritise and seek change?

Our process for prioritising our engagement intensity is based on materiality of identified risks. We categorise our Engagement Plan companies using a tier system, which is broadly defined by the number of interactions we expect to have with a company during a year. This allows us to set objectives that are SMART (specific, measurable, achievable, realistic, timebound) – defining the measurable change that we want the company to achieve. An objective is regularly reviewed until the company has implemented the change requested or it is discontinued. An objective may be discontinued if, for example, it is no longer feasible or material. We may engage with a company on multiple objectives at any one time. Each objective relates to a single theme and sub-theme.

Our four-stage milestone system, outlined in the graphic, allows us to track the progress of the changes we are seeking. Progress is assessed regularly and evaluated against the original engagement proposal. This system was developed in response to client feedback, as clients wanted us to demonstrate the impact of our engagement more succinctly, and thereby demonstrate effective stewardship on their behalf.

Voting recommendations

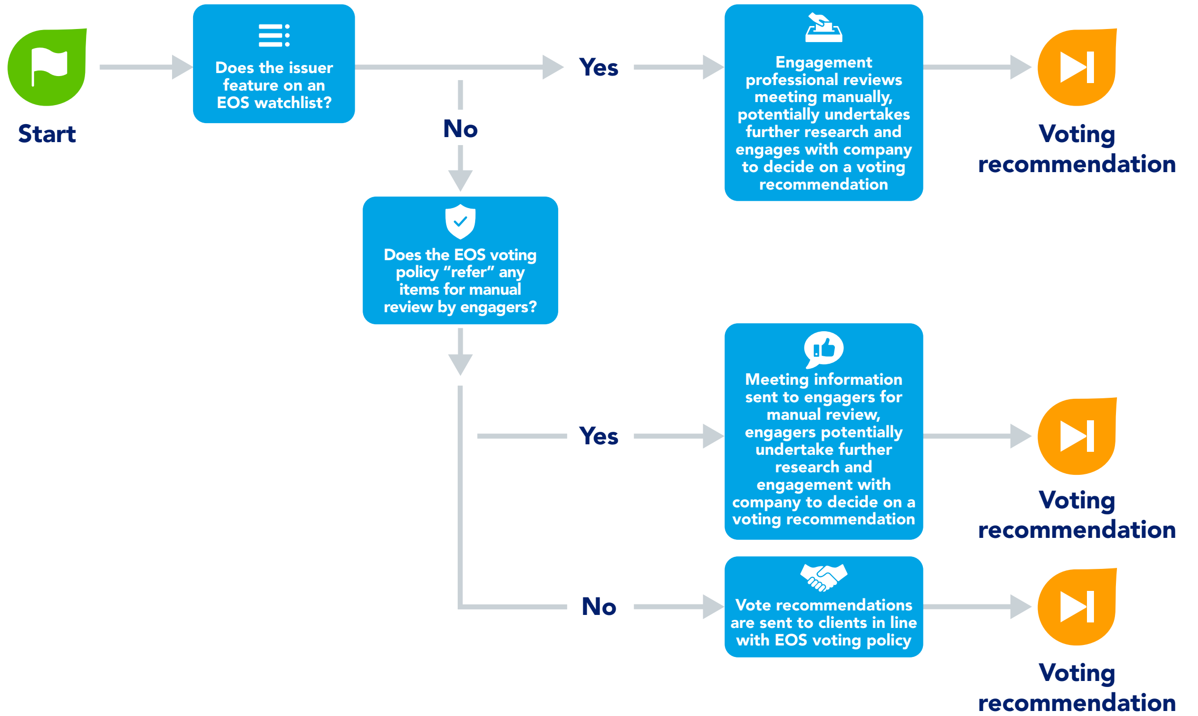
EOS offers voting recommendations for company meetings on behalf of its proxy voting clients. Our Global Voting Guidelines[13] inform our recommendations. The Guidelines explicitly reference ESG factors and aim to harness voting rights as an asset to be deployed in support of achieving engagement outcomes.

Our Guidelines are informed by a hierarchy of externally and internally-developed global and regional best practice guidelines – our regional vote policies and corporate governance principles and country-level engagement and voting priorities. These set out our fundamental expectations of the companies in which our clients invest, including for business strategy, communications, financial structure, governance and the management of social and environmental risks.

These principles articulate the EOS house position on key ESG issues and are informed by relevant external local market standards. For example, this includes best practice national corporate governance codes, as well as international sources including the OECD Principles for Corporate Governance and the collective views of our clients, which are expressed more fully in our Engagement Plan. Our Guidelines seek to outline how our expectations translate into specific voting policies on issues put to shareholder votes at annual and extraordinary meetings. Given the significant variation across markets, the Guidelines do not seek to provide an exhaustive list of our policies on all voting matters but rather, set out our broad position on a number of key topics with global applicability. Our Guidelines are updated on an annual basis, taking into account developments in global and local markets as well as client feedback.

Our voting recommendation services are provided in collaboration with Institutional Shareholder Services Inc (ISS). This allows us to provide a complete, end-to-end solution, using the ISS ProxyExchange voting platform and to offer research on all companies for which we provide voting recommendations. In 2023, we made voting recommendations on 128,101 resolutions at 12,963 meetings. EOS can access ISS and customised EOS research and vote recommendations, perform proxy voting actions, and generate reports on key voting activity, all from this single integrated platform.

We endeavour to engage around the vote with all the companies on our watchlist. This comprises around 1,000 companies, including all those in the core engagement programme (over 300), where we are considering recommending a vote against. We will also engage to identify any further relevant information that might inform our voting recommendation and have regular conversations with in-house and external asset managers about the reasons for their views on particular votes. The integration of engagement with our



13 https://www.hermes-investment.com/uploads/2024/02/5debb1e045fe756009ea08decbfbaa00/fheos-corporate-global-voting-guidelines-2024.pdf

process around our voting recommendations is a powerful tool to achieve engagement outcomes. The diagram on page 19 outlines our voting research and decision-making process.

EOS adheres to the regulatory requirements for proxy advisers. More information on our code of conduct and how we have followed this can be found in our Best Practice Principles for Providers of Shareholder Voting Research & Analysis – Compliance Statement.[14]

Public policy work

We engage on public policy and market best practice with the aim of protecting and enhancing value for our clients by improving shareholder rights and shaping the wider regulatory framework in which investment and stewardship take place. This is achieved through engagements and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties. It also includes participating in public consultations – our clients have the opportunity to endorse and co-sign our written responses through our process of sharing our drafts with them ahead of submission.

Public policy and market best practice interactions are recorded in our engagement management system against the relevant third-party institution with which we are in contact. We introduced public policy and market best practice objectives to improve how we monitor the success of our work in this area. Examples of our public policy work can be found under Principle 4.

Screening service

Our optional screening service helps our clients to fulfil their stewardship obligations by monitoring their portfolios to regularly identify companies that are in breach of, or near to breaching, international norms and standards, including:

- United Nations Global Compact (UNGC) Principles
- OECD Guidelines for Multinational Enterprises
- The UN Guiding Principles (UNGPs) on Business and Human Rights
- Involvement in controversial weapons

Since this is part of our integrated service offering, the key benefit to clients is that the screening information is provided in combination with our insights from engagement. Companies deemed in breach of the UNGC Principles, those assessed as ‘non-compliant’, are included in the EOS engagement programme and engaged for the life of the controversy. The list of controversial companies, our research provider’s assessment of the controversy, and our engagement activity and progress are reported to clients on a quarterly basis. As any insights from our engagement conducted in relation to screening can be viewed in our client portal, this work benefits all clients and not just those who take the screening service.

Advisory

Our optional advisory services help our clients to meet stewardship regulations, as well as working with them to develop their responsible ownership policies, drawing on our extensive expertise and proprietary tools to advance their stewardship strategies. EOS, which sits within FHL’s Responsibility Office, often draws upon the processes and relationships within the Responsibility Office to assist with such requests.

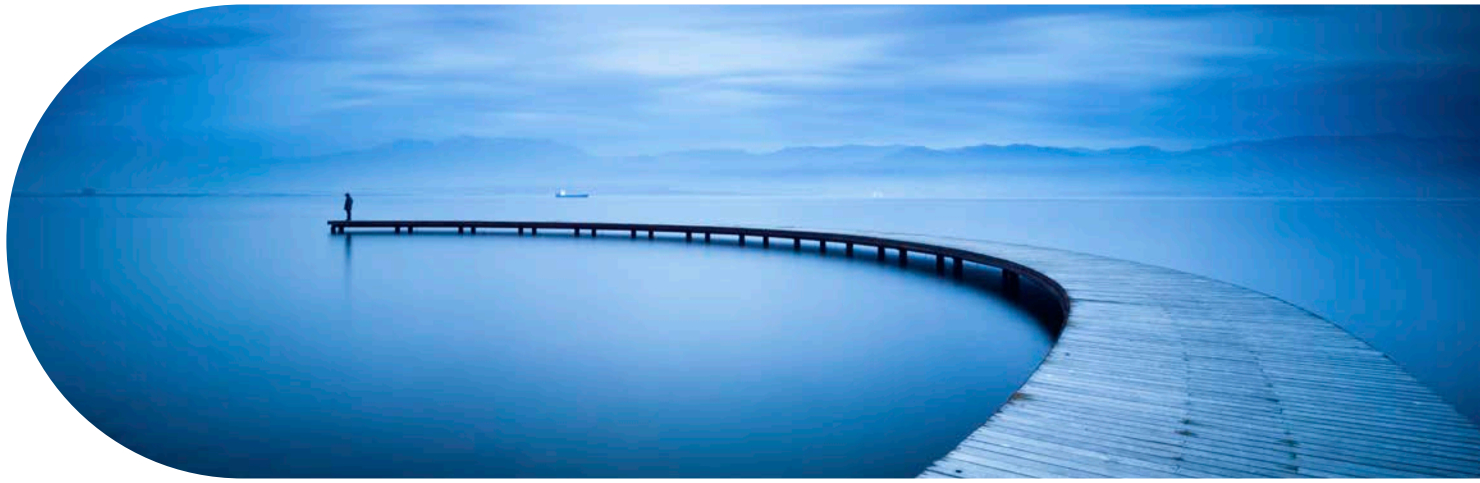
The Responsibility Office is responsible for leading our advocacy work, as well as holding each department accountable for ensuring that we act as a responsible company. By doing so, it keeps the interests of clients and their beneficiaries at the centre of what we do.

The close links between EOS and the Responsibility Office are reflected in the joint sourcing of sustainability research for fund managers and engagers; the development of tools and reports that integrate fundamental, ESG and stewardship information for fund managers, engagers and our clients; and richer and more informed engagement through fund manager/engager interaction. Clients are provided with enhanced sustainability insights in the form of:

Incentivisation

Through pay awards, we try to ensure that the aspirations articulated in our Pledge are reinforced. Our Pledge, created in 2015, expresses the commitment of each of us individually to always put the interests of our clients and their beneficiaries at the heart of what we do, including the management of conflicts of interest fairly between all parties. We have a set of behaviours innate to our culture that contribute to the success of the business; every employee has a responsibility to act in a way that upholds these core behaviours through their day-today activities. This is considered as part of the performance management process and is a factor in each individual’s compensation: all staff, including the CEO, are judged equally on their behaviours and on their technical performance. Ultimately, to achieve our objectives we look to create a thoughtful environment where orthodoxies are challenged in the way that we engage and in the way that we work.

[14] https://www.hermes-investment.com/uploads/2023/09/f824b2ca775fd1ea85b28b8d0ac3bb48/eos-corporate-bpp-compliance-statement-05-2023.pdf



Ensuring that our fees are appropriate for the services provided

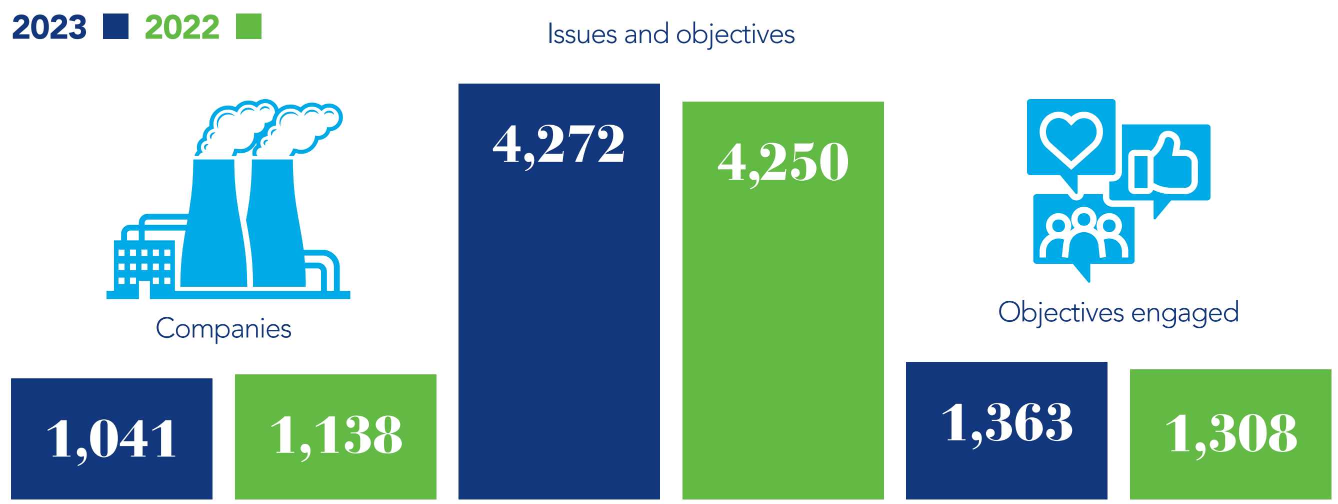
We operate an engagement resource-sharing model, so that our clients benefit from collective economies of scale and scope. Pricing reflects the costs of the relevant activities with fairness to clients as a key driver. We have a pricing framework and a pricing governance group that reviews any pricing decisions to ensure that our fees are appropriate for our services. We are aiming for best-in-class value on behalf of our clients, growth, costs, inflation and scaling our offering, so we reinvest heavily into the quality of our services.

