# North America 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[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 $2.1tn of assets under advisement as of Q4 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 North America 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 each of United States-based companies and those in Canada. However, as relevant and material, we note certain smaller differences in the main text and more significant differences in the Appendix[3].

### 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resolution and only to abstain in exceptional circumstances such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.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.
4. Consistency of voting: To provide companies with clear guidance of our views, EOS seeks to take a consistent position on issues and reflect this in our voting

[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

[3] 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.

recommendations, in accordance with our stated policies and guidelines. However, recognising the limitations of any policy to anticipate all potential scenarios, EOS reserves the right to use our discretion when recommending votes and to recommend in line with the outcome which EOS believes will best serve our clients' long-term interests, considering market and company-specific circumstances and our engagement with companies, where relevant.

5. Engagement: Where material and practicable, 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.

## BOARD AND DIRECTORS

### Director accountability

**Identifying 'responsible directors':** We will look to identify the most appropriate director to hold accountable for areas of concern based on the committee charters. For concerns that 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. 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.

**Annual director elections:** We generally support annual director elections. We prefer a sunset date to be set for any classified boards established following initial public offering to facilitate a transition to annual director elections. Where a board believes a classified structure to be in the best interests of long-term shareholders, it should provide clear and explicit disclosure explaining the additional value this structure provides.

- We generally recommend opposing the election of responsible directors where a board is classified and there are no sunset provisions and/or where we are not satisfied with the justification provided for a classified board structure.

### Board composition and effectiveness

An effective board is best placed to secure a company's long-term success. Our view is that components of an effective board include representation across a wide range of industry and sector experience, high independence, and separate chair and CEO roles. Further, boards should be composed of directors with a wide range of technical skillsets aligned with the strategic needs and direction of the company and a variety of perspectives to improve decision-making. It is also important is that boards contain enough independent directors to challenge management and that directors can dedicate sufficient time to fulfil their duties. Below are different considerations relevant to our process for recommending on re-election of responsible directors. Appendix II contains details of additional board composition criteria relevant only to Canada and not the United States.

**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 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 sufficient powers. In our view, companies with combined chair/CEOs should, in the short term,

appoint a LID with the necessary formal powers and attributes (see Appendix I) and, over the longer term, move to separate the roles.

- We generally recommend supporting shareholder proposals advocating for independent chairs and encourage these to be carefully evaluated by the board. If such a proposal is supported by a majority of shareholders voting, even if precatory, in our view the board should move swiftly to appoint an independent chair.

**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, we encourage the board to 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.

**Independence:** In our view, stakeholder interests are best protected when Boards comprise a substantial majority of independent directors. Independent directors are also well positioned to exercise objective judgement and, if necessary, to act as agents for change. We generally 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 provided overall independence is not weakened. 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 in our view can be useful and justified, provided minority shareholder interests are protected) or significant management representation on the board. We encourage independent directors to be empowered to meet separately to the full board and be granted full access to members of management, information and resources as required.

- In the largest Canadian companies, we observe there is a tendency for significant interlocking and overlapping directorships which can reduce the pool of directors and can dampen the positive effects of a greater range of thought, which complements independence. We hope that this trend can be reversed through the appointment of first-time directors.
- We generally recommend opposing the election of responsible directors, when independent directors comprise 50% or less of the board.

**Composition:** To support high-quality debate and decision-making, we encourage boards and management teams to recruit from deeper pools of talent and seek cognitive diversity in its broadest sense. This could include, but is not limited to, diverse skills and a wide range of sector and industry experience. Excessive homogeneity, within a board's collective skills and perspectives may lead investors to question board culture, judgement, and critical thinking skills. It may also raise concerns about the board's capacity to scrutinise strategy, manage risk and plan succession. To support board composition characteristics which, in our view, improves governance and the effectiveness of management in pursuit of long-term value creation, we may consider recommending against relevant directors where we believe a board lacks the necessary range of skills and experience required.

**Tenures:** We recognise the benefits of having a healthy mixture of tenures on boards, supported by regular board refreshment. We consider the overall composition of boards and recognise the value that long-serving directors can contribute. We do not have rules for retirement or age limits and regard experience, and a detailed knowledge of a company as helpful attributes. However, too many directors serving concurrently over a long period may increase the risk of groupthink and complacency. Further, boards with long serving directors, including those with service at related companies or with links to other directors or management, may 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 may also impede the welcome move to more cognitively diverse boards.

- We generally recommend opposing the election of relevant directors when three or more directors have concurrently served together on the board for more than 20 years or when average tenure exceeds ten years with no new appointees in the last five years.

