Asia and Global Emerging Markets Vote Guidelines

EOS at Federated Hermes Limited
2025

Federated Hermes

www.hermes-investment.com
For professional investors only

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INTRODUCTION

EOS at Federated Hermes Limited[1] is a global stewardship service provider that engages with companies around the world. We have a client base of global institutional investor clients, reflecting $2.2tn of assets under advisement as of 31 December 2024. We engage with our clients' investee companies to promote long-term returns to investors, their beneficiaries, and other stakeholders, and provide vote recommendations to those clients who request this through a specific mandate. When making voting recommendations, EOS does not have discretion to vote proxies on behalf of any client. Each client retains the power to make their own determination for each proxy vote.

EOS vote recommendations are engagement-led, where practicable, and involve communicating with company management and boards around the vote on issues that have potential financial impact on the company and our clients' long-term shareholder value. This ensures that our rationale is understood by the company and that the recommendations are well-informed and linked to the financial implications of each resolution presented on the ballot.

This document sets out our **Vote Guidelines for Asia & Global Emerging Markets for 2025**. It focuses on specific governance and some environmental and social matters that have a direct impact on our voting recommendations to clients. It is not an exhaustive reflection of EOS' views or engagement priorities and should be read alongside the **EOS Public Engagement Plan**[2].

These guidelines apply generally to companies based in Asia and Global Emerging Markets, while noting instances of difference in context or application of these guidelines between the jurisdictions, as relevant and material.

General voting principles

1. Fiduciary duties: EOS recommends votes to our clients in line with our view of what will best support long-term value creation at each relevant company and in accordance with our and our clients' fiduciary duties on behalf of their beneficiaries.
2. No abstention: EOS aims to recommend voting either in favour or against a resolution and only to abstain in exceptional circumstances such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.
3. Support for management: EOS seeks to be supportive of boards and to recommend votes in favor of proposals unless there is a good reason not to do so in accordance with its voting policies, global governance standards or otherwise to protect long-term shareholder interests.

[1] EOS at Federated Hermes Limited is the brand name of the stewardship service provided by Hermes Equity Ownership Services Limited, a wholly owned subsidiary of Federated Hermes Limited, a company incorporated in England & Wales, No. 5167179, and based in London.

[2] EOS library | Federated Hermes Limited

4. Consistency of voting: To provide companies with clarity on our guidelines, EOS seeks to take a consistent position on issues and reflect this in our voting recommendations, in accordance with our stated policies and guidelines. However, recognising the limitations of any policy to anticipate all potential scenarios, EOS reserves the right to use its discretion when recommending votes and to recommend in line with the outcome which EOS believes will best serve our clients' long-term interests. This considers market- and company-specific circumstances and our engagement with companies, where relevant.
5. Engagement: For a defined set of high priority companies (watchlist companies), we will endeavour to engage prior to recommending voting against a resolution if there is a reasonable prospect that this will either generate further information to enable a better quality of voting decision or to encourage a change in the approach taken by the company.

BOARD AND DIRECTORS

Director accountability

Identifying 'responsible directors': We will look to identify the most appropriate director to hold accountable for areas of concern. For concerns which do not relate to an individual (e.g., tenure, attendance, time commitments) but rather to issues for which directors have collective responsibilities (e.g. nomination, remuneration or audit practices), we will generally follow a hierarchy of accountability, starting with the chair of the board or the incumbent chair of the relevant committee. Where this is not possible or appropriate, we will consider opposing other committee members, starting with the longest-tenured, followed by the longest-tenured director on the full board standing for election. However, we will carefully consider votes against directors who are female or genuinely independent. This hierarchy should be assumed throughout this document where we refer to 'responsible directors'.

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

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

- Where we consider director term lengths to be excessive, we may oppose the election of appropriate directors.

Board composition and effectiveness.