The effectiveness of our governance structures and processes in supporting our clients’ stewardship

Our governance structures and processes, as outlined earlier, are a result of how they have worked in practice and their evolution over time. We believe we have a good balance of internal governance structures and processes, as well as structures to integrate external client input to support effective stewardship. The following charts demonstrate the activity in 2023 versus the prior year, which suggests that our governance structures and processes in supporting our clients continue to be effective.

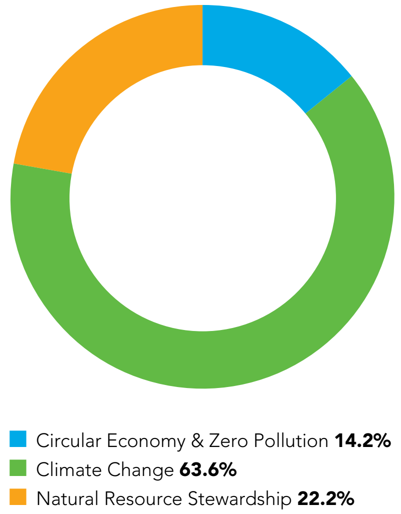
Number of engagements

Principle 1 outlined our headline engagement process during 2023. In addition, the following charts demonstrate that our structures and approach are considerate of our global client base with differing priorities, outlining a breakdown of our engagement according to theme and region during 2023.

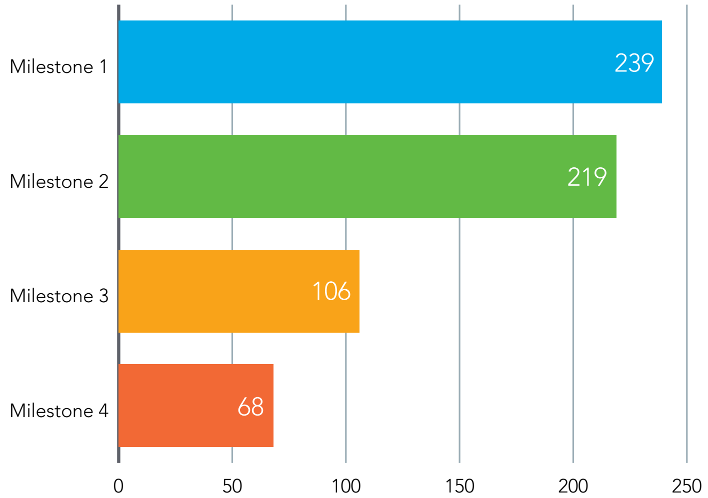


Source: EOS data

Environmental topics comprised 35.5% of our engagements in 2023.

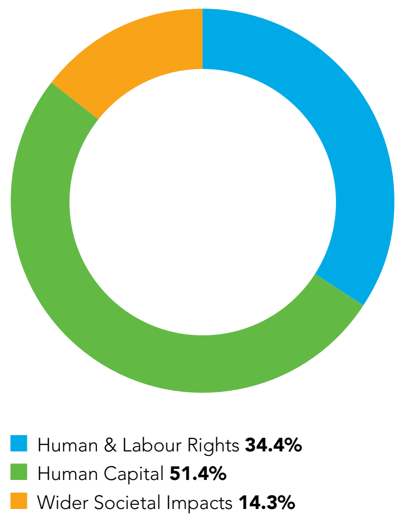


Progress against environmental objectives

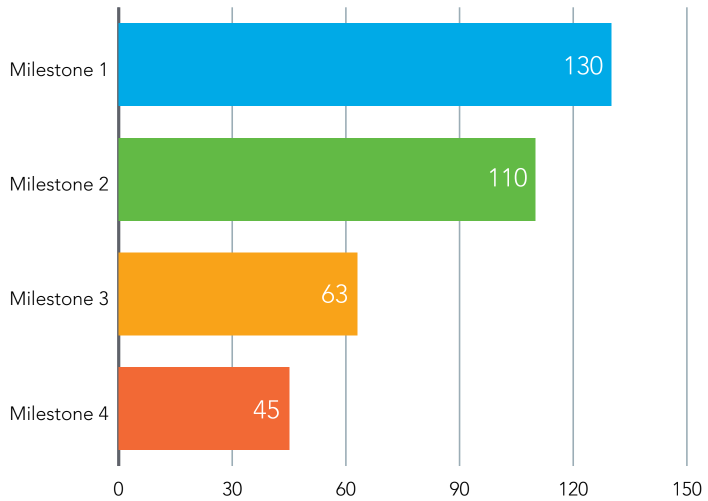


Source: EOS data

Social topics comprised 25.6% of our engagements in 2023.



Progress against social objectives

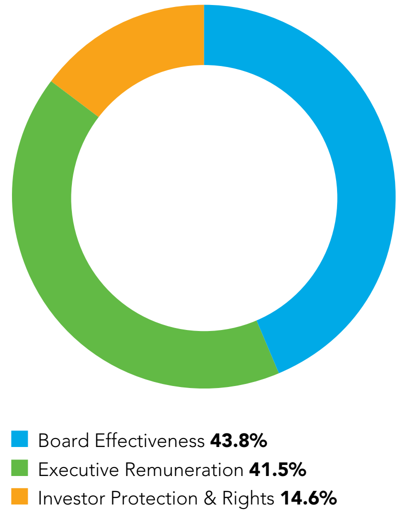


Source: EOS data

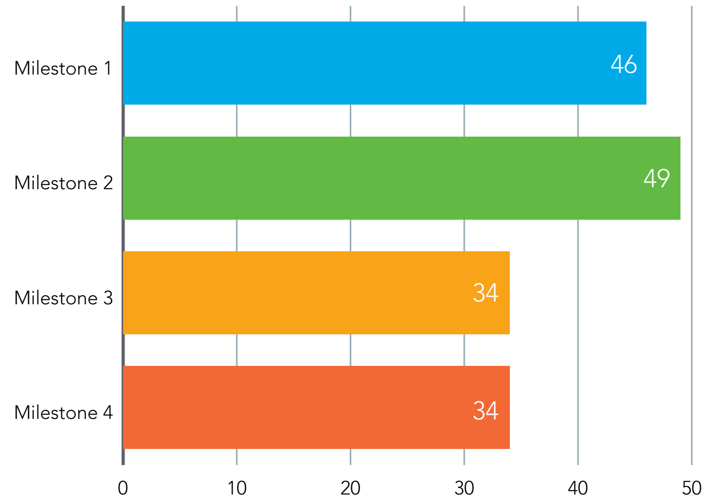
Our holistic approach to engagement means that we typically engage with companies on more than one topic simultaneously. A summary of some of the key issues on which we engaged in 2023 is shown across these two pages.

The effectiveness of our governance structures and processes is similarly demonstrated through the milestone progress made against each of our environmental, social, governance or strategy, risk and communication objectives.

Governance topics comprised 27.0% of our engagements in 2023.

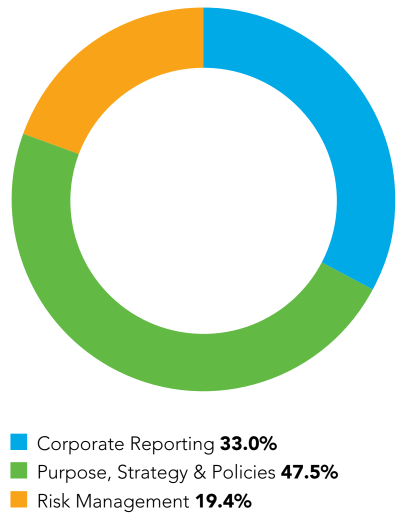


Progress against governance objectives

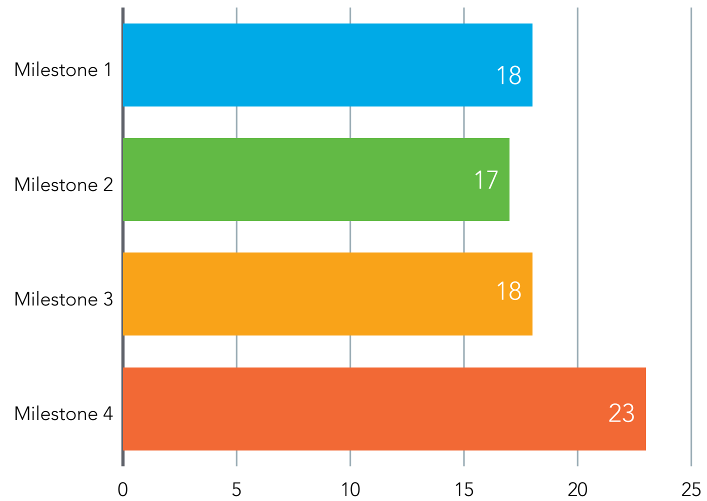


Source: EOS data

Strategy, risk and communication topics comprised 11.9% of our engagements in 2023.



Progress against strategy, risk and communication objectives



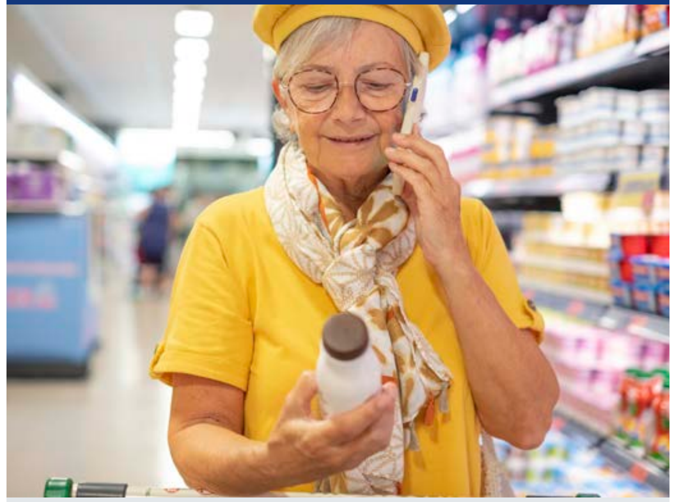
Source: EOS data

EOS recognises that timely communication is key for our clients to help them manage their own responsible investment activities, and to communicate the effectiveness of our stewardship service with their beneficiaries and stakeholders. We provide clients with a range of qualitative and quantitative reporting, enabling them to do this, which we explain in more detail under Principle 5. Case studies, which are included throughout the report, form part of this reporting, and two summary examples are included on the next two pages.

Often our clients are our best ambassadors and refer like-minded prospects to the business. Clients tell us that our client-centricity and the touchpoints we offer for them to provide their views and give feedback (covered in more detail under Principle 5) are key to our success.

CASE STUDY

Yakult



Yakult engages in the manufacture and sale of food and beverage products, cosmetics, and pharmaceuticals. We first raised concerns in 2021 about the risks of deforestation and the impact on the food and beverage sector in a letter addressed to the president of the company. We encouraged the company to establish a clear target to limit the exposure to deforestation risks and for the company to have clear policies for its suppliers of palm oil, soy, and other products to achieve a deforestation-free supply chain.

In 2022, we had an in-person engagement at the company's headquarters in Tokyo. Here, we reiterated our expectations on biodiversity and stressed the importance of assessing risks, impacts and dependencies on biodiversity from the company's operations and supply chain. The company acknowledged our concern and said that biodiversity was closely related to one of the six material themes – supply chain management – that it had identified to be of most importance for Yakult, along with climate change.

In 2023, we continued our approach by sending the company our EOS Corporate Governance Principles outlining our key expectations related to biodiversity, including the risks and opportunities posed by biodiversity loss.

Outcomes

In response to our letter, the company thanked us and informed us of the progress it had made. Yakult had established a Deforestation and Conversion Free (DCF) Commitment to Responsible Sourcing policy detailing initiatives and key performance indicators (KPI) for pulp and paper, palm oil, soy and dairy products with the aim of eliminating deforestation from the supply chain. We welcomed this development by the company.

CASE STUDY

Marathon Oil

In 2021, we first asked this US company to disclose workforce composition data showing gender and racial representation at the board, management and company-wide levels.

We visited the company's offices in January 2022, and it outlined its commitment to promoting a diverse and inclusive workplace. This included a commitment to publishing its Equal Opportunity and Employment (EEO-1) data, in addition to a new Human Rights Policy.

Outcomes

The company's 2021 Sustainability Report provided EEO-1 data showing that in 2021, women and ethnically/racially diverse employees accounted for 33% and 30% of its US full-time workforce respectively. The company also reported that 50% of its board of directors were women or ethnically/racially diverse, which was in line with our best practice expectations.

In a 2023 meeting, we recognised the company's commitment to enhancing disclosure and conveyed our support for further action to strengthen diversity, equity and inclusion, including the completion of a gender pay gap analysis. Relatedly, the company is focused on attracting talent by collaborating with Historically Black Colleges and Universities (HBCUs) in the Houston area.

How we can make improvements

The structures and processes that we have outlined earlier allow us to pause for thought and make improvements to continuously support our clients' stewardship. Our formal client feedback loop is central to ensuring that consideration of clients remains integrated into any changes we make. This is also closely tied to Principle 5 where we provide more detail on the internal and external reviews and assurances that we have in place to support continuous improvement.

As we operate a shared service model, our approach to engagement must continue to consider the aggregate holdings of our clients in a company; the materiality of risks/issues we identify through our screening; and the feasibility of engagement – for the benefit of the entire client base. Clients have told us about their needs and ambitions for new and sophisticated ways in which we can communicate the progress of our stewardship work.

In 2023, through our client working group and other feedback, we improved the client portal to facilitate better communication of engagements to clients. During the year, we launched momentum indicators to highlight more systematically how our engagement objectives are progressing, and if they have begun stalling or become stalled.

We are always looking for ways to evolve our reporting suite for clients, in response to their feedback. Our internal reporting and governance group considers this feedback and the considerations have also been fed into our process for the ongoing development of the client portal. In response to this, we have helped our clients consider how they can best meet evolving stewardship obligations in different markets, including by adapting our reporting offering to provide them with specific guidance documents.

