A new frontier for stewardship

Stewardship has evolved significantly since EOS began in 2004, maturing into an industry with many more participants, all seeking to drive real-world outcomes. But this has also brought fresh challenges. Amy D'Eugenio reflects on this changing backdrop and looks ahead to the next 20 years.

Setting the scene

Since 2004, EOS has grown from a six-person team with just US$31bn of assets under advice, to a global business serving clients with some $2.1tn of assets under advice as of 30 September 2024, evolving our approach to stewardship to meet fresh challenges and expectations.

To celebrate our 20th anniversary, we conducted a survey of clients, colleagues and EOS alumni to assess what has changed, and how stewardship might evolve over the next 20 years, within the context of a rapidly-changing world.

Stewardship has travelled a long way over the last two decades, and while it has not always been smooth sailing, when done well it has delivered positive outcomes for investors, companies and society as a whole.

At EOS, we have grown from a small, overlay style business with a focus on corporate governance and capital allocation, to a team of over 40 people, covering key business performance themes such as climate change, human capital and human rights.

Our service is still fundamentally about looking after clients' investments in an active way, but it is more sophisticated, with systematic engagement and tracking tools to measure progress and outcomes. This evolution has come against the backdrop of a greater understanding of, and enthusiasm for active ownership, illustrated by the growth in the number of signatories to the Principles for Responsible Investment (PRI). EOS was at the birth of the PRI, helping to draft the principles at our London office. From just 63 signatories in 2006,[1] there are now some 5,296,[2] a remarkable uptake that demonstrates just how mainstream active ownership has become.

For further information, please contact:

Amy D'Eugenio
Sustainability Director
amy.deugenio@FederatedHermes.com

[1] About the PRI | PRI Web Page | PRI (unpri.org)
[2] Signatory directory | PRI (unpri.org)
[3] 20 years of HEOS engagements: themes, process, and outcomes. Andreas GF Hoepner, Smurfit Graduate Business School, University College Dublin. Special focus on Nature engagements, co-authored with Diego Guisande.
[4] https://www.hermes-investment.com/uk/en/intermediary/eos-insight/stewardship/eos-at-federated-hermes-wins-icgn-excellence-in-stewardship-award/

A change in the weather

While good corporate governance remains fundamental to our engagement with companies, the increased frequency and intensity of extreme weather events since 2018 has underscored the importance of other themes, such as climate-related risk. The Paris Agreement on climate change, signed in 2016, marked a turning point, although we have been engaging on the environment since 2006.[3]

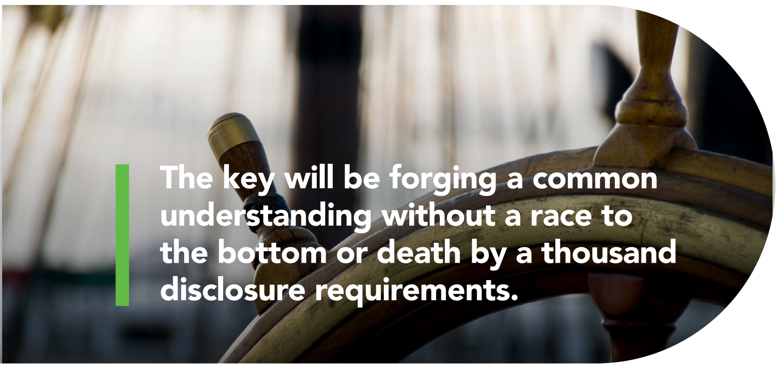
In recent years, we have built out our focus on methane emissions reduction, and in 2024 we won the International Corporate Governance Network's Excellence in Stewardship Award in recognition of this work.[4] The Covid-19 pandemic, the #metoo movement and the death of George Floyd have also brought social issues to the fore.

This widening lens has led to a proliferation of new regulations, frameworks, guidelines and terminology. For the uninitiated, this can feel like plunging into an alphabet soup, with TCFDs, CSRDs and TPIs at every turn. This forest of acronyms is only getting bigger, despite attempts to find interoperability. The key will be forging a common understanding without a race to the bottom or death by a thousand disclosure requirements.

A systematic engagement approach

Mindful of this growing complexity, EOS developed a systematic engagement approach with milestones to measure progress. This has been endorsed by independent academic research,[5] and the companies with which we engage via case studies.[6] At the same time, an ongoing dialogue between asset owners and companies is now a hallmark of many stewardship codes, and many companies see the benefits of this engagement.[7]

But active ownership is not without its challenges. Although these have changed over the years, it is instructive to see how and why. For example, in the early days we were often asked about the 'free rider' effect, meaning that if one owner is engaging with a company, then what would be the point of another doing it too? However, the adoption of stewardship codes in many key markets, fiduciary obligations and beneficiary pressures have all encouraged institutional investors to become more responsible, active owners of their assets. For many, sitting on the sidelines is no longer an option.