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

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

Independence: Typically, boards should comprise a substantial majority of independent directors to ensure that stakeholder interests are protected, to exercise objective judgement and, if necessary, to act as agents for change. We do not encourage substantial representation of executives on the board, beyond the CEO and potentially a small number of other key executives where there is a clear rationale, and this does not unduly weaken independence. Ensuring sufficient levels and quality of independence is particularly important for founder-led companies, those with executive or non-independent chairs, significant shareholder representatives on the board (which we believe can be useful and justified, provided minority shareholder interests are protected) or significant management representation on the board. The independent directors should be empowered to meet separately to the full board and be granted full access to members of management, information and resources as required.

We generally recommend opposing the election of responsible directors when the composition of independent directors fall below the following thresholds.

- In Brazil, we encourage at least half of the board directors to be independent in companies with a dispersed ownership structure and in companies listed in the Novo Mercado, and at least 40% of directors to be independent in other companies.
- In Mexico, we encourage at least half of the board directors to be independent in companies with a dispersed ownership structure, and at least one third to be independent in controlled companies.
- We encourage Chinese companies listed in China and Hong Kong to achieve at least one third board independence, and for those listed in the US to achieve 50% independence.
- In Taiwan, we encourage at least half of the board of directors to be independent in companies with a dispersed ownership structure, and at least one third to be independent in controlled companies.
- In Korea, we encourage large companies [3] to have a majority of independent directors, as required by law. At other companies, we encourage at least half of the board directors to be independent in companies with a dispersed ownership structure, and at least one third to be independent in controlled companies.

[3] Large companies have KRW 2 trillion or more of total assets.

- In India, we encourage at least half of the board of directors to be independent in companies with an executive or promoter chair and at least one third to be independent in other cases.
- In Japan, we encourage all companies to achieve at least one third board independence. At companies with a controlling shareholder, we would like to see the majority of directors to be independent at Prime market listed companies and one third of directors to be independent at other companies.
- In the ASEAN region, in principle we encourage at least one third of the board of directors to be independent. However, we have several sub thresholds for certain markets and sectors that is reflected in the appendix of this document.
- In South Africa, we encourage at least half of the board directors to be independent in all companies.

Tenure and skills: We support a healthy mixture of tenures and skillsets on boards, supported by regular board refreshment. We consider the overall composition of boards and recognise the value that long-serving directors can contribute. Although experience and a detailed knowledge of a company can be helpful, too many directors serving concurrently over a long period can increase the risk of groupthink and complacency. Further, boards with long-serving directors, including those with service at related companies or other links to other directors or management, can indicate over-familiarity and insufficient challenge to management and other board members. This is particularly the case when there is little evidence of recent board refreshment. Such longstanding directors also impede the welcome move to more diverse boards.

We generally recommend opposing the election of relevant directors if they served the board for longer than the following thresholds.

- More than nine years in most Asian and emerging markets
- More than 10 years in India
- More than six years in China, as required by law.

Committees: The board should establish appropriate committees that reflect the nature and complexity of the business and with regular rotation and refreshment of leadership and membership. The board should establish separate audit, nomination and remuneration committees, and risk committee where relevant, unless the size of the board comprised only two or fewer independent non-executive directors (NEDs). Audit committees should be comprised exclusively of independent directors with relevant experience, while the nomination and remuneration committees should be majority independent. The composition of the committees, along with detail of the relevant experience and appropriateness of the directors who serve on the committee, should be disclosed publicly. We accept that in some markets, exceptions must be made for employee representatives on the board, but our aspirations for committees are as follows. Where appropriate, the board should consider the viability of additional committees with oversight and responsibility for important topics, such as a technology committee for companies with significant exposure to technology developments. Such committees should be composed of board directors with relevant experience in these areas.

- We seek fully independent audit committees in most markets and may consider opposing non-independent committee members and/or chairs where committees fall below our minimum guidelines for independence.
- We encourage remuneration and nomination committees to be at least majority independent, chaired by an independent director, and have no executive directors as members.

Communist party committee: We will only support proposed amendments to the Article of Incorporation which assure protection of the board's and management's authorities, while legitimising the presence of the party committee within the company's corporate governance structure.