We have also given clients more clarity around our rationale for discontinuing objectives, by providing an explanation according to a range of scenarios. We identify the following as reasons why an objective may be discontinued:

- Company unresponsive: the company has not been responsive to our engagement and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change, and the materiality of the issue.
- Company disagreed: the company has expressed its disagreement with our engagement proposals and we do not believe it worthwhile to dedicate further stewardship resource, having considered the effort required to achieve change, the probability of achieving change, and the materiality of the issue.
- No longer relevant/material: the original objective is no longer considered sufficiently material or relevant to be engaged. This could be due to a change in the company's business profile (such as divestment of a business unit of concern) or if engagement reveals that the original concern is of lower materiality than originally anticipated.
- Restarted as new objective/issue: engagement reveals that the original objective should be materially changed, for example split into two separate and related objectives or combined with another objective.

Explaining scenarios where engagement has stalled – that is, instances where engagement is moving slowly or a company refuses to make changes – is more challenging. This is because we conduct the majority of our engagements behind closed doors and we are cognisant of the relationships we have built with companies, as well as our future engagements with them. For these reasons, we provide anonymised case study examples. We have included two examples of discontinued objectives on the next page, both of which have been anonymised.

CASE STUDY

Discontinued objective: Disclosure of lobbying activities

In our first engagement with this aerospace company on this topic in 2017, we asked it to enhance the disclosure of its lobbying activities. We said that disclosure should include company policies and the payments used for direct and indirect lobbying, as well as grassroots lobbying at the state and local levels.

In 2019, the company's safety scandal reinforced the importance of accountability and transparency in the use of corporate funds to influence legislation or regulation. In subsequent years, we have consistently supported shareholder resolutions requesting enhanced disclosure of lobbying activities.

In 2022, we shared the Global Climate Lobbying Standard with the company. The company provided some disclosure of lobbying activities, and it was labelled a "trendsetter" in the 2021 CPA-Zicklin Index of Corporate Political Disclosure and Accountability.

However, the company's disclosure on lobbying activities remained vague and lacked an aggregated list of itemised payments, instead referring to regulatory filings on government websites. There was some transparency of trade association memberships, but no discussion of how the company seeks to positively influence trade associations whose positions misalign with its own. In 2023, we explained in a letter to the board that the company's disclosure of lobbying activities remained misaligned with our expectations.

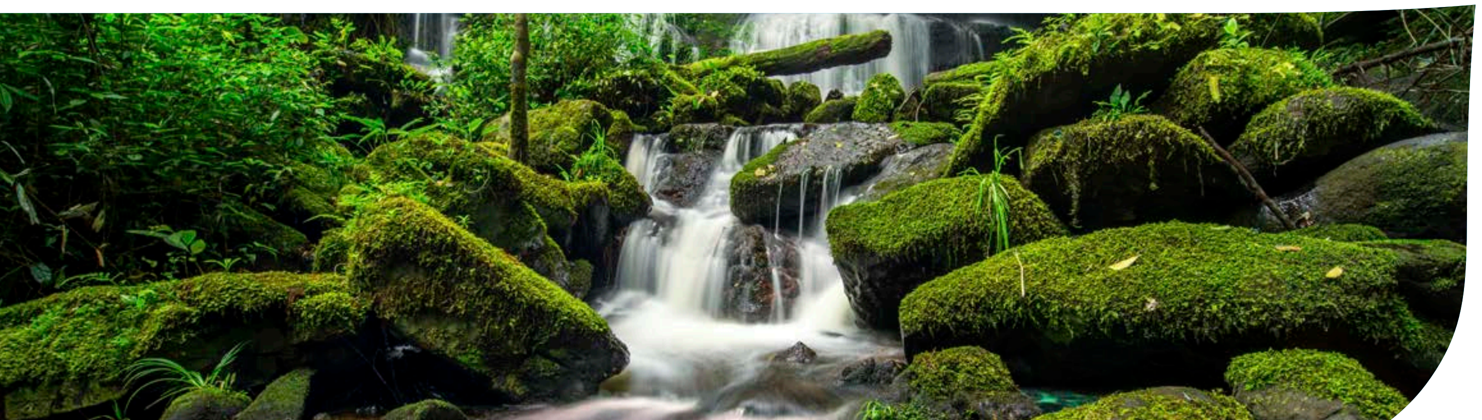
CASE STUDY

Discontinued objective: Disclose taxes paid in Equatorial Guinea

The company has an integrated gas business in Equatorial Guinea, a country flagged for human rights risks by the US State Department. While the company has made social investments to improve health and education in the country, in 2021 we first requested disclosure of the taxes paid to the Equatorial Guinea government, given the company's stated support for the Extractive Industries Transparency Initiative (EITI). We believed that doing so would ensure greater accountability and strengthen resource governance in the country.

We were disappointed to learn that in 2021 the company ended its stated support for the EITI. The company said it had exited the countries where the initiative is endorsed, and emphasised its compliance with all applicable taxation laws. We questioned these decisions in a meeting in November later that year given its continued operations in Equatorial Guinea, an autocratic country where the company is expanding offshore drilling to create a 'Gas Mega Hub'.

In a call with the company in January 2023, it confirmed that it would not rejoin the EITI. Instead we suggested that it publish a responsible taxation policy in line with the Global Reporting Initiative (GRI) Tax Standard, and disclose itemised payments to all governments at the national, state, and local levels. We will continue to engage the company on responsible taxation.



Principle 3

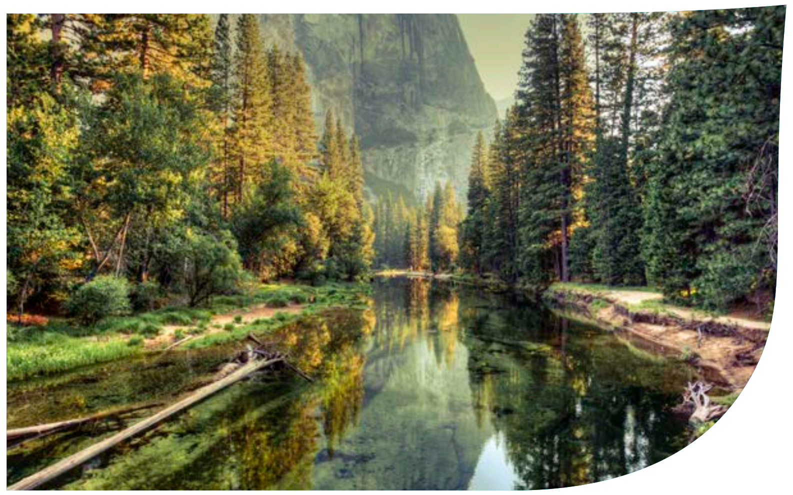
Signatories identify and manage conflicts of interest and put the best interests of clients first.

Our conflicts policy – seeking to put the interests of clients first and minimise or avoid conflicts of interest when client interests diverge from each other

FHL's public Conflicts of Interest Policy[15] sets out our commitment to always act professionally. We commit to keeping the best interests of our clients and their beneficiaries in mind and to taking appropriate steps to identify circumstances that may give rise to conflicts of interest with a risk of damage to our clients' interests. It includes examples of conflicts of interest – such as the receipt of confidential information, conflicts of interest between clients, personal conflicts and conflicts between our business and clients – and the appropriate procedures we have established to manage any conflicts of interest identified and to prevent damage to client interests.

We also have a specific Stewardship Conflicts of Interest Policy.[16] We acknowledge our position as a fiduciary for our clients and their beneficiaries and seek always to act in their best interests. Accordingly, we take all reasonable steps to identify actual or potential conflicts of interest. We also maintain and operate arrangements to minimise the possibility of such conflicts giving rise to a material risk of damage to the interests of our clients.

We have summarised key aspects of our policy below. In addition, we have identified a set of conflicts of interest that may arise in connection with engagement activities. We put in place controls to manage such instances.



Potential conflicts of interest

Ownership

EOS is fully owned by FHL. Any conflict that may arise between clients of the EOS service and other clients of FHL will be addressed in a similar way to conflicts between any of our clients.

Clients and prospects

EOS provides services not only to FHL and Federated Hermes Inc., but also to other institutional investors, including pension funds sponsored by companies, governments and other organisations. These services include voting recommendations and engagement with companies in which FHL's clients are equity shareholders and/or bond investors. As a result, the following real or perceived conflicts may arise:

- We may engage with, or provide voting recommendations for, the shares of a company which is the sponsor of one of our pension fund clients or is a company within the same group as one of our clients or prospects.
- We may engage with a government or government body that is the sponsor or associate of the sponsor of one of our clients or prospects.
- We may engage with a company which is a tenant of the firm's real estate division's property investments.
- We may engage with a company which has a strong commercial relationship, including as a service provider, with FHL and/or with clients or prospects.
- We may provide a voting recommendation for a corporate transaction, the outcome of which would benefit one client or prospect more than another.
- We may engage with a company where certain clients or prospects are equity holders and others are bond holders.
- We may hold meetings with companies for the dual purpose of delivering both fund management services as part of FHL, as well as engagement services.
- We may otherwise act on behalf of clients who have differing interests in the outcome of our activities.

Individuals

At the individual level, engagers may have a personal relationship with senior staff members in a company in the stewardship programme or personally own the securities of that company.

[15] https://www.hermes-investment.com/uploads/2023/06/a7c4280e59faf524c57ff66091c2f99b/fhl-corporate-conflicts-of-interest-policy-05-2023.pdf
[16] https://www.hermes-investment.com/uploads/2023/06/dfd908cb66f1bb779dd5a702ca861aa5/stewardship-conflicts-of-interest-policy-03-2023.pdf

Short selling

Whilst FHL's investment teams do not generally hold short positions, those teams that regularly have short positions are prohibited from being involved in any engagement activities for companies where they hold a short position.

Managing and monitoring potential conflicts: a singular focus

In all our activities, we seek to promote the long-term value and success of the companies in which our clients invest. As such, we engage with market regulators and other actors to influence public policy and regulation to enable this outcome.

Stewardship activities are exercised with the aim of influencing the company's behaviour in line with the long-term interests of clients and their investors. However, these activities are not carried out with the intention of obtaining non-public information, nor is the information obtained intended to manipulate the market.

In the event that material non-public price-sensitive information is obtained through stewardship activities, our compliance department is informed, and an information barrier is created for 'insiders' until the information is publicly disseminated. Stewardship professionals are not allowed to act upon or share the non-public material information.

The EOS engagement management system requires that engagement professionals certify that they have either not received any inside information whilst conducting each engagement interaction, or that they have received inside information and followed the applicable compliance procedure.

While we welcome client input and suggestions for engagement, all of our engagements are selected and pursued on the basis of an objective assessment of the severity of the problems faced by the companies engaged or the opportunities available to them, the likely effect of public policy and regulation, and the likelihood of success in achieving value-enhancing change or mitigating value-destroying change. We give due regard to the value of the company to our clients and the value at risk given the issues in question.

In our voting recommendations and engagements with companies which are the sponsors of (or in the same group as) our clients, we are careful to protect and pursue the interests of all our clients by seeking to enhance or protect the long-term value of the companies concerned. In the first instance, we make clear to all pension fund clients with corporate sponsors that we will treat their sponsoring parent or associated companies in the same way as any other company.

In addition, we ensure that in such situations the relevant client relationship director or manager within FHL, including EOS, is not leading the engagement or making the voting recommendation to clients. This same approach would hold true with respect to any engagement with a company with whom we, our owners, or our clients have a strong commercial relationship, including suppliers. If we become aware of potential conflicts, they are disclosed, if necessary, to the companies to enable them to be managed effectively.

Members of the FHL investment teams have separate processes and management but are encouraged to join engagement meetings with their stewardship colleagues and discuss the implementation of our voting policies.

Members of the FHL investment teams have separate processes and management but are encouraged to join engagement meetings with their stewardship colleagues and discuss the implementation of our voting policies. EOS' external clients are also invited to join upcoming engagement meetings on a sustainable and appropriate basis.

EOS engagers and the FHL investment teams occasionally hold joint engagement meetings with companies at which EOS' external clients are not present. While carrying out joint engagements may mean that investment teams have access to non-inside information before it is disseminated to stewardship clients, we believe the benefits to the client body of these joint meetings is substantial. In particular, it produces an enhanced engagement process that focuses on the relevant and material ESG risks, and results in a better appreciation of ESG risk in investment decisions.

We have well-established, publicly disclosed voting principles. Based on these and the judgements reached through engagement with individual companies, we provide voting recommendations to our third-party stewardship voting clients who ask to receive our voting recommendation service.

There may be occasions where one of our third-party clients seeks to influence the voting recommendations advice we give to other institutional clients. In such circumstances, there would be director-level involvement and an objective judgement reached based upon what we believe to be in the best long-term interests of our clients. All third-party clients retain full discretion over their final voting decision.

In addition to the broader measures set out above, staff members must flag to their line managers any potential conflict of interest they recognise for a company with which they are engaging.

Clients and FHL investment teams may at times have different immediate interests in the outcome of certain corporate activities, most notably in the result of a takeover bid involving two public companies. In addressing such situations, we are open with clients about the conflict and disclose it where practically possible. As in other cases, we consider through our company engagements and voting recommendations not so much the financial effect of a deal for any one client, but more the long-term value that could be created or is at risk of being destroyed for our clients.

For the investment teams in FHL, the voting recommendation provided by EOS will inform their assessment. However, they will make their final judgement independently with a view to their fiduciary obligations to their clients. On the rare occasions that the investment team and EOS disagree on the appropriate voting action, the matter is logged and escalated for consensus to be reached at the governance committee, which acts as an escalation committee.

It is expected that votes cast by FHL would be consistent with the voting recommendations that EOS provides to its clients other than in limited circumstances. In such cases, the rationale for divergence will be documented.

Review of conflicts of interest

In addition to the broader measures set out above, staff members must flag to their line managers any potential conflict of interest they recognise for a company with which they are engaging. We also have policies that seek to avoid any potential conflicts for individual staff members of FHL that arise from engagements with companies in which individuals have personal investments or some material personal relationship with a relevant individual. Where a staff member has a personal connection with a company, they are required to make this known and they are not involved in any relevant engagement activities.

