



# UK, Europe & Australia Vote Guidelines

**EOS at Federated Hermes Limited  
2025**

**Federated  
Hermes** 

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For professional investors only

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## INTRODUCTION

EOS at Federated Hermes Limited<sup>1</sup> 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 at 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 UK, Europe & Australia for 2025**. It focuses on specific governance and also 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**<sup>2</sup>.

These guidelines apply generally to companies based in the UK, Europe & Australia, while noting instances of difference in context or application of these guidelines between the jurisdictions, as relevant and material<sup>3</sup>.

### 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 favour of proposals unless there is a good reason not to do so in accordance with its voting policies, global governance standards or otherwise to protect long-term shareholder interests.

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<sup>1</sup> 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

<sup>2</sup> [EOS library | Federated Hermes Limited](#)

<sup>3</sup> These guidelines include specific positions that are applied only in jurisdictions where local laws and regulations allow. EOS will not implement any guidelines in regions where such actions would be seen as an attempt to alter or influence control of a portfolio company.

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 takes into account 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., remuneration or audit practices), we will generally follow a hierarchy of accountability, starting with the chair of the board or the incumbent chair of the relevant committee. Where this is not possible or appropriate, we will consider opposing other committee members, starting with the longest-tenured, followed by the longest-tenured director on the full board standing for election. In markets with supervisory and management boards, we may also advise our clients to withhold support for discharge to highlight key concerns, such as the management of climate-related risks. This hierarchy should be assumed throughout this document where we refer to 'responsible directors'.

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

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

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

### Board composition and effectiveness

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

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

**Independence, tenure and skills:** Boards should comprise a substantial majority of independent directors to ensure that stakeholder interests are protected, to exercise objective judgement and, if necessary, to act as agents for change. Ensuring sufficient levels and quality of independence is particularly important for founder-led companies, those with executive or non-independent chairs, significant shareholder representatives on the board (which we believe can be useful and justified, provided minority shareholder interests are protected) or significant management representation on the board. The independent directors should be empowered to meet separately to the full board and be granted full access to members of management, information and resources as required.

We recognise the benefits of having 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. For two-tier boards, independent directors should constitute the majority of the shareholder-elected directors on the supervisory board. In cases where supervisory boards have employee representatives (who are non-independent) and shareholder-elected directors (who may or may not be independent), the total board should be at least one third independent.

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

**Committees:** The board should establish appropriate committees that reflect the nature and complexity of the business and with regular rotation and refreshment of leadership and membership. The board should establish separate audit,

nomination and remuneration committees, unless the board comprises two or fewer independent non-executive directors (NEDs). Audit and remuneration committees should be comprised exclusively of independent directors with relevant experience, while the nomination committee should be majority independent. We accept that in some markets, such as France and Germany, exceptions must be made for employee representatives on the board and committees, so we seek for committees – particularly audit and remuneration – to be majority independent with independent chairs. We also accept that nomination committees in Sweden are sometimes comprised of large shareholders. 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 may recommend opposing the election of non-independent committee members and/or chairs where committees fall below our guidelines for independence.

**Availability:** Directors should have sufficient time to fulfil their duties, with the guideline that they should not hold more than the equivalent of five directorships. We consider an executive role to be roughly equivalent to four directorships and a non-executive chair role to be roughly equivalent to two directorships. We also consider some committee chair roles (particularly audit and risk at complex companies) to be weighted more heavily than a typical directorship. We consider a range of other factors when assessing an individual's level of commitments, including any roles at private companies or other organisations and the size and complexity of organisations they are involved with. For example, certain industries, such as banking, may bring business model and regulatory complexity, while others with large and/or complex operations may require site visits and therefore more time commitment. We will consider interrelationships between companies as part of our assessment of time commitment (e.g. an employee or director of a parent company sitting on the board of a subsidiary).

- We may recommend opposing the election of directors, including shareholder representatives, who miss 25% of meetings in a given year without a reasonable explanation

**Non-executive remuneration:** NEDs should not be compensated in performance shares or participate in any incentive schemes as this could potentially 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:** Our view is 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.<sup>4</sup> 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 their 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). In line with our fiduciary duties to support board composition characteristics which, in our view, improve governance and the effectiveness of management in pursuit of long-term value creation, we may consider recommending against responsible directors where we do not see clear indicators of cognitive diversity. We encourage companies to clearly disclose board diversity and encourage directors to self-identify. Companies should create a culture where self-identification is possible. For companies of all sizes across Europe, we support a medium-term goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary), race and ethnicity and other diversity traits such as LGBTQ+ and disability. From 2026 onwards, we encourage companies to move towards 40% gender diversity for non-executive board members or 33% among all directors to comply with the EU Directive on gender balance in company boards<sup>5</sup>.