Availability: Directors should have sufficient time to fulfil their duties, with the guideline that they should not hold more than the equivalent of five directorships. We consider an executive role to be roughly equivalent to four directorships and non-executive chair role to be roughly equivalent to two directorships. We also consider some committee chair roles (particularly audit and risk at complex companies) to be weighted more heavily than a typical directorship. We may also consider a range of other factors when assessing an individual's level of commitments, including any roles at private companies or other organisations and the size and complexity of organisations in which they are involved.

For example, certain industries, such as banking, may bring business model and regulatory complexity, while others with large and/or complex operations may require site visits and therefore more time commitment.

- We may recommend opposing the election of directors that do not meet our guidelines on time-commitments or who do not attend at least 75% of meetings without clear disclosure to justify their absence.

Non-executive compensation: Non-executive directors (NEDs) should not be compensated in performance shares or participate in any incentive schemes as this could seriously impair their independence. We encourage directors to build a modest amount of stock ownership, and are comfortable with NEDs receiving part of their fee in non-performance shares, but steps must be taken to mitigate risks of such a holding impairing independence (for example, capping the size of holdings and/or having mandatory shareholding requirements for at least the duration of the director's tenure).

- We may recommend opposing responsible directors if non-executive directors are compensated in performance-based shares or options.

Inclusion and innovation

Importance of board oversight: In our view that building inclusive cultures manifested by cognitively diverse boards, senior executive teams and workforces creates company, investor and societal value. Inclusive board and company cultures are requisite to reducing risk from groupthink and inadvertent bias as well as unlocking innovation and growth, beyond the first-order benefits of attracting, motivating, and retaining productive talent. Research has shown that creating an inclusive culture, which prioritises employee wellbeing and satisfaction, can be linked to positive company performance.[4] To accelerate and scale the benefits of inclusive cultures, we urge companies to put in place effective board oversight and management structures across the employee lifecycle, including recruitment, development and promotion, compensation, and succession planning processes that enable all to contribute to the company and to advance their careers. We will hold boards accountable for more effective oversight of inclusive culture and diversity across all levels of the company's workforce and effects on the ecosystem upon which the company's long-term health depends, including suppliers, customers, and communities.

Board and management: Boards should seek diverse composition in its broadest sense to support high-quality debate and decision-making, considering diversity of skills, experience, networks, psychological attributes, and demographic characteristics (including, but not limited to, race, ethnicity, gender, sexual orientation, age, disability, nationality, and socioeconomic background). We encourage companies to clearly disclose board diversity and encourage directors to self-identify. Companies should create a culture where self-identification is possible.

We set market-specific minimum aspirations for board and management diversity, which aim to strike a balance between market context and international good practices. We consider these thresholds to be the first step, not final targets:

- In most Asian and emerging markets, we seek for boards to be comprised of at least 30% women by 2030, and in some markets, we encourage boards to achieve this level well in advance of 2030.
- We seek for boards to be comprised of at least 20% women in Japan, China & Hong Kong, India, and at large Korean companies[5].

ENVIRONMENTAL AND SOCIAL

General: EOS engages on environmental and social issues and/or concerns across a wide range of topics throughout the year in its engagement with companies (see EOS Engagement Plan [6] for more). EOS vote guidelines are intended to complement this engagement.

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

- EOS' vote recommendations will align with, and may supplement, any engagement on a particular issue which we consider to be material to the creation of long-term value at a company, consistent with our fiduciary duties to our clients
- EOS will review shareholder proposals relating to social and environmental issues with one consideration being the alignment between the aims of the proposal and the aims of the EOS Engagement Plan and the long-term interests of our clients (see shareholder proposals section for more).
- EOS may identify priority environmental and social issues for which to set specific vote guidelines, intended to address lagging behaviours and

[4] This 2021 paper on employee satisfaction and long-term returns by Boustani and Dae Kang replicates findings initially reported in Alex Edmans' 2011 paper on the same topic
[5] Large companies have KRW 2 trillion or more of total assets.
[6] EOS library | Federated Hermes Limited (hermes-investment.com)

encourage what it considers to be minimum standards. Currently, EOS has specific vote guidelines for climate change and human rights, as well as for the diversity of boards and management teams (see DEI section for more).