Recording and escalation

We maintain a register of potential conflicts of interest and the controls to mitigate them. In those limited circumstances where a conflict arises over our approach to providing voting recommendations (aside from that directed by EOS third-party client-specific policies) or engagement that cannot be resolved in the manner set out above, the matter is referred to an escalation group whose composition is the same as our governance committee. This is comprised of the head of responsibility; the head of the institutional client group; managing legal counsel; chief regulatory officer and head of government affairs; managing director, private markets; and a representative of the investment teams.

The group is guided by our mission to deliver sustainable wealth creation, our published corporate governance principles, voting guidelines and policies, and other appropriate industry-endorsed guidance. If there is no majority view in the group, the CEO will make a final decision. All such instances would be documented and reported to the risk, compliance and financial crime compliance executive.

Annual review

We review our Stewardship Conflicts of Interest Policy annually to ensure it adequately reflects the types of conflicts that may arise so that we can ensure that they are appropriately managed and as far as possible mitigated. The Policy is publicly available on our website.[17]

How we have identified and managed any instances in which conflicts have arisen as a result of client interests

Our policy on conflicts may be best understood by considering its impact in practice. The EOS conflicts of interest register contains a description of the conflict, what mitigation procedure and controls have been put in place, whether it was then reported to the escalation group if necessary, along with any follow-up actions and conclusions.

> **We review our Stewardship Conflicts of Interest Policy annually to ensure it adequately reflects the types of conflicts that may arise so that we can ensure that they are appropriately managed and as far as possible mitigated.**

It is reviewed by senior management on a regular basis. The following are examples of potential stewardship conflicts that we identified and managed in 2023:

- EOS made a voting recommendation, and FHL voted, to support by exception to our policy the combined chair-CEO. This did not align with EOS' policy and given that FHL had its own holding, a potential conflict of interest was logged based on possible divergent interests between the relevant fund and EOS' stewardship clients. We had recently engaged on the topic and the company had acknowledged our expectation for the roles to be separated in the long term. However, we did recommend voting against a new non-independent director to be nominated to the board to signal that we expected higher independence overall.
- EOS recommended a vote, and FHL voted, to support by exception to our policy a remuneration report and policy. Our policy indicated a vote against the report and policy due to the maximum variable pay awards exceeding our guidelines. Again, a potential conflict of interest was logged based on possible divergent interests between the relevant fund and EOS' stewardship clients. After discussion between EOS and the relevant FHL investment team, we decided to recommend a vote in favour by exception to our policy on both items as the company had a history of not exceeding our guidelines when granting awards. We also communicated our position to the company, indicating that we would escalate our voting recommendations towards the company if they moved to further exceed our guidelines.

[17] https://www.hermes-investment.com/uploads/2023/06/dfd908cb66f1bb779dd5a702ca861aa5/stewardship-conflicts-of-interest-policy-03-2023.pdf

Principle 4

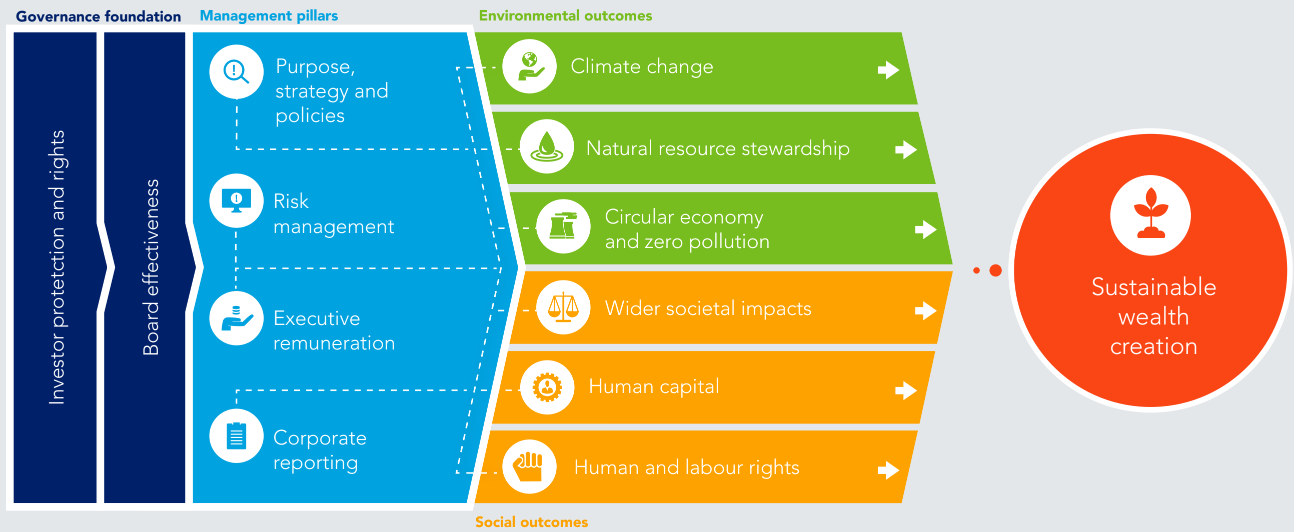
> Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

How we have identified and responded to market-wide and systemic risks

Selecting our engagement themes for 2024-26

EOS focuses its stewardship on the issues with the greatest potential for long-term positive outcomes for investors and their beneficiaries. Generally, our work is embodied in a response to systemic risks but interlinked to this are market-wide risks that we must consider. The full taxonomy identifies 12 key themes and 36 related sub-themes for engagement, which could be considered systemic risks. This breadth of coverage across the whole programme is necessary to reflect the diversity of issues in our global Engagement Plan, which covers all regions and sectors, including those that are most material to the individual companies.

To help select these themes we conduct a structured horizon scanning exercise, which takes into account extensive formal and informal feedback from our clients from our many touchpoints (including an annual survey, one-to-one meetings and sharing of draft plans), an external scan of industry issues, and internal input from a survey. This ensures that we continue to identify key themes and risks to address that reflect our clients' priorities and those in wider society as part of our fiduciary duty.



Source: EOS

Looking further into the detail, our work maintains its focus on the most material themes, reflective of our client priorities and what we have identified as having the greatest systemic risk. Specific environmental and social outcomes that we seek include:

Climate change: ensuring company strategies and actions are aligned with the goals of the Paris Agreement to pursue efforts to limit climate change to 1.5°C and demonstrating that business models are resilient and can adapt to future climate change.

Natural resource stewardship: protecting, preserving and restoring natural resources and biodiversity by transitioning to sustainable food systems, avoiding antimicrobial resistance and managing water stress to enable more affordable access to food and clean water.

Circular economy and zero pollution: controlling pollution of air, land and water to below harmful levels for humans and other living organisms and building a circular economy that avoids waste.

Human and labour rights: respecting all human and labour-related rights linked to a company's operations, products and supply chains, including through the provision of affordable essential goods and services to help reduce poverty.

Human capital: improving human capital to achieve a healthy, skilled, and productive workforce inclusive of the full diversity of wider society, with access to fair and equitable pay and benefits, in the context of rapid technological disruption.

Wider societal impacts: ensuring that a company adheres to the highest ethical standards, with zero tolerance of bribery or corruption, responsible payment of taxes. It should also maximise the positive impacts of its products and services while reducing any associated harms to the extent that this is possible.

To enable delivery of these outcomes, we seek robust governance and management by companies of the most material long-term drivers of wealth creation, from both a company value and societal outcome perspective, including:

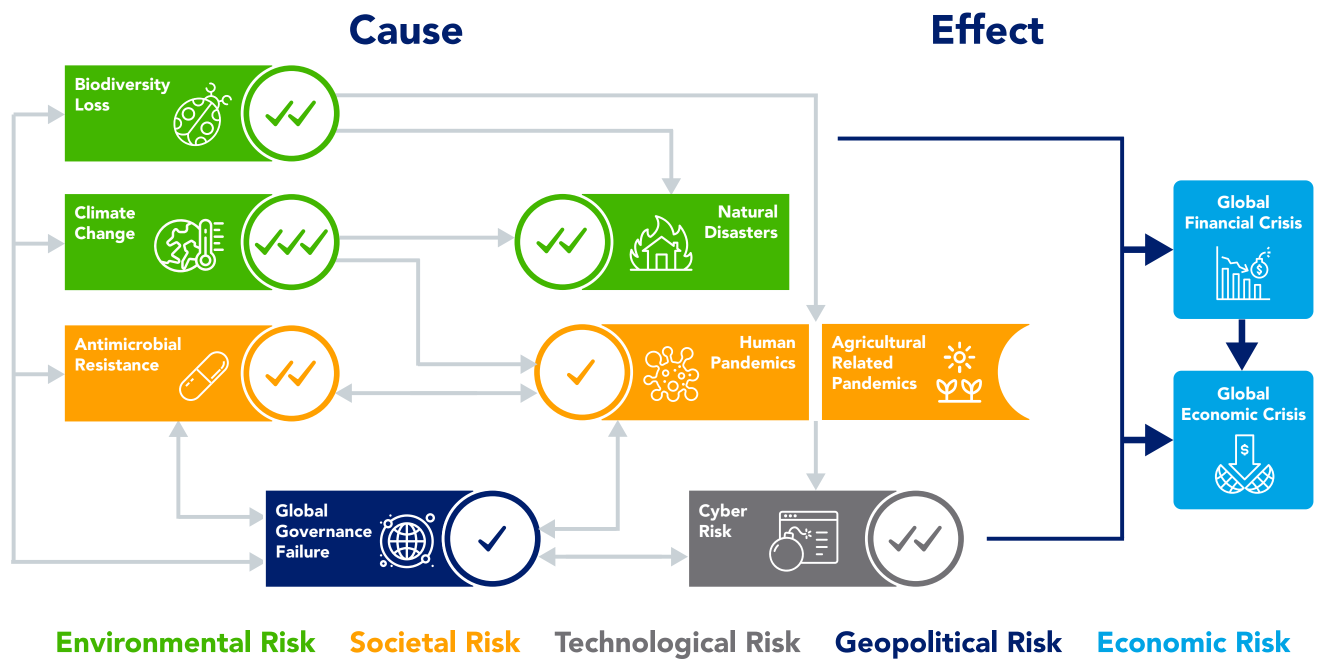
- **Corporate governance** – encompassing effective boards composed primarily of independent individuals representing the diversity of stakeholders the company serves; the alignment of executive remuneration with the creation of long-term value while paying strictly no more than is necessary; developing a corporate culture that puts customers first and treats its stakeholders fairly, including employees and its supply chain; and the establishment and protection of all material investor rights.
- **Strategy, risk and communication** – the clear articulation of a company's purpose in order to deliver long-term value to all stakeholders, supported by a sustainable business model and strategy that addresses the needs of its different stakeholders; robust risk management practices to protect long-term value; and transparent, timely disclosures of reliable information sufficient for investors and wider stakeholders to make informed decisions on long-term investment.

Addressing systemic risks through engagement

Part of our horizon scanning exercise in 2023 included a review of recent academic reports to ascertain the key systemic risks to take into consideration across our engagement work. Our review included the latest academic research from the World Economic Forum Global Risks Report[18] and the Centre for Risk Studies at Cambridge University.[19] We looked at the most important systemic risks that were highlighted, examined how they were interlinked, and often had cascading effects, and overlaid these with the focus areas in our Engagement Plan. For example, the three big causal systemic risks illustrated in the diagram below – biodiversity loss, climate change and antimicrobial resistance – which have cascading causal effects, are important themes in our Engagement Plan.

> **To enable delivery of these outcomes, we seek robust governance and management by companies of the most material long-term drivers of wealth creation, from both a company value and societal outcome perspective.**

EOS focus of engagement



Source: https://www.jbs.cam.ac.uk/faculty-research/centres/risk/publications/managing-multi-threat/systemic-risk-systemic-solutions-for-an-increasingly-interconnected-world/; EOS data

Alignment with the SDGs

In addition, the United Nations (UN) has identified systemic risks and developed these into 17 Sustainable Development Goals (SDGs), adopted in 2015 as a global call to end poverty, protect the planet and ensure that everyone enjoys peace and prosperity by 2030. Our view is that the long-term success of businesses and the success of the SDGs are inextricably linked. We believe that all our engagement work is aligned with the delivery of the SDGs either directly or indirectly, enhancing our response to systemic risks. The chart on the right shows the number of engagement objectives and issues on which we have engaged in the last year, which we believe are directly linked to an SDG (noting that one objective may directly link to more than one SDG).

2,949

of the issues and objectives engaged in 2023 were linked to one or more of the SDGs

Source: EOS data

A spotlight on our approach to climate change

Climate change continues to be the biggest single issue of concern for long-term investors as a systemic risk, and we tailor our engagements accordingly. Our engagement remains focused on companies having a strategy and greenhouse gas reduction targets aligned with the Paris Agreement, seeking to limit climate change to 1.5°C, together with aligned financial accounts and political lobbying. Under the broader Glasgow Financial Alliance for Net Zero and our own engagement-driven targets, we have intensified our engagement with banks, ensuring that their net-zero ambitions are aligned with those of asset managers.

In the near term, this means that we seek a range of objectives such as: development of a strategy consistent with the goals of the Paris Agreement, including that each new material capex investment is consistent with the Paris Agreement goals; science-based emissions reduction targets for Scope 1 and 2 emissions and Scope 3 emissions (where a methodology exists, or the equivalent ambition); a public policy position supportive of the Paris Agreement goals and alignment of both direct and indirect lobbying activity by member industry associations; board oversight and understanding of climate risks and opportunities; and adoption and implementation of the TCFD recommendations. We also support action to ensure that published financial accounts and political lobbying are similarly aligned.

We have continued to lead or co-lead collaborative engagements across multiple sectors through the Climate Action 100+ (CA100+) and Institutional Investors Group on Climate Change (IIGCC) initiatives. We have started engaging more systematically on physical climate risk at exposed companies, targeting the development of adaptation plans that will bring much needed resilience. We are strengthening our focus on the need for a 'just transition' and the human rights impacts of climate change.

Number of issues and objectives engaged in 2023 linking to the SDGs

The chart below illustrates the number of engagement objectives and issues on which we have engaged in the last year[20], which we believe are directly linked to an SDG (noting that one objective may directly link to more than one SDG).

Source: EOS data

[20] 1-year rolling data up to 14 December 2023.