- We set market-specific minimum guidelines for board and management diversity which aim to strike a balance between market context and international good practices. If boards fall below these thresholds, we may consider voting against the nomination committee chair:
  - In Germany, we support at least 30% female representation on the supervisory board for DAX40 and MDAX companies and 20% female representation for smaller companies. In Germany, we also support

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<sup>4</sup> 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

<sup>5</sup> [EU action to promote gender balance in decision-making - European Commission](#)

- at least 20% women on the management board for DAX40 companies, and at least one woman for other companies.
- In Italy, we support 33% women on the boards of larger companies (FTSE MIB) and 25% for other companies. Below the board, we support at least 20% women on the management board
  - In Spain, we support 40% women on the boards of listed companies. Below the board, we support at least 20% women on the management boards
  - In the UK, we support the changes to the FCA's listing rules for board diversity and ask that companies disclose whether they comply – or, if not, why – with the following targets: at least 40% of board seats and at least one senior board position (chair, CEO, CFO or senior independent director) held by a woman, and at least one board seat held by someone from an ethnic minority background. In 2025, we will likely oppose the chair or other responsible directors at companies if they are not at the following levels:
    - FTSE350 boards to comprise at least 40% women and executive teams to have at least one female member.
    - FTSE350 boards to have at least one member from an ethnic minority background.
    - Women to comprise at least 25% (FTSE100) or 20% (FTSE250) of the combined population of the executive committee and its direct reports.<sup>6</sup>
  - In France and the Netherlands, we support minimum requirements for women to comprise 40% and 30% of the board, respectively. We also want to see more progress below the board, where women remain notably under-represented. We encourage companies to progress towards at least 30% female representation on their executive team and/or the management board and will now generally oppose the chair of companies with no female representation on these bodies.
  - In Switzerland and Australia, we support at least 30% women on the board of larger companies (SMI Expanded Index and ASX300) and 20% for smaller ones, and at least one woman on the executive team.
  - In Belgium, we support requirements for women to comprise 33% on the board of larger companies (BEL20) companies and 20% for smaller companies. Below board level, we encourage female representation at executive committee level and will consider recommending votes against the chairs of companies with no women on these bodies.
  - In the Nordics, we support requirements and/or guidelines for women to comprise 40% of the board (as in Sweden) but still see scope for improvement, for instance in Denmark where companies must set a target for female board representation but often set these at very

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<sup>6</sup> We will assess this using data from the FTSE Women Leaders Review, which we will seek to clarify through research into and engagement with companies.



low levels. We also want to see more progress below the board, where women remain notably under-represented. As such, we generally seek to see at least 30% women on the boards of Danish and Swedish companies as a minimum standard and may recommend opposing or abstaining on the election the chair or other responsible directors where women are not represented in the executive team.

## 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<sup>7</sup> 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 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:** In our view, the changing climate poses a systemic risk to the pace of economic growth and opportunity for long-term value creation. In addition, many companies face transition risks associated with the global move towards more diverse sources of energy. We set out best practices for companies in the Appendix.

### **Insufficient consideration of climate opportunity and risk management:**

For companies where climate change is a relevant and material business opportunity and/or risk, 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 exists, 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

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

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 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:** Where climate opportunities and risks are relevant and material to the financial performance of the company, 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). Whether a company puts this to an advisory vote should be carefully considered by the board and does not diminish the Board's continuing responsibility for strategy. It is also not a replacement for ongoing engagement with shareholders on the substance of the transition plan. Generally, the plan should be updated at least every three years to account for the evolving context. In determining our support for a climate transition plan, we will seek evidence of a comprehensive and credible plan that we believe has a good prospect of creating long-term value, considering a range of factors, such as:

- Targets: greenhouse gas reduction and other related targets over the short, medium and long-term, set in line with science-based target principles, ideally aligned to credible 1.5C scenarios, where commercially feasible and subject to other dependencies, or which otherwise best protect long-term shareholder value, including in below 2.0C scenarios.
- Strategy & plans: disclose a commercial strategy that identifies, and quantifies to the extent possible, the key levers that will best capture opportunities and achieve the emissions reduction and other targets. This should include plans for a) material capital expenditure and its economic resilience under the most ambitious credible low carbon scenarios; and b) the use of low carbon offsets, which should rely on quality sources and be generally limited to below 10% of total emissions reduction. The plan should identify and disclose the key assumptions and dependencies on policy, technology and market changes.