**Availability:** Directors require sufficient time to fulfil their duties, with the guideline that they should not hold more than the equivalent of four public directorships. We consider an executive chair role to be roughly equivalent to four public directorships and non-executive chair role to be roughly equivalent to two directorships. We consider the combined CEO/Chair role to be equivalent to four public directorships, and a CEO on the board to be equivalent to three public directorships. We also consider some committee chair roles (particularly audit and risk at complex companies) to be more time consuming 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 also note that some private board roles require more time and effort than public boards.

- 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.
- We may recommend opposing the election of a director holding more than four public directorships, unless that person holds the combined CEO/Chair role, in which case we may recommend a vote against the nomination and governance committee chair.

**Committees:** We leave it to the board's good judgment to establish appropriate committees that reflect the nature and complexity of its business and with regular rotation and refreshment of leadership and membership. Larger boards (typically of eight or more directors) tend to have specific committees covering audit, executive compensation and governance/nominations. In our view, key committees govern best

when comprised of 100% independent directors.

- We generally recommend opposing the chair of the nominating and governance committee where nominating and governance, audit, and/or compensation committees do not comprise 100% independent directors.

**Non-executive compensation:** We prefer non-executive directors (NED) not be compensated in performance shares or participate in any incentive schemes that might 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 encourage steps to 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 the chair of the compensation committee (or other responsible director) if non-executive directors are compensated in performance-based shares or options.

### Board accountability for performance and corporate culture

**Importance of board oversight:** the long-term performance of a company and its prospects of continued good performance is the responsibility of board. In our view creating a positive corporate culture, which includes consideration of employee wellbeing and satisfaction, can be linked to positive company performance such as lower attrition, and a more productive and fulfilled workforce. To accelerate and scale these benefits, we encourage companies to put in place effective board oversight and management structures across the employee lifecycle, including recruitment to access deeper pools of talent, 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 the performance of companies and its prospects for future performance. This will be informed by an appraisal of the board's oversight of long-term strategy, operational effectiveness, corporate culture or human capital management across all levels of the company's workforce or poor treatment, suppliers, customers, and communities upon which the company's long-term health depends.

## ENVIRONMENTAL AND SOCIAL

**General:** EOS engages on relevant and material environmental and social issues and/or concerns across a wide range of topics throughout the year in its engagement with companies (see EOS Public Engagement Plan for more). EOS vote guidelines are intended to complement this engagement. As is best practice in Canada, we encourage all Canadian companies to have a written engagement policy that describes the relevant governance and long-term corporate sustainability- topics for discussion between the board and shareholders, information sought by the board from the shareholder for the purpose of arranging a meeting, guidelines regarding meeting attendance, and a means for shareholders to contact the board to request a meeting.[4]

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

[4] 2019-Best-Practices-March-2020-update.pdf

following ways:

- EOS may use its vote recommendations to draw attention to an issue if we are concerned about lack of progress being made through our engagement.
- 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 long-term financial interests of our investor clients in line with their fiduciary duties, informed by the EOS Engagement Plan (see shareholder proposals section for more).

## 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.

**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, we may recommend holding relevant directors accountable if there are indicators of insufficient management of these opportunities or risks. This will be appraised through consideration of a range of relevant factors.

**'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 (a so-called 'vote on transition' or 'say on climate' resolution). 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 business strategy. Generally, the plan should be updated at least every three years to account for the evolving context. In determining our support for a 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: the quality of (i) the plan and its metrics, including material capital expenditure, its economic resilience under the most ambitious credible low carbon scenarios, and its dependencies; and (ii) board oversight and robust governance.

**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

**Human rights related risks:** In our view, how a company manages its human rights strategy is an important driver of its reputation and, ultimately its ability to create and preserve long-term value. The central concept of human rights is 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.

**Human rights considerations:** We support the UN Guiding Principles on Business and Human Rights[5] (UNGPs). The UNGPs framework outlines the corporate duty to respect human rights. In our view, companies that have a governance structure for human rights and that identify board level oversight and executive accountability for human rights may manage those risks more effectively than companies that do not. We encourage companies to report on obligations under the UNGPs, as well as under national legal requirements and relevant international frameworks. We believe 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 the responsible director discharging management or approving its reporting if:
  - 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 COMPENSATION

**EOS views on executive compensation practices in North America:** We remain concerned that executive compensation structures and practices are too often not sufficiently aligning with the core long-term objectives of companies in the interests of long-term investors. In our view, many companies could show leadership by transitioning to simpler pay programmes, more clearly aligned with long-term responsible value creation and which properly incentivise the company's desired culture and strategy.