[18] https://www.weforum.org/publications/global-risks-report-2023/

[19] https://www.jbs.cam.ac.uk/faculty-research/centres/risk/publications/managing-multi-threat/systemic-risk-systemic-solutions-for-an-increasingly-interconnected-world/

Our response to the cost of living crisis and engaging for a just transition

The rising cost of living squeezed household budgets throughout 2022 and 2023, but for many workers, take-home pay failed to keep pace with inflation. Unsurprisingly, employees in many sectors have been fighting for better wages and working conditions over the past two years, leveraging their increased bargaining power in a tighter labour market.

We consider a variety of workforce factors in our human capital engagements, ranging from fair pay, living wages and decent work, to racial equity, gender equality, and health, safety and wellbeing. When companies treat their employees with dignity and respect, there is a better understanding of staff potential and improved outcomes. We also expect human capital strategies to identify workforce transition risks and opportunities arising from job automation and a greater reliance on artificial intelligence, setting out any reskilling needs that may need to be met.

> **The rising cost of living squeezed household budgets throughout 2022 and 2023, but for many workers, take-home pay failed to keep pace with inflation.**

As we transition to a low-carbon economy, it will be equally important for companies to demonstrate that they are upskilling and training workers to deliver against their climate commitments. Certain industries, such as oil and gas extraction and refining, or fossil fuel-based utilities, will no longer require as many workers. These employees will need to be retrained for green economy jobs, if they have not opted for early retirement. But while many new jobs will be created in electric vehicle (EV) battery factories or wind turbine manufacturing, these may be in different locations – possibly other countries – or require entirely different skills.

In our engagements with North American utilities, we have encouraged companies to publish just transition plans to redeploy and retrain their workers, while addressing the economic impact of fossil-fuel plant closures on local communities. We also seek evidence that companies are addressing emerging safety risks, such as excessive heat due to the impact of climate change, to ensure safe working conditions. This was a challenge for the hospitality sector in Southern Europe in 2023, when traditional tourist destinations boiled in the ferocious Cerberus heatwave. Such summers are likely to become the norm if the world continues to warm at its current rate.

The 2023 voting season in the context of systemic risks

Companies continued to give investors the opportunity to vote on their climate transition plans – either for the first time, or by providing an annual update to already-approved plans. At TotalEnergies, BP and Shell, shareholders were concerned that the European oil majors were retreating from their climate commitments amid bumper profits. Almost 10% of shareholders voted against BP chair Helge Lund while large investors publicly voiced their concerns ahead of Shell's meeting. Climate protesters attempted to disrupt all three meetings.

We take a robust approach to assessing companies' climate transition plans. We consider the extent to which plans are substantially aligned with a global temperature rise of 1.5°C, and the action that companies are taking to deliver against these plans. This meant we recommended votes against the climate transition progress reports proposed by Shell and TotalEnergies again in 2023 due to their failure to make sufficient progress in aligning with 1.5°C.

We continued to follow our climate change vote policy to guide our recommendations. We consider recommending votes against directors at companies identified as laggards in managing climate-related risks. In 2023, we recommended voting against the re-election of directors or relevant proposals at 299 companies, up from 292 in 2022, due to concerns about insufficient management of climate-related risks.

Climate-related and other environmental shareholder proposals

We also saw a range of other climate-related shareholder proposals in 2023, with the banking and energy sectors again in focus, although hard-to-abate sectors such as mining also came under scrutiny. We tended to support proposals requesting additional disclosure or a shareholder vote on climate strategies, and encouraged companies to support proposals that were in line with their strategy.

Increasingly, we also saw calls for companies to set and disclose new forms of targets or more detailed plans to support these. For Bank of America, we recommended support for a shareholder proposal seeking 2030 absolute greenhouse gas reduction targets for the company's energy sector lending and underwriting, aligned with the Paris Agreement. We also supported a proposal asking for a transition plan that describes how the bank will align its financing activities with its 2030 sectoral greenhouse gas reduction targets.

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

A proposal at mining company Glencore sought disclosure on the alignment of its thermal coal production and related capital expenditure with the Paris Agreement's 1.5°C goal. We engaged intensively with the company on this resolution and ultimately decided that recommending support for the resolution was a necessary escalation to encourage improved climate risk management.

Paris-aligned accounts

We continued to assess whether companies had sufficiently considered climate change in preparing and auditing their financial statements, and recommended votes accordingly. As part of our engagement activity with CA100+, this involved looking at companies where climate change presents material and foreseeable risks, and assessing the extent to which these are reflected in financial accounts. Insufficient disclosure of climate-related assumptions or detail in the financial notes, or insufficient evidence of progress on this topic, could result in escalated voting action. Conversely, where companies had made efforts to materially improve the alignment of their disclosures with investor expectations, we were able to recommend support.

We recommended voting against the financial statements of Airbus, due to an inadequate explanation of the conclusion that climate-related risks had an immaterial impact on the company accounts. We will continue to engage with Airbus and other companies where we recommended voting against the financial statements, such as ArcelorMittal and Anglo American, seeking improved disclosure.

Worker rights and the 2023 voting season

Worker rights issues were also front and centre in the 2023 voting season, with a record number of shareholder proposals filed on a range of topics such as worker health and safety, paid sick leave, wages and equity, freedom of association, and workplace sexual harassment. In general, EOS considers proposals on a pragmatic basis, reviewing each in its company specific context. In line with fiduciary duty, we seek to determine the extent to which the proposal promotes long-term shareholders' interests, and our recommendations are made following dialogue with the company, where practicable.

VOTING CASE STUDIES

Wells Fargo

At Wells Fargo we recommended support for a resolution asking the company to adopt a policy on freedom of association and collective bargaining. The company seemed to be lagging behind the industry in its disclosures related to freedom of association and collective bargaining, as it did not have a policy on these topics, unlike its peers.

It had also received negative press attention regarding worker efforts to unionise, including two charges from the Communications Workers of America alleging that managers had threatened and disciplined workers for supporting these efforts.[21,22] Despite these controversies, the bank's recently completed human rights impact assessment did not mention freedom of association or collective bargaining. This as a step in the right direction following four years of engagement on this issue.

> We believe that employees, shareholders and stakeholders would benefit from more detailed public disclosure on FedEx's paid sick leave policy beyond the minimum legal requirements.

CVS

At US pharmacy retailer CVS we recommended support for a shareholder proposal seeking a third-party assessment of CVS's adherence, above and beyond legal compliance, to its stated commitment to workers' freedom of association and collective bargaining rights.

We also supported a shareholder proposal calling for paid sick leave benefits for all employees, for a second consecutive proxy season. We believe it is good business practice to offer paid sick leave to all employees, and this would be in line with the company's purpose, "to help people on their path to better health".

FedEx

Paid sick leave policies were also raised in a shareholder proposal at FedEx.

The courier company does have a paid sick leave policy in place and plans to review it as part of the 'one FedEx' reorganisation. However, we believe that employees, shareholders and stakeholders would benefit from more detailed public disclosure on FedEx's paid sick leave policy beyond the minimum legal requirements, to improve their understanding of how human capital risks are managed at FedEx.

[21] https://uniglobalunion.org/news/wells-fargo-workers-make-history-with-first-union-election/
[22] https://news.bloomberglaw.com/banking-law/wells-fargo-settles-second-complaint-over-union-intimidation

Racial equity and civil rights

We were heartened to see companies such as Alphabet and Citigroup releasing meaningful third-party civil rights and racial equity audits, particularly after their boards opposed shareholder proposals calling for them in the 2021 and 2022 voting seasons, when we were among their earliest supporters. Gratifyingly, our goal of building traction and signalling mainstream investor support for a practice that helps boards steer favourable diversity, equity and inclusion (DEI) outcomes in the workforce and society has been largely achieved. More work remains to be done, however, including around improving the quality of these audits.

Several 2023 shareholder proposals appeared supportive of DEI on the surface, but were designed to derail beneficial DEI momentum. For example, we recommended opposing the proposal asking for a civil rights and non-discrimination audit at Apple, as it appeared the proponent's objectives were in direct opposition to the civil rights audit proposal we had supported in 2022, and which the company was now conducting. Similarly, we recommended opposing the proposal calling for an analysis of costs associated with DEI programmes at Amazon, due to questionable filer intent in opposing a scale-up of diversity and inclusion efforts, and lack of alignment with long-term shareholder value.

Human rights and Indigenous Peoples' rights

In 2023, we applied our revised human rights voting policy. This identified a watchlist of companies that had received low scores on credible third-party human rights benchmarks, or that had been involved in significant controversies. In this first year of applying the policy, unless we had notified the company previously, we generally highlighted our concern with a view to opposing the following year if there was insufficient improvement. We issued these warnings to Lockheed Martin, Broadcom, Commerzbank and TotalEnergies, and recommended voting against directors at Tesla, Amazon and the Inner Mongolia Baotou Steel Union Company.

Three Canadian banks received shareholder proposals related to free, prior and informed consent (FPIC), an issue we had been planning to raise. Two of these – Bank of Montreal (BMO) and Toronto-Dominion Bank – reached successful agreements with the proponent via engagement, a positive step. At Royal Bank of Canada, having escalated this issue via a public statement at the meeting in prior years, we decided to recommend support for the shareholder proposal.

Wider societal impacts

In 2023, we saw an increased focus on tax transparency. Amazon and Microsoft again faced shareholder proposals seeking a tax transparency report prepared in consideration of the guidelines of the Global Reporting Initiative (GRI) tax standard. Oxfam America, with supporting investors, filed similar tax transparency proposals at ExxonMobil, Chevon and ConocoPhillips asking for a GRI tax standard report. These sought, among other disclosures, detailed country-by-country reporting to prevent tax avoidance. In Canada, the BC General Employees' Union submitted a tax transparency proposal at Brookfield Corporation. We recommended support for all six tax-related shareholder proposals.

Working with other stakeholders to promote continued improvement of the functioning of financial markets

This involves public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations, and other key parties. The following is a selection of highlights from 2023:

- We provided feedback on a paper from the Institutional Investors Group on Climate Change (IIGCC) on *Assessing climate target alignment with cumulative benchmark divergence metrics*. We supported the goals of the paper and the improvements the methodology may be able to make to current methods for assessing the alignment of companies' targets with the goals of the Paris Agreement, especially the ability to assess the full decarbonisation trajectory of a company. However, we noted that the methodology did not address the ongoing challenge of accounting for the different carbon intensities of companies.
- We co-signed a letter to EU policymakers on plastics pollution. In the letter, investors and their representatives emphasised their strong support for an ambitious position from the European Parliament and the Council of the European Union on the Packaging and Packaging Waste Regulation (PPWR).
- We attended a virtual delegation meeting alongside the Asian Corporate Governance Association (ACGA) to give our views on the latest action plan from Japan's Financial Services Agency (FSA). We asked the FSA to set a requirement for companies to disclose their voting results for their cross-shareholdings. We said that this practice negatively impacts capital efficiency and corporate governance, as companies mutually vote in support of each other, and support the appointment of 'independent' directors affiliated to these companies.
- We provided input into the development of the UK's National Action Plan (NAP) on antimicrobial resistance (AMR) for 2024-2029, by responding to a consultation led by the UK government. We underlined the importance of tackling AMR from a holistic perspective, including human health, animal health and planet health. We suggested that the NAP include a system of incentives to help companies with the development of vaccines or other alternatives to the use of antimicrobials, as well as incentivising the development of new antimicrobials.

- We submitted a comment letter on the US Pipeline and Hazardous Materials Safety Administration's (PHMSA's) proposed rule for pipeline safety, focused on gas pipeline leak detection and repair. PHMSA is a leading federal pipeline regulator. We encouraged PHMSA to enhance reporting, transparency, and comparability, promote best operating practices, and improve public health and safety, and value chain regulatory oversight and transparency, while working closely with the US Environmental Protection Agency to close gaps in pipeline regulation.

Collaboration[23] focused on tackling climate change – our work with Climate Action 100+

Since December 2017, the collaborative engagement initiative CA100+ has been striving to bring the world's biggest corporate emitters into line with international ambitions for a 1.5°C. EOS is a significant supporter of CA100+, leading or co-leading engagement at 21 companies. In 2023, we continued to push for progress where companies lagged best practice, while also encouraging efforts where progress had been made. For example, we welcomed the reduction in carbon emissions at Stellantis in line with its commitments, and the development of a plan for transitioning to zero-carbon vehicles.

In March 2023, we led the CA100+ in-person meeting with ConocoPhillips, scrutinising the scenario analysis underpinning its capital allocation decisions. The company argued that it uses four scenarios, all of which are consistent with 1.5°C, but did not plan to adopt the International Energy Agency's Net Zero Emissions (NZE) by 2050 Scenario. We asked the company to disclose the differences in assumptions between its internal scenarios and the NZE scenario. Since March, ConocoPhillips has explained that its internal scenarios assume an earlier use of direct air capture, nature-based offsets, and carbon capture and sequestration technologies. The credibility of these assumptions will be a focus of ongoing engagement.

Early that year, we challenged Repsol on the inclusion of Scope 4 "avoided" emissions in its carbon intensity indicator. The company acted on this feedback, providing the relevant disclosure at its ESG day later in the year. We welcomed this, but continued to push on the ambition of its 2020 Scopes 1-3 emissions reduction target, given that this was almost achieved in 2022.

> **Since December 2017, the collaborative engagement initiative Climate Action 100+ has been striving to bring the world's biggest corporate emitters into line with international ambitions for a 1.5˚C.**

Climate questions for German giants

We attended two virtual annual meetings in Germany in 2023 – Siemens Energy in February and BMW in May. As Climate Action 100+ lead for both companies, our speech and questions to the board focused on climate.

At Siemens Energy's annual shareholder meeting, we made a speech in German. We began by congratulating the company on its science-based 2030 targets and then asked for more clarity on Scope 3 emissions, the potential timing of its net-zero ambition and capex criteria ensuring 1.5°C alignment. We also asked the company for more transparency on climate lobbying, particularly how it is assessing lobbying carried out through third parties and ensuring that this is aligned with the Paris Agreement.