- Board oversight and robust governance of its strategy. This should include the company's climate-related policy engagement and lobbying activities, including by third-party organisations of which it is a member, to ensure these are in line with the ambition of its strategy and public policy ambition.
- Transparency of plans and reporting of performance against its strategy and targets, a good standard for which is the IFRS S1 and S2 (which now includes TCFD recommendations)

**Climate-focused shareholder resolutions:** We will consider and recommend support on a case-by-case basis for shareholder resolutions relating to climate change which we consider to be aligned with the long-term financial interests of the company. We may also support the filing or co-filing of resolutions by our clients where this appears to be in the long-term financial interests of the company.

## Human Rights

**Importance of human rights:** We believe that how a company manages its human rights strategy is of critical importance to its license 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 to aligning with the UN Guiding Principles on Business and Human Rights<sup>8</sup> (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

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<sup>8</sup> [GuidingPrinciplesBusinessHR\\_EN.pdf \(ohchr.org\)](#)

- 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

## EXECUTIVE REMUNERATION

### **EOS views on executive remuneration practices in Europe and Australia:**

In a number of markets, we are concerned that executive remuneration structures and practices are not fit for purpose, neither serving long-term investors nor aligning properly with the core long-term objectives of companies. In our view, executive pay should be viewed in the context of workforce pay practices, and we encourage companies to demonstrate how they ensure their lowest-paid workers are paid living wages, for example, by aligning to external standards such as the Living Wage Foundation UK or some other robust assessment.

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

- Our paper, *Remuneration Principles: Clarifying Expectations*<sup>9</sup>, 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<sup>10</sup> provide more detail on how we consider our key principles when reviewing pay and discusses our views on issues like board accountability, ESG in pay, capital allocation and buy backs, and quantum.

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

We recognise that many European and Australian companies continue to employ pay practices that 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 policy guidelines and thresholds to address what we see as the highest risk and most egregious practices to encourage better alignment with our principles.

- We may oppose remuneration policies and/or reports where we believe pay design and/or outcomes are materially misaligned with the principles set

<sup>9</sup> [Remuneration Principles: Clarifying Expectations | Federated Hermes](#) The principles contained in the paper are global in nature, but some of the specific references to structures are more applicable to certain markets such as the UK.

<sup>10</sup> [EOS library | Federated Hermes Limited \(hermes-investment.com\)](#)

out in this policy and/those articulated in our Global Corporate Governance Principles.<sup>11</sup>

- We may continue to oppose remuneration reports against a remuneration policy we did not support if pay practices in the year under review continue to manifest the feature(s) of the policy that we did not support.
- Where there are continued votes against the executive remuneration approach at a company, we may choose to escalate our approach by opposing remuneration committee members or the chair of the board.
- We will assess pay proposals holistically, treating some concerns as more serious than others. The most serious concerns may, alone, lead us to oppose proposals; others may lead us to oppose if coupled with other concerns.
- For each area of concern, we have set market-specific policy guidelines that aim to strike a balance between local common practices and the EOS remuneration principles and/or international good practices.
- The concerns which we generally consider to be **most serious** include:
  - High variables pay opportunity: We generally consider a total variable pay opportunity of over 400% of base salary to be high and will generally not support opportunities of 600% of base salary or more.
  - Low executive shareholdings: We see high executive shareholdings, built up and held for the long-term, as the most effective means of alignment with long-term shareholders. We set market-specific minimum guidelines that reflect local market norms and pay levels, but a long-term view to encouraging high executive shareholdings across Europe and Australia. Where sitting executives hold shares in excess of these minimums, we may support remuneration reports but oppose policy proposals until higher requirements are introduced.
    - In the UK, we will generally not support policies with requirements below 400% (FTSE 100), 300% (FTSE 250). We also encourage a formal policy for post-cessation shareholding requirements, adhering, as a minimum, to the UK Investment Association guidance<sup>12</sup> of 100% of minimum shareholding requirements for two years post-departure, although we are open to alternative but equivalently effective structures.
    - In Australia, we encourage requirements of at least 300% (ASX100), 200% (ASX200) or 100% of salary for smaller companies.
    - In France, we encourage requirements of at least 400% (CAC40) or 200% of salary (other companies)
    - In Germany, we encourage requirements of at least 200% of salary.
    - In the Netherlands, Italy and Spain, we encourage requirements of at least 200% for larger companies and 100% for smaller companies.