Below we provide a summarised view of our vote policy guidelines on executive pay. We expand on our views in the following:

- Our paper, *Remuneration Principles: Clarifying Expectations*[6] describes our five key principles for executive pay: simplicity, alignment, shareholding,

[5] guidingprinciplesbusinesshr_en.pdf

[6] 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.

accountability, and stewardship and our views on transitioning to simpler programmes based on long-term share ownership.

- Our Global Corporate Governance Principles[7] provide more detail on how we consider our key principles when reviewing pay and discusses our perspectives on issues like board accountability, sustainability 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 programs 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 US companies continue to employ pay practices that are not fully consistent with our principles. We have set various guidelines and thresholds to address what we see as the highest risk practices and to encourage better alignment with our principles.

- We may recommend opposing 'say-on-pay' proposals and the chair of the compensation committee, or other responsible directors, where in our view pay practices, risk being materially misaligned to long-term shareholder interests. Specific indicators which we take into account either individually or in combination when considering our vote recommendation include:
  - Total quantum of CEO pay appears excessive when compared to a reasonable peer group.
  - There is no robust clawback policy for fraud, material financial misstatement, conduct or reputational issues.
  - CEO shareholding requirements are less than six times base salary for constituents of the S&P 500/TSX and less than five times for all other companies.
  - Incentive programmes include share options or performance shares with vesting schedules shorter than 36 months.
  - There is no robust policy to prohibit the hedging of equity-based awards by executives and/or strict controls over pledging of shares.
  - Use of one-time or special awards for executives, unless to make- whole with forfeited equity upon joining a company and with explicit disclosure explaining the rationale for the award.
  - CEO pay exceeds 4.0 times that of the average named executive officer.
  - Severance agreements for the CEO where cash severance far exceeds two times base salary. We consider it particularly concerning where cash severance is higher than two times base salary and there is a provision to accelerate the vesting of equity upon a change in control, and so may

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

consider opposing the chair of the compensation committee in such cases.

**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 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 explain 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, as well as the company's ability to invest in growth and employees.

## PROTECTION OF SHAREHOLDER RIGHTS

**General:** We seek to protect and, where appropriate, advance 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 engagement have been ineffective.

- We may oppose relevant directors where practices do not adhere to the principles set out here.

**Majority voting:** We consider electing directors by a simple majority vote to be a fundamental shareholder right and welcome its adoption by a growing number of US companies. In the Canadian market, the Canadian Business Corporation Act requires majority voting for the election of directors, but only during uncontested elections. In our view, directors should have majority support and encourage Canadian companies to adopt majority voting policies during all elections. For companies that do not have a full majority vote standard, we encourage sunset provisions where other arrangements are in place. We do not support the more cumbersome process of resignation policies which transfer the shareholder right to determine who is elected to the board to other directors and prefer that directors not supported by a simple majority of shareholders be removed through board action a reasonable time after the vote result is verified. Where a director does not receive majority support and is asked to remain on the board in a temporary-only capacity, in our view the company should publicly commit to expediting a search for a replacement director and for the director to resign shortly following the new appointment.

- We may recommend opposing relevant directors where a company does not allow shareholders to vote for or against directors through a majority voting standard and there is no sunset provision in place, or where we are not satisfied with actions taken by boards acting under resignation policies and where directors do not receive majority support, in line with the principles above.

**Proxy access and the universal proxy:** We recommend supporting proxy access provisions which allow for shareholders owning 3% of the outstanding shares for at least three years, with no limit on the number of investors that make up this 3%,

having the right to nominate up to 25% of the board seats, as originally proposed by the SEC. Canadian legislation does not explicitly allow proxy access, but it is a developing best practice. This developing standard in Canada is still weaker than the proxy access rights shareholders enjoy in nearly all developed markets. We generally support the board's role in protecting companies from the use of proxy access to gain creeping control, however in our view, different groups of shareholders should have the right to nominate director candidates without restrictions beyond reasonable thresholds. We encourage all companies to voluntarily implement the necessary by-laws and governance changes to enact the right of shareholder access to the director nomination portion of the proxy statement so that any candidate duly put forward for election by a group of shareholders is voted on by all shareholders. We do not support companies restricting shareholders from aggregating holdings on share retention requirements after any election, from share lending when there is reasonable right of recall or on restricting the compensation of shareholder-nominated director nominees (provided it is fully disclosed) beyond the compensation policies that apply to all directors. We also discourage onerous restrictions on previously nominated candidates that fail to win a majority of votes cast to prevent them from being renominated.