> **At BMW, we delivered a speech posing questions to the supervisory board chair and CEO, covering the company's climate approach, remuneration, diversity, board independence and virtual meetings.**

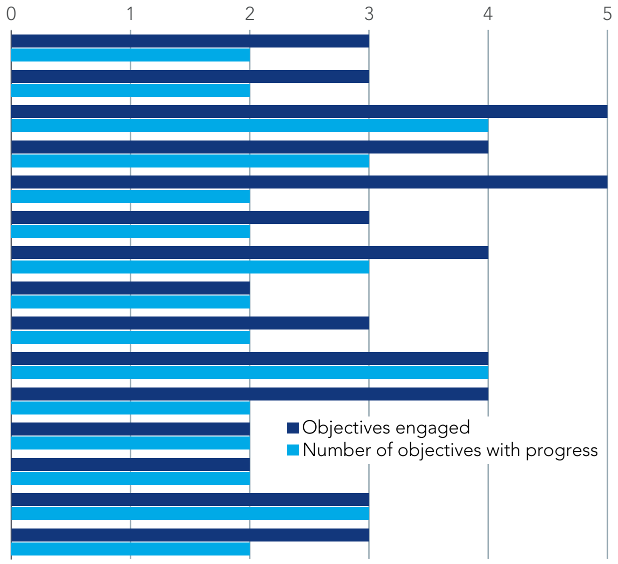
Although we welcomed the appointment of an independent chair for the audit committee, we said that the overall independence of this committee fell below our expectations. Finally, we challenged the company on remuneration, specifically the total shareholder return component in the long-term incentive plan, which vests at 100% of the median performance versus the index.

At BMW, we delivered a speech posing questions to the supervisory board chair and CEO, covering the company's climate approach, remuneration, diversity, board independence and virtual meetings. We welcomed the CEO's commitment to achieving climate-neutrality by 2050 at the latest and then challenged him to demonstrate that BMW's climate targets, capital expenditure plans, accounting assumptions and lobbying activities were aligned with a 1.5°C trajectory.

[23] Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

Progress of environmental objectives for selected CA100+ companies engaged by EOS, 2023

Company Name	EOS Sector	Participation
Air Liquide	Chemicals	Co-lead
Dow	Chemicals	Co-lead
LyondellBasell Industries	Chemicals	Co-lead
Lockheed Martin	Industrials	Co-lead
Exxon Mobil	Oil & Gas	Support
Shell	Oil & Gas	Support
Suncor Energy	Oil & Gas	Support
Glencore	Mining & Materials	Support
thyssenkrupp	Mining & Materials	Support
Hon Hai Precision Industry	Tech Hardware & Equip	Co-lead
Caterpillar	Transportation	Support
Bayerische Motoren Werke (BMW)	Transportation	Co-lead
Mercedes-Benz Group	Transportation	Co-lead
Volkswagen	Transportation	Co-lead
Power Assets Holdings	Utilities	Co-lead



Source: EOS data

Planning to meet ambition

The value of strong emissions reduction targets will only be realised if company strategies can effectively transform businesses into something fit for the future. Increased scrutiny of decarbonisation strategies during collaborative engagements was therefore a key trend for 2023. This included encouraging the CA100+ focus companies' own value chain engagements, such as at Hon Hai, which has kicked off a supplier engagement programme to encourage progress on Scope 3 emissions reduction. In April 2023, EOS was invited to visit the Hon Hai production campus in Zhengzhou. As a CA100+ engagement lead, the visit provided us with significant insights into Hon Hai's net-zero commitment versus the on-site implementation, including via an exclusive presentation of the company's decarbonisation strategy.

For many focus companies, decarbonisation will not be linear and no single technology offers a complete solution. For example, the chemicals sector requires myriad solutions to decarbonise hundreds of different products, many of which remain nascent. This means that investors and their representatives must employ a holistic lens when engaging with companies, as the desired outcome may not be immediately obvious.

We have emphasised the importance of well-articulated and comprehensive transition plans across the chemicals sector. These go beyond serving investors assessing alignment with the Paris Agreement, because developing a comprehensive transition plan requires companies to confront abatement challenges and develop business models that capture the system transformation expected.

At Posco, we have asked for greater clarity over timelines for the company's implementation of hydrogen-powered steelmaking and how this is expected to transition the hard-to-abate sector. Continuing our co-lead role for Air Liquide, we are encouraging the company to provide a comprehensive and coherent transition roadmap for the business, indicating implementation timelines for each green technology identified and how these will complement one another.

> **The value of strong emissions reduction targets will only be realised if company strategies can effectively transform businesses into something fit for the future.**

The public policy challenge

In many sectors, companies are markedly reliant on the policy environment to guide how decarbonisation will look in different regions. For example, transitioning gas utility companies could opt for decarbonisation strategies based on district heating, electrification via heat pumps, or hydrogen heating. Companies are understandably unwilling to commit significant capital expenditure to one solution over another where policy has yet to guide investment. In these cases, we are asking companies to outline a roadmap for decision-making on technology, so that delayed policy guidance does not perpetuate planning for business-as-usual.

It is important for companies to develop strategies to reduce their emissions footprint, but we recognise that public policy and technology development will play a crucial supporting role. Companies must assess and disclose the financial consequences of the risks and opportunities that arise from their own climate-related actions and the systemic economic impacts of the energy transition and climate change. We are therefore increasingly scrutinising and engaging companies to ensure that their lobbying of policymakers helps rather than hinders the development of responsible climate policy.

At Repsol, Centrica, LyondellBasell and Danone, where we co-lead CA100+ engagements, we were pleased to see these companies working to improve transparency and the Paris Agreement alignment of their lobbying activities – for example, by reviewing the Global Standard on Responsible Climate Lobbying. We closely monitor company performance on this indicator in the Net Zero Benchmark.

Our contribution to industry initiatives

In 2023, we continued to advocate for a number of changes to public policy and market best practice, aligned with the themes upon which we engage, as set out in our Engagement Plan. On the next page, we have provided a summary of some of our activities in 2023. To allow us to keep abreast of investor concerns and emerging issues as they arise and to promote stewardship, we are active participants in a number of collaborative industry bodies and initiatives around the world (see box).

Any collaboration is done in line with applicable rules on antitrust, conflicts of interest and acting in concert. Indeed, each party will exercise unilateral decision-making principles in deciding how to act while engaging in any collaboration.

Key stewardship initiatives

We are an active participant in the following:

- Climate Action 100+
- Principles for Responsible Investment: founding member and chair of the drafting committee that created the PRI in 2006.
- PRI Advance & PRI Spring
- Nature Action 100
- Finance Sector Deforestation Action
- Asian Corporate Governance Association
- FAIRR Investor Action on AMR initiative
- Investors and Indigenous Peoples Working Group
- Investor Alliance for Human Rights
- Investor Initiative on Mining & Tailings Safety
- International Corporate Governance Network
- Institutional Investors Group on Climate Change
- US Council of Institutional Investors (CII)
- Ceres Valuing Water Finance Initiative
- 30% Club

Source: EOS data

Public policy

31 Number of consultation responses or proactive equivalent made in 2023

90 Number of discussions held with relevant regulators and stakeholders

Source: EOS data

Examples of our public policy and advocacy work from 2023 include:

Biodiversity

- Our public policy work is aligned with our engagement on regenerative agriculture and pesticide use. In 2023, we co-signed an investor statement coordinated by the Farm Animal Investment Risk and Return (FAIRR) initiative calling on G20 finance ministers to repurpose their agricultural subsidies in line with climate and nature goals. This statement follows the Kunming-Montreal Global Biodiversity Framework's target to identify incentives, including subsidies harmful for biodiversity by 2025, and eliminate, phase out or reform them in an effective way.
- In 2023, we presented to the World Bank Coalition of Finance Ministers for Climate Action in our capacity as co-chair of the Finance for Biodiversity Foundation Public Policy Advocacy working group. We highlighted some of the ways in which finance ministers can play a role in supporting the private finance sector to address biodiversity loss. This includes setting nature-related disclosure requirements, requiring transition pathways, integrating biodiversity risks alongside climate risks, and creating economic incentives for businesses to incorporate nature into decision-making. The success of the GBF comes down to its implementation, so this should remain a priority for all stakeholders in 2024 and beyond.
- We are part of FAIRR's collaborative engagement on antimicrobial resistance (AMR), and Nature Action 100, a new collaborative engagement initiative on biodiversity launched in 2023. We were really pleased to see the initiative kick off, with letters sent to 100 companies asking them to consider including nature in their business models, strategies, and climate transition plans. We look forward to engaging companies across the food and beverage, mining and chemicals sectors in 2024.
- We also signed up to the UN PRI's Spring initiative for nature. This will focus on preventing biodiversity loss by engaging companies on their advocacy work on deforestation. We are members of the signatory advisory committee for this group and have held regular meetings to provide input into the investor statement and the methodology developed to select target companies.

Indigenous Peoples' rights

- We are represented on the steering committee of the Investors and Indigenous Peoples Working Group (IIPWG). This group holds monthly calls that serve as a clearinghouse for education, news, and joint action to bring together Indigenous and non-Indigenous communities on key issues related to sustainable and responsible investing.
- Additionally, we will continue to lead or support collaborative engagements on human rights with several mining companies through the PRI Advance initiative. This was launched in 2023 to achieve positive human rights outcomes through investor stewardship. Within these dialogues, we have advocated for Indigenous Peoples' rights to be seen as part of the human rights agenda. These dialogues have offered more opportunities for engagement with Indigenous Peoples.

CASE STUDY: FUNDING THE CLIMATE TRANSITION

Delta Electronics

Delta Electronics is a Taiwanese company providing power and thermal management solutions. As an energy-saving solutions provider with core competencies in power electronics and automation, Delta's products are integral to many renewable energy and energy-saving technologies.

Delta Electronics was one of the first 100 companies globally to commit to the Science Based Targets initiative (SBTi) and to achieve validation of its Paris Agreement-aligned targets. To help achieve its ambitions, the company established an internal carbon pricing (ICP) mechanism in 2021. This mechanism involved attributing a cost of US$300 per tonne of carbon emitted by each business division, thereby incentivising emissions reductions and raising funds to support emissions reductions elsewhere in the business. While we welcomed this development, we said to the company in 2021 that we expected to see a more comprehensive explanation of how the mechanism worked and was implemented.

The company's 2021 ESG report, published in August 2022, explained that internally generated funds from the ICP mechanism are directed to energy and resource management, development of renewable electricity and renewable energy technology and low-carbon innovations. However, we felt that the company needed to provide more information on how the mechanism operated in order for investors to have confidence that it was effective. We explained this on a call in May 2023 and the company indicated that it would look to provide greater detail in its upcoming ESG report.

Delta Electronics' 2022 ESG report, published in August 2023, contained significant new information on how its ICP mechanism helps it to achieve its climate ambitions. It quantified the funds raised by the mechanism (US$120m in 2022), and explained that the carbon fee charged by the mechanism was regarded as one of the costs in monthly financial management reports; it was also related to key performance indicators for business group heads. The report highlights that one use of the mechanism is to help fund a transition to electric vehicles, in line with Delta Electronics' commitment to using only zero-emission company vehicles by 2030.

CASE STUDY: FINANCIAL INCLUSION

Credicorp

We started engaging on gender-focused finance in 2021, motivated by data showing the low level of financial inclusion for women in Peru. At that time, the company had one product directed to women, but with limited opportunities for growth in scope and scale.

In various engagements with the sustainability team, senior management and board members from 2021 to 2023, we encouraged Credicorp to explore the business opportunity of targeting the market segment of unbanked women – women with no access to financial services – by developing innovative products and by making more intensive use of technology to establish new distribution channels.

In a meeting with the CEO in 2023, we reviewed the progress achieved by Credicorp's subsidiaries in developing and distributing financial products focused on the unbanked women segment. We were pleased with performance of the mobile banking app Yape, which has been instrumental in promoting financial inclusion among women. On Yape, 49% of users who were previously not part of the banking system were women.

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We were also encouraged by management's action to change the corporate culture, recognising that promoting financial inclusion of women in Peru is not just a matter of funding or technology, but also of culture. At Credicorp's microfinance subsidiary, Mibanco, there was a review of procedures, marketing material and training for staff to avoid gender biases. As a result, more than 33,000 women had access to a loan through Credito Mujer, one of Mibanco's products, in 2022, up from 20,000 in 2021.

Principle 5

Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

Our client base

EOS represents a large client base of institutional investors around the world, advising on their assets of over US$1.4tn (as at 31 December 2023), comprised of equity, debt and money market holdings. Established formally in 2004, we have a long track record of working with a variety of client types in 13 different countries, including: Australia, Belgium, Canada, Denmark, Germany, Ireland, Japan, Luxembourg, the Netherlands, Spain, Switzerland, the United Kingdom and the United States, who have a range of underlying stakeholders and beneficiaries. A large portion of our client base is made up of asset owners (pension funds, foundations, sovereign wealth funds) and the rest comprises non-asset owner clients, including investment consultants, asset, wealth and fiduciary managers.

We place an emphasis on understanding our client profiles and ensuring that we only onboard like-minded clients who wish to invest with a focus on the long term, sharing our vision and strengthening our culture. As a result, we have a strong understanding of the regional nuances and requirements of our client base, and the ability to adapt our service to cater to these needs.

How our services best support our clients' stewardship

Relationships and access

We offer a shared service model that provides a platform for like-minded investors to pool resources, creating a powerful force for positive change. Companies understand that EOS is working on behalf of large institutional investors – representing assets under advice of US$1.4tn – which gives us significant leverage to exercise more effective stewardship on behalf of our clients.

EOS is a trusted brand, and most of our engagement is conducted behind closed doors, which is how we achieve the biggest changes on our clients' behalf. We use a constructive, objectives-driven and continuous dialogue. We do not just apply a one-size-fits-all approach – we develop engagement strategies specific to each company based on their individual circumstances. Our understanding is also informed by research and our deep knowledge across themes, sectors and regions, with dedicated team specialists.

A tailored approach

Our Engagement Plan provides agreement between us and our clients about our approach to, and the substance of, our engagement. Under Principle 4, we referred to our 12 key themes and 36-related sub-themes for the next three years. Through many client touchpoints, client input drives our Engagement Plan to ensure that it represents their priorities and those of their underlying beneficiaries.