Climate change

Importance of climate change: Climate change is a systemic risk to companies and therefore the value of our clients' portfolios, due to the economic, environmental and social consequences of climate change. We strongly support the goal of the 2015 Paris Agreement[7] – seeking to limit global average temperature increase to 1.5°C – and we encourage companies to publicly do the same, as well as working to ensure that any third-party organisations they support or are members of, such as trade bodies or lobbying organisations, are aligned to this goal.

Best Practice for companies: We encourage companies to take the following actions:

- Establish strong governance of the risks and opportunities presented by climate change and the energy transition. Ensure climate-related issues are included on the board agenda at least annually and that the board and senior management engage with outside experts who can advise on strategic risks and opportunities that climate change presents, including challenging the company's approach if necessary. For those companies materially exposed to climate-related risks and opportunities, we suggest that the energy transition could be clearly articulated in governance documents, including board committee charters and the articles of association.
- Commit to achieving net-zero emissions by 2050 at the latest and set supporting short- and medium-term science-based targets to reduce greenhouse gas emissions in line with the goals of the Paris Agreement. This should include material Scope 3 emissions associated with a company's value chain or use of products with an explanation of why any Scope 3 emissions are not included.
- Develop and disclose a strategy that includes how emissions targets will be achieved and how physical and transition climate risk and will be addressed and climate-related opportunities captured. This should include material information on capital expenditure and use of offsets and technologies such as carbon capture and storage. Ideally, offsets would not account for more than 10% of total emissions reductions in the strategy and offset procurement should focus on high-quality offsets and be subject to robust governance processes.
- Adopt the framework set out by the Task Force on Climate-related Financial Disclosures (TCFD)[8] for the management and reporting of climate-related risks and opportunities. Where the risks are particularly acute (for example in energy intensive sectors), this should include conducting scenario analysis to establish the potential financial impacts of climate change on the business at different levels of warming. Companies should ensure that the financial risks associated with climate change and the energy transition are appropriately reflected in reports and accounts. The audit committee

[7] The Paris Agreement | UNFCCC
[8] Task Force on Climate-Related Financial Disclosures | TCFD) (fsb-tcfd.org)

should be responsible for ensuring these material risks are explicitly accounted for in the financial statements and the external auditor should be engaged to provide an opinion on this matter (see audit section for more).

- Ensure board oversight and robust governance processes are in place to oversee the company's climate-related policy engagement and lobbying activities, including those conducted by third-party organisations of which the company is a member. We would encourage all such direct and indirect lobbying to be conducted in line with the Paris Agreement and incidents of misalignment to be resolved, such as through influence or ultimately withdrawal from third-party organisations. The company should be transparent about its governance procedures and climate-related lobbying activities by aligning with best-practices set out in the Institutional Investors Group on Climate Change (IIGCC) Investor Expectations on Corporate Lobbying on Climate Policy [9] and the Global Standard for Responsible Climate Lobbying. [10] Companies materially reliant on public policy support for their climate strategies should also proactively support and advocate for positive action in their spheres of influence.
- We may recommend opposing the election of responsible directors, audit committee chair, auditor ratification, or the financial statements and statutory reports, if a company's financial statement does not adequately consider material climate risks and there is no corresponding explanation.
- Where we have other concerns about a company's response to climate change, for example, where a company has been unresponsive to investor concerns and falls materially short in the above areas, or where we have concerns about the published opinions of certain directors regarding the reality and urgency of climate change, we will consider this as part of our overall engagement and voting approach.

Insufficient climate opportunity and risk management: For companies where climate change is a relevant and material business risk, in line with our fiduciary duties to support board composition which, in our view, improves governance and the effectiveness of management in pursuit of long-term value creation, where there are indicators of insufficient management of climate-related risks, we generally recommend holding the chair of the sustainability committee, where such a committee exits, or equivalent and/or other responsible directors accountable. Where practicable, this will be appraised through consideration of a range of factors and discussed in engagement with a company, and can include indicators, as available, of the following in respect of climate change opportunity and risk management:

- Management quality: an acknowledgement of climate change as a business issue; sufficient management capacity; integrating into operational decision-making; and relevant strategic assessment.
- Strategy and capital deployment: appropriate strategies and targets to manage climate-related opportunities and risks; capital

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

expenditure appropriate to the opportunities and risks under a range of credible lower carbon scenarios.