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<sup>11</sup> EOS library | Federated Hermes Limited ([hermes-investment.com](https://hermes-investment.com))

<sup>12</sup> The UK Investment Association Principles of Remuneration ([Member guidance \(White\) \(theia.org\)](https://www.theia.org.uk))

- In other markets, including Belgium, Denmark, and Sweden, we encourage shareholding requirements of at least 100% of salary but encourage companies to set requirements at higher levels and may increase our minimum standards in the coming years.
- High pay and/or pay increases without sufficient justification: This includes pay awards which do not appear to be justified in the context of the wider shareholder (and potentially other stakeholder) experience, and unjustified executive salary rises. For the latter, we generally will not support salary rises of over 10% in one year or over 20% over three years, without a compelling justification, such as: a material change in roles/responsibilities; a track-record of limited pay increases; a planned increase after being paid a lower rate in a new role and subject to performance; a large year-on-year increase driven by an 'artificially' lower baseline the previous year, such as an executive joining mid-year or pay reductions in the face of a crisis. Given the current inflationary and cost of living pressures facing societies across Europe and Australia at present, any executive pay increases should be carefully considered by the board and clearly justified, particularly in the context of pay awards given to the wider workforce.
- The concerns which we generally consider to be **moderately concerning** include:
  - Short-termism in pay design: This includes various considerations which we may consider as more serious depending on whether multiple, compounding factors are present and relativity to local market norms. It includes:
    - Share options: we generally do not support share options at all, but in markets where they are still common (including for tax reasons), we would prefer that they do not comprise a material part of executives' remuneration and generally do not support those which vest in under 36 months.
    - Short-vesting long-term incentive plans (LTIP): where they are used, we believe LTIPs should not vest in under five years, with three years as an absolute minimum. In some markets, where three years is still common, we may accept this as a transitional arrangement but reserve the discretion to oppose, particularly where this issue is compounded by other factors that weaken long-term alignment.
    - Insufficient proportions of incentive schemes being deferred into shares: this is assessed based on market context and overall scheme design, but generally we support LTIPs which are delivered in shares that vest in five years or more and for a portion (e.g., at least a third) of substantial annual bonus awards (e.g., those over 100% of salary) to be deferred into shares.
    - Use of performance metrics potentially misaligned with long-term responsible value creation: for example, financial and/or share price-focused measures, such as earning per share

(EPS) or total shareholder returns (TSR), not balanced by measures reflecting strategic value drivers which may encourage decision-making misaligned with long-term, responsible value creation.

- Over-reliance on TSR as a measure in incentive schemes or use of TSR in schemes such that material awards can be earned for median or below median performance, where we would argue TSR would be better used as an underpin or – ideally – executives should instead be granted long-term time-restricted stock.
  - Disclosure issues: we recognise that increased disclosure of executive pay schemes contributes to pay ratcheting and may not meaningfully improve pay practices and so do not advocate for greater disclosure in all circumstances. However, where material performance-based pay awards are offered to executives, we encourage sufficient disclosure to be able to assess what metrics and targets they are being incentivised to hit, the relative weighting and value of these, and performance against them. Ideally, retrospective disclosure of these elements no less than one year after the year in which awards have been paid would be encouraged.
  - Multiple pay schemes: we will typically oppose the use of more than two variable pay schemes for executives, excluding legacy schemes and restricted share schemes.
- We generally consider the following to be **positive features**, which may mitigate concerns outlined above:
    - High shareholding requirements, beyond our minimum guidelines in a market, and those which extend beyond departure.
    - Simple pay design: single incentive schemes and/or well-constituted restricted share schemes that adhere to EOS principles and any good practice guidance in a market, such as the UK Investment Association guidelines.<sup>13</sup>