Using our Engagement Plan, we align our engagement strategies with our engagement approach for the next three years. This results in us setting SMART objectives and strategies so that our engagement is tailored and focused on the most financially material factors affecting the long-term sustainability of companies.

We place an emphasis on understanding our client profiles and ensuring that we only onboard like-minded clients who wish to invest with a focus on the long term, sharing our vision and strengthening our culture.

Some of the things we might consider when looking at materiality are:

- How relevant is the issue to the company's viability and sustainability?
- What is the likelihood of the risk occurring and if it did what would the impact be?
- Are there sector implications for this engagement that mean we would consider the company a target as either a best/worst practice within a sector or a theme?

Access and intensity

134
companies featured engagements with the CEO or chair

68% of core engagement programme companies were engaged on 3 or all 4 ESG/SRC meta-themes

81%
of our relationships with companies in our core engagement programme have lasted 5 years or more

We engaged with companies in our core programme in 2023 on average more than **5** times.

Source: EOS data

Screening and engagement

We monitor our clients' listed equity and corporate debt holdings, which in practice is a universe of around 20,000 companies. We formally screen these holdings on a quarterly basis to identify companies in their portfolios that contravene the 10 Principles of the UN Global Compact (UNGC) or are at risk of doing so. We also screen for companies engaged in the production, distribution or maintenance of controversial weapons, and those with infringements on trade and arms embargoes. Companies deemed in breach of the UNGC Principles, those assessed as 'non-compliant', are included in the EOS Engagement Programme and engaged for the life of the controversy.

An integrated service offering

By putting engagement with companies at the heart of what we do, our other stewardship services, which include providing voting recommendations, portfolio screening, public policy and advisory services, are strengthened by being combined with this engagement insight. Under Principle 2, we highlighted in detail the systems, processes, research and analysis that support us in the delivery of each of our services. This integrated approach to stewardship puts us in a better position to achieve positive change on behalf of our clients. We believe this demonstrates that our offering has breadth and depth, while clients are able to take a combination of services to suit their requirements as they change over time.

Thought leaders and work on emerging themes

Our like-minded clients are often already very sophisticated in their own approach to stewardship, and our services add to this. Yet they still seek value from our thought leadership and our identification of new and emerging themes of importance to tackle.

In addition to the four priority themes that we identified for our updated Engagement Plan (referred to earlier in this report), we are pursuing further engagement in these fast-growing areas:

- **Biodiversity** – We will focus our engagement on halting and reversing marine and terrestrial biodiversity loss at companies that are involved in the retail and production of food, including their global supply chains, as well as other sectors with significant physical or deforestation impacts, such as mining. We expect companies to reduce their impacts on biodiversity across the value chain, following the mitigation hierarchy, and to aim for a net-positive impact on biodiversity as best practice.

  Depending on the specific company context, engagement will cover issues such as deforestation, water stress, regenerative agriculture, antimicrobial resistance (AMR), sustainable proteins and chemical runoff management. As we outlined in our white paper on biodiversity,[24] companies must identify, assess and measure their impacts and dependencies on biodiversity and ecosystem services, in line with the final recommendations of the 2023 Taskforce on Nature-related Financial Disclosures (TNFD)[25] and then identify action plans.

- **Digital rights and artificial intelligence (AI)** – We will continue to engage companies on our Digital Rights Principles,[26] which outline our expectations for the responsible development and deployment of AI. Digital products and services can play a critical role in strengthening human rights, but have also brought unanticipated harms and new challenges. We engage companies on negative societal impacts including problematic content on social media; reinforcement of unintended bias; and health and safety impacts on children and young people.

  We expect companies to balance freedom of expression with their obligations to remove problematic content and take action to respect privacy rights online. While the accelerating deployment of AI is creating new opportunities for companies, it also brings with it new risks, including potential workforce disruption, regulatory infraction or reputational damage.

[24] https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/our-commitment-to-nature/
[25] https://tnfd.global/final-tnfd-recommendations-on-nature-related-issues-published-andcorporates-and-financial-institutions-begin-adopting/
[26] https://www.hermes-investment.com/uploads/2022/04/5a8aadeb037fb131b1889c3f6b1a85aa/eos-corporate-digital-rights-principles-04-2022.pdf

Integration of client views and feedback into our approach

One of our key differentiators is our client-led approach. As introduced in Principle 1, we have many touchpoints for clients to provide their input to shape and influence the service we offer, in a structured way. As mentioned in Principle 2, we also have an established formal feedback loop for clients, which ties the touchpoints together with our other structures and processes, to ensure that we remain a client-driven stewardship service provider. A summary of some of the key touchpoints is given below.

- **Annual survey on client service and communications** – We ask clients to complete this survey, which looks at the communications, reporting, emails and events that we offer, and solicits feedback on our service, asking clients to assign priorities on their greatest external pressures.
- **Annual Engagement Plan survey** – We strongly encourage our clients to complete this annual survey where we seek views on the content of our Engagement Plan and the allocation of engagement resource.
- **Client meetings** – At our bi-annual client meetings, our head of stewardship hosts a session, discussing our progress against the Engagement Plan and our approach going forward. Clients have an opportunity to ask questions and give feedback on the path they would like our engagement to take.

In addition, each client is assigned a dedicated client relationship manager who understands the market and the challenges faced by similar clients, and who can help the client to make the most of the tools and service we provide.

Communicating with clients

EOS recognises that timely communication is key for our clients in managing their own responsible investment activities and communicating with their beneficiaries and stakeholders. We are constantly evolving our diverse suite of client reporting and value-add services to assist with this. Highlights include:

- Our online client portal was built so that clients can access high-level, as well as company-specific, engagement activity 24/7. It also includes an online library of relevant documents and client communications. Following the client portal redevelopment in 2021, we have continued to enhance features in response to client feedback, including momentum indicators for how we feel the engagement is progressing and closure rationales for why the objective has been completed. We worked closely with clients, requesting their feedback on the desired enhancements and consulting with them periodically throughout the process.
- Quantitative and qualitative reports are provided on a monthly, quarterly or annual basis with company updates and statistics on our work. Our client portal offers the functionality to extract engagement data.

- On an ad hoc, regular basis, market insights on key industry topics and company case studies on our engagements are published on the Insights page of the firm's website and communicated to clients. Our process around case study development ensures that we always send our drafts to the companies for a fact-check, verifying the engagement impact we have described and adding credibility to the stewardship outcomes we are achieving on behalf of our clients. In 2023, we issued 85 case studies and over 30 other materials, covering a range of themes, markets and companies, which can be used by our clients to communicate with their internal and external stakeholders.
- On an ad hoc basis, clients are sent invitations to join client-only events, such as educational calls, training sessions and opportunities to seek feedback. In 2023, we hosted client calls on topics including deforestation and biodiversity, indigenous peoples, modern slavery, methane emissions, and carbon capture, utilisation and storage.
- Clients are invited to join engagement meetings and upcoming meetings on a sustainable and appropriate basis.

Some of our reporting is confidential but we have developed materials that can be used publicly to communicate with our clients' beneficiaries and other external stakeholders.

Consideration of clients' views and feedback

As we described in detail under Principle 1, our services, and the way in which our clients express their views and give feedback, have developed over many years, and this is anchored in our heritage. Central to this is our Engagement Plan, which was driven by clients asking for a systematic approach to engagement and a written agreement of the stewardship priorities identified on our clients' behalf.

Reporting

Clients often present their views and feedback on the provision of our services through one of our many client touchpoints, which are considered by our reporting governance group. The group meets quarterly after each reporting period to discuss and evolve our reporting according to this feedback. This feedback can entail changes to format, presentation of data, and possible areas of heightened focus.

An important aspect of our service involves supporting clients' communications with stakeholders to ensure that their trustees, beneficiaries and others have a clear idea of the intention, direction and impact of our clients' stewardship activity. Based on client feedback, we have increased the volume of the materials that we produce that can be used publicly, as we understand the pressure on investors to be transparent.

One development is where we provide a document to clients with all our case studies produced over the previous year. This includes a breakdown of both the short- and long-form case studies by geography, theme and sector so that clients can easily find company engagement examples across their chosen criteria.

Voting

In advance of the voting season, we provided a detailed overview of our expectations, noteworthy AGMs/ballots, and an overview of material changes to our voting policies for clients via an EOSi Question Time call (specific sessions held with clients on designated topics). Clients are welcome to provide us with feedback on our approach to voting recommendations and we may make tweaks to our policy where appropriate.

Each year, we update our global voting policy guidelines which inform the recommendations we issue to our clients. For 2023, we continued to take a tailored approach to voting across the key global markets where EOS clients have holdings, setting out our broad position on a number of topics in our global voting policy. We also outlined our market-specific voting principles and policies in our public Vote Guidelines for Europe (including UK), North America and Asia and Global Emerging Markets.

These guidelines inform all voting recommendation, which are made as far as possible by considering a company's unique circumstances and the 'comply or explain' approach.

For example, while we have seen some progress on diversity and independence across the globe, we believe companies could and should do more to improve. We review our policies on board diversity and independence on an annual basis to ensure that our approach continues to support and drive best practices around the world. As a result of this review process, we have updated our policy in some markets. We will continue to engage with companies on this topic, and may update our policies in the future to ensure that there is consistent progression.

In Japan, we raised our expectations to a minimum of 15% female directors on company boards. We also increased our independence threshold, wanting a third of all company boards to be comprised of independent directors. We consider recommending a vote against the relevant directors for inadequate disclosure of director gender identity across the region. In South Korea also, we expect all large companies to have a minimum of 15% female directors on the board.

We have harmonised our committee independence expectations for all countries across Asia and Global Emerging Markets. We expect all companies to have a fully independent audit committee (where one is present), and we expect the nomination and remuneration committees to be majority independent with an independent chair and no executives on the committee.

In the UK, we have aligned our voting approach with the diversity requirements in the Financial Conduct Authority's Listing Rules. At FTSE 100 companies, we expect at least 40% of the board to be women, and at least one of the senior board positions (chair, CEO, CFO or senior independent director) to be held by a woman.

In addition, at least one member of the board should be from an ethnic minority background excluding white ethnic groups, as set out in categories used by the Office for National Statistics. Where a company does not comply and does not provide a sufficient explanation for this, we recommend voting against the nomination committee chair.

Voting activity

Number of voting recommendations made in 2023:
134,188
resolutions

at
13,814
meetings

Number of recommended votes against:
24,461
resolutions

Source: EOS data

In North America, we continue to expect companies of all sizes, not just those listed on the S&P 500, to have a minimum of 40% overall diversity. Within this, we expect a minimum of 30% gender diversity and at least one director from a diverse racial or ethnic background. We also welcome the inclusion of directors identifying as LGBTQ+ and those with disabilities in the composition of this 40%, beyond the gender, racial and ethnic thresholds specified. Ideally, we would like to see this level raised to 50% over time.

The link between climate change and a company's financial accounts is particularly important for high-emitting companies. Companies should ensure that the ambitions they have outlined in the front of their annual reports are explicitly linked to the disclosures in the back.

Climate vote policy

The Transition Pathway Initiative's (TPI's) Management Quality Score indicator forms part of our voting approach to climate-related issues, alongside Urgewald's Global Coal Exit List and CA100+. In practice, this means that we may recommend voting against the election of responsible directors at companies in Europe and Australia and those in the oil, gas, coal, power generation and auto sectors scoring below Level 4 on the TPI Management Quality Score.

In the US, our climate policy recommends voting against the nomination and governance committee director. Increasingly, companies have established sustainability committees with oversight provided by a specific board member or group of board members. In instances where our climate policy is flagged, we examine the committee charter to identify which committee member is accountable.

The link between climate change and a company's financial accounts is particularly important for high-emitting companies. Companies should ensure that the ambitions they have outlined in the front of their annual reports are explicitly linked to the disclosures in the back. Where we see disconnects between these elements, it can show a lack of consideration for the importance of matching climate transition ambitions with their financial implications.

From a vote recommendation perspective, if a company does not adequately consider material climate risks as part of its financial accounts, and no corresponding explanation as to why has been included, we may recommend a vote against the audit committee chair, the auditor and the financial statements themselves. This is an approach we piloted in 2023 with a selection of high-emitting companies and will continue in 2024.

Remuneration

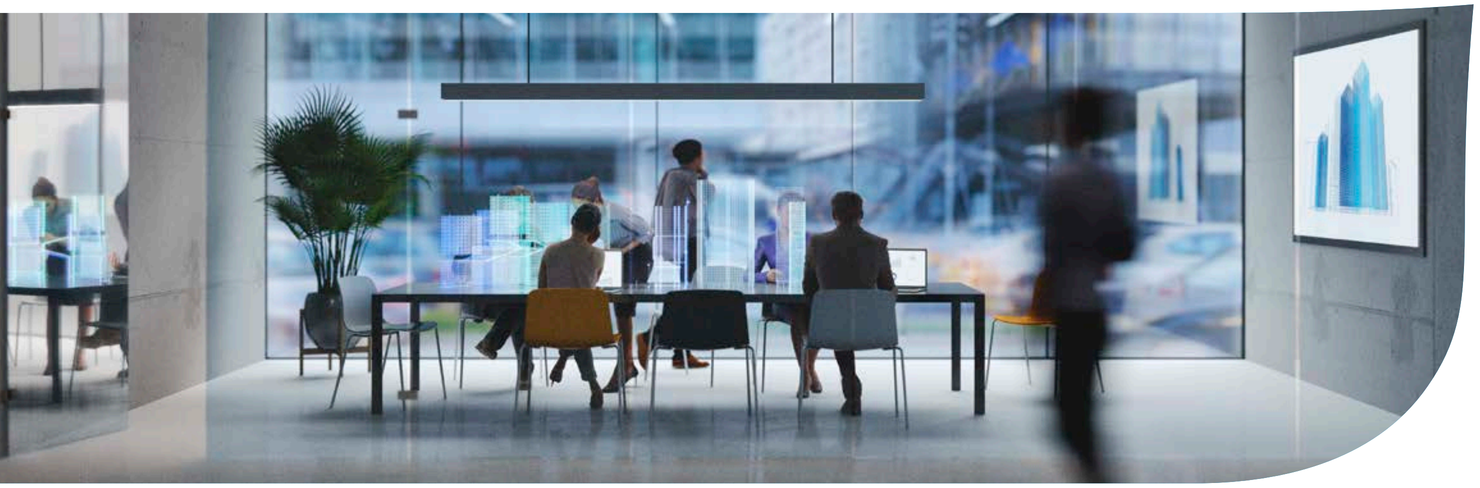
For remuneration, in 2023 we maintained focus on priority issues such as excessive variable pay and poor alignment with shareholder interests. We continue to see high shareholding requirements as an important factor in demonstrating alignment, and recommended votes against remuneration structures where we feel the levels required are insufficient.