- Management of operating emissions: management of current emissions of a range of greenhouse gases, including, but not limited to, carbon dioxide and methane.
- Management of deforestation-related risks in the operations and supply chains of companies.

We initially assess this through consideration of a range of different relevant frameworks and indicators, including the Transition Pathway Initiative, Influence Map and Forest 500 appropriate to each company and then seek engagement with identified companies prior to making a final voting recommendation.

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

Where companies offer an advisory vote, we will not support transition plans which are misaligned with 1.5°C. Indicators of alignment include science-based greenhouse gas emissions reduction targets over the short, medium, and long term, supported by a clear and credible strategy to achieve these. For such votes to offer meaningful shareholder input, we believe they should only be held once a reasonably comprehensive climate change strategy has been published. If companies believe their strategy is ready for a vote but certain elements remain to be confirmed, they should commit to a further vote once fully developed. Companies should also provide further votes on any plan which received significant dissent (following an update to the strategy in line with shareholder perspectives), or which has materially changed since receiving shareholder approval.

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

Human Rights

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

Best Practice for companies: We support companies aligning with the UN Guiding Principles on Business and Human Rights [11] (UNGPs). The UNGPs framework outlines the corporate duty to respect human rights. Companies should have a governance structure for human rights which identifies board level oversight and executive accountability. They should report on obligations under the UNGPs, as well as under national legal requirements and relevant international frameworks. Companies have a responsibility to disclose and act upon a policy commitment to human rights in their operations and value chains. This includes carrying out human rights due diligence to identify potential and actual human rights impacts; a plan to prevent, mitigate and account for how to address these impacts; and providing or cooperating in the provision of remedy if a company has caused or contributed to adverse impacts.

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

- A company is in clear breach of its applicable regulatory responsibilities related to human rights (such as the UK Modern Slavery Act, Uyghur Forced Labor Prevention or responsibilities outlined in the UNGPs); and/or
- There is sufficient evidence that a company has caused or contributed to egregious, adverse human rights impacts or controversies and has failed to provide appropriate remedy; and/or
- A company scores significantly lower than industry peers within credible external benchmarks related to human rights

[11] GuidingPrinciplesBusinessHR_EN.pdf (ohchr.org)

EXECUTIVE COMPENSATION

EOS views on executive compensation practices in Asian and emerging markets: In several markets, we are concerned that executive remuneration structures and practices are not fit for purpose, neither serving long-term investors nor aligning properly with the core long-term objectives of companies.

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

- Our paper, Remuneration Principles: Clarifying Expectations[12], describes our five key principles for executive pay: simplicity, alignment, shareholding, accountability, and stewardship and our views on transitioning to simpler schemes based on long-term share ownership.
- Our Global Corporate Governance Principles[13] provide more detail on how we consider our key principles when reviewing pay and discuss our views on issues like board accountability, ESG in pay, capital allocation and buy backs, and quantum.

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

We recognise that companies continue to employ pay practices that are not fully consistent with our principles. Rather than automatically recommending opposing every such scheme, which we do not believe would be constructive, we have set various guidelines and thresholds to address what we see as the highest risk most egregious practices and to push for better alignment with our principles.

We may oppose remuneration policies and/or reports where we believe pay design and/or outcomes are materially misaligned with the principles set out in this policy and/those articulated in our Global Corporate Governance Principles. Additionally, we are likely to oppose pay proposals with excessive pay ratios between the CEO and employees, variable pay schemes for executives without clear performance indicators, and variable pay schemes for non-executive directors. We may also consider opposing schemes that offer shares at a significant discount, with potential excessive dilution; administration that might present conflicts of interests between the administrators and beneficiaries, and the lack of disclosure of performance hurdles. We may consider opposing proposals on share options if the exercise period is less than three years.