- We generally recommend support for enhanced proxy access shareholder proposals that are substantially in alignment with our principles and may recommend opposing the election of responsible directors if boards take any steps that make the use of proxy access more difficult than we believe is reasonable, in line with the principles above.

**Capital structure:** We support a single-share class structure with 'one share, one vote' and discourage any deviation from this. We generally support initial public offerings of companies with single-class structures that provide a level playing field for all investors and equate voting power with financial stake. We encourage issuers with multiple class share structures to consider adopting sunset provisions that put in place a 'one share, one vote' share structure. Independent directors are responsible for meeting annually with and/or writing to the super-voting rights-holders and directly asking them to agree to sunset these super voting multiple class share structures in favour of a one share, one vote single-class structure.

- We generally recommend opposing responsible directors on boards with multi-class share structures and where there is no sunset provision, a commitment to establish one or evidence of good engagement with super- voting rights-holders is not disclosed.

**Special meetings and written consent:** We consider the right to call a special meeting a fundamental shareholder right and in our view this should be provided at a reasonably low level of aggregate ownership, to demonstrate that the board is committed to open and trusting shareholder relations and ensuring director accountability to shareholders. We appreciate that one of the more powerful tools available to shareholders of Canadian companies is the power to requisition a special meeting. Under the Ontario Business Corporations Act ("OBCA") and similar federal and provincial legislation, shareholders holding 5% of the company's shares may requisition a meeting to consider shareholder proposals, including potentially replacing the board.[8] We note that even in jurisdictions where the right to call meetings with a 5% threshold exists, such meetings are rarely convened. We accept

7 https://www.dlapiper.com/en/canada/insights/publications/2017/05/shareholder-right-to-call-a-meeting/

that this right is currently significantly restricted to a threshold significantly above the best practice 5% level in the US. Therefore, we support a 10% special meeting threshold as a reasonable level in the interim. We generally prefer the right for shareholders to call a special meeting over the right to act by written consent as we support the advance notice provisions of the annual meeting process as an important protection of minority shareholders.

- We generally recommend support for proposals to lower the threshold for shareholders to call a special meeting to below 10%. If the board fails to implement a majority supported shareholder proposal to lower the threshold to call a special meeting, we will consider recommending opposing the election of responsible directors.
- We generally recommend opposing proposals to provide the right to act by written consent.

## SHAREHOLDER PROPOSALS

**General:** We support the selective and appropriate 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 support our clients in their filing or co-filing of a resolution, or express our support via exempt solicitation, where this appears 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. In our view, it is in the company's best interests for the board to engage with committed long-term shareholders, or their representatives. 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 recommend support for shareholder resolutions, we consider factors including the extent to which the proposal aligns with the aims of the EOS Engagement Plan[10]; its additionality, given what the company is already doing or has committed to do; the financial connectivity of the issue to the long-term value of the company; 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 may recommend support for well written, appropriately crafted shareholder proposals on a case-by-case basis and when aligned with the long-term interests of our clients and the aims of the EOS Engagement Plan, which uphold the integrity of the shareholder proposal process.

**Company response to resolutions:** We encourage companies to support shareholder proposals where the request 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 suggest boards 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.

- We generally recommend opposing 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 alignment with the principles above.
- We may recommend opposing responsible directors where the board has supported a management proposal that is in direct conflict with a shareholder proposal on the same ballot.

## 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. 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 do not expect audit committees to oversee risks beyond those related to financial reporting given the substantial requirements imposed by Sarbanes-Oxley and related obligations. When an audit committee is assigned oversight of non-audit matters (such as cyber security, data privacy, compliance, social and environmental risks), we may challenge the corporate governance guidelines in place and the extent to which the board is performing its essential risk and strategy oversight function. We may reflect this concern in our voting recommendations for audit committee members.

- We may recommend opposing the chair and potentially members of the audit committee where we have concerns as to the performance of the audit committee, including inclusion of relevant and material matters in the financial statements and oversight of the external auditor or the independence and quality of the audit, in line with the principles here.
- 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.

**Independent oversight of the external auditor:** In accordance with Sarbanes-Oxley and other regulations, the audit committee is responsible for demonstrating that it both independently selects and engages the auditor separately from management and that the audit committee itself directly oversees the auditor. The company's internal audit team should report, as a practical if not administrative matter, to the audit committee rather than management.