We also continue to review the outcomes from pay schemes that granted awards during the pandemic, with particular scrutiny given to instances where executives may have received outsized windfall gains as a consequence of markets rebounding.

Many vote recommendation clients will disclose their voting behaviour on their own website, and we provide vote disclosure files to them for this purpose. We were able to facilitate enhanced reporting via our partner, ISS, to help clients as they consider 'significant votes' relevant to their portfolio, as per the EU's Shareholder Rights Directive II and the UK Stewardship Code. We also assist PRI signatory clients with inputs they can use to support their own reporting.

Screening

The primary product of our screening service, the Controversial Company Report (CCR), has been redeveloped in response to client feedback. Clients sought more oversight beyond the UN Global Compact breaches made by companies in their



holdings, expanding CCR to reference additional international principles and guidelines. For example, we now flag companies in our clients' aggregate holdings universe that have severe negative impacts on people, society and the environment along themes defined by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The report delivered to clients provides a record for each company and is provided with a corresponding link to the client portal, making it easier for clients to get more context about ongoing engagements against the controversies flagged.

In addition to the CCR, we are also able to facilitate a series of pass-through reports from its screening partner on companies involved in controversial products such as tobacco and oil sands extraction, and a screening report on countries and organisations assessed as being in breach of UN/EU sanctions.

The effectiveness of our communication with clients

Communication through reporting and the client portal

Earlier examples under this Principle demonstrate that we have diverse reporting to cater to different client needs. Our confidential client portal was built in response to client feedback and a need for a constantly accessible window into our engagement activities. However, over time, by gathering feedback via our many client touchpoints, clients' needs have become increasingly sophisticated.

The portal allows clients to more easily view the activity undertaken on their behalf and to track the progress we are making in our engagements; an area we are continually developing. In 2023, we introduced momentum indicators to convey how we feel the objective is progressing. We also introduced closure rationales that explain why an objective has been completed.

In addition, we have refined our search functionality to make it easier for clients to find information linked to key terms across all our stewardship activity and the content we produce. We have also made advancements to our system that allows clients to extract the underlying data to support their own bespoke reporting requirements.

Communicating our progress at companies

Our four-stage milestone system allows us to track the progress of our engagement, relative to the objectives set for each company (as outlined in Principle 2). Principle 1 includes a graphic of the headline engagement progress we made in 2023. We communicate which milestone each objective is at through our client portal, which provides 24/7 access to engagement insights for clients.

Client feedback has confirmed that public case studies provide an engaging way of communicating our progress to our clients. Case studies are typically written about objectives that have reached completion by progressing to milestone four as this is when we are satisfied that the company has achieved the goal; or conversely if the company has not made progress where we'll discontinue the objective. Responses from our client service and communications survey consistently demonstrate that clients highly value this output as it helps them to communicate with their external stakeholders.

Often there is a need for more succinct summaries of case studies for clients to use in their reporting. In response to this, we increased the number of short-form case studies that we produced. We also placed a greater emphasis on including voting recommendations, escalation and outcomes tied to our engagement activity in response to clients' wishes. We aim for the structure of the case studies to reflect this clearer focus. During 2023, we produced 15 standalone full-length case studies and 70 short company updates, all sent to the companies to establish validation of the engagement actions. Some of these appeared in our Public Engagement Reports.

Principle 6

Signatories review their policies and assure their processes.

Review of our policies and activities to ensure support of clients' effective stewardship

Engagement and voting

Our Engagement Plan acts as our key policy for engagement and is forward-looking for the next three years. It is updated on an annual basis using a structured horizon-scanning exercise outlined under Principle 4, which includes: extensive formal and informal feedback from our clients; an external scan of industry issues; and internal input from our annual Engagement Plan survey. This ensures that we consider fresh perspectives and continue to identify the key themes to address in our engagement that cover our clients' priority areas and support their effective stewardship.

Throughout the year we also hold engagement clinics for individual companies to review engagement strategy, objectives, milestone progress and next steps, which we outlined in Principle 2.

Our Global Voting Guidelines act as a policy to inform our recommendations to proxy-voting clients. Our Guidelines are informed by a hierarchy of external and internally-developed global and regional best practice guidelines. Our regional vote policies and corporate governance principles can be found on the EOS Library[27] web page, setting out our fundamental expectations of the companies in which our clients invest. We also have specific country-level engagement and voting priorities.

The EOS voting guidelines are developed through an annual process, which runs in conjunction with the policy review process at ISS informing its benchmark research. We look at feedback from clients, the evolving best practice in each market, and the changes made at ISS in view of the resolution-level data for past voting seasons, to consider what additional changes are warranted. Further input is provided by our Engagement Plan, which identifies the thematic priorities for engagement. These can often be boosted by enhanced vigilance, and potentially escalated through our voting recommendations.

EOS completes its major policy changes before the main voting season in each market. Once the changes are applied, the policy is monitored to ensure that it is having the desired effect and adjusted further where appropriate. Our Global Voting Guidelines are approved annually by the governance committee. The regional Corporate Governance Principles are noted by the governance committee. You can read more about some of the recent revisions to our global voting guidelines under Principle 5.

Below, we give examples of the way our voting guidelines were applied in the 2023 voting season.

Diversity, equity and inclusion

Our diversity and inclusion voting policies encourage greater representation of women and ethnic minorities on boards and in leadership teams. Globally, we opposed 3,118 responsible director proposals due to concerns about insufficient diversity.

In Europe, we support a goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary). Where best practice or listing rule obligations exist in a country, we expect companies to adhere to these at a minimum. We continue to push for greater gender diversity on boards and in leadership teams and oppose companies that do not meet our minimum expectations. This included at SBB, Revenio and PolyPeptide Group.

Globally, we opposed **3,118** responsible director proposals due to concerns about insufficient diversity.

[27] https://www.hermes-investment.com/uk/en/intermediary/eos-stewardship/eos-library/

In North America, we opposed 50% of say-on-pay proposals. This was on the basis that practices across the region remained materially misaligned with our principles.

In the US, ideally, we want to see companies strive for 50% overall board diversity including LGBTQ+ and disability. We are seeing this level of diverse representation in companies such as 3M, Apple, Chevron and Mastercard. In line with our expectations of a minimum of 40% board diversity including gender, race and ethnicity, we recommended opposing 1,180 responsible directors for low board diversity. Notable examples included Berkshire Hathaway, Caesars Entertainment, Kinder Morgan, Netflix, Phillip Morris International, TransDigm, Tesla and Walmart.

Expectations on gender diversity continued to tighten across Asia and global emerging markets. Hong Kong and Taiwan are phasing out single gender boards by 2024. We also observed some progress in China, with Meituan appointing its first female independent non-executive and Estun Automation its first female director, although both still fell below 20% board gender diversity. We continued to recommend voting against directors for low board gender diversity at Beijing Enterprises, PetroChina, China Oilfield Services and Sungrow. In South Korea we welcomed the appointments of additional female directors at Lotte Fine Chemical and Hyundai Motor.

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

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

Executive pay

For executive remuneration, we emphasised the need for better disclosure where this was lacking, while scrutinising pay levels where there appeared to be a disconnect between pay and the broader stakeholder experience. This was against a background of persistently high inflation in developed markets, which is squeezing household budgets. The complexity of pay packages presented shareholders with multiple challenges, and some structures required significant analysis. Unfortunately, despite the hardship experienced by many workers, some companies proposed hefty executive pay-outs this time.

In North America, we opposed 50% of say-on-pay proposals. This was on the basis that practices across the region remained materially misaligned with our principles, particularly on quantum, variable pay ratio, and severance. We recommended voting against executive pay and the compensation committee chair at several technology and media companies, notably Alphabet, Netflix and Meta. In 2022, some 73% of shareholders rejected the pay proposal at Netflix and we were disappointed that the company had not done more to address shareholder concerns in 2023.

In Europe, we emphasised our desire for greater shareholding by executives, and for improved disclosure where it was insufficient, or companies did not provide a compelling rationale for excessive pay levels. At Barclays, we recommended voting against the remuneration report over concerns that the extent of the downward discretion applied by the remuneration committee was not commensurate with the scale of the control failings, fines, losses and reputational damage resulting from the over-selling of securities. In addition, we felt that downward discretion should have been applied to adjust for the windfall gains, which had inflated executive pay awards in 2022.

At Nestlé we continued to oppose the CEO's remuneration package, which includes a total shareholder return metric that vests partially for below-median performance and at the maximum for median performance. Our opposition was compounded by the large overall package and high variable pay opportunity. We would expect to see more transparency on targets and performance for the bonus scheme, particularly as this scheme is material in size. The company provided more disclosure than previously and acknowledged our feedback.

Assurance in relation to activities that support our clients' stewardship

Assurance of engagement and overall service

To maintain the quality of our engagements we have established a quality-assurance programme. Day-to-day operations and quality assurance are managed by the EOS leadership team, as outlined earlier in this report. There are also director-led engagement clinics to confirm that our engagement is focused on the right objectives and issues, and to review the proposed approach to engagement. An annual review of objectives also takes place.

Our client-only meetings, which are held approximately twice a year, include a session on our thoughts for changes to our Engagement Plan, as well as updates on our progress so that clients can feed into the direction of our engagement. We also have client representatives, who act as a voice for the wider client base, providing further assurance that our activities support our clients' effective stewardship.

Assurance of our voting recommendation process

In addition to escalation, client feedback and post-season reviews, other measures are in place to support the quality of voting recommendations. These include daily checks to ensure that vote recommendations are placed in a timely manner, and we have introduced an additional control to escalate any potentially late vote recommendations to senior management, prior to the deadline.

EOS has also strengthened the audit controls in relation to the voting processes. This included performing an audit of the voting recommendations provided by the engagement team and the automatic votes placed by ISS, to ensure that they are aligned with EOS's or our clients' policies. Where they differed, rationales were documented. Additionally, EOS improved the governance around changes to policies by formally documenting reviews and approvals.

In terms of our partnership with ISS, EOS personnel communicate daily to obtain research and liaise with ISS regularly, both informally and formally, to conduct oversight of voting accounts and monitor its timeliness, platform availability and other key indicators against our Service Level Agreement. We also conduct a service review each year.

Internal audit

Our internal audit team performs checks periodically to ensure that voting controls are operating effectively.

External audit assurance on our integration and stewardship activities

Prime Advocates Limited, an independent external assurer, undertook a third limited assurance engagement on the information disclosed as part of the sustainability reporting of FHL in the period from end of June 2022 to July 2023 (inclusive). The limited assurance engagement related to our stewardship and ESG integration within FHL' public equities, credit, real estate and infrastructure investment portfolios.

The assurer's report contained the following conclusion: 'Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that FHL's [stewardship and ESG integration] within its portfolio investment for public equity, public credit, real estate and infrastructure has not been prepared, in all material respects, in accordance with the identified applicable appropriate criteria. We are satisfied, subject to our limited reasonable assurance, that FHL exceeds regulatory requirements and current best practice for [stewardship and ESG integration].'.

Our client-only meetings, which are held approximately twice a year, include a session on our thoughts for changes to our Engagement Plan, as well as updates on our progress so that clients can feed into the direction of our engagement.

Risk and compliance

The Federated Hermes Risk and Compliance departments, together with senior management, continue to augment and embed our firm's compliance framework, which includes:

- Managing any potential conflicts of interest.
- Monitoring of regulatory and client-specific guidelines by using the appropriate systems.
- Ensuring that the risks associated with new products, instruments and markets/locations are adequately considered.
- Staff inductions and regulatory training, including Know Your Customer, Anti-Money Laundering, and Anti-Bribery and Corruption training.

Ensuring our reporting is fair, balanced and understandable

Under Principle 5, we described in detail our range of activity-based, qualitative and quantitative reporting for clients, as well as how they can present their views and feedback through our client touchpoints. This is central to our continuous evolution to ensure that our reporting is fair, balanced and understandable, including representing a range of outcomes in our reporting and describing the lessons learned.

We also outlined our comprehensive case studies process. Senior engagers or regional team leads review these case studies and, once they are happy, we send our drafts to the companies for a fact-check. This verifies the engagement impact we have described and adds credibility to the stewardship outcomes that we are achieving on behalf of our clients. Our governance structures and processes described under Principle 2 also consider the quality of our reporting as part of their purpose.

Using feedback for continuous improvement

Changes to our client portal

As we highlighted earlier in this report, we have enhanced our client portal to more clearly demonstrate how engagements are progressing through momentum indicators. We have also refined our search functionality to make it easier for clients to find information linked to key terms across all our stewardship activity and the content we produce. We continue to welcome client feedback on the client portal and how we may develop it further.

Changes to our screening tool

The primary product of our screening service, the Controversial Company Report (CCR), has been redeveloped in response to client feedback. Clients sought more oversight beyond the UN Global Compact breaches made by companies in their holdings, expanding CCR to reference additional international principles and guidelines.

For example, we now flag companies in our clients' aggregate holdings universe that have severe negative impacts on people, society and the environment along themes defined by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The report delivered to clients provides a record for each company and is provided with a corresponding link to the client portal, making it easier for clients to get more context about ongoing engagements against the controversies flagged.

The primary product of our screening service, the Controversial Company Report (CCR), has been redeveloped in response to client feedback.

Conclusion

We believe that this document effectively demonstrates our stewardship outcomes on behalf of our clients and provides an understanding of our organisation's business operations and strategy. We are enabling clients to contribute to a more sustainable form of capitalism and global financial markets. By engaging with companies and policymakers we assist clients in adding long-term value to their investments and managing their risks.

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Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

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

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate, infrastructure and natural capital
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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