Capital allocation, buybacks and compensation: We are concerned about the potential hidden cost of equity compensation through the dilution of outside shareholders and managing this dilution by share buybacks, often at high share

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[12] https://www.hermes-investment.com/wp-content/uploads/2018/10/remuneration-principles-clarifying-expectations.pdf. The principles contained in the paper are global in nature, but some of the specific references to structures are more applicable to certain markets such as the UK.

[13] EOS library | Federated Hermes Limited (hermes-investment.com)

repurchase prices. Moreover, executive compensation metrics such as return on equity (ROE) and earnings per share (EPS) can be flattered or even managed by share buybacks. Given the potential effects of buybacks on longer-term investors, companies should disclose how the board decides on buybacks in addition to other long-term capital allocation choices, whether such buybacks are directly or indirectly financed by debt and how this affects the future risk profile of the company.

INVESTOR PROTECTIONS AND RIGHTS

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

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

However, if a company seeks to use differentiated share classes to achieve a net positive for stakeholders, such as maintaining continuity with a founder-CEO or family ownership who are genuinely integral to the fortunes of a company, we encourage strong protections and provisions being put in place. Specific provisions would include a sunset provision (such that shares revert to normal rights after a period), a restriction on transferal of exceptional rights and a cap on the overall ratio of voting right. We would also have to consider companies pursuing these structures to be genuinely exceptional cases. Where companies consider that a differentiated share class structure would be appropriate, we would encourage the company to engage with all classes of shareholders to properly explain why it believes this structure works best for the company. We would not support a significant amount of companies moving away from single share class structures.

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

- We strongly recommend a self-imposed target for general share issuance, including reissuance of shares, of 5% as best practice, and no more than 10% of the shares in issue. These should be issued at no more than a small discount, with 10% as the absolute maximum discount.

Efficient capital management and strategic shareholdings: Companies should seek a balance when making capital management decisions. They should strive to optimise long-term corporate value by implementing rigorous financial and business discipline. The best capital structure is a question for the board and depends on the circumstances of the company concerned. However, we note that some companies maintain substantial cash balances or investments in strategic shareholdings for considerable periods of time, without providing a solid strategic plan or sufficient explanations for this use of shareholder capital. These practices may lead to companies' sub-optimal returns on equity (ROE) and corresponding depressed equity valuations. Therefore, we encourage companies to justify the build-up of cash balances. We are broadly supportive of transparency on mergers and acquisitions, share buybacks, treasury share holdings, share cancellation programmes, dividend policies and strategic or cross-shareholdings. Management should be able to explain the company's capital policy, demonstrating its strategy for using capital efficiently to create economic value and achieve growth.

- We may consider recommending voting against the election or re-election of directors and/or other agenda items in instances where we believe the board is not adequately reflecting the interests of minority shareholders with respect to these capital management considerations.

Shareholder meetings: We believe hybrid shareholder meetings which robustly defend shareholder rights to be optimal, or if not practicable, physical meetings. We generally do not support virtual-only meetings but may do so on a case-by-case basis where there are clear assurances that shareholders rights will be protected and equivalent to hybrid or physical meetings. We may escalate concerns about shareholder meetings practices to relevant authorities and/or directors. You can read more about EOS' views in our paper *Principles of Annual Meeting Good Practice.*[14]

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

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

[14] Principles of Annual Meeting Good Practice, February 2021, Hermes Investment Management (hermes-investment.com)

SHAREHOLDER PROPOSALS

General: We support the selective use of shareholder proposals as a tool for communicating investor concerns and priorities or the assertion of shareholder rights, and as a supplement to direct shareholder engagement with companies. We may file or co-file resolutions where we believe this to be warranted. Where boards interact in a constructive manner with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions. Boards should engage with serious, committed long-term shareholders, or their representatives, including ourselves. Where boards interact in a constructive manner with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions.

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

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

Company response to resolutions: We encourage companies to support shareholder proposals where the ask of the proposal is consistent with the company course of direction. Further, we encourage companies to disclose withdrawn proposals on the ballot with a statement as to the agreement reached between the parties. We encourage boards to disclose the actions taken to address the issues raised by shareholder proposals that receive significant shareholder support or are otherwise potentially material to the long-term returns of the company. We encourage companies to disclose outcomes for precatory shareholder proposals that received majority support in a timely way, including the action proposed to be taken.