**Non-audit services and expenses:** We generally prefer the audit committee to

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 evaluate auditor independence, which may compromise the integrity of the audit. The non-audit fees are normally substantially lower than the audit fee and the audit committee typically has a pre-approval policy and process in place for audit and permissible non-audit fees. We seek robust procedures for audit committee approval of non-audit related expenses being paid to the external audit firm which are clearly disclosed to investors. We also generally prefer to see these expenses detailed in the company's annual reporting.

**Auditor rotation:** Independence, and potentially audit quality, may be at risk when the same assurance provider is maintained for too long – whether the audit partner or audit firm. We are concerned that the current US practice of rotating lead audit partner every five years may not be sufficient and prefer to see rotation of the audit firm at regular intervals. We encourage companies to establish policies of mandatory rotation of the audit firm after 20 years' tenure, with a competitive re-tender process at the interim point of 10 years. We encourage companies, when seeking the ratification of the independent auditor, to disclose the lead independent auditor partner, together with a statement that the external audit firm has complied with Sarbanes-Oxley rotation requirements.

- Where an external audit firm has been in place consecutively for an excessive period, we may consider recommending a vote against the chair of the audit committee (or other responsible director) and the auditor ratification if there has been no review or consideration of auditor rotation.

**Responsible tax:** In our view companies that seek to aggressively minimise their tax payments may face increasing reputational, regulatory and financial risks which may adversely affect their long-term value creation.

- We will consider recommending a vote against the chair of the audit and risk committees and other relevant directors at companies where we consider its corporate tax management is not sufficiently aligned to long-term value creation. Our assessment is informed by a range of indicators including third party sources, benchmarking and controversies. We generally recommend support on a case-by-case basis shareholder resolutions seeking improved disclosure.

## APPENDIX I: Formal duties of the independent chair or lead independent director

The independent chair or lead independent director should have formal powers and the necessary character to:

- Call a special meeting of the board of directors or the independent directors in camera at any time, at any place and for any purpose, including to consider the removal of the chair or CEO from one or both positions.
- Consult individually with the chair (if applicable), CEO and committee chairs on topics and schedules of meetings of the board and committees and to approve such schedules and board agendas.
- Ensure that the board has the information it needs with sufficient time in advance of board and committee meetings to fulfil its duties and has the ability to obtain from management or independent, outside board advisors any information that the directors deem needed to reasonably inform director decision making.
- Ensure that the whole board is aware of investor sentiment by requiring that all substantive correspondence and notes of meetings or contact by management or directors with investors is provided in the board materials before the next board meeting.
- Require that any director has access to any employee or officer of the company, without other management present, if a director so requests.
- Engage independent legal or other advice at the company's expense if judged necessary.
- Preside over meetings when the chair is conflicted or absent.
- Guide full board consideration of appointments, evaluations and succession of the CEO, the board and its committees.
- Meet one-to-one with the CEO after every regularly scheduled board meeting.
- Guide annual self-assessment of the board and the performance assessment of the CEO.
- Issue a letter or statement in the proxy describing how the board operated during the year.
- Engage with representatives of significant long-term shareholders at their reasonable request. Where this is unreasonably denied, we find it difficult to recommend supporting some annual meeting agenda items, including re-election of relevant board members.
- Develop and/or maintain a program to proactively meet representatives of long-term shareholders to exchange views on financially important sustainability issues, long-term strategy and capital allocation matters.

## APPENDIX II: Additional criteria relevant only to companies in Canada and not the United States

### Board and management composition

To support high-quality debate and decision-making, we encourage boards and management teams to recruit from deeper pools of talent and seek cognitive diversity in its broadest sense. This could include, but is not limited to, diverse skills, a wide range of sector and industry experience, and demographic characteristics. Excessive homogeneity, within a board's collective skills and perspectives may lead investors to question board culture, judgement, and critical thinking skills. It may also raise concerns about the board's capacity to scrutinise strategy, manage risk and plan succession. We encourage boards to consider candidates from all groups, irrespective of characteristics such as gender, race or ethnicity, sexual orientation, age, disability, nationality or socioeconomic background.

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 relevant directors where we do not see clear indicators of cognitive diversity. Where practicable, this will be appraised through consideration of a range of factors and discussed in engagement with a company, and may include as a guideline:

- 40% or more of the Board demonstrating various indicators of cognitive diversity, as available; and
- For all Boards (and the executive teams of TSX listed companies), a typical range of 30-70% representation of each gender and representatives of different race/ ethnicities.

### 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.

**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 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 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 (a so-called 'vote on transition' or 'say on climate' resolution). 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.

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## Federated Hermes

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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.

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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

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

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