Another early concern that we often heard related to a fragmented investor base. How could investors engage with all the companies in their portfolios, and how could a company be expected to speak to all its investors?

Within EOS we address this by looking at the size of our client holdings, the materiality of the issue in terms of risk or opportunity, and the feasibility of engagement. The growth of collaborative engagement initiatives around key themes has also helped make things simpler for companies, while investors retain voting and investment decision independence, according to their own policies.

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Stewardship challenges

But what about today's stewardship challenges? In a 2024 survey of our clients, the EOS team and our alumni, we identified some key themes:

1. **Greenwashing, regulation and politics** – Steering investments or running companies is hard enough, without having to worry about greenwashing, greenhushing or the associated litigation. And no matter what side of the debate a stakeholder is on, the effort required to defend one's position consumes valuable resources that could be better spent on activities that drive business and investment performance.
2. **The dangers of box-ticking** – Many of our survey respondents were concerned about the possibility of stewardship becoming transactional, or a box-ticking exercise. This is not surprising given the requirements for KPIs, regulatory reporting, more granular disclosure and increased accountability. In our view, stewardship needs to find its rudder again – by returning to a focus on the success of a business and the relationship between investor and investee. Sensible, co-ordinated regulation and standards can help with that, by encouraging change with a positive real-world impact, not just endlessly reporting or marketing it. That said, we welcome the move to incorporate material metrics and climate-aligned accounting into finance and compliance functions – rigour and accountability are non-negotiable.

[5] ESG Shareholder Engagement and Downside Risk, Andreas GF Hoepner, Ioannis Oikonomou, Zacharias Sautner, Laura T Starks, Xiao Y Zhou, September 2023 Talk is not cheap – The role of interpersonal communication as a success factor of engagements on ESG matters, Prof Dr. Michael Wolff, Dr. Laura Jacobey & Hülgen Cosku, September 2017
[6] Case studies with quotes from companies include Delta Electronics, Seven & i Holdings
[7] Seven & i Holdings

3 **Rapid expansion of new topics** – It was no surprise that a frequently mentioned challenge was the rapid expansion of new topics, and the complexity of the issues being raised. The just transition exemplifies this tension – how can we mitigate the negative impacts of climate change and balance this with short-term societal needs? To ensure that we keep abreast of emerging topics, we carry out a regular horizon scanning exercise, with input from clients.

4 **Cost** – Increasing regulatory requirements, combined with the need for better data and the competition for specialist expertise across the industry, mean that costs continue to climb. At the same time, capacity and resources can get squeezed.

Uncharted waters

Given the extent of the changes we have witnessed over the last two decades, what might the next 20 years bring? As part of our survey, we asked EOS colleagues, clients and alumni about their hopes for the future, and what they wanted to see from stewardship. Overall, people envisaged an approach that delivers financial prosperity and positive real world outcomes. But this will require a level of maturity and growth from all stakeholders, including investors, businesses, policymakers and consumers. The table below highlights some of the key findings from our poll.

A safe harbour

Stewardship allows investors to address systemic economy-wide performance drivers, as well as risk factors that might impact individual investments. In time, we believe that stewardship will be considered an essential, rather than an optional part of investment management. It is simply good business sense for investors to take an active interest in their holdings, particularly if they have a long-term time horizon. As the world continues to warm, the next 20 years will be challenging for all of us, but we hope that stewardship can help portfolios weather the coming storms.

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Stewardship in 2044

Responsible wealth creation for investors, employees, retirees, individuals and society as a whole.

Positive real world outcomes, requiring a move away from just box ticking and disclosure. For example through:

Environmental
- A strong recovery of the natural world
- Real decarbonisation

Social
- A reduction in inequality within nations and between nations
- Making real world progress on workforce conditions and inclusion

Systemic
- A transition to doing business while benefitting society and the environment, rather than simply taking from it

Stakeholder maturity

Government
- Policymakers need to use longer time horizons to help companies make strategic decisions for critical transition planning

Investors
- Finding more ways to evidence the materiality of our engagement topics for decision-makers

Consumers
- More consumers and customers making the same demands of the companies that provide their products and services

Source: EOS data.

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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

Why EOS?

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

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