TAX AND AUDIT

Audit quality and independence.

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

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

- Where we have concerns as to the quality of an audit or the capabilities of an auditor, we may recommend a vote against the auditor ratification or the audit committee chair. This could include concerns regarding an auditor's assessment of the company's inclusion of a key audit matter in the accounts.

Auditor rotation: Independence, and potentially audit quality, is at risk when the same assurance provider is maintained for too long – whether the audit partner or audit firm.

- In India, Japan, Taiwan and the ASEAN region, we encourage companies to adhere to minimum standards of mandatory rotation of the audit firm after 20 years tenure, with an open and competitive re-tender process at the interim point of 10 years.
- In Mexico and Brazil, we wish to see companies establish policies of mandatory rotation of the audit firm after 10 years of tenure. In Brazil, if the company does not have a statutory board audit committee, we encourage mandatory rotation of the audit firm after five years.
- For state-owned enterprises in mainland China, we support, in principle, companies not appointing the same audit firm in eight consecutive years.[15]

Non-audit services and expenses: The audit committee must establish and enforce a policy on what non-audit services the company can procure from the external auditor. We pay close attention to these services and related fees to ensure that they do not compromise auditor independence, which could compromise the integrity of the audit. As a guideline, non-audit fees should not exceed 50% of audit fees in any given year. If this is exceeded, there should be a clear explanation as to why it was necessary for the auditor to provide these services (for example, for certain services such as reviewing interim reporting or performing due diligence on transactions) and how the independence and objectivity of the audit was assured. In these cases, we also encourage the committee to take action to ensure this does not reoccur, either by tendering for a new audit firm or reallocating non-audit work to a different firm.

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

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

[15] https://www.gov.cn/zhengce/zhengceku/2023-05/05/content_5754176.htm

committee chair, the financial statements and statutory reports and auditor ratification.

Inclusion of environmental and social issues in critical audit matters: The auditor should communicate climate change-related and other ESG matters as critical audit matters to the audit committee where material and involving challenging, subjective and or complex auditor judgement.

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

Responsible tax: Fair payment of tax, based on the intention of tax law and in proportion to the location of economic value generated, is an important pillar of a company's social licence to operate. We believe that companies that seek to aggressively minimise their tax payments will face increasing reputational and financial risks. More detail on our approach to responsible tax practices can found in our *Responsible Tax Principles*[16].

APPENDIX

Formal duties of the independent chair or lead independent director.

Best practice suggestions

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

In particular, the lead director should:

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

[16] EOS Responsible Tax Principles Doc July 24 (hermes-investment.com)

Vote thresholds

Market	Independence	Gender	Tenure (years)
Chile	33% at all	30%	12
Brazil	50% Novo mercado, 40% at others	30%	12
Mexico	50% at dispersed 33% controlled	30%	12
China	50% at companies listed in the US. 33% at others[1]	20%	6
Hong Kong	50% at companies listed in the US. 33% at others[1]	20%	9
India	50% at board with promoter/executive chair, 33% at others	20%	10
Indonesia	50% at banks and insurance companies, 30% at others	30%	9
Japan	33% at all	20%	9
South Korea	majority at large companies[2]	20% at large companies	9
Malaysia	33% at all	30%	9
Philippines	33% at all	30%	9
Singapore	33% at all	30%	9
Taiwan	50% at dispersed, 33% at controlled	30%	9
Thailand	33%	30%	9
South Africa	50% at all	30%	9
Other Asian and emerging markets	typically, in line with local best practice		

[1]At Chinese and Hong Kong companies, we encourage companies to aim for 50% independence rather than stopping at one third to comply with requirements.

[2]Large companies have KRW 2 trillion or more of total assets.

Disclaimer: The application of the above vote thresholds will be subject to limitations pursuant to the laws and regulations of the jurisdiction in which a company is located

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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.

All activities previously carried out by Hermes Investment Management are now undertaken by Federated Hermes Limited (or one of its subsidiaries). We still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **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 public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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

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