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

We generally endorse the UK Investment Association guidelines for this transition as a minimum, with some additional considerations. We will look to support companies making this transition, provided: there is a robust rationale (noting we will not look favourably on companies making the move to benefit executives during a period where LTIPs would likely not vest and then switching back to an LTIP); there are robust protections for boards to reduce awards at grant and/or vesting where appropriate in cases of failure or to reflect wider shareholder or stakeholder experience (noting this requires both underpins and ongoing board discretion); and where appropriate discounts have been applied (we would typically encourage a discount on the maximum award size for companies moving from an LTIP to a restricted stock grant). We do not anticipate that restricted

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<sup>13</sup> The UK Investment Association Principles of Remuneration ([Member guidance \(White\) \(theia.org\)](https://www.theia.org.uk/Member-guidance-White))

share grants to increase materially over time and will not generally support an increase in grant size in consecutive policy proposals. We encourage companies in other markets across Europe and Australia to consider moving to simpler, smaller and more long-term packages in this manner.

## **PROTECTION OF SHAREHOLDER 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 for escalation have been ineffective.

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

**Capital structure:** We believe that 'one share, one vote' is an important principle of good corporate governance, as the use of a single share class promotes strong alignment and representation of all shareholder interests. We also believe that company leadership should be primarily focused on long-term, 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 would encourage strong protections and provisions being put in place. Specific provisions would include a sunset provision (such that shares revert back to normal rights after a time period), a restriction on transferal of exceptional rights and a cap on the overall ratio of voting right. We would also have to consider companies pursuing these structures to be genuinely exceptional cases. 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 generally not support companies who have listed with a single-class structure transitioning to a dual-class structure. For companies seeking to list which already have a dual-class structure in place, we may support such structures if the company commits to provisions such as those listed above (i.e., sunset provisions, restrictions on transfer of rights and overall caps on voting rights).

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



**Shareholder meetings:** We believe hybrid shareholder meetings which robustly defend shareholder rights to be optimal. If this is not practicable, we advocate for 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 will be 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*.<sup>14</sup>

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

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

## SHAREHOLDER PROPOSALS

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

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

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<sup>14</sup> Principles of Annual Meeting Good Practice, February 2021, [Hermes Investment Management \(hermes-investment.com\)](https://hermes-investment.com)

the efforts the board has made to engage with the proponents and what potential impacts – positive and negative – the proposal could have on the company if implemented.

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

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

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

## 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 matters 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. 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. We encourage

companies to exceed this standard by seeking competitive tendering for the company's audit firm every seven years, with mandatory rotation after no more than 15 years.

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

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

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

**Consideration of environmental and social issues in financial statements:** Where 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 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 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 critical audit matters do 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*<sup>15</sup>.

- We will consider recommending a vote against the chair and other relevant directors at companies where we consider its corporate tax management has not materially changed in line with our responsible tax principles or

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<sup>15</sup> [EOS Responsible Tax Principles Doc July 24 \(hermes-investment.com\)](https://www.hermes-investment.com/~/media/HermeS/Investment/Responsible-Investing/Responsible-Tax-Principles-2023.pdf)

there has been a lack of an appropriate response to engagement. Our assessment is informed by a range of indicators including third-party sources, benchmarking and controversies. We generally support on a case-by-case basis shareholder resolutions seeking improved disclosure in line with our responsible tax principles.

## APPENDIX

### Formal duties of a lead independent director

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

In particular, the lead director should:

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

### Best practices relating to climate change opportunity and risk management

We support the goal of the 2015 Paris Agreement<sup>16</sup> – seeking to limit the global average temperature increase to well below 2°C above pre-industrial levels and to pursue efforts to limit this 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.

Where climate opportunities and risks are relevant and material to the financial performance of the company, we encourage 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

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<sup>16</sup> [The Paris Agreement | UNFCCC](#)

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 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)<sup>17</sup> 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 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 consideration of 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<sup>18</sup> and the Global Standard for Responsible Climate Lobbying.<sup>19</sup> 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 including the 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

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<sup>17</sup> [Task Force on Climate-Related Financial Disclosures | TCFD](https://www.tcfdf.org/) (fsb-tcfd.org)

<sup>18</sup> <https://www.iigcc.org/resources/investor-expectations-on-corporate-lobbying>

<sup>19</sup> <https://climate-lobbying.com/>

reality and urgency of climate change, we will consider this as part of our overall engagement and voting approach.

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## Federated Hermes

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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:

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- **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](http://www.hermes-investment.com) or connect with us on social media:

